Risk management in a time of transformation

How CROs are looking to build a flexible foundation and dynamic capabilities to manage a diversifying risk portfolio and support critical growth and innovation goals

Inaugural EY/IIF global insurance risk management survey

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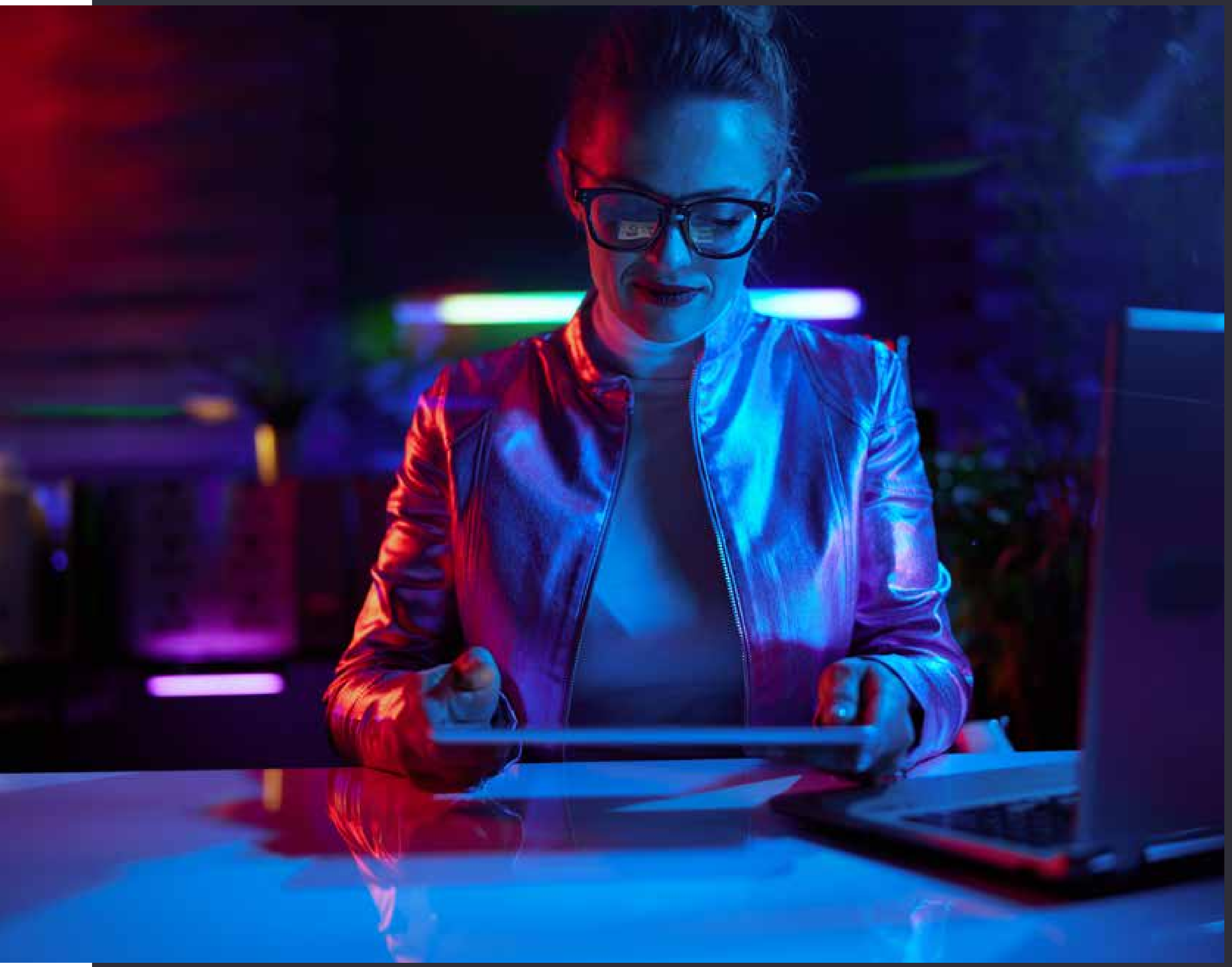

We are pleased to share this report on the inaugural EY and Institute of International Finance (IIF) survey of chief risk officers (CROs) in the insurance industry. The following pages highlight the most urgent issues facing their organizations today and in the coming years.

In turbulent markets such as today's, the role of risk has never been more important in helping insurers fulfill their vital purpose and achieve financial and performance objectives. CROs are particularly well equipped and positioned to support that broader purpose of providing the protections that individuals, businesses and society as a whole need to thrive.

The quantitative results from the survey, as well as qualitative observations and individual perspectives from participating CROs, paint a detailed – and deeply insightful – picture of a risk landscape that is changing constantly. Insurers face proliferating and interconnecting risks that transcend traditional risk management categories, with long-standing issues now intersecting with new threats whose potential severity would have been unthinkable a few years ago.

After conducting research among banking CROs for more than a dozen years, this is our first survey of insurance CROs. Our respondents come from the world's largest carriers to leading national and regional insurers to smaller, specialty firms. The results serve as a useful baseline for understanding today's industry standards and identifying emerging leading practices. Our goal for the future is to provide updated insights year on year, with points of comparison as the industry landscape and risk management discipline evolve in tandem.

We are extremely grateful to all the risk leaders who took the time to complete the survey. In helping to inform our recommendations, your contributions will benefit your colleagues and peers around the industry.

We would be delighted to hear your perspectives on our findings, as well as the unique risk management challenges and opportunities at your firm. Feel free to reach out to either of us or any of the contacts listed at the end of this document.

