The Evolving Role of the CRO – getting value from a seat at the table
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Context of paper

• Consider how CRO role will evolve following Solvency II implementation

• Provide practical guidance to help organisations and individuals think through their requirements of the role – helping them to increase alignment and value

• Audience – CROs and risk teams, HR, Board members and committees

• Focus mainly on insurance, but lessons for other industries
Where is the CRO role today?

• Developments in governance and regulation have led to the CRO role becoming a crucial member of firms’ senior management

• There continues to be debate around the purpose, focus and means of achieving maximum value from the role

• Essentially the question should not be “if”, it should be “how”

• A highly effective CRO must be empowered and supported to execute the role
Recap on IMIF Survey

• Most important attributes required by a CRO are risk management, risk culture & appetite, communication and organisation understanding
• Surprisingly (given the impact of Solvency II) change management was not seen as important
• Top competencies for CRO are integrity & values as well as influence (the conscience of the business)
• The prime external stakeholder of CROs are seen as the regulator
• Although this position is rapidly changing as over next 5 years 40% anticipate less emphasis on regulation
• In future there will be more focus on commercial decision making, efficiency & effectiveness of the risk function and business planning & strategy
IRM Professional Standards

- IRM have defined functional professional standards against 4 competency levels:
  - Leadership
  - Senior
  - Management
  - Support

- IRM have also defined 6 behavioural competencies
  - Courage and confidence
  - Influence and impact
  - Integrity, ethics and values
  - Innovation and catalyst
  - Building capability
  - Collaboration and partnering
Shaped by Regulation and Some!

- Corporate governance failures continue to drive increased focus on ERM, with accountability and ownership for risk at executive level made explicit through regimes such as SIMR and other similar Fit & Proper standards
- The insurance sector is facing a high-stakes, strategic set of challenges.
- Weak global growth impacting top and bottom-line, with increasing focus on cost efficiencies
- A prolonged low interest rate, reducing investment returns and potentially amplifying volatility
- More structural reforms expected
- Uncertain political outcomes
- Changing trends and disruptive influences
Where is the CRO role today?

- By now we would expect a firm’s board to have an appreciation of where it is on the risk maturity continuum and where it wants to end up over a period of time.
- Not all firms need to aim for the top but depending on the risks it faces, complexity of the organisation, maturity of the CRO role and risk function and the cost implications, it should make an active decision on what “success” looks like.
- Firms face the risk that the role may become too operational in nature dealing with the running of the RM function and operating the Internal Model, reducing the time available to focus on the parts of the role that add value.
- There is a continuum of risk maturity which goes in-hand with a shift in the skills and competencies of a CRO.
Factors impacting the role looking forward

• Views amongst CROs appear to be mixed. Satisfaction with roles and responsibilities is variable. Some CROs find the roles challenging and rewarding, whilst others appear to be finding it difficult to see how they add value.

• We have identified a number of factors which ultimately determine the success of the CRO and guide the skill set required to be effective:

1. External Influences and direction of travel;
2. The strategy of the firm;
3. The business model of the firm; and
4. How a firm uses its internal model.

• We believe firms and CROs alike need to give careful consideration to each of these areas in deciding the best candidate and the focus of the role holder’s attention.
What does this mean for the CRO?

- CRO will need to focus on their firms creating and capturing value through full consideration of upside and downside risks in decision making.
- What this means will be different for different firms – need to consider carefully the most important elements for them.

Key themes

- From process towards strategy – less day to day operational risk management and more outward leadership and influence in the business.
- Shift from inward to outward focus – understanding the external environment will be ever more critical – heads up mentality is vital.
- From risk assessment to risk treatment and building resilience and understanding by impact of alternative strategies evaluated through Internal Model Use.
- From communication and consultation to influence and impact.
- From people management to building capability.
CRO focus areas

- Through our initial work we have identified a number of approaches to the CRO role
- Summarised them into 4 different ways of setting up the role going forward
The Internal Model CRO

• Using technical skills to add value
• Developing and improving ROI
• Pragmatic focus on what’s important to the business
• Increasing collaboration

“4th place is like another trophy”
The Operational CRO

“My team is like an orchestra”

- Change focused
- Cost conscious
- Using operational capability to drive strategic value
- Translating complexity to action
The Customer CRO

• Customer focused
• Brand ambassador
• Focus on first line capability and leadership
• Pragmatism, collective effectiveness

“I would like to apologise to our fans”
The Strategic CRO

“Change is possible only in the long term”

- Strategic understanding
- Engaged in decisions
- Innovative contributions
- Long-term focus
- Confidence and courage
Next steps

• Consult on industry views
• Refine paper
• Feedback and discussion welcome with interested parties
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