Deloitte.

Deloitte Center *for* Financial Services

Strategic risk management in insurance

Navigating the rough waters ahead

August 2015

Table of contents

Strategic risks pose unique threats, opportunities for insurers

Insurers are increasingly facing a variety of strategic risks, which Deloitte Advisory defines as emerging threats that could undermine assumptions at the core of a company's value proposition and foundational business model.

The potential for individual companies and entire industries to be disrupted and perhaps even displaced by transformational trends in technology, the economy, and consumer preferences is on the rise in today's rapidly evolving, increasingly digitized economy.

Insurance is one of many sectors facing such 'strategic risks'—which Deloitte Advisory[1] defines as emerging threats that could conceivably undermine assumptions at the core of a company's value proposition and foundational business model.[2] However, there is also a more positive flip side to strategic risks, as those that anticipate and adapt in time may have an opportunity not just to survive but to thrive in the new environment. On the other hand, those that fail to detect disruptive risks on the horizon, or ignore the warning signs, might be hard put to remain competitive against more proactive players.

The heightened pace of change in today's economy and society should prompt more insurance industry leaders to move out of their comfort zones and prepare to transform the way they develop, underwrite, and price products, as well as how they target prospects, service customers, and recruit appropriately skilled talent.

To more effectively cope with game-changing technologies and new competition from nontraditional sources, insurers should consider adopting Strategic Risk Management (SRM) as a holistic framework to not only help them manage the potential downside of disruptive risks, but also perhaps achieve faster growth by better preparing them to capitalize on the resulting opportunities.

While the disruptive threats carriers face may be transformational, a transition to SRM—rather than being a radical departure—actually represents a natural next step in an insurance company's risk management maturity curve.

[1] As used in this document, "Deloitte Advisory" means Deloitte & Touche LLP, which provides audit and enterprise risk services; Deloitte Financial Advisory Services LLP, which provides forensic, dispute, and other consulting services; and its affiliate, Deloitte Transactions and Business Analytics LLP, which provides a wide range of advisory and analytics services. Deloitte Transactions and Business Analytics LLP is not a certified public accounting firm. These entities are separate subsidiaries of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

[2] Deloitte Development LLC, "Deloitte on disruption: Changing course in a disruptive world," October 2014.

What’s different about strategic risk management?

The fundamental objective of any risk management discipline is to anticipate future threats and prevent or at least minimize potential losses. Risk management is already a core function of insurance companies since, unlike most other industries, carriers are in the business of assessing and covering potential worst-case scenarios. Indeed, to cope with the increasingly complex business environment, insurers have continued to enhance their internal risk management practices by incorporating more sophisticated data-analysis tools and technologies to better support underwriting, pricing, and claims management, as well as to hedge investment risks.

However, traditional risk management among insurers primarily focuses on

1. The risks they are underwriting;
2. The adequacy of their reserves and reinsurance to cover potential losses; and
3. Managing risks in their investment portfolio.

To overcome the limitations of traditional risk management and expand their loss control capabilities, in recent years many carriers (along with a good number of their clients) have adopted Enterprise Risk Management (ERM), encompassing a much wider range of exposures and stakeholders. According to Deloitte Touche Tohmatsu Limited’s (DTTL) 2015 Global Risk Management survey, 95 percent of insurance company respondents either have an ERM program in place or are in the process of implementing one.[3]

ERM programs are not traditionally designed to address strategic risks that are disruptive to an insurer’s value proposition or business model, and which are generally difficult to foresee, measure, and minimize.

ERM goes beyond individual business units to enable carriers to develop a comprehensive mechanism to identify, measure, and mitigate organization-wide exposures, such as currency fluctuations, political and reputational risks, and compliance challenges.

However, with the traditional or ERM approach, the goal is to protect the company against tangible, knowable, and measurable risks that might arise during the normal course of business, relying on historical data to develop future mitigation strategies. Such traditional loss-control programs are not designed to address strategic risks that are disruptive to an insurer’s essential value proposition or fundamental business model, and which are generally difficult to foresee, measure, and minimize. This is borne out by the findings of DTTL’s 2015 Global Risk Management survey, in which about four in 10 insurance respondents said they found identifying and managing new and emerging risks extremely or very challenging.[4] This could be one of the primary reasons why strategic risks have fallen between the cracks at many insurers.

