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Accenture 2015 Global Risk Management Study: Insurance Report

Paths to Prosperity

High performance. Delivered.

Foreword

Senior risk professionals in the insurance industry continue to tread a careful balance between the traditional and less established aspects of the role. On the one hand, many of them face a barrage of regulatory and reporting demands and the need to strengthen controls frameworks. Yet at the same time, they are called upon to keep a close eye on emerging risks, assess the impact of digital disruption and help the business to achieve its growth objectives.

Chief Risk Officers (CROs) have already embarked on a journey to reposition the risk function within their businesses. They are engineering a shift from a narrow, compliance-driven and "back-office" approach to one that serves more as an enabler for innovation and growth. They are establishing the risk function as a strategic partner to be involved at every stage of the decision-making process.

Some 85% of insurance respondents to our 2015 Global Risk Management Study believe that risk management has helped their business to generate long-term profitable growth to at least some extent. There is, however, plenty more work to be done. For example, more than two-thirds of respondents (71%) warn that a lack of integration with other business functions is impeding the overall effectiveness of risk management in their organization.

One of the biggest challenges of all, say more than three-quarters (76%) of insurance respondents, is gaining the trust of business units to advise on their operations. Clearly, the strategic partnerships that risk executives now hope to build are not yet fully in place.

Developing these relationships and required capabilities will take time. But, as the competitive pressures on insurers mount, the clock is ticking. It is now increasingly urgent for the risk function to become more engaged in the business evolution and reinvention in order to help steer clear of competitive threats. Insurance respondents to the Accenture 2015 Global Risk Management Study are:

- Working to understand what the new environment implies for both the risk management function and the business – and whether CROs and their teams currently have what they need to meet the requirements
- Seeking to identify areas where there is a gap to be closed, with priorities that include:
  - Getting to grips with digital
  - Strengthening data and analytics capabilities
  - Developing operational risk management in a more systematic way to turn it into an enabler of sustainable, profitable growth
  - Ramping up the focus on recruitment and retention
  - Building a more consistent risk culture at all corporate levels.

"The risk leaders have made good progress in building relationships with the business and developing both the more strategic and operational aspects of their role. They should continue on this journey, getting their risk and compliance functions on the front foot and helping to steer the organization towards sustainable profitable growth."

Steve Culp, Senior Managing Director at Accenture Finance & Risk Services

Risk management in the insurance sector

Growth and digital

For insurance respondents to the Accenture 2015 Global Risk Management Study* growth is back on the agenda and digital presents new opportunities.

44% of surveyed insurers have a greater appetite for new product development.

43% have a greater appetite for new alliances and partnerships.

85% say risk function can leverage digital to become a business partner.

5 key priorities

1 Making more of data and analytics

66% of surveyed insurers are increasing investment in data and analytics.

30% plan to grow investment by more than 20%.

2 Getting to grips with digital

79% of insurance respondents believe digital will be a major risk.

32% say their risk function has a high level of expertise to influence strategy and major decisions on social media.

3 Using operational risk to deliver growth

74% of insurance respondents expect cyber and IT risks to become more severe.

65% expect fraud and financial crime to pose a greater concern.

4 Building a culture to withstand disruptive change

7% of surveyed insurers say they have a strong and consistent risk culture today.

23% think they can achieve this over the next two years.

5 Ramping up recruitment and retention

7% of insurance respondents say their teams have sufficient resources in specialized areas.

21% hope to have them in two years' time.

86% expect to invest more in risk capabilities in next two years.

*Accenture 2015 Global Risk Management Study – Insurance respondents

1

The new environment and context for risk management

Risk management is becoming more balanced and mature in its outlook. While the emphasis on regulatory compliance remains, particularly in Europe, there is a shift toward a more growth-oriented, strategic perspective.

In the past few years, global insurers have invested heavily in meeting regulatory demands and in developing a more rounded and strategic view of risk. The challenge now is to maximize the return on that investment.

With the pressure on margins and returns in traditional business lines intensifying, particularly as markets continue to provide limited returns, insurers are looking elsewhere for growth. New business models are emerging and many insurers are already feeling the threat of digital disruption. In Accenture's 2014 Digital Innovation Survey, 75% of respondents predicted a major transformation of the insurance value chain over the next five years, while 83% expected digital technologies to transform the way they interact with their customers. Almost six in 10 (59%) forecast that they would face challenges from online disruptors, such as Google Inc. or Amazon.com Inc.[1]

In mature insurance markets, delivering strong growth objectives now means taking on greater risks, as traditional profitability levers are challenged to provide required returns. This additional risk-taking triggers difficult decisions on ever-more complex risk/return trade-offs. In turn, insurers find themselves implementing specific control activities to help provide a controlled and secure path for growth.

"The CEO now systematically seeks risk management's opinion on most business decisions and ensures that the function is present at all key committees and is effectively informed."

Serge Martin, Chief Risk Officer at AXA Belgium

The risk function cannot stand on the sidelines of this transition: CROs are encouraged to play an active role in assessing the opportunities and threats of the shift. The view from insurers surveyed for Accenture's 2015 Global Risk Management Study suggests that the risk function should prepare for this responsibility. A large minority of insurance respondents report a greater risk appetite for key strategic actions compared with two years ago. For example, 44% have a greater appetite for new product development and 43% for alliances and partnerships (see Figure 1). Appetites for risk are particularly likely to be increasing among surveyed life insurers, compared with property and casualty (P&C) insurers.

At BNP Paribas Cardif, Renaud Dumora, Deputy Chief Executive Officer, says the risk function must ensure that the risk appetite is satisfied without exposing the business to problems. "The low interest rate environment compels taking on additional risks to develop additional financial performance, but that requires proper mitigation and close monitoring," he argues.

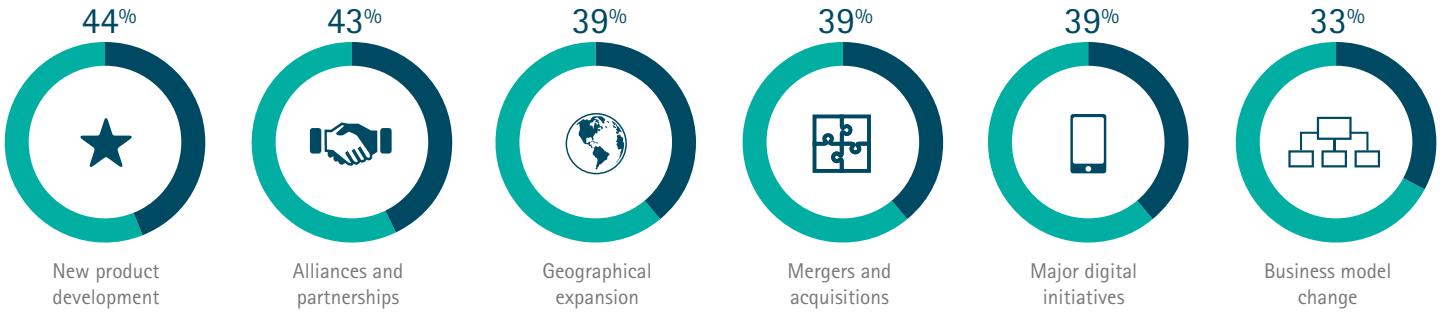
All the more in our view since new product development will likely be clustered in the digital space, which is a relatively uncharted territory for many insurers. Accenture's analysis suggests that insurers could be spending as much as 0.2% of premium income a year for the next three years on digital initiatives, ranging from mobile projects to data analytics.[2]

Risk management has become more aligned with strategic planning and a key partner to the business

Surveyed insurance company CROs have been working hard to position risk management as a strategic business partner, rather than as a function that might impede the ability of other parts of the business to exploit new opportunities.

