The risk function of the future

Helping risk teams evolve and navigate the changing risk landscape

January 2024

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Welcome to the risk function of the future

The risk landscape is changing faster than ever. Insurers are at the forefront of helping their policyholders manage risk. Therefore, it is critical that insurers adapt and evolve their own approach to managing risk in an increasingly interconnected, fast moving and volatile world.

We have discussed this topic with over 50 CROs, senior risk managers and board members from insurers across the London Market, the UK personal and commercial lines market and international markets.

This report distils the wisdom from this research into actionable insight for you – a blueprint for how you can ensure your risk team rises to meet the challenge.

We look forward to discussing our findings with you!

Ed Harrison

Charl Cronje

Our blueprint

The risk function of the future uses rich data and fuses human judgement with technology and AI to produce value-adding business insights efficiently.

It is led by a strategic CRO who works closely with the board to shape strategy and to proactively address the megatrends driving change in the risk landscape.

The team supports all areas of the business, promoting measured risk taking and safeguarding the firm's culture.

Our full blueprint is set out on page 21.

Key findings from our research

CROs’ top risks today:

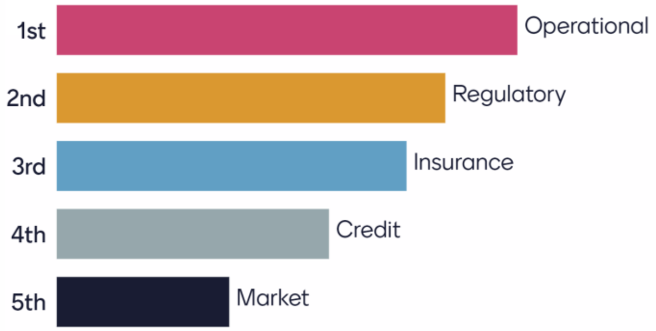
- Cyber risk and AI
- Climate change and ESG
- Geopolitical risk
- Economic uncertainty

Megatrends in risk

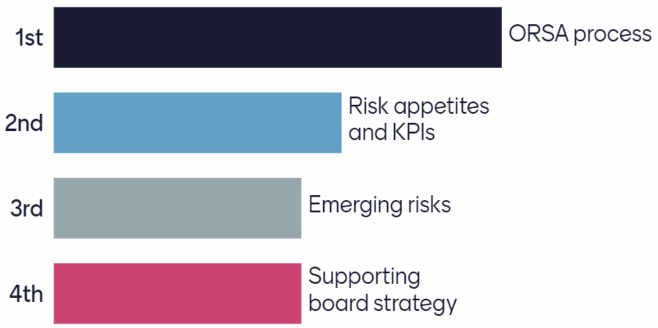
Megatrends are the themes that underpin changes in the insurance landscape, working environment and society as a whole. Our research covers 5 key megatrends driving change relevant for all insurers:

- AI and technology
- Geopolitical risk
- ESG (including climate change)
- Social and cultural change
- Interconnected world

Which risk areas will change most over the next 10 years?



Which aspects of risk work do CROs rate as the strongest?



Risk management engine

60% of CROs say automation of routine work will be an important area of development.

We see the risk function of the future being powered by a risk management engine. This will be AI powered, allowing for an expansion of the data and metrics that the risk team can review, monitoring of risk KPIs in real time, and business feedback via bespoke dashboards.

Automation of routine risk management work will allow the risk team to spend more time partnering with the business – another CRO priority.

Key development areas

- Improve risk culture across the firm and improve partnering between the risk team and other business areas.
- Diversify and expand the skillset of the risk team, with specialist knowledge to manage megatrends but also soft skills to support better business partnering.
- Improve risk management systems to simplify routine work and focus on value-add. Take your first steps towards a risk management engine!
- Strengthen links between risk and business strategy. Ensure the risk team is asking “how can we help”, not “how can we stop”.

Top risks today

With rapid technological advancement and globalisation, risk identification and management has become significantly harder.

Concerns about AI and cyber risk, economics, geopolitics and climate change are strong common themes. These are some of the megatrends that are likely to affect every aspect of our lives over the coming decade.

We expected a higher proportion of firms to mention these, but some firms also focussed on internal risks and market-specific challenges.

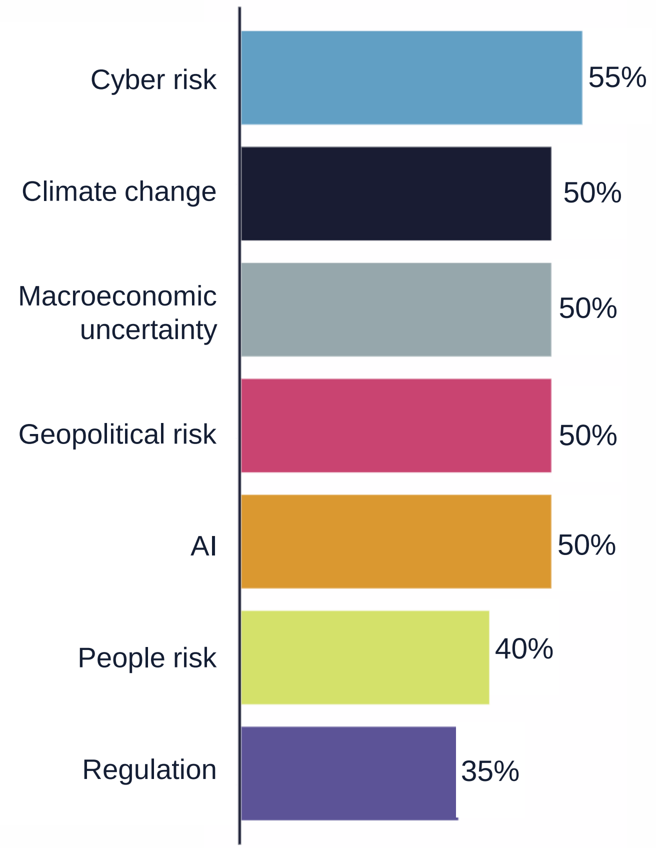
Top tips

The strongest firms devoted more time to managing their top risks, compared to business-as-usual work. They demonstrated a "big picture" view of the key risks that considered:

- ✓ The impact on each department or risk area.
- ✓ A wide range of possible scenarios.
- ✓ How faster or slower development of the risk changed the story.
- ✓ A clear link back to the firm's strategy.

CROs' current top risks

Participants rate the following risks as key concerns at the moment. The percentage shows the number of respondents mentioning the risk.