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INAUGURAL EY/IIF GLOBAL INSURANCE RISK MANAGEMENT SURVEY

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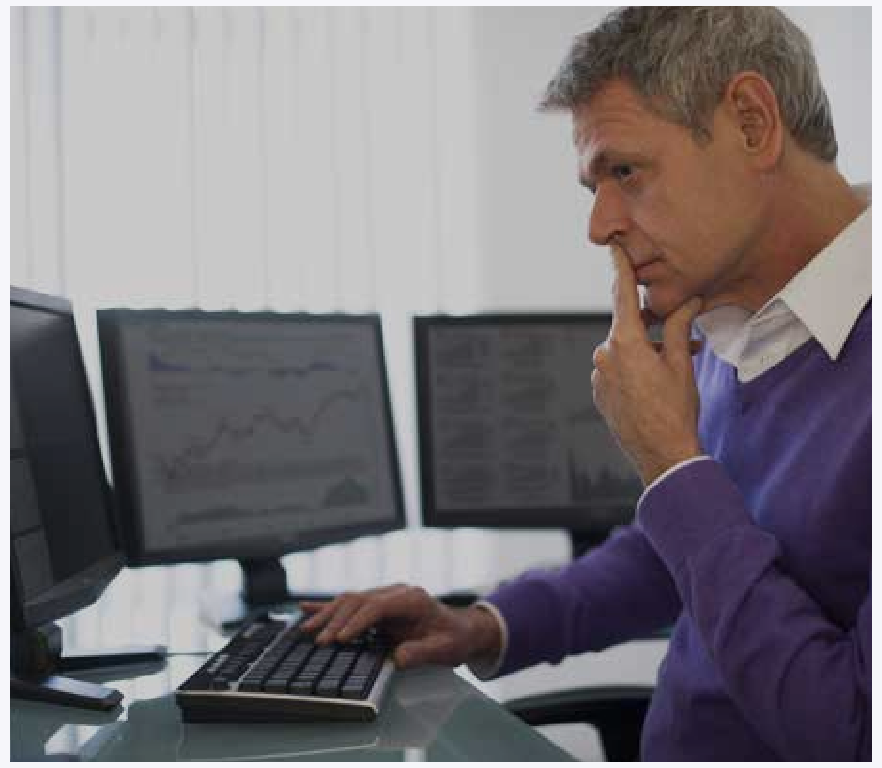


With the insurance sector facing a turbulent macroeconomic environment and multiple forms of disruption, a high-performing risk management function has never been more important.

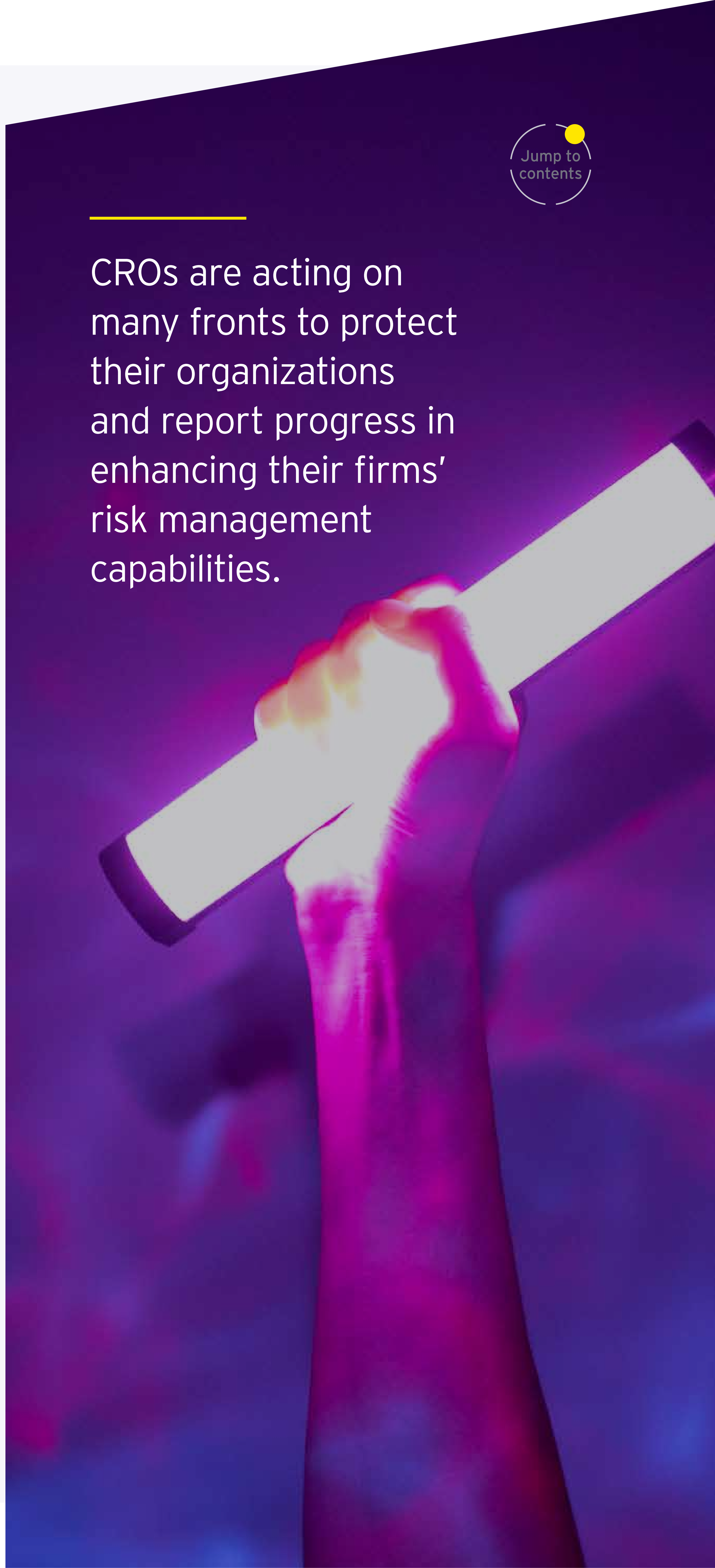
That's true not only in terms of protecting the enterprise from proliferating near-term risks, but also for devising comprehensive plans for dealing with significant risks forming on the horizon. Enhancing business performance increasingly calls for strong risk leaders capable of providing timely and insightful guidance to the senior business leaders and the board.

Many of today's most pressing risks are related to the profound shifts reshaping the industry today – from technology disruptions and rising regulatory requirements, to new market entrants and new capital sources, to increasing customer expectations, intensifying competition and the need for new business models.