[3] “Global risk management survey, ninth edition,” Deloitte University Press, May 13, 2015.
[4] Ibid.

In addition, ownership of such exposures is often not clear. Do they come under the purview of those responsible for setting strategy? Is it the responsibility of senior management and the board, or line-of-business managers to scope out strategic risks and prepare the company to respond? As we discuss later in this paper, adding an SRM mindset and implementation structure is essential for insurers to answer such questions and deal with potentially disruptive threats.

Another factor hindering recognition and response efforts is that while insurers have gained considerable expertise in managing and monetizing insurable risk, the exposures they generally deal with are largely those arising in the normal course of business, with the maximum downside potential generally measured in terms of achievement of planned profitability goals. What about the risks that emerge from outside their lines of business or even their industry, in terms of changes in the way their products or services are conceived, sold, accesssed or maintained?

Such disruptive developments could end up undermining or perhaps destroying the value of a particular insurance company's core function and business model. They might even threaten the viability of an entire subset of the industry. These existential threats fall within the emerging discipline of SRM.

There have been many instances in various industries illustrating the potential consequences of failing to recognize and manage strategic risks. One prime example is the disruption of the video rental business, culminating in the dramatic collapse of Blockbuster, once the industry leader. Blockbuster achieved rapid growth due to its differentiated strategy of offering a wide selection of films at large retail outlets, including localized movie catalogues based on neighborhood demographics. Blockbuster dominated the video rental market until Netflix found a way to change the game by allowing customers to choose movies online and then delivering selected DVDs directly to a customer's home via the US Postal Service. As Michael Raynor, director at the Deloitte Center for Integrated Research, notes in his chapter in a new book about ERM,[5] "Blockbuster is no more not because it failed to grapple with the risks associated with its internal context, but because it failed to assess correctly a specific risk in its external context, specifically the risks of and to its strategy."

The question for insurance carriers is whether they are prepared to recognize the presence of existential threats in their own industry as well as respond quickly and effectively once they do.

Later on, Netflix overcame its own strategic risks by streaming movies and TV shows directly to consumers over the Web, as well as by producing its own content rather than just distributing the work of others.

The Blockbuster example highlights the nature and sources of strategic risks and illustrates how SRM differs from operational and enterprise risk management in two fundamental ways.

- For one, SRM primarily addresses potentially disruptive changes in society, technology, and/or the economy, posing potentially overwhelming competitive threats.
- The second and perhaps most important distinction with SRM is that traditional risk management and ERM generally don't address the potential upside of risk, while strategic risks usually have a "flip side," in that they often come with an opportunity to achieve significant growth and differentiation if accounted for effectively and in time.

[5] Michael E. Raynor, "The Risks 'of' and 'to' a strategy: The case of Blockbuster and the need for strategic flexibility," Enterprise Risk Management: A Common Framework for the Entire Organization, Butterworth-Heinemann; 1st edition (September 2015).

The question for insurance carriers is whether they are prepared to recognize the presence of similar existential threats arising in their own industry, as well as respond quickly and effectively once they do. Insurance carriers should be scanning and reacting to "what if" scenarios that may be taking shape in their business landscape, undermining assumptions about how they design their products, engage with customers, and/or deliver their services.

Strategic risks usually have a "flip side" in that they often come with an opportunity to achieve significant growth and differentiation if accounted for effectively and in time.

Before we move on to discuss potential ways for insurers to better anticipate and manage strategic risks, let's first review a few such challenges that are unfolding right now in the insurance industry.

Strategic risks in insurance: Coping with disruption

Emerging technologies and cultural shifts pose a number of potentially disruptive strategic challenges to the insurance industry. Some have already manifested themselves, while others remain on the horizon. The following are a few illustrative examples of strategic risks facing various types of insurers.

One strategic risk that has already materialized and is threatening to upend the traditional business model of auto insurers is the introduction of telematics-driven, usage-based insurance products. Carriers that remain on the sidelines or fail to respond adequately may lose their prime risks to competitors offering discounts for those who allow their driving to be monitored in real time.

Several nationwide carriers are already quite advanced in their telematics programs, analyzing the data collected from on-board monitoring devices to revamp their underwriting and pricing models, as well as their marketing and customer-service strategies. A number of smaller insurers have responded to this strategic threat by sharing data through third parties to gather the critical mass of information required to make their own telematics initiatives viable from an actuarial standpoint.