Highlights

Cyber risk: This is constantly evolving and attacks are becoming more sophisticated. Cloud computing has created significant single points of failure. The consequences of a cyber attack can be devastating for both operation and reputation, as well as having regulatory repercussions.

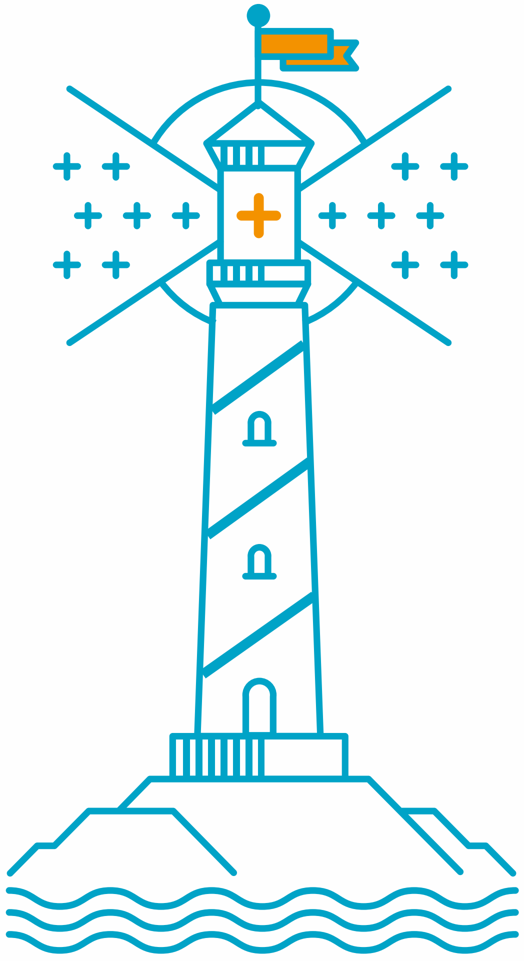
Climate change: Current concerns are primarily regulatory-driven, including meeting disclosure requirements and pricing for evolving physical and liability risks. Greenwashing is a growing concern, both for insurers in their own disclosures and for insureds under D&O and other liability covers.

Economic / geopolitical risk: Some participants have direct exposures to geopolitical risks, where pricing has become more attractive but risk assessment is proving harder. For others the challenges are indirect and closely linked with macroeconomic issues. Volatility in inflation is a top concern – there is a sense that the worst is over, but the outlook remains uncertain.

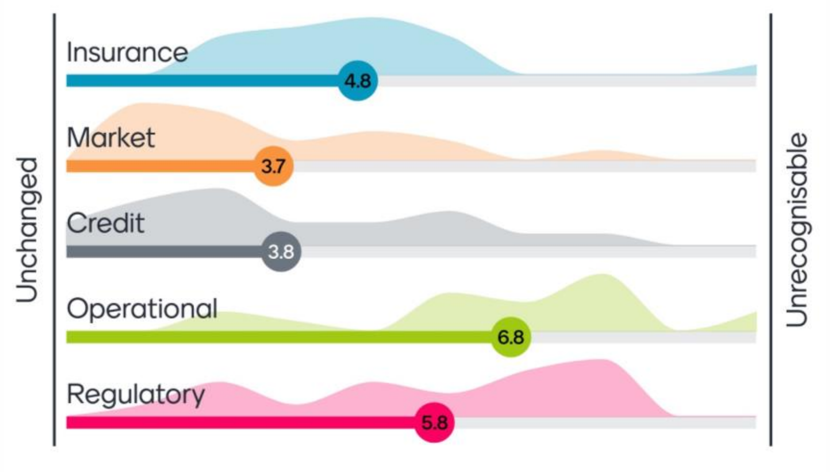
The changing nature of risk

The insurance market today looks very different to 10 years ago. We've seen the advent of cyber insurance, the Covid pandemic, cloud computing, social inflation, Solvency II, increasing sophistication of modelling and a shift to home working. The pace of change looks set to accelerate over the next decade with de-globalisation, climate change, geopolitical conflict, generative AI and economic turmoil. These look set to create an ever-growing challenge for risk teams to keep on the front foot.

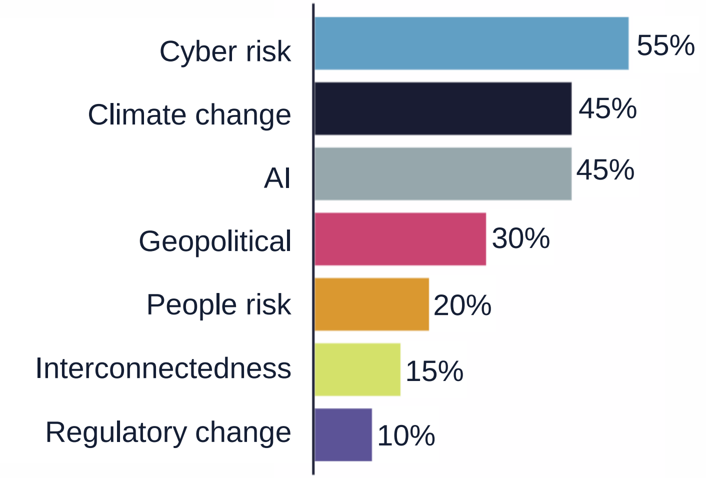
- **The risk landscape:** CROs consistently rate operational and regulatory risks as the biggest areas of change over the coming years, whilst anticipating less change in credit and market risk. Views on insurance risk are mixed – overall we agree with those who score it higher!
- **Top risks:** CROs expect many of the top risks in 10 years' time to be evolutions of today's emerging risks, for example climate change and AI. People risks, including changing workforce expectations and societal trends, are distinct from today's recruitment market challenges. Interconnectedness of risks is expected to become a top risk over the next decade.



How will the risk landscape change over the next 10 years in each of the following areas?



What will the top risks be in 10 years' time?



The changing nature of risk

CROs have a wide range of views on how the risk landscape will evolve. The graphic (right) captures some of the drivers of change that come up frequently in our discussions.

Results vary by size of insurer. Those with larger, better resourced risk functions tend to dig deeper into some of the emerging risks and are clearer about the drivers of change. This highlights the challenges facing small insurers and those with smaller risk functions.

Top tips

- ✓ For each risk area, consider benchmarking the views of your risk team, executives and board against these change scores.
- ✓ Compare the market challenges to your emerging risk radar and risk register – look for gaps.
- ✓ Consider future skills requirements within your team to help address changing risk areas.
- ✓ Smaller insurers may struggle to have expertise in all areas. Focus on ensuring that your team has strong business-partnering skills and seek support from subject matter experts.

