

Four Faces of the Insurance Company Chief Risk Officer



Executive summary

The scope, responsibility, and influence of the insurance company Chief Risk Officer (CRO) role continues to grow, due to challenging economic conditions, expanding regulatory expectations, corporate governance trends, and evolving technologies.

The CRO traditionally provides an independent review of new and in-force products, aggregates metrics across the enterprise, and oversees risk mitigation activities.

Today, the tie between ERM and capital management has become ever more crucial, thus underscoring the additional expectation of the CRO to provide a capital and risk framework for the organization, inclusive of risk knowledge, definitions, cultural impacts, metrics, and reporting.

The CRO is also positioned more centrally than other executives to deliver key messages, both internally and externally, regarding complicated and conflicting valuation bases; technical insurance and market factors and processes; and how those complex elements dovetail with the company's vision, philosophy, risk tolerance, capital policy, and market strategy.

These expectations require today's CRO to develop individually and across a function the skills, discipline, and tools consistent with four distinct faces.



Steward: Manages a risk framework, including risk definitions, metrics, philosophy, appetite, limits and approach; and communicates with internal and external stakeholders.



Operator: Oversees ongoing risk measurement and reporting, including partial or full accountability for execution of reinsurance, hedging, asset-liability and capital management programs.



Catalyst: Establishes and maintains a risk-focused culture, including proactively engaging product, pricing, treasury and investment functions on approach and strategy.



Strategist: Connects risk limits to growth targets, advocates a risk-adjusted capital approach to enterprise investments, and maintains a creative approach to risk mitigation and capital deployment.

Traditionally, the CRO's attention has been absorbed disproportionately by the steward and operator roles, focusing primarily on risk compliance, communication, and controls. Given the external factors impacting insurance companies today, CROs should enhance dedication to the catalyst and strategist roles to ensure risk awareness throughout the organization, collaborate with leadership on strategic business decisions, and enable growth.

Steward



The steward's objective is to establish, maintain, manage and advance a risk and capital framework, including communication around it internally and externally.

Key focus

- Maintaining a risk and capital framework with a clearly identified process cycle
- Identifying, assessing, and measuring risks across the organization
- Responding to changing markets, behavior, and risk profiles

Primary roles

- Maintaining and enhancing risk-related policies
- Coordinating with internal audit and compliance functions
- Reporting the enterprise risk profile and strategy with stakeholders

Core competencies

- Process-oriented management
- Marketplace knowledge
- Communication skills related to complex issues and broad strategy

Critical issues

- Clarity of internal risk metrics and approach
- Reconciliation of internal view to external accounting and capital frameworks
- Management of key talent and technology

Operator



The operator's objective is to execute agreed risk mitigation, capital modeling and related programs, including reporting, assessment and agreed involvement in product strategy, in-force and reserve management, ALM, tail event management, reinsurance, hedging, and other sub-functions.

Key focus

- Overseeing enterprise-wide risk reporting
- Executing approved risk mitigation strategies and programs as agreed
- Contributing as agreed to product, investment, treasury, and other functions

Primary roles

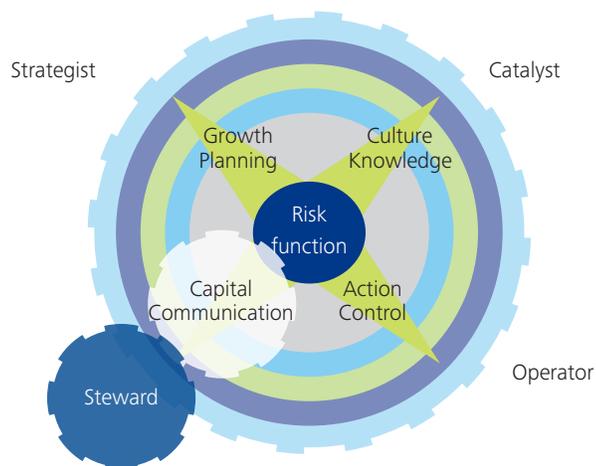
- Coordinating risk measurement and mitigation with decision-making
- Maintaining appropriate risk and capital talent
- Leading risk-focused technology, modeling, projections, and analysis

Core competencies

- Risk, capital, and insurance expertise
- Operational efficiency and team management
- Adaptability and crisis management
- Communication skills related to complex issues and broad strategy

Critical issues

- Coordination of the risk function with others across the enterprise
- Alignment of metrics, reporting, and tactical objectives with strategy
- Controls around the risk and capital functions' calculations and analysis





The catalyst’s objective is to promote a risk-based lens regarding product, investments, and related functions, through maintenance and continual evolution of a well-understood risk culture.

Key focus

- Establishing and promoting a risk culture throughout the enterprise
- Educating key internal stakeholders regarding the risk framework
- Coordinating with all risk-related enterprise functions

Primary roles

- Understanding all metrics and bases (i.e., GAAP, Stat, EC)
- Arming internal constituents with a consistent risk-based approach
- Embedding application of risk limits in day-to-day operations

Core competencies

- Understanding of the broad-based nature of the enterprise
- Ability to apply risk and capital expertise to creative and effective applications
- Effective collaboration and leadership skills with a wide variety of peers and others

Critical issues

- Potential earnings-based focus of firm and business units
- Lack of understanding regarding accounting versus economic metrics
- Inconsistency regarding performance metrics, goals, objectives, and metrics used for product, pricing and/or in-force management



The strategist’s objective is to proactively align the firm’s strategic growth goals and risk limits, employing the risk function’s people, process, and technology to optimize capital planning, deployment, and allocation.

Key focus

- Project the future insurance, risk, and regulatory environments
- Proactively interact with business unit leaders in establishing strategic growth objectives
- Optimize access, raising, projection, management, deployment, and allocation of capital

Primary roles

- Advocating a risk-aware approach to product, investment, and other decisions and directions
- Managing the risk that chosen strategic decisions do not contribute to enhanced company value as expected
- Helping develop product and market strategies that reflect the enterprise risk appetite

Core competencies

- Understanding of the insurance marketplace and products
- Operating with a sales and growth mentality
- Providing collaborative, influential, and inspiring leadership

Critical issues

- Inherent conflicts among growth targets and risk limits
- Potentially conflicting leadership performance metrics
- Complex challenges related to addressing both external and internal stakeholder expectations



Contacts

Eric Clapprood, FSA, CERA

Principal
US Capital and Risk Management Leader
Deloitte Consulting LLP
+1 860 595 9462
eclapprood@deloitte.com

Richard Godfrey

Principal
US Capital and Risk Management Leader
Deloitte & Touche LLP
+1 973 602 6270
rgodfrey@deloitte.com

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. 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.