Respondents to our study say that risk management in insurance has grown in maturity and become more aligned with broader strategic planning – what could be described as a more "upstream" role.

Figure 1. Compared with two years ago, how has senior management's appetite for risk changed when it comes to decisions made in the following areas?



Greater risk appetite

Source: Accenture 2015 Global Risk Management Study – Insurance respondents

Along with capital management, eight in 10 insurance respondents say the CRO is either a key decision maker, or among the decision makers for operating model changes, 78% say the same about strategic planning, while 73% say this also applies to business model change (see Figure 2). "Risk awareness has moved significantly up the learning curve," says Heidi Delobelle, Chief Risk Officer, AG Insurance. "Discussions on risk are much more mature and risk management practices are more embedded in the business."

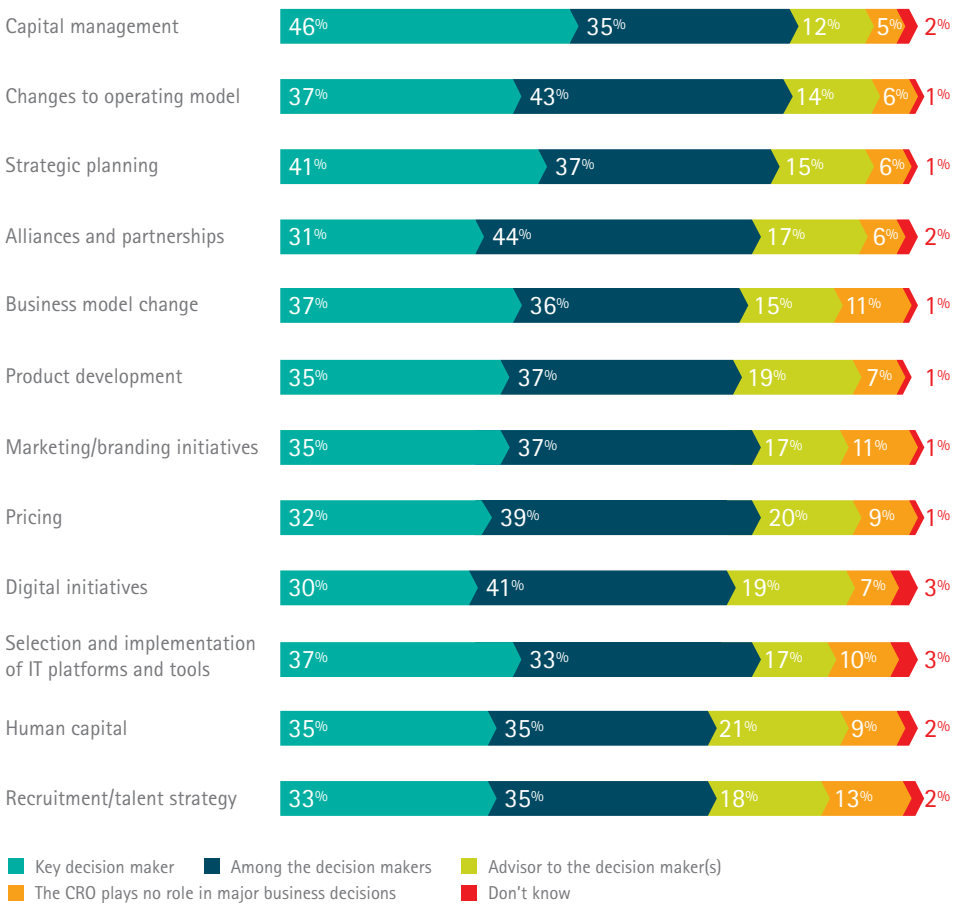
Increasingly, risk management plays a vital role in providing oversight across the business and "joining the dots" between different strategic plans. In isolation, a single project may fall within the organization's risk appetite, but the compound effect of multiple plans may take the company beyond its limits.

"Risk management has significantly enriched the group's awareness of its portfolio structure and inherent risks to the business," says Heidi Delobelle at AG Insurance. "As a critical business partner, risk management contributed to reduce 'black box' areas and was instrumental in developing more informed and inclusive decision-making processes."

Risk management is also playing a greater "downstream" role, too. This involves achieving business objectives through the development of an efficient, business minded operational risk management framework, which extends beyond operational risk models or internal controls.

We believe the key is for CROs and their teams to help insurers strike the right balance between the "upstream" and "downstream" aspects of their role. Neither an unfettered approach to growth, nor an excessive focus on compliance, will deliver the desired outcomes. Instead, the risk function should steer a course between an informed, connected risk agenda, and the need for a sustainable and innovative strategic business direction.

Figure 2. How involved is the CRO in the following aspects of the organization's decision-making process?



Note: Due to rounding, total may not equal 100 percent
Source: Accenture 2015 Global Risk Management Study – Insurance respondents

This should not be a binary choice, argues Brian Peters, Senior Managing Director, Enterprise Risk Management at AIG. "Risk professionals need to be able to handle ambiguity and non-precise conclusions," he says.

A closer relationship with the business means that there is now a more dynamic and less static approach to the "three lines of defense" model. There should be more integration and fluidity between them, while still preserving their different roles. "You have to get the balance right," says Charlie Philbrook, CRO at John Hancock. "You don't want to take unnecessary risks but equally you don't want to bury any decision in bureaucracy, which could mean there are too many second line people looking at it or not enough authority to the first line. You need clarity over where people can take risks, particularly further down the organization where people may not be fully clear on what we're trying to achieve."

Although much of the heavy lifting has been done, insurers continue to worry about meeting deadlines for regulatory compliance

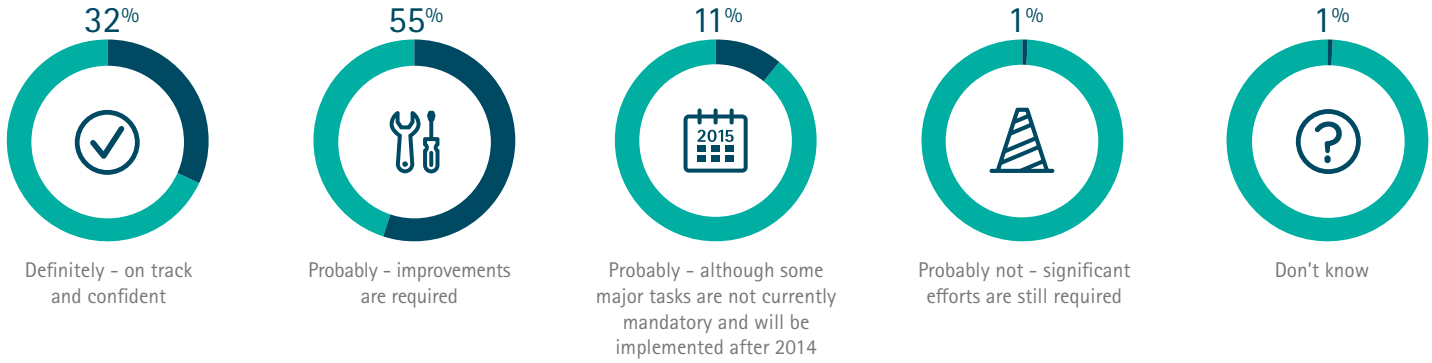
Moreover, this balancing act is taking place in an environment where insurers are still dealing with heavy regulatory burden. Only a minority of insurance respondents say they will definitely be able to meet the regulatory deadlines – just 32% are on track and confident – while 55% warn that improvements are still required (see Figure 3).

In Europe, the deadline for compliance with the Solvency II regulation is fast approaching. And, while most firms have made significant progress toward meeting their obligations, the cost of compliance has been significant. Seven in 10 surveyed insurers say that the cost of complying with solvency (or other primary) regulation has been higher than expected; one-third has spent more than US$50m (see Figure 4). Life insurers are particularly likely to have exceeded budgets by more than 20%.