The results of our inaugural survey of insurance industry CROs, conducted with the IIF, demonstrate the expanding and diversifying risks insurers face now. They also highlight the imperatives and complexities that make the CRO role one of the most difficult in the C-suite today. Even setting priorities can be a challenge when risks evolve constantly and seem to get more urgent all the time, especially those "megatrends" far beyond the control of any one company or sector. Limited access to the right resources, scarcity of key skills and intensive supervision only compound the difficulty of CROs' jobs.

Some industry observers describe the current moment as a "polycrisis." That's understandable, given the diversifying and interconnecting risks and the backdrop of high market volatility, macroeconomic uncertainty and geopolitical tensions.

But our research also presents some reasons for optimism. CROs are acting on many fronts to protect their organizations and report progress in enhancing their firms' risk management capabilities. In interviews with survey respondents, we heard repeatedly from leaders who feel inspired by what's possible with advanced technology, richer data sets and skilled teams. They certainly aren't shying away from the daunting challenges. That's a mindset that will serve CROs well, along with bold and creative thinking, as they seek to drive higher levels of risk management performance and assume a more strategic role in advising the business.



CROs are acting on many fronts to protect their organizations and report progress in enhancing their firms' risk management capabilities.

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01 TAKEAWAY ONE

“Risk has a responsibility not just to protect, but also to help meet the objectives and growth goals of the business.

We need to make sure we have room in our appetite for the risk that comes along with growth.

CROs on growth and innovation

Five key takeaways from our survey:

CROs must engage on transformation to enable responsible risk taking.

Traditional carriers continue to progress on their transformation journeys by modernizing core technology, migrating more data and applications to the cloud, and exploring new products and partnerships. Risk leaders should engage with senior business executives and the board to provide both strategic guidance as plans are formed and tactical support during implementation cycles. Alignment with the business remains a top priority, as CROs recognize, but can be challenging with the multiple growth-oriented initiatives, innovation programs and transformation efforts underway across the business.

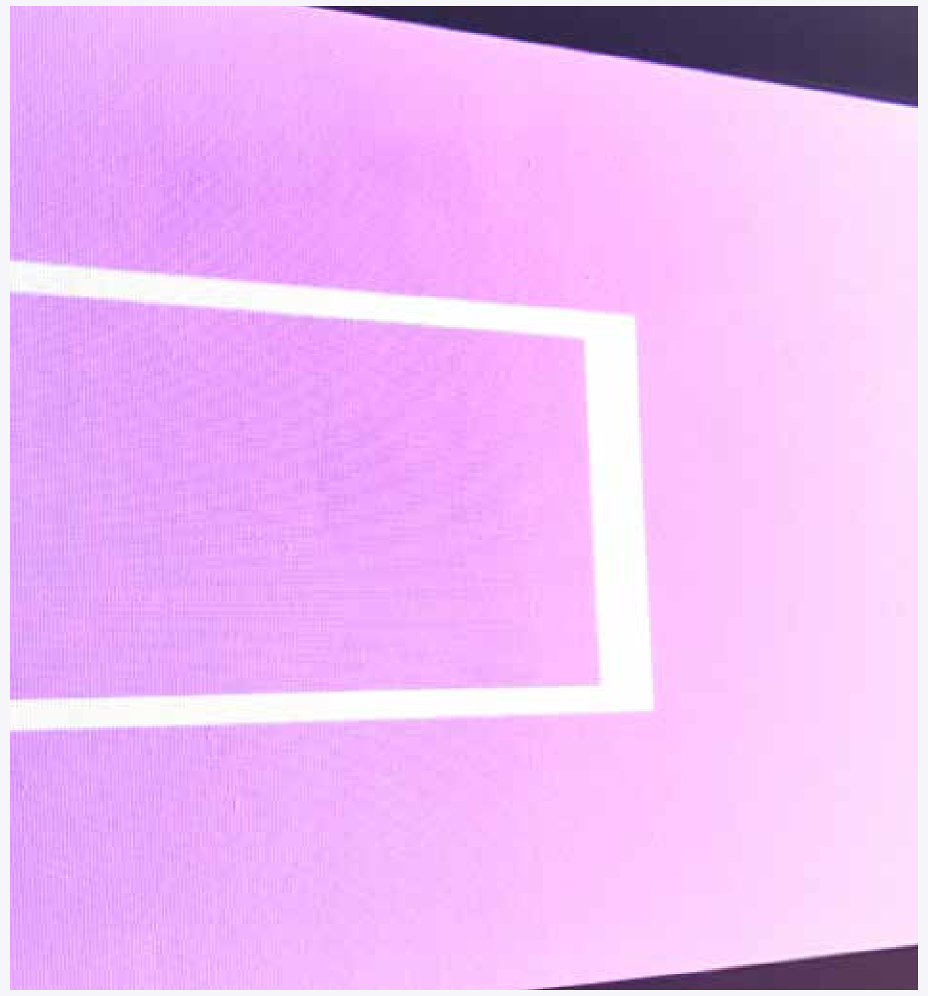
From large-scale technology upgrades and extensive process automation to new product development and omnichannel customer engagement models, transformation efforts touch nearly every part of the organization, including both front-office processes and back-office functions. Our survey respondents clearly recognize the need for risk teams to facilitate growth and innovation in a risk-informed fashion. Engaged CROs can provide vital inputs in cost-benefit analyses, evaluation of alternative strategies and sourcing models, assessment of regulatory impacts and other areas.

02 TAKEAWAY TWO

A strong risk management core sets the foundation for advanced capabilities.

In taking tangible actions to address both financial and nonfinancial risks, CROs are balancing foundational capabilities (e.g., governance models, control frameworks, disaster recovery plans) with more sophisticated risk management techniques and their advisory responsibilities to the business. As they set priorities, CROs must constantly ask themselves whether they are dedicating time and resources to the right risks. Being vigilant in protecting the crown jewels is the first order of business. But lower-profile vulnerabilities and day-to-day fundamentals must be attended to consistently.

In terms of operational resilience, the heart of risk management, third-party dependencies, crisis management, and talent and technology-related practices are top priorities. Insurers increasingly recognize how operational resilience can be the nexus of multiple vulnerabilities, including those outside of their own four walls, thanks to more extensive connections with external parties. Highly efficient processes at the core of risk management operations help CROs deliver outstanding returns on investments in sophisticated risk modeling, threat detection, data visualization and other advanced capabilities. They also create time and capacity to focus on strategic matters, including advising business leaders and the board.