Key drivers of change by risk area – according to CROs and NEDs

Insurance
Change score: 4.8

- Effect of AI and cyber security. Potential for "silent" AI risks.
- Improving underwriting and claims handling using AI.
- Macro-economic and geopolitical outlook.
- Changing consumer demand.
- Effect of climate change and other ESG challenges.

Market
Change score: 3.7

- CROs expect inflation and interest rates to fall – but will they?
- More liquidity - to settle claims faster.
- Increasing shift towards ESG investment.
- Increasing Interconnectedness of risks and assets.

Credit
Change score: 3.8

- Tough reinsurance market – more demand than supply.
- Consolidation of smaller players.
- Importance of credit rating.
- Systemic risk (interconnectedness).

Operational
Change score: 6.8

- Increasing automation driving efficiency.
- Change in roles or retraining to reap AI benefits.
- Increasing cyber risk and severity of attacks.
- Changing expectations of employees – particularly Gen Z.

Regulatory
Change score: 5.8

- Regulation likely to become more onerous.
- Increased politicisation of financial regulation.
- US / EU / UK regulatory divergence, particularly on ESG.
- Regulation needs to keep up with AI and technology!

**Change scores are based on CROs' responses to the question "How will the risk landscape change over the next 10 years" and are summarised in the graph on P6.*

Megatrends in insurance

Megatrends are the themes that underpin changes in the insurance landscape, working environment and society as a whole. They are wider than normal risks and touch on every aspect of the business, presenting both exciting opportunities and new challenges. We see these trends driving fundamental change in insurance in the coming years. Many of the present and future risks raised by CROs are manifestations of these megatrends – and a strong understanding of how they will evolve is essential to managing risk effectively. Pages 9-13 cover each megatrend in more detail.

Megatrends affecting the insurance industry

AI and technology: Insurers facing new risks posed by technology but also competitive pressure to make best use of it.

Geopolitical: The global order may be changing, with a weaker West and a tilt towards emerging economies. Increasing deglobalisation and protectionism and greater potential for international conflict also contribute.

ESG (including climate change): Tangible climate risks are beginning to emerge, and ESG issues are drawing greater regulatory focus.

Good discussion in our interviews. Majority of CROs managing challenges proactively or aware of gaps and taking steps to address them.

Evolving social and cultural trends: Social media, culture wars and changing attitudes to work create new risks for employers as well as changing customers' buying behaviours.

Interconnected world: despite deglobalisation, events and risks are more interconnected than ever before, driving higher risk of 'once in a generation' shocks.

Off the radar? Some CROs raised these challenges, but fewer than we would expect. Potential gaps in market knowledge and further consideration needed.

"Interconnectedness is really important - and difficult. You need a broad range of expertise to work through everything. You can end up with some very extreme scenarios that have a surprisingly high likelihood."

Participating CRO

Megatrends in insurance | *Artificial intelligence*

ChatGPT may have captured the public imagination when it comes to AI, but insurers have been trying to embrace richer data and new machine learning techniques for some time. The latest paradigm shift is the ability to deploy AI models beyond the traditional technical pricing and reserving arenas.

The risk function of the future will have to contend with a world where AI:

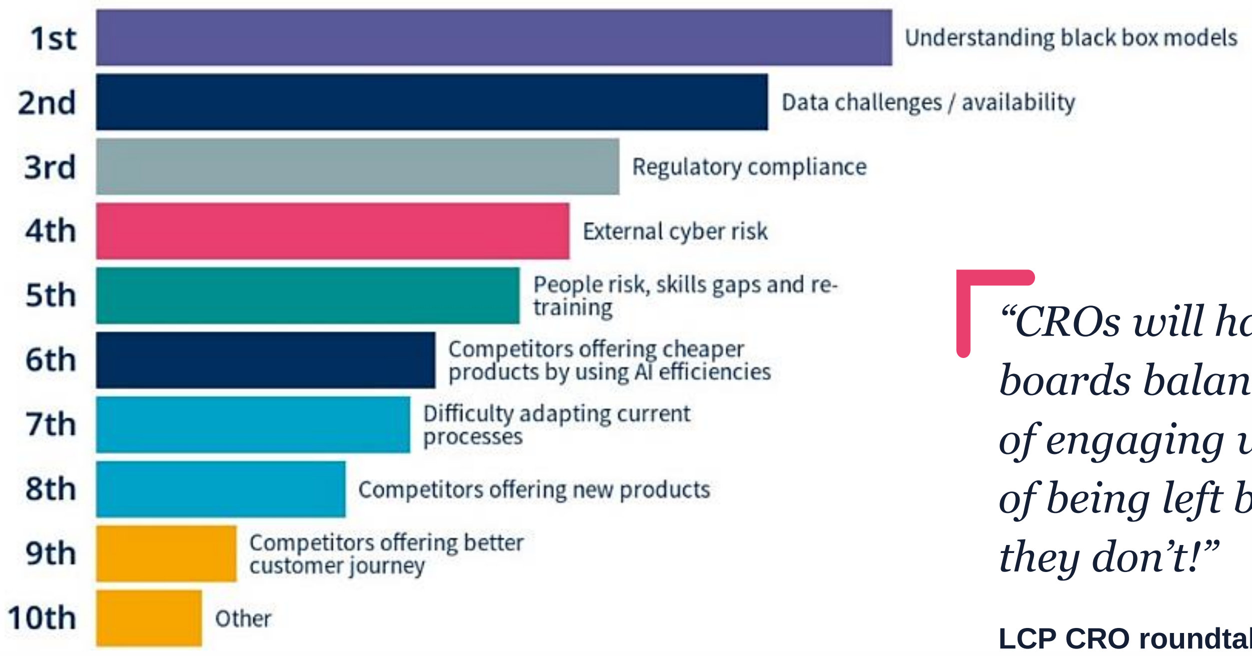
- **Interacts with customers and makes underwriting, pricing and claims decisions**
- **Enables bad actors to launch more sophisticated cyber attacks**
- **Becomes a risk that insurers need to underwrite**
- **Creates unforeseen skills gaps and people risks**

Successful CROs will enable their firms to take targeted risks on AI implementation, whilst continuously learning and responding to the changing external environment. Risk teams will need to embrace AI themselves to hold their firms to account more effectively.

Key feedback from CROs

- 90% of firms said AI was either a current or future top risk, but many also noted upside opportunities.
- AI poses a greater risk to smaller companies who may not have the resource to embrace AI and may then be at a competitive disadvantage.
- The threat of AI-enabled cyber attacks, and exposure to insurers' own use or misuse of AI, means insurers will be exposed to risk regardless of how they approach AI themselves.