Having committed such large sums to regulatory compliance, we see insurers more actively looking for greater returns on their investment, with the risk function striving for greater efficiency and effectiveness in the compliance process.

Compliance can become a source of competitive advantage by helping the firm identify threats and opportunities embedded in the regulatory environment. "Having an accurate and extensive understanding of regulatory requirements is not only a necessity to ensure full compliance, it is also a way to anticipate potential game-changers and take business decisions and manage associated operational changes with agility," says Frieder Knüpling, Group Chief Risk Officer at SCOR.

Figure 3. Will the organization be able to meet the expected compliance deadline for solvency regulation?



Source: Accenture 2015 Global Risk Management Study – Insurance respondents

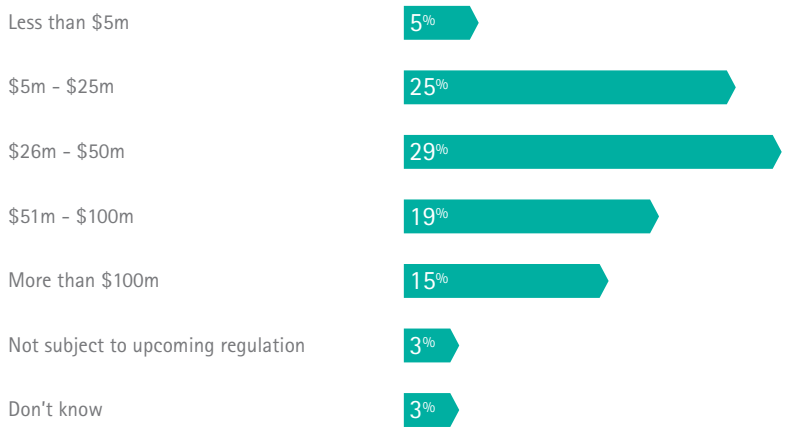
The regulatory focus has increased the visibility and maturity of risk management

At the same time, we believe that the enhanced profile that Solvency II has given risk management within the business has also been an opportunity for the function to take on an even more strategic role.

As part of the Solvency II directive, insurers must meet the requirements of the Own Risk and Solvency Assessment (ORSA), which also applies to US insurers. ORSA requires insurers to demonstrate that their enterprise risk management frameworks are embedded into their governance and decision-making processes. It has led to increased visibility for the CRO at a strategic level with the executives and board. Some 85% of insurance respondents say that risk management now contributes either to a great extent or to some extent to enabling long-term profitable growth of the business (see Figure 5).

The catch, in our view, is that risk management's higher profile has coincided with an increase in the function's workload. The bureaucracy that accompanies compliance frustrates many CROs. While Solvency II and ORSA can offer CROs new opportunities to contribute to strategy, we feel they can also limit the time available for this type of work. They struggle to free up more time and resources to focus to a greater extent on a "business impact" agenda.

Figure 4. What is the estimated total cost, including internal resources, of compliance with solvency regulation (Solvency II - EU, ORSA - US, C-ROSS – China) or other primary regulation – up to and including implementation in 2014 and after?



Note: Due to rounding, total may not equal 100 percent
Source: Accenture 2015 Global Risk Management Study – Insurance respondents

"The formalization of the risk management framework in line with Solvency II requirements has triggered discussions around some of the fundamental objectives of managing risks, including our business priorities, what we want to protect and the types of risk we are willing to tolerate."

Grégory Erphelin, Chief Financial Officer at Crédit Agricole Assurances

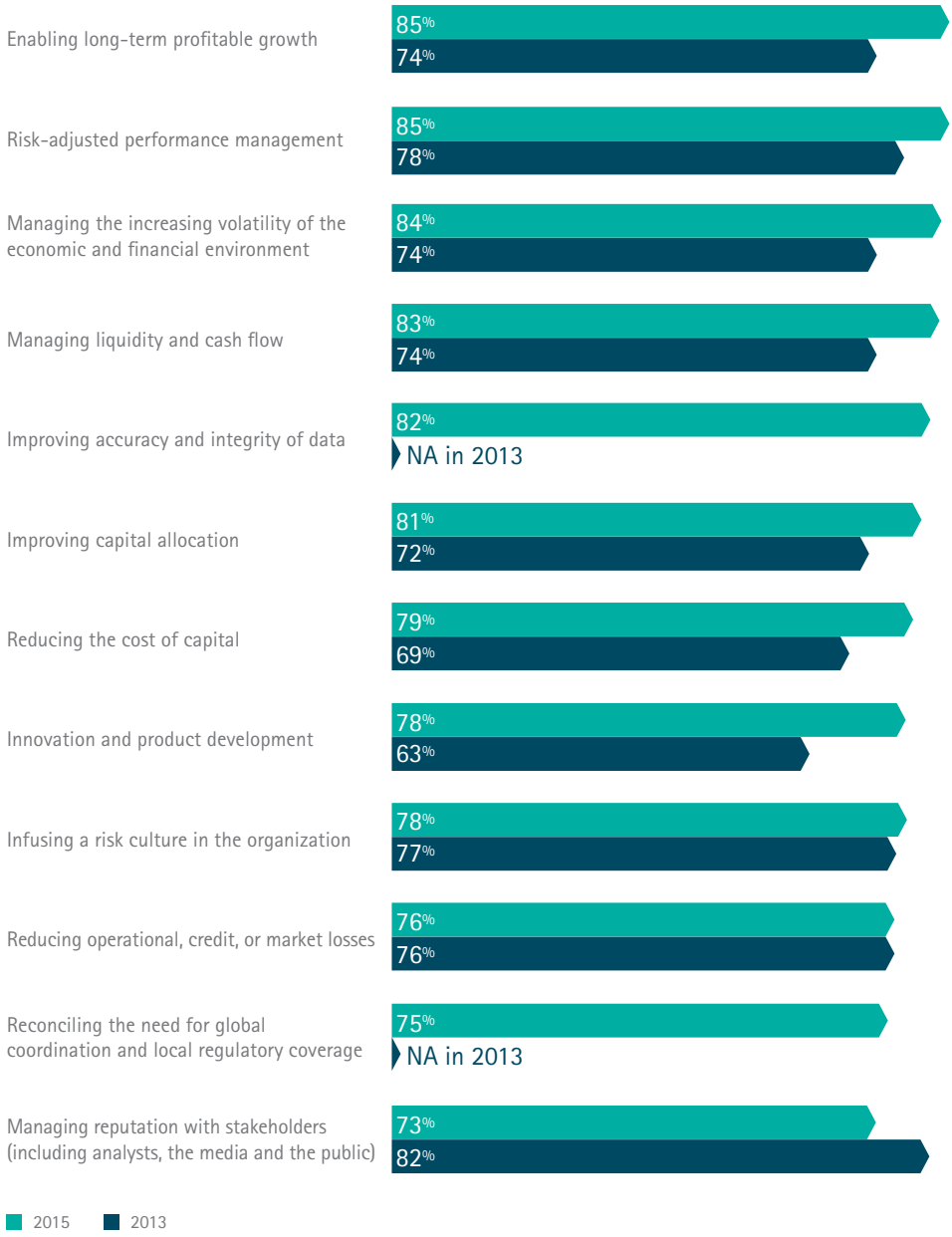
There is still progress to be made in changing the perception, skills and impact of risk management

The challenge for risk management now is to push ahead with forging closer ties with the rest of the business in order to cement the function's position as a business partner. "Beyond compliance, there is room for improvement in the way risk management is embedded in day-to-day activities and business decisions," says Ronan Davit, Group CRO, Euler Hermes. "Ultimately, risk management should be able to play more of an 'a priori' role and less of an 'a posteriori' one."