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03 TAKEAWAY THREE

Tech and talent top the investment agenda, but resources are tight.

Proliferating and evolving risks necessitate significant investments in technology and talent, as our results show. However, CROs face cost pressures and are expected to deliver tangible results from their investments of finite company resources.

CROs, like their peers in other functions, are looking to advanced technology to identify and manage risks more effectively and run their operations more efficiently. They are moving to automate controls and devise forward-looking risk technology strategies. But our results suggest that many firms could move more quickly and boldly, though limited budgets are a significant constraint. When it comes to the digitization of risk management, clearly there's a great deal of work left to do.

Again, CROs understand the importance of tech and talent to overall business transformation, even as they see the need to expand and accelerate technology deployments and enrich the skill sets within their own functions. The way forward is to link tech and talent investments to establish human-in-the-loop processes that combine the best of skilled judgment with raw computing power.

When it comes to the digitization of risk management, clearly there's a great deal of work left to do.

04 TAKEAWAY FOUR

CROs are preparing for the full impact of AI – both in the business and within their own operations.

Artificial intelligence (AI), including generative AI (GenAI), is among the hottest topics in C-suites and boardrooms across the insurance industry, as it is in other sectors. Many insurers have moved quickly to use the technology to automate tasks, personalize products and services, and generate new insights. Others are in the early stages of deployments or still exploring pilots.

CROs understand the need to adopt a governance model and risk management approach to address the unique and varied set of risks AI presents, including data security and privacy threats and regulatory concerns about ethics and bias, among others. The risk that insurers don't do enough to embrace GenAI to drive innovation and business transformation should be on CROs' radars, too.

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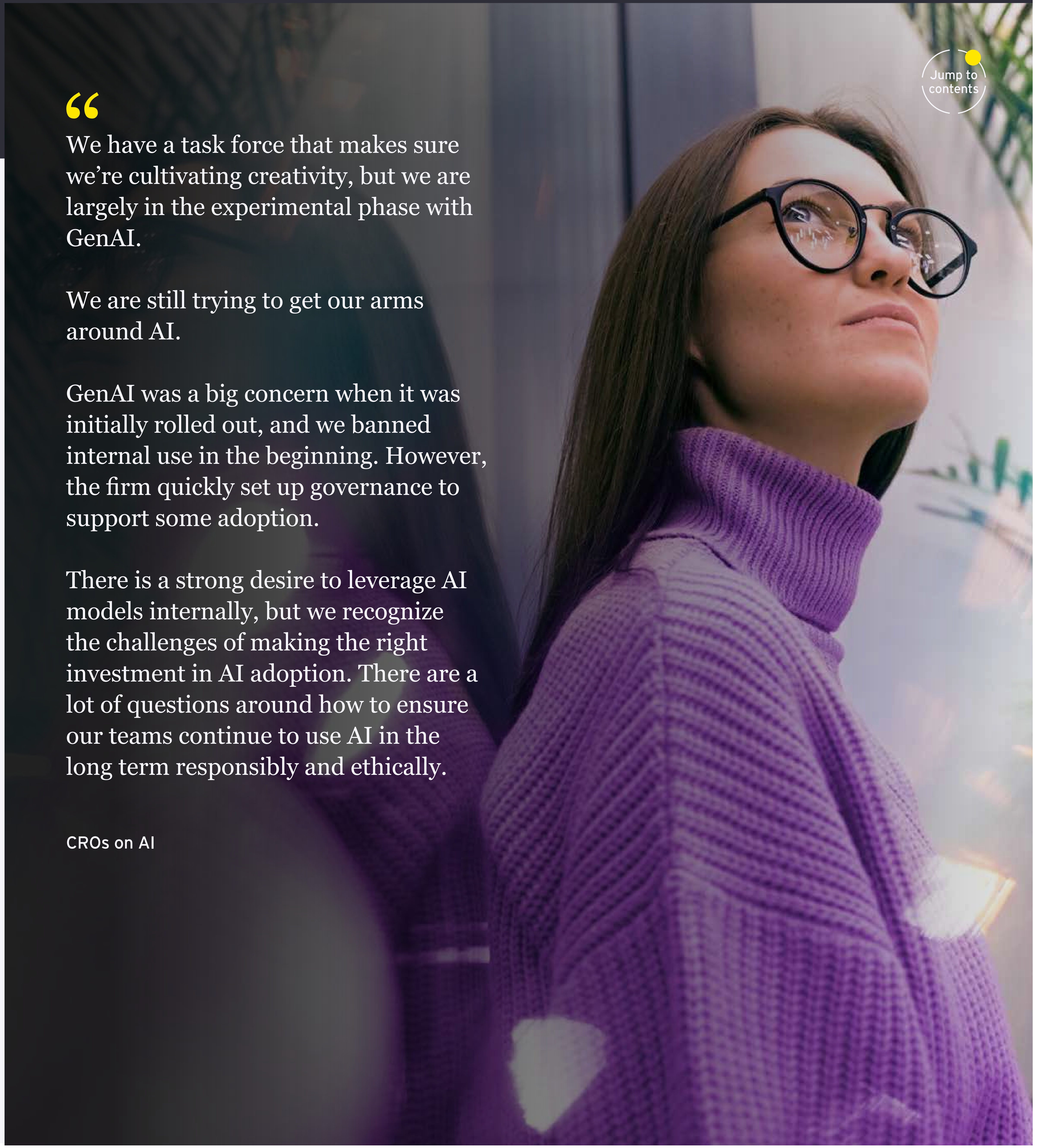

> “We have a task force that makes sure we're cultivating creativity, but we are largely in the experimental phase with GenAI.
>
> We are still trying to get our arms around AI.
>
> GenAI was a big concern when it was initially rolled out, and we banned internal use in the beginning. However, the firm quickly set up governance to support some adoption.
>
> There is a strong desire to leverage AI models internally, but we recognize the challenges of making the right investment in AI adoption. There are a lot of questions around how to ensure our teams continue to use AI in the long term responsibly and ethically.