Whether or not a carrier has chosen to jump on the telematics bandwagon, usage-based insurance is a strategic risk that all auto carriers have to account for, even if they decide to stick with the line's standard risk-modeling techniques. Indeed, non-adopters will likely be challenged to profitably cater to the consumer segment that does not prefer usage-based products, amid intensifying competition for the best drivers from telematics players.

Another notable recent example of strategic risk that is currently challenging the business model of reinsurers is the historic influx of new capital into the property and casualty industry from non-traditional sources, particularly through the sale of insurance-linked securities (ILS) to institutional and individual investors seeking higher returns and uncorrelated risks. The impact has already been disruptive, as the resulting excess capacity has prompted reinsurers to either cut rates to remain competitive, or pull back from affected markets.

While analysts have raised concerns around the long-term sustainability of these alternative capital providers should high catastrophe losses occur, the growth of ILS and other sources—if maintained at its current pace—may trigger greater consolidation in the reinsurance industry. However, this trend could also create growth opportunities for reinsurers as well, at least for those that are flexible and well prepared to capitalize on such disruptions by issuing ILS themselves in the spirit of, "if you can't beat 'em, join 'em."

Now let's look at several strategic risks looming on the horizon that could pose disruptive challenges for the insurance industry in the near- and long-term.

Emerging strategic risk #1: Tech, culture shifts impact insurers

Looking ahead, telematics is just one example of the disruptive, strategic risks facing auto insurers, with the most extraordinary perhaps being the development of driverless cars. Such automated vehicles—made possible by rapid advancements in a variety of safety technologies, such as sensor-driven braking and collision avoidance systems—could significantly undermine the price, and perhaps one day even the market for personal auto insurance, or at the very least disrupt the types of coverage required.

While automated cars may challenge the underlying value of the personal auto insurance business, this strategic risk could also create opportunities for carriers that alter their coverage most effectively to account for the new technology's impact on underwriting, pricing, and claims. Some may even consider expanding into the product liability space, given that accidents in automated vehicles may in fact become the responsibility of manufacturers and/or software firms rather than the non-driving owners of such vehicles.

At a minimum, the safety technology employed for self-driving cars may significantly impact loss frequency (if their use ends up resulting in fewer accidents) and severity (if the expense to repair damages rises due to higher replacement costs for the sophisticated gadgets that control such vehicles).[6]

In addition, a broader transportation trend known as the "sharing economy" is rapidly making its way into the mainstream with services such as Uber or Zipcar where commuters can choose to hop a ride in someone else's vehicle rather than owning a car. This may reduce the number of insured vehicles on the road and the demand for personal auto insurance. Questions around liability insurance for such "shared cars" has already been raised by lawmakers in a number of states, creating opportunities for auto carriers to alter their product designs and coverages and/or launch new policies for emerging transportation providers.

Meanwhile, insurers should be on the lookout for additional disruptions caused by sensor-based technologies—more broadly known as the "Internet of Things"—which may have an impact well beyond auto insurance as monitoring devices are imbedded in more types of machines, properties, and even people. The emergence of a "connected" society will eventually affect the business models of homeowner, life, health, and commercial insurers, as real-time monitoring technology cuts across boundaries and gives rise to an entirely new way to assess risks and provide customized insurance products to individual clients.

Emerging strategic risk #2: Accelerating medical breakthroughs

Dramatic improvements in medical care and technology provide another example of potentially disruptive innovation likely to affect insurance carriers. While the advent of more effective diagnostic tools, drugs, and treatment protocols has been helping to extend average life spans over the past century,[7] the pace of innovation is perhaps only now entering a disruptive phase, creating uncertainty for life, health, and annuity insurer underwriting and pricing models.

The developments in human genome sequencing (gene tests) and wearable fitness devices that track vital health statistics on a real-time basis will likely push life and health insurers to adopt more sophisticated, evidence-based risk assessments. The overall impact of these developments could be positive in terms of allowing carriers to create more precise risk classes and reduce the margin of error in current actuarial models, while ultimately resulting in more effective pricing strategies and improved profitability.

In addition, researchers are already developing prototypes of medicines that can be customized for individuals and help cure diseases more effectively. This development, broadly known as "personalized medicine," aims to tailor medical care to the individual characteristics, needs, and preferences of a patient during various stages of treatment.[8]

[6] "Self-Driving Cars and Insurance," Insurance Information Institute, February 2015.
[7] John Lechleiter, "Extend Life Expectancy and Reduce Deaths? Yes We Can!" Forbes.com, May 22, 2012.
[8] "Paving the Way for Personalized Medicine, FDA's Role in a New Era of Medical Product Development," U.S. Food and Drug Administration, October 2013.