At too many insurers, there is still a perception that risk management is an obligation rather than a function that could add value in its own right. "The next challenge is to increase the integration of risk management within the company culture so that the compliance aspect is not the main driver but instead it is the broader benefits generated," says Ronan Davit at Euler Hermes.

To confront that challenge and free up sufficient resources for strategic matters, CROs must continue to rethink their traditional operating models. Having developed many frameworks with a rather siloed approach under compliance pressure, risk management functions now face a clear challenge. They should look to increase efficiency in their operations and optimize their cost structure. Accenture's work with insurers across the globe suggests the need for a "risk-adjusted operating model", where the risk function is able to encourage value creation by supporting the business in optimizing its generation and use of capital while minimizing operating, financial and regulatory threats.[3]

Figure 5. To what extent has risk management contributed to the organization achieving the following? (Represents percentage who say to a great extent or to some extent)



Source: Accenture 2015 Global Risk Management Study – Insurance respondents

What makes a risk master?

10%

Around 1 in 10 respondents to the Accenture 2015 Global Risk Management Study* are "risk masters".

Better handle on regulatory and compliance

37% of risk masters believe strongly that regulatory change is receding in relation to other requirements.

25% of non-risk masters see regulatory change receding in the same way.

Stronger focus on profitable growth

61% of risk masters believe their risk function can play a critical role in enabling profitable growth.

36% of non-masters feel the same.

54% of risk masters believe they can help enable this growth "to a great extent".

35% of non-masters report the same view.

Stronger focus on emerging risks

61% of risk masters agree strongly that emerging risks, such as cyber and digital, are consuming a greater proportion of the CRO's time.

35% of non-risk masters feel strongly about this.

Growing digital experience

61% of risk masters agree strongly that they employ dedicated technology specialists to help manage digital risk.

27% of non-masters feel the same.

More extensive use of analytics

More risk masters make extensive use of analytics to manage key risk categories including fraud and financial crime, cyber and IT risk, and credit, market and regulatory risks.

Risk masters are also more likely to be investing heavily in digital technologies.

* Accenture 2015 Global Risk Management Study – all respondents

2

Bridging the gap

Getting risk management to keep pace with the rise of digital and competitive industry challenges requires a focus on a number of key priorities.

Priority 1

Risk functions to get to grips with digital

Insurers surveyed in the 2015 Global Risk Management Study agree that digital initiatives represent an opportunity for risk management to shine as a business partner. For now, though, the level of digital expertise within the risk function is not particularly high – and this could hamper its ability to influence broader strategic thinking on the topic.

This distinction between the business and organizational impacts is an important one. In our view, the risk function's challenge is to develop a better understanding of the risk and reward profile of client-facing digital initiatives, from online sales channels to mobile, while also fully leveraging digital tools and technologies to work smarter.

Accenture's 2014 research on the link between digital transformation and the bottom line found that the combination of business and organizational digitization has the potential to increase profitability by 100%.[4] Equally, however, those insurers that fail to embrace digital could be left behind – both by current rivals and new entrants to the sector.

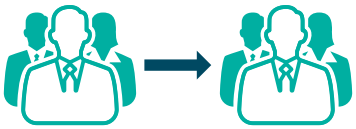
"It is definitely a key priority for the risk function to be fully involved in all ongoing digital initiatives. This will remain vital for the group as digital technologies will trigger both a 'business revolution' and an 'organizational revolution'."

Renaud Dumora, Deputy Chief Executive Officer at BNP Paribas Cardif

Digital disruption in the insurance industry

Predictive analytics

Big data and analytics offer underwriters the ability to price risk much more accurately by sifting through historical information to predict future behavior. These tools could help predict customer churn, providing the ability to intervene with relevant offers.



Peer-to-peer insurance services

Technology is an enabling tool in the development of insurance models, such as peer-to-peer. For example, Guevara is a social insurance service whereby a peer group pools its premiums and pays out any unused cash at the end of each year.[5]

Personalized insurance

Machine-to-machine communications and telematics are making new models possible, such as personalized car insurance. Premiums could then be adjusted based on the customer's driving habits and level of safety behind the wheel.

The shift to omni-channel insurance

Customers now expect a consistent experience from their insurer, regardless of the channel through which they access the service. But this is still a long way off for many insurers, which tend to have poorly integrated services and channels.

> "We have very high aspirations to make bigger use of analytics. Once Solvency II has been delivered, we'll spend more time on broader technical and digital delivery from the risk function."

Raj Singh, Group Chief Risk Officer at Standard Life

Priority 2

Insurers to strengthen data and analytics capabilities

Insurance is a data-driven activity and the transformation that is taking place around big data is, in our view, fundamentally changing the industry. Insurers should get to grips with both internal and external data to find ways of implementing business strategies that can help differentiate themselves.

Getting access to more and better data will be a key factor in enhancing operational risk management.

This remains an area of weakness for many insurers surveyed – some parts of the business may now be embracing analytics, but the risk function has been slower to do so. Asked about the challenges impeding the overall effectiveness of the organization's risk function, insurance respondents point to the variety, velocity and volume of data as the number one obstacle (see Figure 6).

Figure 6. To what extent do each of the following challenges impede the overall effectiveness of the organization's risk management function?

Source: Accenture 2015 Global Risk Management Study – Insurance respondents

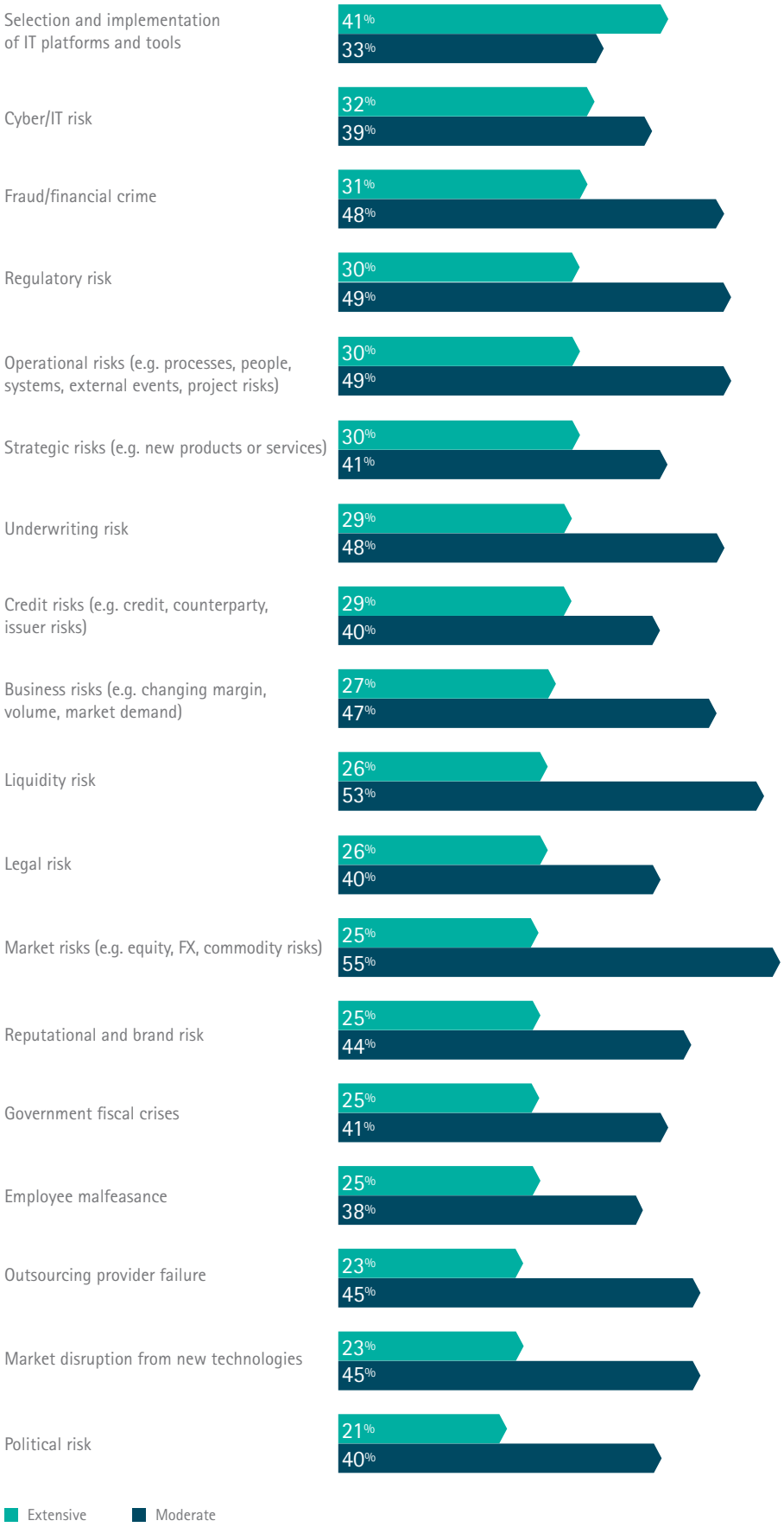
The majority of insurers surveyed are making some use of data and analytics for managing key risk categories but only a minority says this is extensive; market and liquidity risks are areas where data and analytics are most likely to be applied (see Figure 7).