CROs on AI

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05 TAKEAWAY FIVE

The CRO role is evolving alongside the insurance business and the risk profile.

Our results highlight just how much change has already occurred with the CRO role, and how much is on the way. CROs are already expected to secure the windows and doors to keep out the bad actors and safeguard the company's key assets – all day, every day. At the same time, their role is being elevated to a more strategic level – and justifiably so. CROs need to engage with the C-suite and board more frequently.

They are also expected to serve as fortune tellers, both envisioning and preparing for tomorrow's threats. In the future, CROs will wear even more hats – from culture champions to growth enablers to savvy technologists. See figure 1. As they strengthen the fundamental risk capabilities and automate more processes, their priorities will become more strategic over time. In building strong risk cultures, CROs will need to engage their counterparts in the business.

Figure 1. Top ways CROs expect their role to evolve over the next five years

"Risk is one of the few seats that truly looks across the organization. Of course, the CEO and CFO do too, but risk has one of the broadest views of the enterprise and it touches all facets of our business because our products are about risk, too.

The CRO needs to be able to understand the multivariate nature of risk scenarios where multiple risks can come at us at once (e.g., pandemic, historic inflation, unprecedented risk in rates) and from different dimensions.

We can't be sure what the next 'big thing' will be, but we know to expect it as a risk function going forward.

CROs on the strategic big picture

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CHAPTER 1

Industry risk outlook: seeing the big picture across many risk types

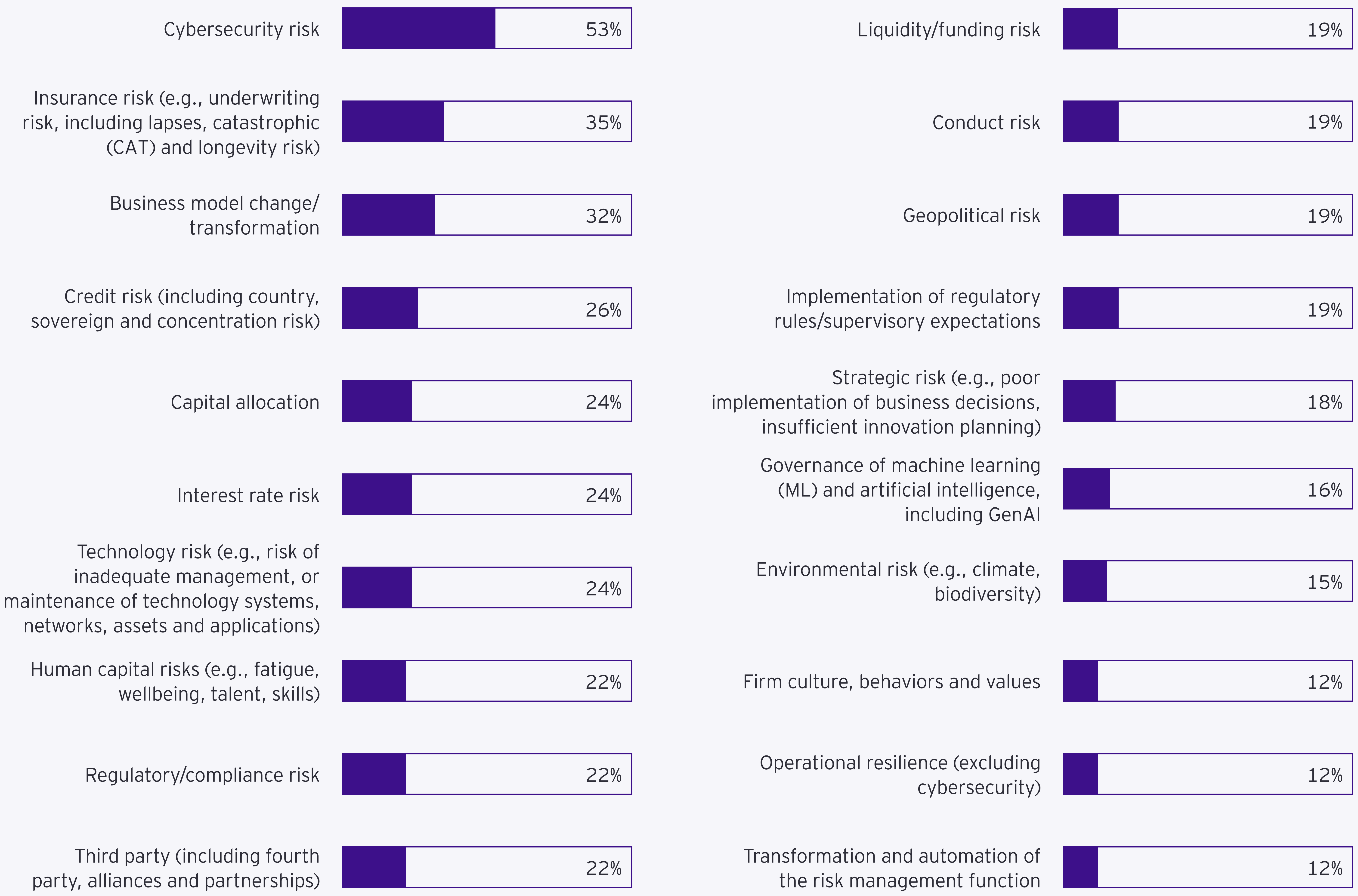
Chapter 1

Industry risk outlook: seeing the big picture across many risk types

The top near-term risk priorities show the complex, interrelated risks reshaping the insurance landscape in this unique moment in the industry.

Looking out across the next 12 months, our survey respondents expect cybersecurity to top their agendas, and by a substantial margin. Cyber remains the top concern across all of financial services. Insurance risk and business model transformation are a somewhat distant second and third, respectively, suggesting that CROs are well aware of market volatility and other disruptions. See figure 2.

Figure 2. Over the next 12 months, what are the top five risk types or risk management topics that will require the most attention from the CRO?