Moreover, with the advent of three-dimensional (3D) printing (also known as "additive manufacturing"), the possibilities are expanding to the extent where doctors can customize prosthetics and implants, with the potential to artificially generate organs for transplants not far down the line.[9] These benefits can theoretically be achieved at a lower cost when compared with traditional treatment protocols.[10]

While such medical breakthroughs may benefit millions of sick or injured individuals, how will insurers adjust to accommodate the ongoing extension in lifespans, impacting underlying mortality assumptions for life insurance and the economics of guaranteed-income features that are at the core of longevity-driven annuities?

Emerging strategic risk #3: New competitors for insurance distribution

US insurance distribution has traditionally been dominated by the agency channel, along with direct sales by carriers themselves online, over the phone, or even through standard mail. However, the expansion of the online channel is changing the distribution dynamics of a number of coverages, most notably auto insurance, where direct-to-consumer sales via the Internet continue to rise through third-party aggregators. Meanwhile, new players such as online search engines are entering and threatening to disrupt the market even further, with online merchandise retailers perhaps following suit before long.

In addition, a number of disruptive competitors emerging in the UK market might find their way to US shores as well, including the rise of peer-to-peer insurance (in which consumers join or start their own online social networks to either share risk or buy third-party coverage as a group), value-based (rather than price-focused) comparison websites, as well as social brokers (a new type of online intermediary, who negotiate insurance on behalf of groups of consumers, such as young, safe drivers).

The entry of one or more competitors mentioned above could seize or at least loosen the control insurers have over their distribution systems, and perhaps disrupt an insurer's link to consumers. Moreover, insurers are likely to be compelled to match the high expectations of tech-savvy customers that are being shaped by their online shopping and customer experiences with other industries.

These are just a few examples to understand the unique nature and source of strategic risks with disruptive implications for insurance companies. Carriers should consider adopting a systematic and proactive SRM approach to ensure they are fully aware of relevant emerging trends and developments that could turn out to be a significant strategic risk, as well as be better prepared to mitigate the possible consequences and capitalize on the potential opportunities they present.

> Carriers should consider adopting a systematic and proactive SRM approach to ensure they are fully aware of relevant emerging trends and developments that could turn out to be a significant strategic risk, as well as be prepared to mitigate the possible consequences and capitalize on the potential opportunities they present.

[9] C. Lee Ventola, "Medical Applications for 3D Printing: Current and Projected Uses," NCBI, October 2014.
[10] Ibid.

Managing potential disruptions: The SRM framework

Carriers that establish SRM programs should enjoy a number of advantages over their non-SRM competitors. For one, they should be quicker to spot evidence of potentially disruptive developments. In addition, SRM-driven carriers should be able to adapt their products, services, and business models more effectively to changing competitive environments. Ultimately, they will be better positioned not only to survive but also to thrive in rapidly evolving market conditions.

Insurers should therefore start thinking of ways to develop a model framework (see Figure 1) that equips them with the tools, techniques, and skills to both mitigate and exploit the dual nature of strategic risks. In the following discussion, we outline how insurers might leverage a new blueprint to establish a strong foundation around SRM.

Figure 1: Putting SRM into action

Establish an SRM capability	Integrate SRM into risk-sensing	Prepare a scenario based action plan	Leverage cognitive tools to enhance decisions
Identify a leader Map the implications of strategic risks with the company's risk appetite Leverage risk sensing tools to generate early warning signals for emerging strategic risks	Build or fortify a risk sensing system to help the C-Suite and board of directors remain on top of the key strategic risks facing the company	Prepare an action plan formulated by a newly constituted strategic risk oversight committee, with input and approval from senior management and board of directors Conduct periodic mock drills to test preparedness	Use computer-based simulation models to help executives test the strength of their decisions under various scenarios Power a continuous feedback loop to highlight the cognitive traps that can hinder strategic risk assessments Implement remedial programs that enhance decision making and minimize influence of biases

Establish an SRM capability

Ideally, SRM could be established as an enhanced capability within the existing risk function of many insurers. Indeed, those carriers that have already made headway into ERM or have appointed a chief risk officer (CRO) or the equivalent (see sidebar) may not have to reinvent the wheel, with SRM perhaps representing the next evolutionary stage on the risk-management maturity curve. SRM can focus on existential risks with the potential to disrupt a carrier's value proposition and business model, while leveraging the organizational infrastructure and processes already built for ERM—such as advanced data analytics and predictive modeling.