One issue is the silos in which insurers are still prone to operating, which means that duplication of effort is a common problem. "It's not easy to picture how you get from A to B on data and analytics, largely because it is not one area's responsibility to upload and manage data," says Charlie Philbrook at John Hancock. "Every area of the company has an opinion on how they want to use that data, how it should be stored, and how you should be able to access it."

Nevertheless, there is a strong appetite for greater use of analytics tools for assessing risk, with insurers increasing their level of investment significantly.

Accenture's research supports that view: a paper published in 2014 concluded that applying predictive analytics tools to claims could improve an insurer's loss ratio by a full percentage point.[6]

Figure 7. Describe the risk management function's use of data and analytics in addressing the following types of risk?



Source: Accenture 2015 Global Risk Management Study – Insurance respondents

Priority 3

Agile and effective operational risk management to deliver on the next wave of business growth

As the business environment is getting more complex, more uncertain and more regulated, operational risk management provides a needed perspective on increasing performance. Operational risk can be an effective tool to define, develop and protect new capabilities required in the search for growth.

At the global level, insurers face an increasing amount of regulation in almost all geographical areas. Risk-based regulations are blossoming in all continents, but with different mindsets and priorities for the various regulators: for example, we believe that "ORSA" will not translate as the same scope of deliverables and analysis in Europe, the US or Asian markets.

Insurers also face a growing body of regulation pertaining to the protection of customers, and primarily their data. These regulations are redefining many aspects of how insurers do business, but not in a consistent way. Insurers that can develop "smart compliance" capabilities may obtain competitive advantage from this, as they would be able to understand potential game-changers in advance, anticipate and propose good business decisions to adapt the new environment and implement operational transformations more rapidly than their peers.

In addition, operational risk can help deliver business advantages in adapting tools and controls for digital transformation. Concentrating operational risk resources on these emerging business areas makes sense, because more established lines already have in-built risk mitigation from the longstanding experience, relationships and processes that are in place.

Many insurers are increasing their focus on operational risk, particularly in areas where new technologies are evolving rapidly, such as digital, big data and social media. Among our insurance respondents, 74% expect cyber and IT risks to become more severe over the next two years while 65% expect fraud and financial crime to pose a greater concern (see Figure 8).

These dual threats should not be countered individually. As Accenture's 2014 paper, Reorganizing for Today's Cyber Threats, argued, there is now "an urgent need to bring the historic silos of fraud risk management and IT security more closely together to combat mounting data security and cyber threats from increasingly well organized criminal entities."[7] Traditionally, CROs have concerned themselves primarily with the former, leaving the latter to Chief Information Officers, but we feel this must now change.

Nor can the risks of social media be left unaddressed. According to a study commissioned by the Financial Executives Research Foundation, almost three-quarters of company executives (71%) believe social media risks could be mitigated or avoided, yet 59% had no social media risk assessment plan in place.[8]

Figure 8. Over the next two years, what change do you expect to the severity of the following operational risks facing the business?

Significant/slight increase

Source: Accenture 2015 Global Risk Management Study – Insurance respondents

Elsewhere in the operational risk space, it is important to recognize that the emphasis of the insurance industry differs from that in banking, where the Basel II requirements are crucial drivers. Insurers see operational risk initiatives as value-oriented, rather than driven purely by compliance requirements.

In our view, new business models and investments, particularly around digital, should be a key focus for operational risk management and require new levels of sophistication. As insurers seek out new sources of sustainable growth, operational risk management must be given consideration as a key component of the agenda.

For operational risk management to be effective, organizations should recognize the importance of effective measurement. Due to its complexity and its potential interrelation with other risks, the management of operational risk may suffer if appropriate measures are not clearly defined, understood and agreed. But, while "guardrails", or clear measures, can help protect these investments, particularly as they often involve unfamiliar new risks, we believe it is essential for insurers to get the balance right – too much emphasis on control could crush innovation.

Emerging risks

In our 2015 Global Risk Management Study, 83% of insurance respondents agree that emerging risks, such as cyber, digital and social media, are consuming a growing proportion of CROs' time.

Some insurers are formalizing their approach to managing emerging risks. BNP Paribas Cardif, for example, has created a body to identify, prioritize and assess at a high level its exposures to specifically targeted emerging risks (such as nanotechnology or resistance to antibiotics).

SCOR has developed an embedded emerging risk framework, which relies on a fully integrated, group-wide platform available to all employees to ignite discussions on emerging risk issues. "Dedicated tools allow any SCOR employee to report a new risk, while expert working groups, including risk management resources, track these reported emerging risks, which are then assessed, reviewed and escalated upwards," says Frieder Knüpling at SCOR.

Many CROs leverage insight gained from emerging risk frameworks to help ensure better-informed strategic discussions and decision-making. In particular, they are instrumental in shaping the trade-off discussions that are currently held at executive levels between taking on more risk to reach higher performance or maintaining a defensive approach to risk taking.

"Operational risk is there to largely support the business and help them get the right tools in place. All the key processes are mapped out; the key now is to increase the transparency and timeliness of those processes and make the reporting of operational risk more meaningful for top management."

Raj Singh, Group Chief Risk Officer at Standard Life

Priority 4

Insurers to ramp up their recruitment and retention efforts

Many insurance respondents are struggling to keep pace with the demand for highly specialized skills and knowledge in the risk function. Just 7% of insurance respondents say that their teams have sufficient internal resources in specialized areas, such as modeling or emerging risks, although 21% hope to be in better shape in two years' time (see Figure 9).

"Recruiting and retaining adequate resources remains difficult," says Grégory Erphelin at Crédit Agricole Assurances. "Not only are we facing increased scarcity of relevant skills; we must also deal with greater specialization."

Worryingly, the talent shortfalls coincide with those areas where respondents feel they most need to develop and evolve. For example, our insurance respondents say that demand for people with skills and knowledge in data management and analysis, and cyber risk, is particularly high (see Figure 10).

One key challenge for insurers is that banks are also chasing similar skills. That said, insurers seem to be in a slightly better position from a specialist talent perspective. For example, 50% say that they have data management skills to a great extent, compared with 40% for banks. Surveyed insurers are also more confident that they have the knowledge and understanding of digital technologies and cyber risk within the risk function.