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A range of risks of comparable urgency round out the top 10, reflecting the diverse and intersecting nature of insurers' risk portfolios. Credit risk, capital allocation and interest rate risk speak to macroeconomic uncertainty, even though the landing has been softer than expected and, at the time the survey was conducted, recession fears had receded. Technology risk is ever-present in the business, given the need for modernization and adoption of new tools, as well as the overall digitization of the business.

Human capital risks reflect a tightening labor market. Overall, 64% of participating CROs said attracting talent will become increasingly difficult in the long term. Third-party risk is a reflection of scarce talent and the industry's increased connectivity; more insurers are seeking to access specific capabilities and technologies via ecosystems and alternative sourcing models.

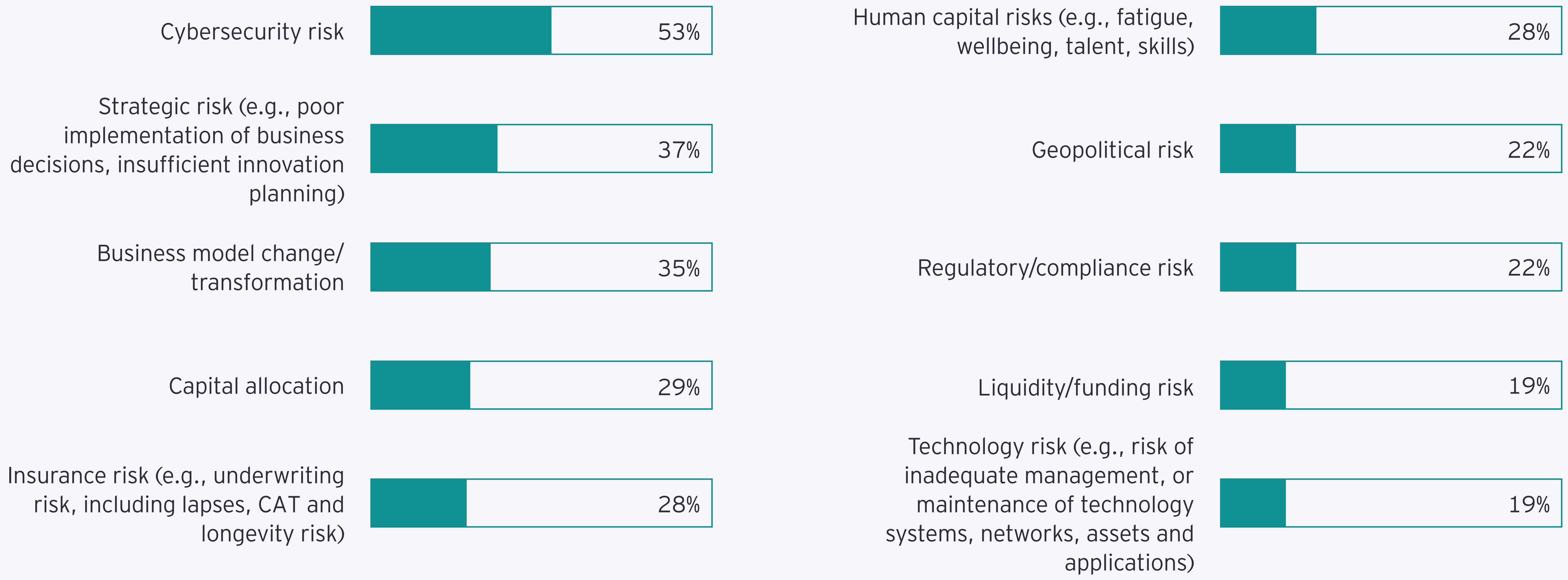
On the whole, these priorities show the current evolution of the CRO role and the ongoing shift to strategic issues as risk teams pursue tactical maturity. The risks that comprise the rest of the top 20 highlight lingering concerns or issues that CROs see just over the horizon. It's worth noting that any of these could become urgent almost overnight based on events outside of insurers' control.

There are interesting regional variations among CROs, illustrating the different market conditions around the world. For instance, 43% of survey respondents in the Americas are focused on capital allocation, compared with 24% of other respondents worldwide. Similarly, a significantly higher proportion of Americas respondents (39%) cite third-party risk as an important concern than do respondents in other regions (22%).

Notably more EMEIA CROs cited human capital risk (29%) as a top-five risk than in the Americas (7%) or the Asia-Pacific region (15%). Nearly half of participating CROs in the Asia-Pacific region (46%) cite business model change/transformation as a top concern, compared with less than a quarter (22%) of their counterparts in other regions.

CROs believe they are mostly aligned with the board when it comes to the most pressing risks for the next 12 months. However, they expect directors to be more focused on strategic and geopolitical and environmental risk, as befits boards' orientation toward bigger-picture and longer-term perspectives. As the risks grow more diverse, CROs can share information and insights that help directors educate themselves on a broader range of issues. See figure 3.

Figure 3. Over the next 12 months, what are the top five risk types or risk management topics that will require the most attention from the board of directors?



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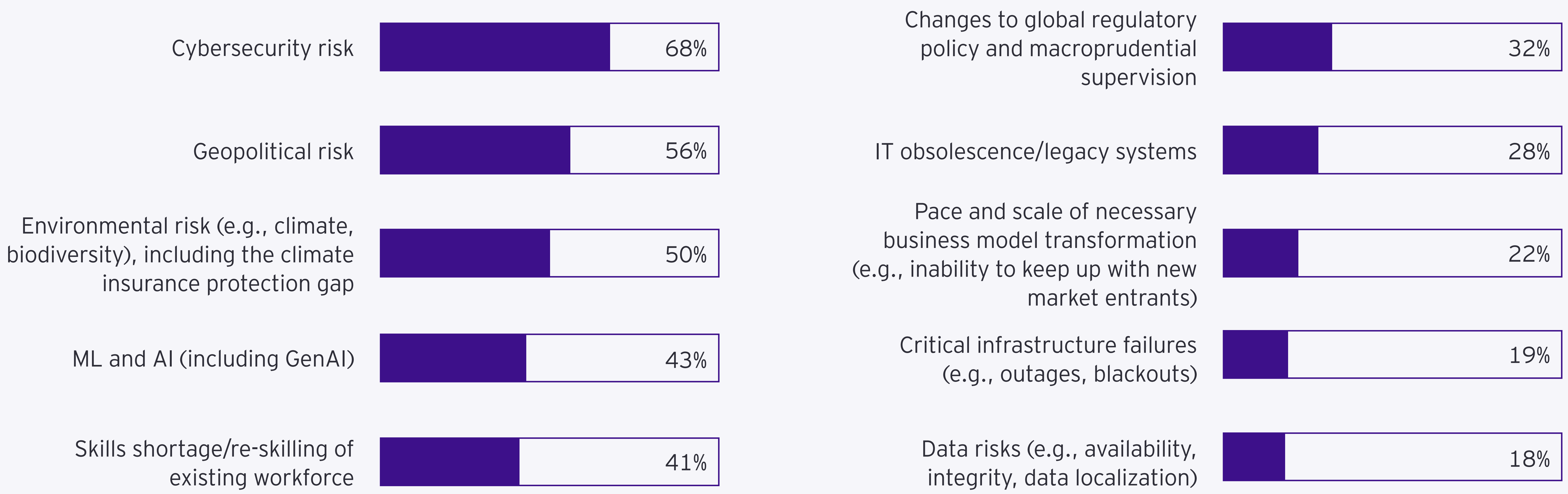
The outlook for emerging risks