Carriers that do not have an established ERM function or a CRO should consider creating an SRM-focused team of executives and line-of-business leaders, headed up by an individual with the requisite background and skill set to organize and implement efforts to deal with strategic risks proactively, systematically, and comprehensively. The SRM leadership role could be assumed by a variety of individuals, including a CRO, the chief financial officer, or chief strategy officer, depending on a company's internal structure and culture.

The goal is for an insurer to become more cognizant of strategic risks, build a disciplined approach to spot and deal with them more quickly, as well as elevate the SRM conversation to the broader C-Suite and board of directors.

Effectively managing an SRM initiative requires strong buy-in and support from the leadership team, starting with the chief executive officer. The key responsibilities of the SRM initiative's facilitator would be to socialize the strategic risk framework throughout the organization, communicate SRM in a practical business language, and build relationships with key stakeholders to ensure that the potential for disruptive risks becomes a focus of strategic planning.

Elevating the chief risk officer role

One prime candidate to assume the role of educator, organizer, and facilitator for the SRM initiative is the chief risk officer (CRO). A number of insurers already have a CRO in place, and in such cases the CRO could be elevated to a more strategic role, rather than focusing solely on more traditional operational concerns.

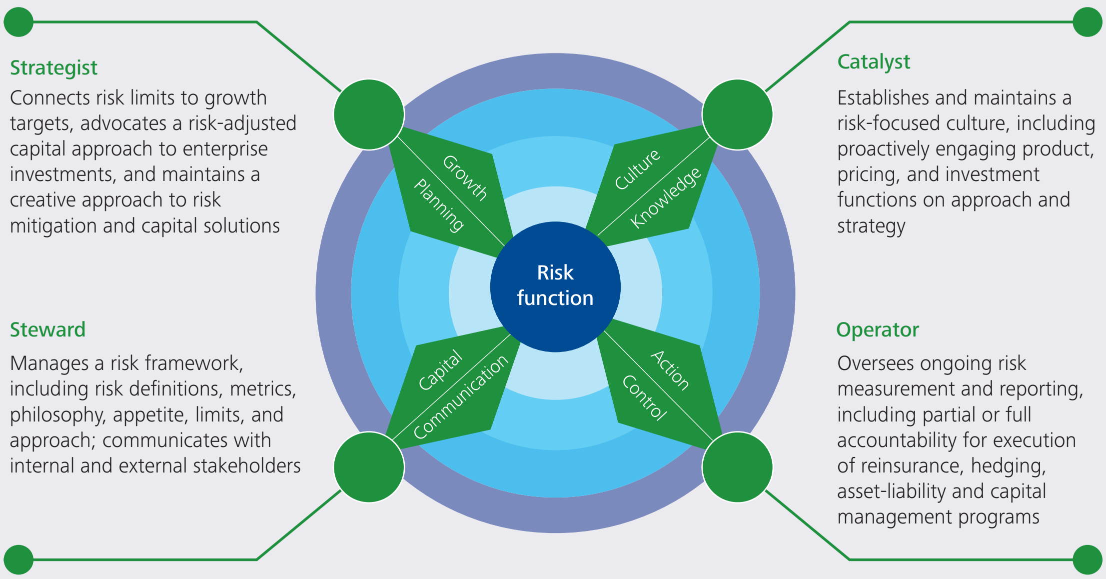
In the last decade, the increased focus on holistic risk management has prompted a growing number of insurers to appoint a full-time CRO to identify and address a wider array of exposures on a more comprehensive basis. However, the role of CRO has historically been seen as reactive and operations-oriented, involved disproportionately in the traditional steward and operator roles (see Figure 2). Moreover, at many insurers the CRO is still not an independent position, instead often a secondary role played by someone such as the chief financial officer.

However, evolving economic conditions, expanding regulatory expectations, more demanding corporate governance trends, technological advancements, and the emergence of SRM have created a need and opportunity to align the CRO role more closely with that of a catalyst and strategist.