Although there is no silver bullet, many insurers surveyed now believe that the emphasis should shift from recruitment to retention and development.

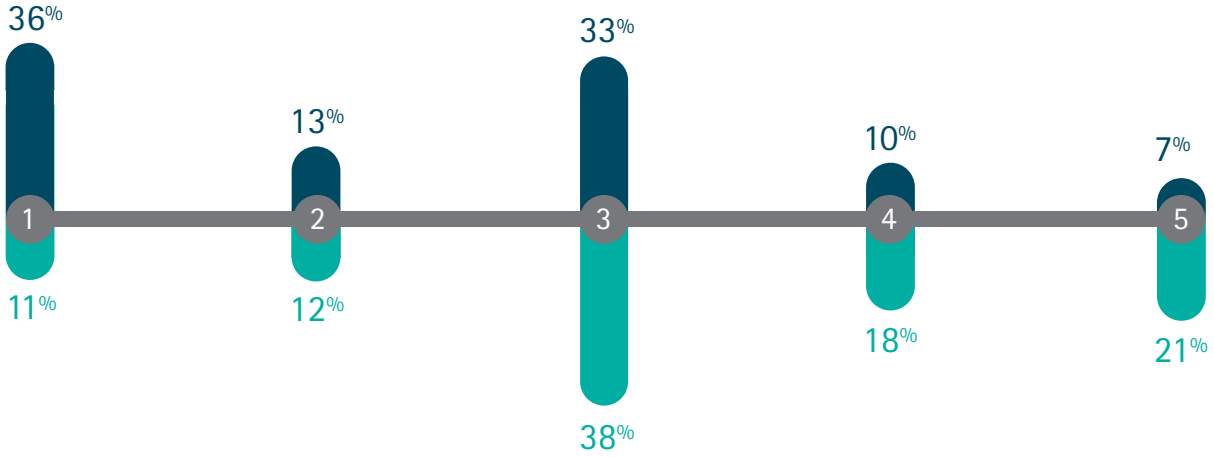
Global insurance (or bancassurance) groups are leveraging their size and diversity to develop mobility through cross-border, cross-functional career path opportunities. This helps to drive retention because it offers variety and breadth. These broader commercial opportunities tend to offset the technicalities and formalization of duties that are more focused on regulation or control requirements.

Many insurers have worked hard to increase the range and depth of skills and capabilities in the risk function – and will continue to do so. Among respondents, 86% expect to increase their total level of investment in risk management capabilities (see Figure 11). This is slightly higher than the number that we see among banking respondents.

Many surveyed insurers have cast the net widely over the past two years: key areas of non-traditional recruitment have included security specialists, strategic planners and data analysts. Looking ahead, the focus is to shift to business analysts, quants and risk modelers, and cyber risk experts (see Figure 12).

Figure 9. Which of the following stages of maturity is the organization's talent capabilities today, and at which stage is it expected to be in two years' time?

Please indicate where the insurer's risk function currently performs on each scale using scores between 1 and 5. Using the same scale, please also indicate a target rating the risk function is to achieve within two years.



The risk team has insufficient talent resources to carry out the functions it is asked to perform

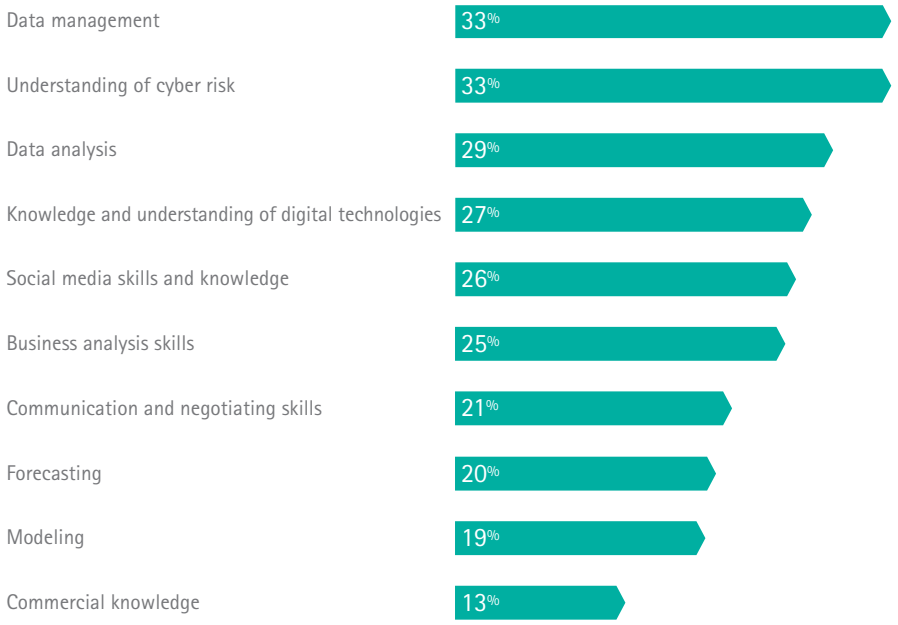
The risk team lacks internal resources in some specialized areas (modeling, emerging risks)

The risk team has internal resources even in specialized area (modeling, emerging risks)

Now Two years' time

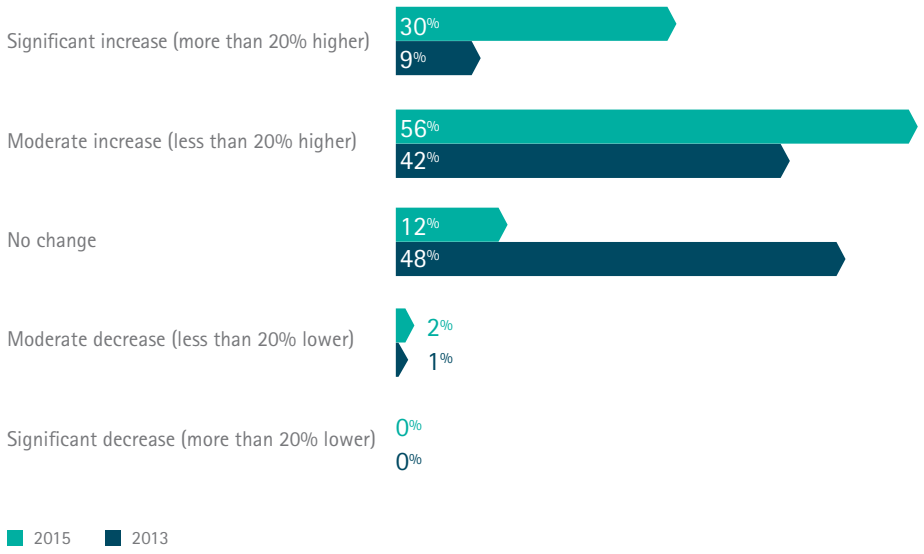
Note: Due to rounding, total may not equal 100 percent
Source: Accenture 2015 Global Risk Management Study – Insurance respondents

Figure 10. Over the next two years, which of the following skills and capabilities will be most in demand for the risk management function?



Source: Accenture 2015 Global Risk Management Study – Insurance respondents

Figure 11. What change is expected to the total level of investment in risk management capabilities in the next two years?



Source: Accenture 2015 Global Risk Management Study – Insurance respondents

There is certainly a strong necessity for greater business knowledge in the risk team – part of the challenge we see is how to "sell" the idea of an assignment in risk management to high achievers building their careers in the business. Ronan Davit sees this as a critical lever to spread the risk culture into the company's operations. "It should be considered a 'career launching pad' to have experience in the risk management function coming from the business side," he says.