Top AI risks highlighted by CROs



> *"CROs will have to help boards balance the risks of engaging with AI and of being left behind if they don't!"*

LCP CRO roundtable participant

Megatrends in insurance | *Geopolitical risk*

The geopolitical landscape has changed significantly, with the political and economic power of the West diminishing and China, Russia, India and the Middle East playing an increasingly central role. The rise in populism also presents a real threat to the stability of Western nations.

Despite deglobalisation and increasing protectionism, the world is becoming more connected economically and socially, creating greater systemic risks.

Insurers have to navigate an increasingly fractured political landscape, with sanctions risks, supply chain disruptions and reputational risks becoming increasingly challenging.

Insurers also need to consider existential challenges such as where they do business and have a physical presence.

The risk function is central to helping an insurer navigate this complex and changing environment. Risk teams need to maintain strong links with experts across the business (and wider industry) to ensure their response covers all the angles.

Focus areas for risk teams

Review exposure management processes: Is there good data available, are realistic disaster scenarios appropriate, is the process updated often enough?

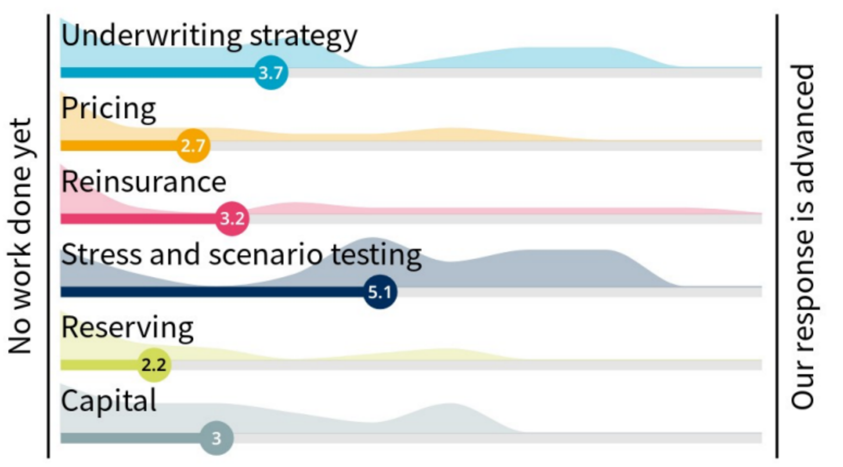
Conduct risk driver analysis with business experts: Ensure that executives, capital modellers and risk teams understand how different consequences of an event interact.

Strengthen operational resilience measures: Expand the range of testing and consider additional redundancies / precautions to avoid exceeding impact tolerances.

Conduct crisis drills to simulate responding to major events: Consider what decisions need to be taken, what the priorities are, and your crisis communication plans.

Case study: China/Taiwan conflict scenario

We asked CROs to rate the maturity of their preparations for a China/Taiwan conflict scenario from various perspectives.



The best risk teams are going beyond individual scenarios, looking at exposures and risks that arise across a range of conflict events.

These help inform actions in areas such as underwriting strategy and exposure management, and help firms prepare for many possible scenarios simultaneously.

Megatrends in insurance | *Climate change*

Climate change, biodiversity loss and other environmental challenges are increasingly crystallising via insured losses. Wildfires in Canada, heatwaves in Europe and extreme storm events mean insurers can no longer consider climate change in abstract terms.

In addition to addressing physical risks, insurers must navigate a more complex regulatory environment, plan for the transition to a low-carbon future and provide for latent liability risks arising from climate change.

Our research found significant differences in how prepared risk teams are to provide support.

What does a good risk response look like?

1. **The basics:** focus on regulatory requirements, helping to ensure compliance, providing disclosures and avoiding greenwashing risks.

2. **Next steps:** develop internal skillset, helping to get the business on the front foot by identifying present and emerging risks. Primary focus is on current physical risks, with a road-map for addressing transition and liability risks.

3. **Best in class:** managing present risks is well embedded within business-as-usual processes, including meeting regulatory requirements. The focus is on exploring longer-term risks under various transition pathways, helping firms make appropriate strategic decisions.

Key challenges and risks highlighted by CROs

Physical risk

- Extreme weather events and modelling challenges
- Pricing appropriately for changing conditions
- Reinsurance capacity concerns

Transition risk

- ESG investing and risk of stranded assets
- Changing policyholder behaviour
- Geopolitical tensions over resources – eg lithium
- Providing insurance to new technology – no historical data

Liability risk

- Latent claims for environmental damage
- Greenwashing
- Global South “loss and damage” claims
- Difficulty identifying and quantifying risks

Regulatory risk

- Avoiding greenwashing
- Regulatory divergence on ESG
- Onerousness of disclosures
- Reputational risks

Internal challenges

- Lack of specialist knowledge in risk team.
- Attracting future talent to the industry / firm
- Lack of data for testing – eg for the Climate Biennial Exploratory Scenario

Megatrends in insurance | *Social and cultural trends*

Just as the geopolitical and digital landscape is changing, so too are social and cultural norms. The changing cultural landscape creates new risks for insurers and amplifies others.

Social media, fake news and culture wars mean that corporate reputations need even more careful management than before. The risk team needs to ensure that practical measures are in place to assess and manage reputational risks.

Covid-19 changed the way we work overnight, but also accelerated changes in workforce expectations and customer buying behaviour.

People risks have gone to the top of the corporate agenda and the risk team needs to be able to support this, including bringing in new skills where necessary.

Distribution channels may also be in flux, as organisations realign themselves with partners, customers and suppliers who share their values. The risk team may need to invest in a deeper understanding of these relationships.