CROs must use their time thinking about here-and-now risks and those that may pose threats in the future. Looking out three years, cybersecurity remains the top concern; clearly, no one thinks it will get any easier to protect core company assets from bad actors using more sophisticated attacks. The overlap of urgent near-term risks and emerging concerns for the long-term highlight the mix of known and unknown risks – including "unknown unknowns." They also suggest that CROs recognize the ways that risks can expand in scope and urgency seemingly overnight, as happened in 2023 with GenAI and geopolitical issues.

Uncertainty remains regarding geopolitical risk, which is a greater emphasis for global insurers and changing global regulatory policies. It's worth noting that our survey respondents see geopolitical risks mainly in terms of macroeconomic impacts (cited by 79%), increased cyber risks (67%) and regulatory changes (64%). CROs seem to understand that geopolitical conflicts often involve an increase in cyber attacks. See figure 4.

Figure 4. Which emerging risks do you believe will be most important for your organization during the next three years?



“It is definitely a bigger concern because of the tension and sanctions from international relationships, fiscal policy and interest rates, and the direct impacts on regulatory risk.

CROs on geopolitical risk

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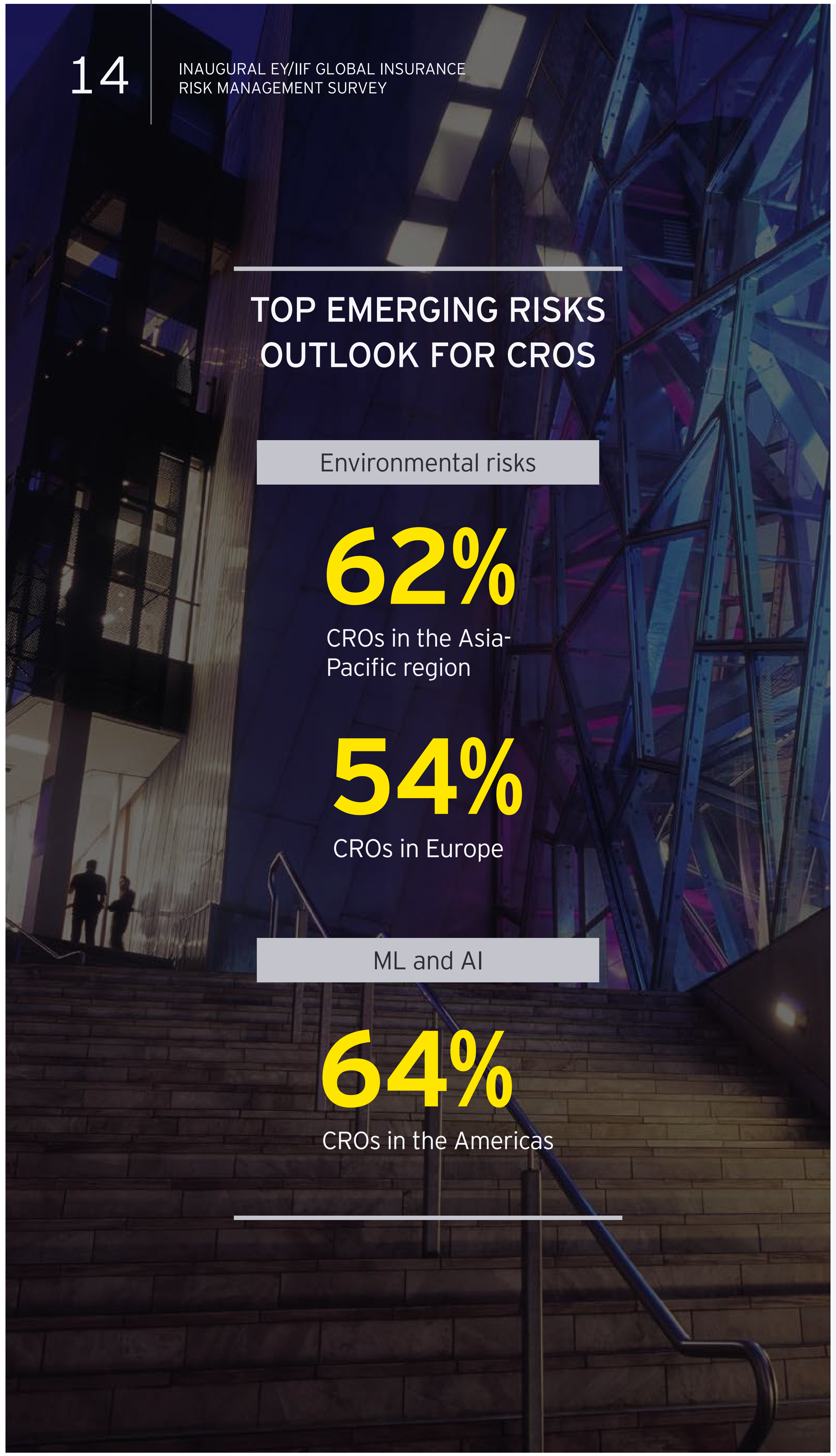
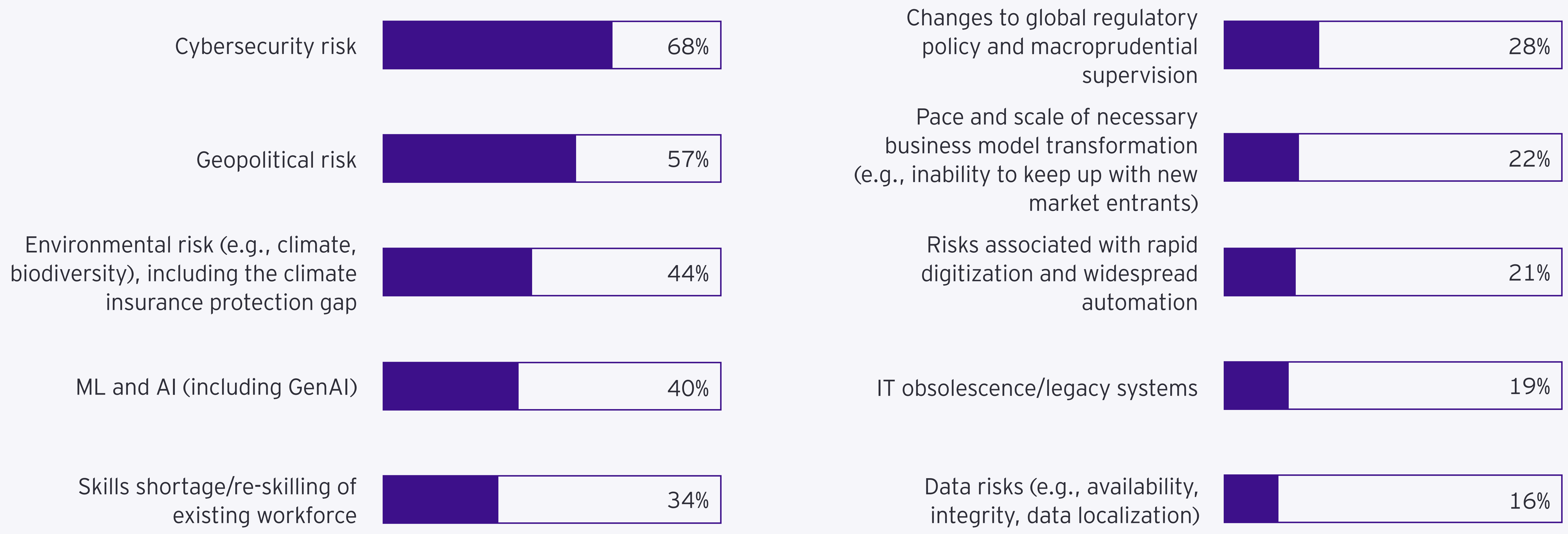