An enhanced CRO could go beyond protecting capital for policyholder obligations and enterprise health to also dealing with the nitty-gritty of the insurer's business model, market dynamics, and even a company's culture to infuse a habit of risk-informed, strategic decision-making. Evaluating every strategic decision with a risk manager's lens could add an entirely new dimension to corporate governance and help carriers make more informed market and financial choices.

> An enhanced CRO role should evolve beyond traditional responsibilities to deal with the nitty-gritty of the insurer's business model, market dynamics, and even a company's culture to infuse a habit of risk-informed, strategic decision-making.

Figure 2: Four faces of the insurance company CRO



Following the appointment of someone to build and lead an insurer's SRM initiative, an important task is to map the current understanding around strategic risks within a company's risk appetite framework. This task requires a deeper understanding of the company's current risk profile and ample industry experience to appreciate the nature of disruptive risks a company might face, given that measuring the impact of strategic risks is not an exact science, and that in some cases there may not be any historical precedent. DTTL's 2015 Global Risk Management survey suggests close to 53 percent of insurance respondents characterized efforts to define risk appetite for strategic risk as extremely or very challenging, while the number soars to 88 percent when including those who find this task at least somewhat challenging.[11]

However, brainstorming around the broader implications of a risk that is disruptive, or has the potential to be so, can give the management team and board members a framework to begin thinking about potential existential threats and how to address them more proactively.

[11] "Global risk management survey, ninth edition," Deloitte University Press, May 13, 2015.

To start, the SRM team should build capabilities to scan for emerging strategic threats on the horizon. As these capabilities evolve, insurers should consider adopting sophisticated tools such as risk sensing, designed to provide stakeholders with an outside-in view of risk to identify potentially disruptive strategic challenges. This tool can systematically exploit a wide array of structured and unstructured data from mainstream and social media sources to identify signals and trends indicative of emerging disruptive risks.

An SRM dimension of an insurer's risk report should be developed, weighing the potential impact—both positive and negative—of strategic risks as they are identified. This requires a rigorous analysis of externally focused information such as the economic environment, technological shifts, demographic changes, competitor activity, and developments in the industries where an insurer does business.

Prepare a scenario-based action plan

After identifying top strategic risks, the SRM team needs to drill down further on each topic and develop a threat and opportunity assessment for each, combining human experience and judgment with technology enhancements such as advanced analytics and predictive modeling.

For risks where measuring the impact in financial or other statistical terms is difficult, using tools such as a Monte Carlo simulation[12] will help generate optimal outcomes. Life insurers could also leverage the stochastic modeling techniques they already employ while developing risk-based scenarios for life and annuity products. Such tools can mimic the financial impact of a real-life situation, with the help of inputs provided by a risk analytics expert. The multiple outcomes with probabilities attached can help the management team and board visualize the severity of various outcomes under different conditions.

An SRM report with scenarios for top strategic risks should become part of a regular formal discussion for the management team and board of directors to debate potential outcomes and think through options to manage threats and opportunities. The dual nature of strategic risks will require insurers to develop a two-way approach to deal with them, encompassing both mitigation and commercialization tactics.

The task for the SRM team along with C-Suite leaders is to consider a solution matrix that helps design optimal responses for each scenario. Moreover, it is important to circulate the scenario-based action plan among the entire executive leadership team, which could then participate in regular simulation exercises to ensure the company is prepared should a strategic risk emerge or intensify. Such exercises may involve designing and testing a response for each scenario with clearly laid out assumptions. Computer-based simulation models, which consider potential responses from competitors as well, can help executives gauge the effectiveness of their actions in real-life situations.

Insurers may use technologies such as online interactive platforms to generate meaningful discussions on how to respond to a strategic risk. Data analytics tools can be leveraged to summarize and rate the responses. Such practice at regular intervals can help insurers develop a playbook for handling strategic risks.

The key is to have a system in place to respond to strategic risks as they arise, even if they are not fully or even partially anticipated beforehand.

[12] A Monte Carlo simulation is a problem-solving technique used to approximate the probability of various outcomes by running multiple trial runs using random variables.

Leverage cognitive tools to enhance decision-making

Every strategic decision is affected by an invisible obstacle—that is, cognitive or institutional biases. They are part of human nature and affect most areas of life.