Emerging risks

- Changing workforce expectations
- Changing customer and distribution relationships
- Populist politics and civil disturbance
- Fake news and social media amplification
- Industrialisation of litigation
- Culture wars including ESG pushback
- Boycotts, adverse publicity and reputational risk

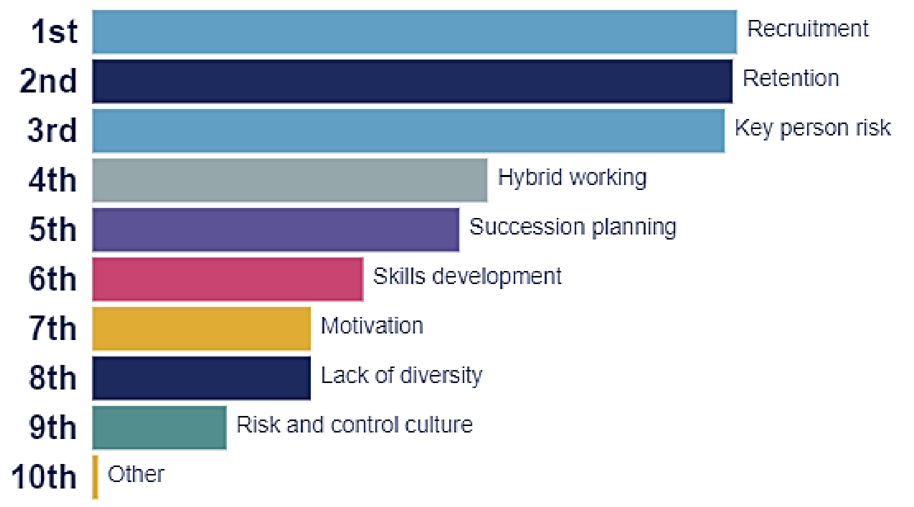
Future risks

- Disruption of traditional insurance value chain
- Addressing 'uninsurable' systemic risks and protection gaps
- Insurance industry perception – corporate citizenship
- Impact of AI on the insurance competitive landscape and on internal resourcing
- Intergenerational fairness and wealth gaps
- Ageing workforce

Focus on people risk

Given the social and cultural megatrend, it's surprising that 40% of CROs saw people risk as a current challenge, but only 20% saw it as a longer-term risk.

Which aspects of people risk are CROs' main focus areas?



Current focus areas are primarily addressing shorter-term risks such as recruitment and retention. To successfully support businesses into the future, risk teams will have to become cultural ambassadors for their firms and partner closely with HR. We expect issues such as culture, motivation, diversity of thought and skills development to be much higher up risk teams' agendas in the future.

Megatrends in insurance | Interconnected world

The Covid pandemic, semiconductor shortages and the Suez Canal blockage all highlighted the increasingly complex and fragile global supply chain.

Supply chains are just one example of the risks of greater interconnectedness. Others include volatile investment markets, contagion of cyber and AI risks and reputational risks arising from either business relationships or non-financial misconduct.

Just 15% of CROs in our study addressed interconnectedness directly, but virtually all gave examples of risks that pointed to it as a challenge.

To support firms with taking strategic risks in a more interconnected environment, CROs will need to be closer to the strategic planning process. They will also need to be better informed of activities across the business to help them identify common drivers of risk and previously unseen connections.

Drivers of interconnectedness

Systemic cyber and AI risk: There is an increasing risk of cyber attacks, and potential subsequent legal action, affecting both insurers and insureds simultaneously. Cyber can affect multiple types of cover simultaneously. AI will increase the sophistication of attacks in future, as well as creating its own contagion risks.

Supply chain paradox: The combination of deglobalisation and protectionism on the one hand, and greater connectedness on the other, may significantly increase the complexity of supply chain risks.

Outsourcing & critical systems: Many insurers are reliant on a small number of service providers, such as cloud computing. An outage could create insurance losses, market turmoil and operational challenges simultaneously. Reputational risks may be compounded in the event that many insurers are simultaneously affected.

Social media and communications: Insurers are exposed to increasing reputational risk from their public actions and responses. This continues to become more challenging as a result of social media and the way people use it.

Homogenous modelling and processes: Many insurance regimes and credit rating agencies measure insurers' financial strength using similar models. This may create perverse behaviours (eg gaming of models to maintain credit rating) and systemic blind spots.

Focus areas for risk teams

- **Consider appropriateness of risk appetites and KRIs:** Does your risk framework do enough to identify new dimensions of risk aggregation and set risk appetites accordingly?
- **Review capital model dependencies:** Test your capital model (and your ORSA) against a wider range of plausible risk aggregation events.
- **Deep-dive into reinsurance credit risk:** Consider risk of delayed settlements or defaults in stressed scenarios, and risk of systemic RI market challenges.
- **Fresh challenge on outsourcing:** Ensure continuity plans are adequate and tested regularly. Consider reviewing operational resilience scenarios to ensure they remain relevant.
- **Cyber security:** Seek independent challenge of current cyber security arrangements. Conduct simulations of senior management response to an attack and review lessons learned.
- **Connectedness workshop:** Facilitate a discussion between experts from across the business to identify areas of connectedness that affect your business but may not be managed sufficiently at present.

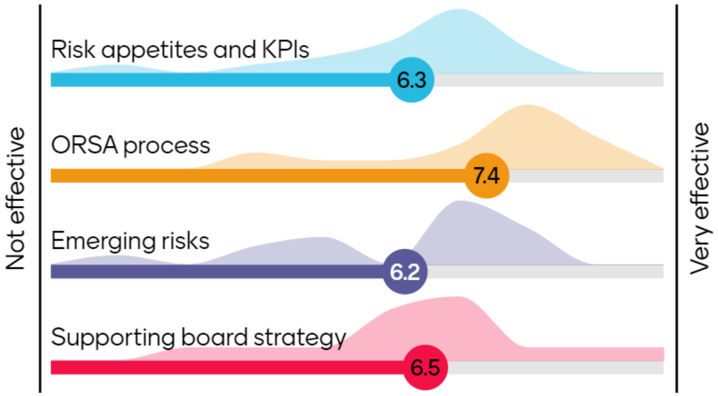
The risk function today

We asked CROs to self-assess the effectiveness of their main risk activities. In general, we found them to be refreshingly frank about both the good and the bad. Interestingly, firms who we would consider more advanced tended to show greater self-awareness regarding areas that they needed to improve.

The risk function today – size and structure

- In our study, firms writing greater volumes of business generally had larger risk teams, with some exceptions. Team sizes ranged from 3 to around 35.
- Structures and reporting lines varied significantly. For example, compliance was sometimes integrated into the risk team and sometimes separate.
- Larger teams were usually split by geographic region to align with local requirements. An alternative was a centralised team, split by function area and supporting local CROs. These approaches have different pros and cons.
- Very few teams had specialists in specific risk areas (eg climate change, or cyber). Risk managers tended to be generalists but came from a wide variety of backgrounds. Typical skillsets included actuarial, accounting, risk and legal.
- 75% of CROs reported to the CEO, 15% saw their reporting line as to the board, and 10% to another director, usually the CFO.

How CROs rated the effectiveness of their main risk activities



"Our job is to agitate and catalyse other areas of the business to produce good risk practices rather than do the work ourselves!"