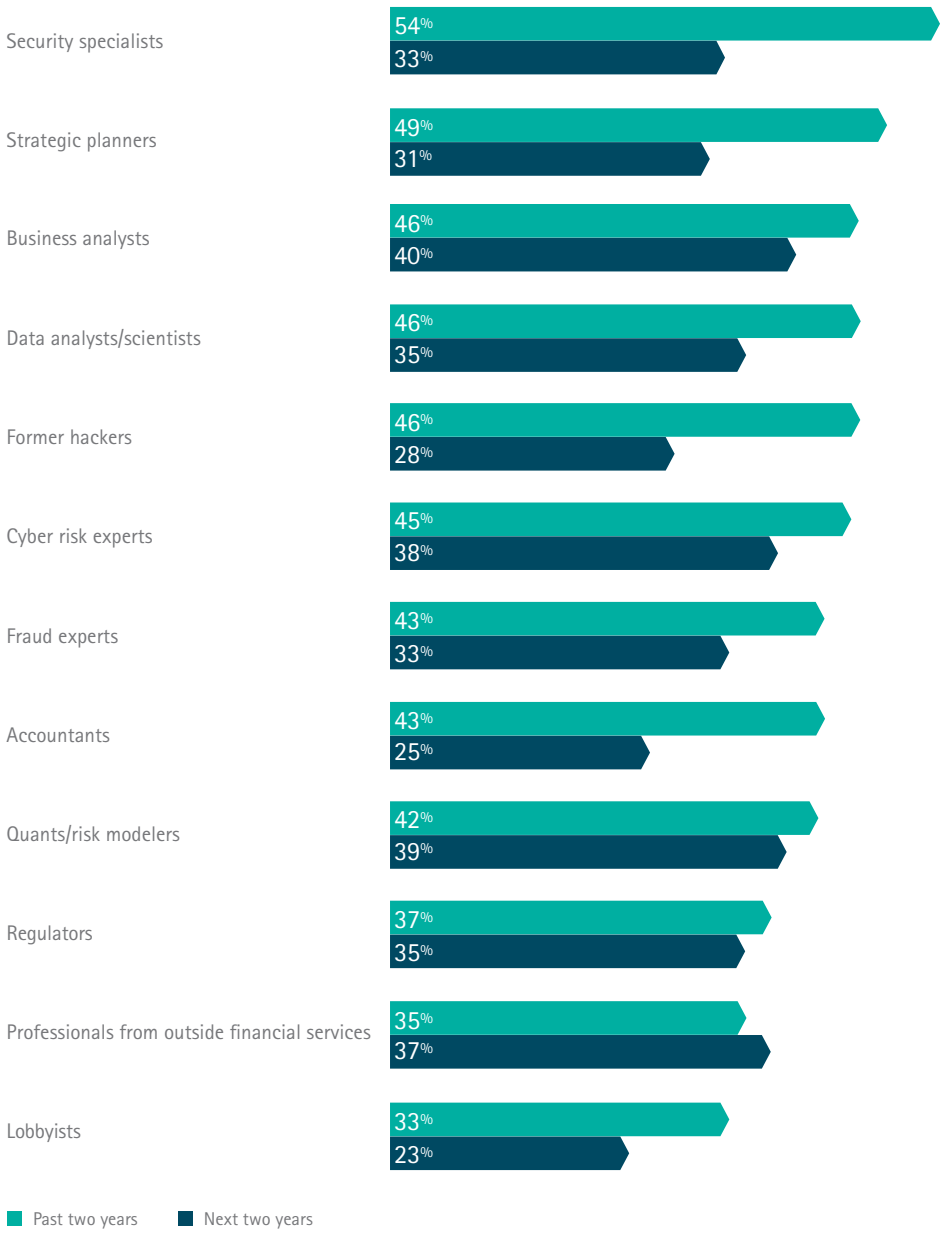
Equally, it can be a challenge to bring certain disciplines into the risk function and assimilate them. Actuaries, for example, are in demand but are not necessarily a good fit for the risk function. Similarly, bringing in banking risk professionals can be challenging because they have a different approach.

Priority 5

A consistent risk culture to withstand disruptive change and become part of the insurer's cultural fabric

Respondents struggle with implementing an enterprise-wide risk culture. Just 7% of surveyed insurers say they have a strong and consistent risk culture that is understood and implemented across the entire organization, although 23% believe they could achieve this over the next two years (see Figure 13). These figures are lower than the equivalent ones for both banking and capital markets, although those sectors are also struggling with the same problem.

Figure 12. Which of the following roles has the risk management function recruited in the past two years, and where is the focus over the next two years?



Source: Accenture 2015 Global Risk Management Study – Insurance respondents

"Risk competence is best grown within the institution. The key is to identify the right material and develop them within the organization. Besides generic risk skills, knowledge about the organization is very important, and this can only be developed within the company."

Ole Hesselager, Chief Risk Officer at Tryg Forsikring

"The risk culture is progressively established through formal risk governance, one-to-one discussions on business matters, formal training sessions and regular presentations and events," says Serge Martin at AXA Belgium. "Stronger CEO concerns about risk have really helped to push those topics up the agenda."

The goal for insurers should be a culture where everyone – not just those in the risk function – makes decisions and choices based on an assessment of both risk and return over the long term.

For some, this may mean rethinking the organizational model to embed risk within the business. AG Insurance, for example, has moved from a centralized to a decentralized approach. "We have a small central team that owns, designs and monitors risk policies together with local risk managers, with dedicated teams deployed in each AG Insurance business line or function, ensuring a proper interaction with the business," says Heidi Delobelle.

Renaud Dumora sees embedded risk management as a means of promoting a longer-term view of decision making. "Fully embedded risk management capabilities allow for an informed understanding of commitments and drive informed discussions and trade-off decisions to avoid short-term risk-taking opportunities versus sustainable and profitable business development," he says. "Having a risk policy that is well embedded in the organizational structure is a strong tool to help avoid committing capital and resources to potential 'blind alleys'."

Stan Talbi, Chief Risk Officer at Metlife, reports a similar structure at his organization, which has rolled out a regional risk structure with global governance and standards. Out of a 200 plus strong risk management organization, 50% sits in the US and 50% is located in other global countries. "This allows us to surface more critical issues sooner through a networked risk management organization," says Stan Talbi.

Cross-functional interactions can also play an important role – whether through cross-staffing (moving people from risk to the business and vice versa) or more informal channels. "This mobility has been key to ensuring our risk management framework has been accepted and embedded," says Heidi Delobelle. "We also have a risk and actuarial community that reports each month on a specific topic. This, along with decentralizing risk management and obtaining validation from the transversal governing bodies, has been the catalyst for the consistent adoption of risk awareness, culture and know-how."