In the field of SRM, such obstacles can loom even larger, given the high level of uncertainty surrounding strategic risks. In such scenarios, decisions may be at least partially based on hunches or gut feelings rather than more objective elements such as hard data or prior experience. Since avoiding such biases completely is unlikely given human nature, the solution may lie in finding out ways to minimize their impact (see sidebar).

Take as an example the combat strategies employed by military leaders, who generally look to design responses for every foreseeable method of attack and potential counterattack. Indeed, modern day wars are not only fought on the battlefield. Along with intense physical training, the military often uses advanced computer simulation technology to design and test their actions and responses under different conditions.

Insurers also have an opportunity to use such simulation tools to test their responses to potential strategic threats under different scenarios. Such tools can help broaden strategic brainstorming and serve as a quick reference during real-life situations. Without such simulations, executives are more likely to fall victim to one or more of the biases noted above, and may not be fully prepared to proactively either offset the threat posed by a potential strategic risk, or capitalize on the opportunity it may present.

Examples of a few biases faced by many business managers[13]

- The overconfidence bias convinces us to trust our gut when we shouldn't, and makes us unable to calibrate the limits of our own knowledge. We don't know what we don't know, and we overestimate the truth of what we believe;
- The availability bias encourages us to inflate the importance and likelihood of things we saw or read recently (and are thus most available to us in memory), giving us a distorted view of what's really important;
- The confirmation bias causes us to pay more attention to information that fits what we already believe while discounting information that may contradict our current beliefs;
- The optimism bias, perhaps most challenging of all, fools us into thinking that nothing bad will happen and all our plans will work out as we intend.

[13] Deloitte Development LLC, "Deloitte on disruption: Changing course in a disruptive world," October 2014.

Making a course correction with SRM

Being proactive rather than reactive in dealing with strategic risks has become an imperative in this rapidly evolving economy and culture. At a minimum, the radical pace at which innovative technologies and new competitive paradigms are penetrating and disrupting nearly every area of business is likely to challenge the fundamentals and standard operating procedures of the insurance business more than ever before.

Insurers, therefore, should be preparing to respond to such strategic-risk events with a non-traditional approach. They can start by establishing an SRM discipline throughout their organization.

By building SRM capabilities, insurers can institutionalize processes to spot and manage strategic risks in time to make a course correction, while improving the odds of not only catching a disruptive trend before the competition does, but also before it threatens to overwhelm their business model. Meanwhile, SRM changes the mindset from defense to offense, by identifying opportunities to grow rather than just fend off emerging threats.

The alternative is to deal with strategic risk on an ad hoc basis, which could result in a carrier being caught unaware of a potential existential threat on the horizon, or at least undermine an insurer's ability to respond in a systematic way—not only to ward off the challenge, but to capitalize on it.

Contacts

Industry leadership

Gary Shaw
Vice Chairman
US Insurance Leader
Deloitte LLP
+1 973 602 6659
gashaw@deloitte.com

Deloitte Center for Financial Services

Jim Eckenrode
Executive Director
Deloitte Center for Financial Services
Deloitte Services LP
+1 617 585 4877
jeckenrode@deloitte.com

Executive sponsor

Richard Godfrey
Principal
US Insurance Advisory Leader
Deloitte & Touche LLP
+1 973 602 6270
rgodfrey@deloitte.com

Authors

Jaykumar Shah
Assistant Manager, Insurance
Deloitte Center for Financial Services
Deloitte Services India Pvt. Ltd.
+00 (1) 678 299 7144
jaykshah@deloitte.com

Sam Friedman
Research Leader, Insurance
Deloitte Center for Financial Services
Deloitte Services LP
+1 212 436 5521
samfriedman@deloitte.com

The Center wishes to thank the following Deloitte Advisory client service professionals for their insights and contributions to this report:

Andrew Blau
Director
Deloitte & Touche LLP
+1 415 932 5416
ablau@deloitte.com

David Sherwood
Senior Manager
Deloitte & Touche LLP
+1 203 423 4390
dsherwood@deloitte.com

The Center wishes to thank the following professionals for their support and contribution to this report:
Courtney Scanlin, Senior Marketing Manager, Deloitte Services LP
Rachel Moses, Lead Marketing Specialist, Deloitte Services LP
Clare Powell, Marketing Manager, Deloitte Services LP

Deloitte Center
for Financial Services

The Deloitte Center for Financial Services offers actionable insights to assist senior-level executives in the industry to make impactful business decisions.