LCP CRO roundtable participant

Key benchmarking highlights

Risk appetites: We saw a range of responses. The best firms had slick, semi-automated processes that focussed on the most important metrics. They were also mindful of gaps.

ORSA process: Almost all CROs believed their ORSA processes were efficient and value-adding. We agree that the ORSA usually showcases the risk function at its best. We also believe many ORSAs would benefit from being shorter, focussing more on the implications of recent risk landscape risk changes, and setting clearer recommendations for improvements across the firm.

Emerging risks: Most CROs believed their process was good in comparison to the market, but that overall market practice was poor. We felt some CROs were generous with their self-scoring: we see consideration of emerging risk as a clear area for improvement in almost all firms.

Supporting the board's strategy: We saw 'middling' scores from CROs deeply involved in strategy and also from those who weren't. This suggests that the less 'strategic' CROs may not be fully aware of the value of the missed opportunity. See more on being a 'strategic CRO' on page 20.

The future of risk management

The risk landscape is going to evolve over the next decade as a result of megatrends in risk. But these megatrends also present opportunity for risk teams. These include the opportunity to harness the power of AI and to bring to the table more diverse perspectives from different cultures.

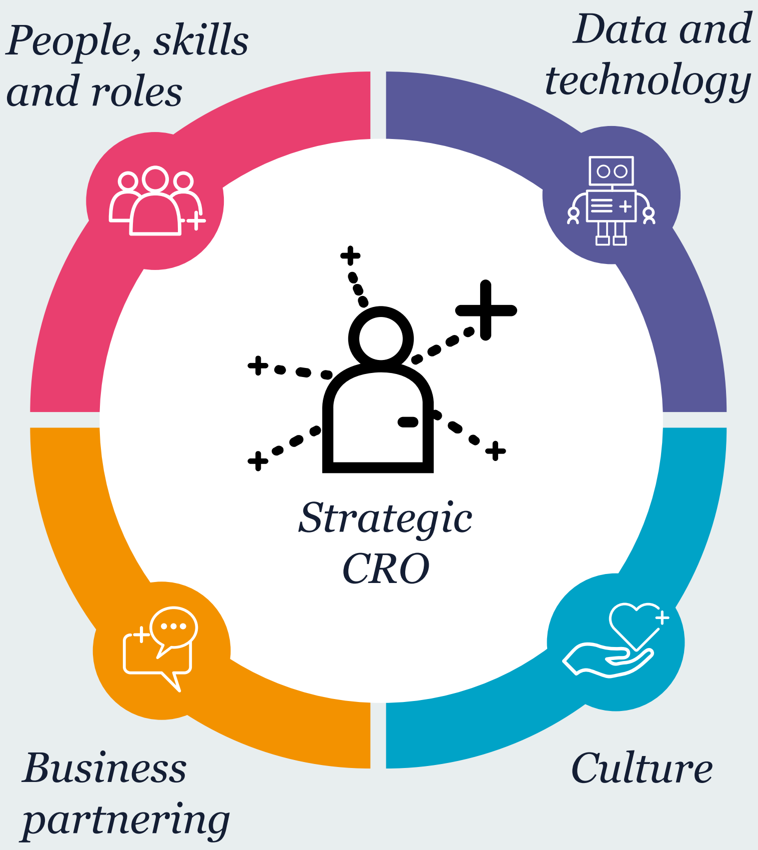
We see the risk function of the future as a fusion of diverse human insight and AI augmented analysis.

Through effective use of data and AI, the risk team will have access to better risk intelligence than before and the tools to analyse it efficiently. The risk team will partner seamlessly with departments across the business, bringing them clearer insights and enabling them to take measured risks in alignment with the strategy.

The risk function will also act as stewards of the firm’s culture, recognising the crucial impact that this will have on future success.

At the centre of the risk function of the future will be a strategic CRO, who provides the link between risk and strategy from the top down.

The risk function of the future – key elements



People, skills and roles: Ensuring the team has the right people, with the right knowledge and skills to support the business as the risk landscape evolves.

Data and technology: Ensuring that risk intelligence is captured, analysed and reported efficiently to increase the chance of success for the business.

Business partnering: Partnering effectively to ensure the business gets prompt risk input at the right time, from strategy setting through to business-as-usual risk monitoring.

Culture: Nurturing a collaborative, supportive and dynamic environment which supports measured risk taking, rather than seeking to act as the “brake” on the firm.

Strategic CRO: The leader of the risk function of the future, bringing together all the elements and partnering effectively with the board to ensure a clear link between risk and strategy.

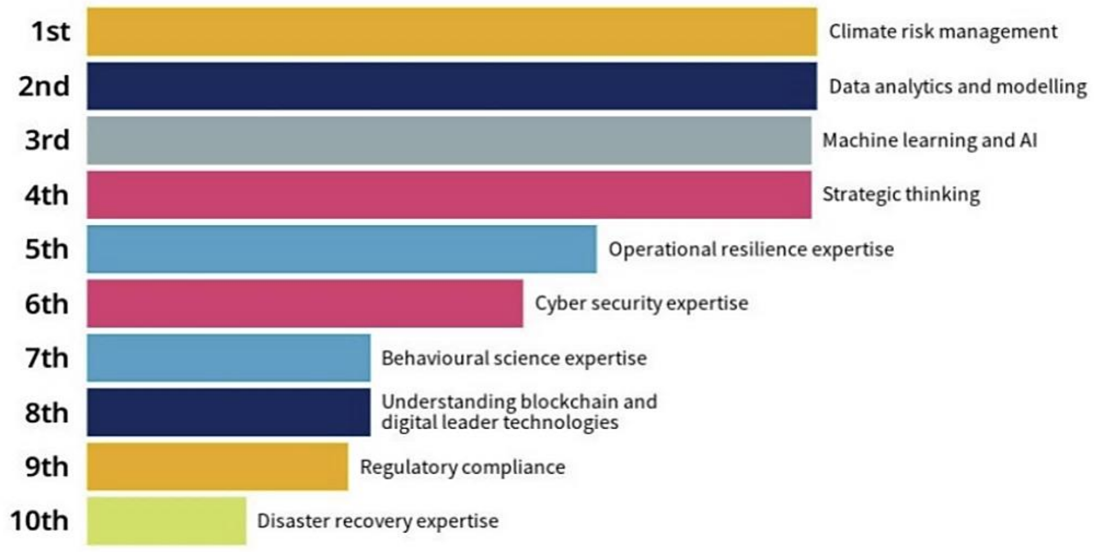
The future of risk management | *People, skills and roles*

As the risk landscape changes, risk managers need to develop new skills and strengthen existing ones. CROs will need to be more strategic in their interactions, and the risk team will need to have a more diverse blend of general skills and special technical expertise.