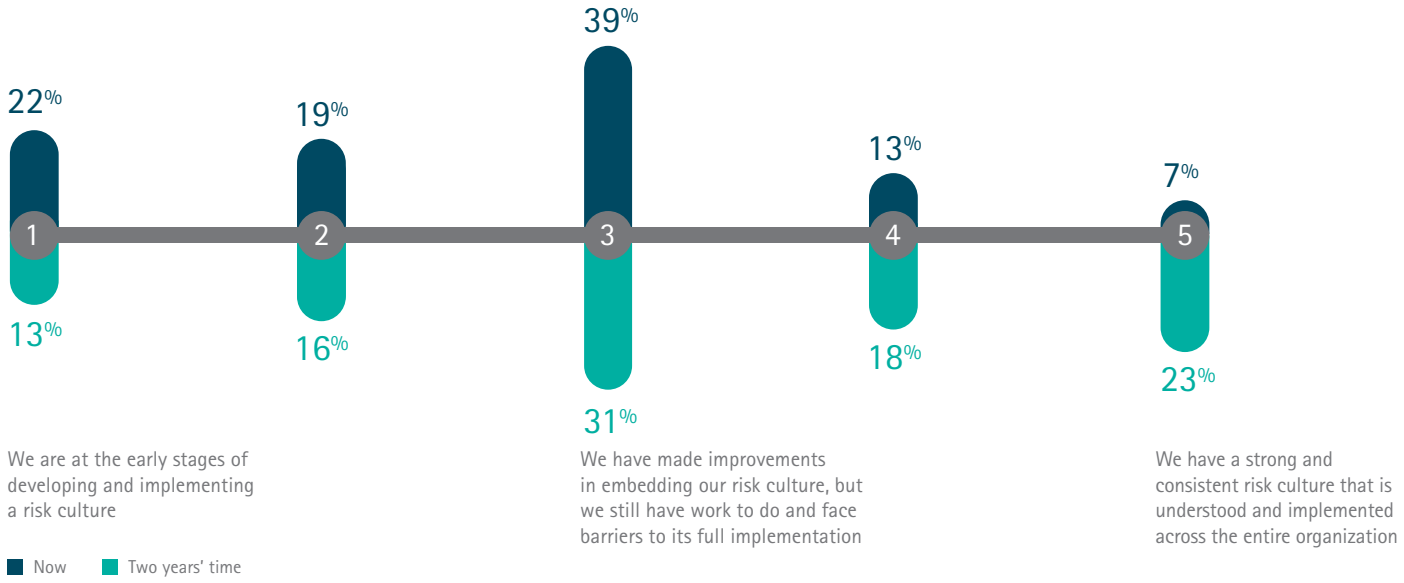
At the same time, surveyed CROs are conscious not to be seen as stifling innovation. In our view, the risk culture cannot dominate but should be balanced against other imperatives for the business – in particular the need to generate growth.

To achieve that goal, many of the respondents to our study report that they are seeking to introduce a more consistent approach to assessing risks and returns. "We need risk to be implemented more systematically into business decisions, which means the implementation of controls and decision points within existing processes across legal, tax, finance, and sales and marketing," says Ronan Davit.

Frieder Knüpling agrees. "Risk management provides the foundations for decision on risk-return trade-offs," he says. "This allows for more informed decisions on capital allocation, as well as the consistent and comparable measurement of expected returns and risk exposures."

Figure 13. At which of the following stages of risk culture maturity is the organization today, and at which stage is it expected to be in two years' time?

Please indicate where the insurer's risk function currently performs on each scale using scores between 1 and 5. Using the same scale, please also indicate a target rating the risk function is to achieve within two years.



Note: Due to rounding, total may not equal 100 percent
Source: Accenture 2015 Global Risk Management Study – Insurance respondents

The Risk Landscape

2005	2015
Decisions informed by past events	Looking forward, with "next day" thinking
Risk only outlook	Recognizing risk AND inherent opportunity
Focused on credit, market and operational risk	Aware of a growing range of emerging risks
Narrow definition of operational risk	More comprehensive definition of operational risk
Clear demarcation between three lines of defense	Three lines of defense, with fluid interaction embedded in the business
"Left brain" – quantitative; analytical approach	"Left AND right brain" – creative, innovative understanding
Prioritized control and prevention	A balance of control, prevention, and enablement
Tactical attitude: centered on day-to-day risks	Strategic awareness: focused on long-term business challenges
Spreadsheet-based management	Increasingly integrated data sources
Digital? What's digital?	Emphasis on digital risks and opportunities

Risk management in 2025

- Analytics now permeates decision making
- Rise of the Chief Risk and Return Officer
- Companies are exploring robotics and artificial intelligence to manage transactional risks
- Risk management is the career path to the C-suite
- Behavior prediction helps to effectively inform risk management
- Single data source drives reporting and analytics activities

Conclusion

Insurers have already embarked on a journey to reposition the risk management function within their business. In addition to meeting their traditional obligations, CROs and their teams are increasingly being called upon to support innovation and growth.

Over the past few years, global insurers have invested heavily in meeting regulatory demands and in developing a more rounded and strategic view of risk. The challenge has been and continues to be how to increase the return on that investment, and effectively integrate reporting, analytics and data to help support a consistent view on performance and return.

To help achieve this there remains significant work to enhance and align capabilities and technologies in order to capture a consistent view of overall business performance, while balancing effective cost management and support for potential sources of future growth.

This change is taking place against an increasingly challenging backdrop. Persistent low growth and low interest rates are hampering the traditional sources of revenue for the insurance industry. There is an urgent need to seek out new sources of revenue and accelerate innovation. And, in an industry we see threatened by disintermediation, new digital business models that leverage existing brands and customer relationships are increasingly being seen as a top priority across geographies.

In our view, CROs and their teams cannot be bystanders to this sweeping change. They should maintain their own balance, working with business leaders to evaluate and support new ventures while also advancing the capabilities within their own function. In parallel, they should also provide strong guidance around operational risk and emerging technology challenges particularly with the new digital channels and business models emerging via these platforms.

These remain challenging times for a CRO in the insurance industry but, we have seen significant progress for the risk management function and a more influential and balanced role emerge that aligns the forces of risk and return in equal measure to the company's broader objectives and aspirations.

Acknowledgements

We would like to thank the 150 insurance sector organizations across the globe who participated in our survey. We would like to specifically acknowledge the contribution of the following companies that took part in our quantitative survey interview discussions. We are grateful for the input, insight and perspectives of their senior staff:

AG Insurance
AIG
AXA Belgium
BNP Paribas Cardif
Crédit Agricole Assurances
Debeka
Euler Hermes
John Hancock
MetLife
QBE North America
SCOR
Standard Life
Tryg Forsikring

We would like to thank the following senior leaders from Accenture who provided expert direction on the research, and insight on the issues covered:

Richard Lumb (London)
Group Chief Executive
Financial Services at Accenture

Steve Culp (Chicago)
Senior Managing Director
Accenture Finance & Risk Services

Thank you to the following Accenture executives who also contributed ideas and guidance to this effort:

Duncan Barnard (Boston)
Laura Bishop (London)
Robert Brooks (London)
Sébastien de la Lande (Paris)
Chetan Devan (Bangalore)
Eric Jeanne (Paris)
Aliette Leleux (Paris)
Haralds Robeznieks (Chicago)
Ferko Spits (Amsterdam)
Sarah Waylett (Charlotte)

About the Research

The Accenture 2015 Global Risk Management Study is the fourth edition of our study first published in 2009. It is based on a quantitative, online survey conducted by Longitude Research on behalf of Accenture between November 2014 and January 2015 among 470 senior risk management executives involved in risk management decisions.

Participants came from the banking, capital markets and insurance industries with 150 respondents from Asia Pacific (32%), 170 respondents from Europe (36%) and 150 respondents from North America (32%).

We also conducted in-depth interviews in 2014 and 2015 with senior leaders from 50 leading organizations across regions. They provided supporting insights for our data-driven research, while presenting useful perspectives from companies in each industry.

This sector-specific insurance report presents the insights and perspectives captured from 150 insurance industry executives from the life insurance, property and casualty insurance, and reinsurance areas, including in-depth qualitative interviews with senior insurance executives.

Financial Services Respondents

Company size	Total
Between US$1bn and US$5bn	235
Revenues over US$5bn	235
Total	**470**

Respondent Roles	Total
Chief Risk Officer	141
Chief Executive Officer	78
Chief Financial Officer	147
Chief Compliance Officer	28
Other C-Suite	76
Total	**470**

Insurance Respondents

Country	Geography	Total
Australia China Hong Kong Japan Singapore	Asia Pacific	50
France Germany Italy Spain UK	Europe	50
Canada USA	North America	50
Total		**150**

Company size	Total
Between US$1bn and US$5bn	78
Revenues over US$5bn	72
Total	**150**

Respondent	Total
Chief Risk Officer	42
Chief Executive Officer	24
Chief Financial Officer	52
Chief Compliance Officer	7
Other C-Suite	25
Total	**150**

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