Individual technical skills

CROs outlined a range of specialist skills they would value from members of the risk function. Many of these align with the megatrends we covered earlier on.

Skills that CROs would most like to develop in their team by 2030



Individual soft skills

In addition to technical expertise, risk team members will also need to:

Build strong relationships across the business: Collect risk intelligence informally as well as through normal reporting. Ensure that people feel comfortable sharing their concerns and that the risk function is able to influence the business.

Communicate wisely: Help cut through the detail and explain the implications of complex interrelated risks or the outputs of sophisticated modelling.

Be trusted business partners: Ensure the business gets better at identifying changing risk drivers and connections, by providing support and expertise combined with appropriate challenge.

Maintain a balanced view of risk taking: Play their part in supporting a culture of measured risk taking by ensuring that risk appetites are well-defined and that uncertainties are clearly understood.

Risk specialists or generalists?

Specialist roles:

- Best for managing megatrends such as climate change and AI, from emerging risk through to business as usual.
- Well suited to former first-line subject matter experts.
- Specific sub-teams such as quantitative risk.

Generalists:

- Important for managing interconnected risks and seeing “the big picture”.
- Build up skills through rotations between risk and different first-line departments.

The future of risk management | *Data and technology*

CROs will have to help insurers address the risks of data-hungry processes, automation and AI models, whilst at the same time taking advantage of these to enhance the overall risk management process. 60% of CROs we surveyed wanted to see greater automation of their processes in the future.

Automation, real-time reporting, and powerful data visualisations are crucial first steps, freeing up team time to add value on more complex challenges. Automation will also make the risk function more data-driven, as AI tools do the heavy lifting, helping risk managers quickly assimilate information, get to the crux of the problem and provide feedback to the business.

The ultimate technology goal is a risk management engine, which brings together the core aspects of business-as-usual risk management into a single AI-supported tool.

Risk management engine – development plan

Step 1
AI familiarisation, knowledge sharing and training. Set up "quantitative risk team" of model specialists to develop expertise.

Step 2
Data project, helping connect the risk function to richer data from across firm.

Step 3
Limited scale AI pilot project, for example automation of KRIs and bespoke exec dashboards. Use vendor model.

Step 4
Evaluate lessons learned and develop internal team expertise further. Decision between internal build and vendor models.

Step 5
Prioritise other business-as-usual risk processes and scale up AI assistance over time.

Step 6
End state: most business-as-usual processes are AI augmented, allowing team to focus on big picture issues.

The risk management engine

The risk management engine is an AI tool that brings together risk management processes into a single hub with the following features:

- Real-time update of quantitative key risk indicators, eg exposure management.
- Conversion of qualitative first line reporting into structured risk intelligence, allowing quantitative analysis in new areas.
- AI driven insights, allowing the risk team to look beneath the headline information.
- Seamless integration between first-line and risk, minimising the time spent chasing routine updates.
- Population of data into ORSAs and other risk reports. AI may even do the initial drafting.
- Bespoke risk dashboards allowing executives and NEDs to monitor risk changes in real time in any area required.

The future of risk management | *Business partnering*

To truly add value, the risk function of the future must partner effectively with the business, creating a virtuous cycle with the board and the wider business.

CROs recognise partnering as a priority today. But in the present environment, strengthening relationships with the wider board and across the business often gets crowded out by other priorities.

In future, risk teams that make better use of technology to automate data ingestion, routine analysis and business-as-usual reporting, will free themselves up to spend more time:

- **Supporting the board by linking risk and strategy.**
- **Embedding risk awareness and ownership within the business.**
- **Partnering with wider business functions to ensure risks are identified, managed and then monitored efficiently.**

Checklist: What does good partnering mean?

- Exploring the “so what”, “what if” and “what next?”
- Supporting first-line risk ownership
- Linking risks back to business strategy
- Keeping an open mind and asking open questions
- Creating watercooler moments
- Engaging regularly via “no-agenda” catch-ups
- Awareness of behavioural biases
- “How can we help” vs “how can we stop” mentality
- Avoiding creating box ticking exercises. (And not letting first-line teams create them either!)

“The risk function is the incubator of change, rather than the leader of the day-to-day activity.”

LCP CRO roundtable participant

5 tips for improving engagement with the board

Ask the board what they want and when they want it. If necessary, ask specific questions to identify what matters most.

Write short reports and use plain language. If the report has to be long (eg to meet regulatory requirements) keep the exec summary to a page to ensure the detail is covered.

Give clear opinions / recommendations. Don’t sit on the fence. Ensure recommendations have a clear purpose, are timebound and followed up. Don’t allow them to accumulate on a list.

Engage regularly and in advance of reporting. Reports take time to produce, meaning risks may be escalated later than planned. Early engagement means more chance to correct course early.

Proactively seek feedback on the risk function’s input. Was it clear? Was it understandable? Was it timely? What could be done better next time?

The future of risk management | *Culture*

As society changes, customer values evolve and new generations enter the workplace with new perspectives, firms' cultures must evolve too. The consequences of a toxic culture are increasingly catastrophic, with social media quickly amplifying trends.

Culture – what does it even mean?

A firm's culture is made up of the unspoken values that bind the employees of a firm together. It is intangible but a key driver of firms' success. The most successful firms have strong alignment between culture and strategy. Be on the lookout for gaps between the firm's stated values and what the culture actually looks like on the ground.

Since when was this a risk problem?

Culture and people have traditionally been the domain of HR, but increasingly they pose both a key risk and opportunity for insurers.

The risk function of the future will work alongside HR to manage people risk, safeguard and support the firm's culture, and help the board to shape it and drive it forward.

To do this, risk team members will have to exemplify their organisation's culture and use business partnering relationships as an opportunity to promote it in the wider firm.

How are CROs managing people risk?

"Being a great place to work is the difference between being a good company and a great company."

Brian Kristofek

The future of risk management | The strategic CRO

Our survey found a wide range of responses to the question "How effectively do you support the board with delivering strategy?".

- Some CROs felt they were brought in to put the "risk stamp" on strategic decisions that were, in effect, already made.
- By contrast, other CROs were included in the strategic decision-making process from an early stage and had genuine ability to shape the overall strategy of the firm. **We call these "strategic CROs".**

The risk function of the future will be led by a strategic CRO. They will be the board's trusted advisor, protect the business from risk, but not stifle opportunity. They will be a catalyst for continuous improvement across the firm.

What makes a strategic CRO?

- ✓ Engages early on strategic decisions.
- ✓ Gives clear, justified opinions on risk matters.
- ✓ Trusted by board, NEDs and other function heads.
- ✓ Able to balance need to take risk with need to manage risk.

How to become a strategic CRO

Clearly link your advice to strategy. Use risk reporting as an opportunity to add value, give clear recommendations, and showcase how your analysis supports the firm's strategy, giving it the best chance of success.

Arrange regular one-to-ones with NEDs. Build relationships, understand their priorities and concerns and tailor your advice accordingly.

Build links across the market. This will help ensure you give the board the latest information on market trends and concerns, as well as insights into how others are approaching emerging risks and challenges.

Make your department market leading! One thing all the strategic CROs we interviewed had in common was they perform regulatory tasks efficiently, provide strong support to the business and add value on key business decisions.

Risk input should form a central part of effective strategy setting. Being asked to give a rubber stamp at the end is no good!

The risk function of the future – a blueprint

The risk function of the future uses rich data and fuses human judgement with technology and AI to produce value-adding business insights efficiently. It is led by a strategic CRO who works closely with the board to shape strategy and to proactively address the megatrends driving change in the risk landscape. The team supports all areas of the business, promoting measured risk taking and safeguarding the firm's culture.

Strategic CRO

- ✓ Engages early on strategic decisions.
- ✓ Gives clear, justified opinions on risk matters.
- ✓ Trusted by board, NEDs and other function heads.
- ✓ Able to balance need to take risk with need to manage risk.

Effective business partnering

- ✓ Supports first line risk ownership.
- ✓ Embeds risk awareness across the business.
- ✓ "How can we help" vs "how can we stop" mentality.

Risk management engine

- ✓ Gathers real time quantitative information from around the firm for analysis.
- ✓ AI distils key information from qualitative first line reports and converts into actionable insights.
- ✓ Helps risk team quickly identify key trends for feedback.
- ✓ Monitors risk appetites in real time and forecasts potential breaches early.
- ✓ Populates risk reports automatically with key exhibits and draft text.
- ✓ Generates bespoke dashboards for execs and the board.

Protecting people & culture

- ✓ Sees culture and human capital as key assets.
- ✓ Collaborates with HR and the board to protect the culture and drive positive change.
- ✓ Acts as cultural ambassador through business partnering.

Key general skills

- ✓ Skilled communicators.
- ✓ Strong business partnering and negotiating skills.
- ✓ Smart use of analytics and AI.
- ✓ Broad technical knowledge.
- ✓ Able to see big picture and tackle interconnected risks.

Specialist skill areas

- ✓ Artificial intelligence.
- ✓ Cyber risk.
- ✓ Climate change and ESG.
- ✓ Geopolitical risk.

Specialists should own these megatrend issues from the emerging risk stage right the way through to becoming embedded in routine management.

About our participants

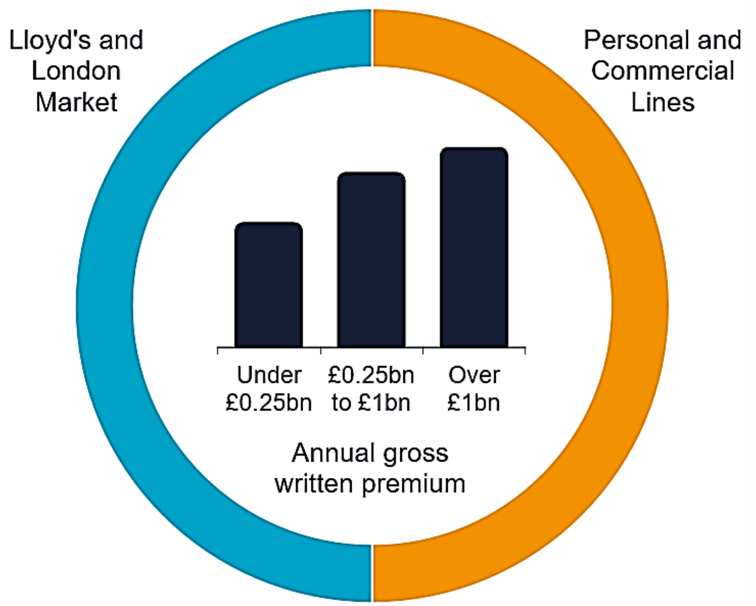
Summary of participants

In total our report reflects the views of over 50 senior individuals from across the market. Within this we ran detailed interviews with over 20 insurers, including those operating in the London Market, across UK personal and commercial lines, and internationally.

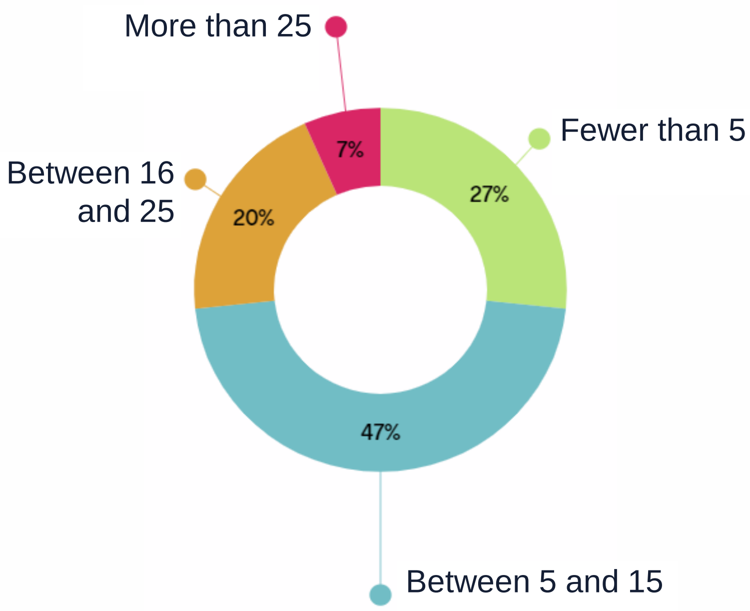
The graphics (right) summarise the profile of the firms participating in our research interviews. We were keen to consider insurers of all shapes and sizes, covering a wide range of personal, commercial and specialty insurance products.

We would like to thank everyone that participated in our research for this report, both through sit-down interviews and discussions at our CRO and NED roundtable events.

Size and business type of participating firms



Size of participating risk teams
(number of people)



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At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to shape a more positive future. We have market leading capabilities across insurance, pensions and financial services, energy, health and analytics.