When it comes to environmental risks, far more survey respondents in the Asia-Pacific region (62%) and EMEIA (54%) cite it as a top emerging risk vs. only 29% in the Americas. Conversely, ML and AI is a top emerging risk for 64% of CROs in the Americas, vs. 43% globally and only 37% of EMEIA CROs. Similarly, exactly half of participating CROs in the Americas are concerned about IT obsolescence, compared with 28% of all survey respondents.

As with immediate-term risks, CROs believe their boards will prioritize the same emerging risks. See figure 5.

Figure 5. **In your opinion, which would be the most important to the board of directors or the risk committee of the board over the next three years?**

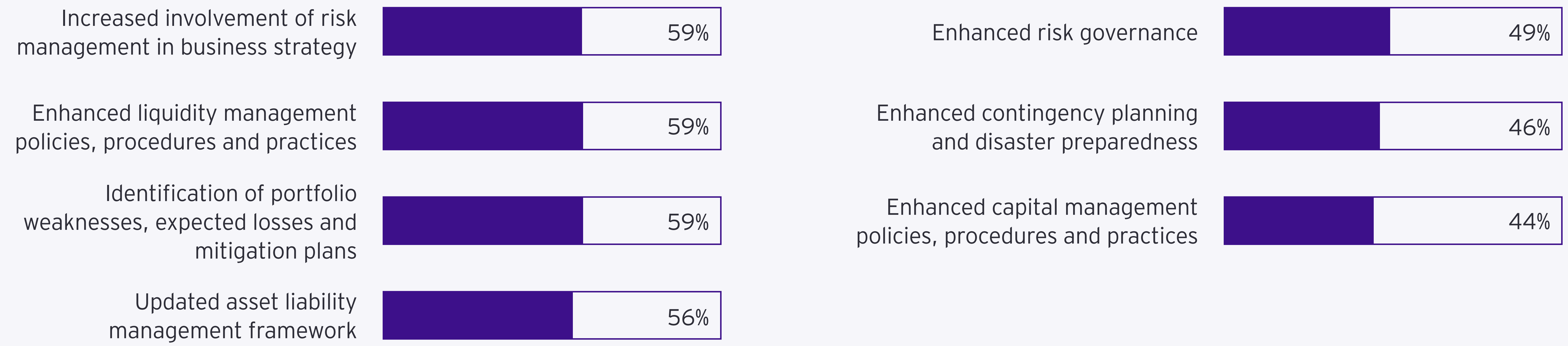


Taking action to strengthen the core

CROs have taken holistic action in the last 12 months to enhance risk management practices, including financial risks and those associated with AI. Further steps are planned, with more than 90% of survey respondents saying their insurers are implementing or evaluating one or more enhancements. See figures 6 and 7. It's clear that proliferating and ever-evolving risks have resulted in firms looking at more aspects of their risk programs – strategy, governance, detailed financial risks, contingency, capital – to bolster protections and prepare for a still more volatile future.

Future success requires that CROs continue taking action on multiple fronts at once. Creative thinking will be particularly beneficial in some high-priority areas, such as risk's involvement in shaping business and transformation strategies. Elsewhere, CROs can rely on proven leading practices, enhanced data management and analytical capabilities, and higher degrees of automation to boost both efficiency and effectiveness.

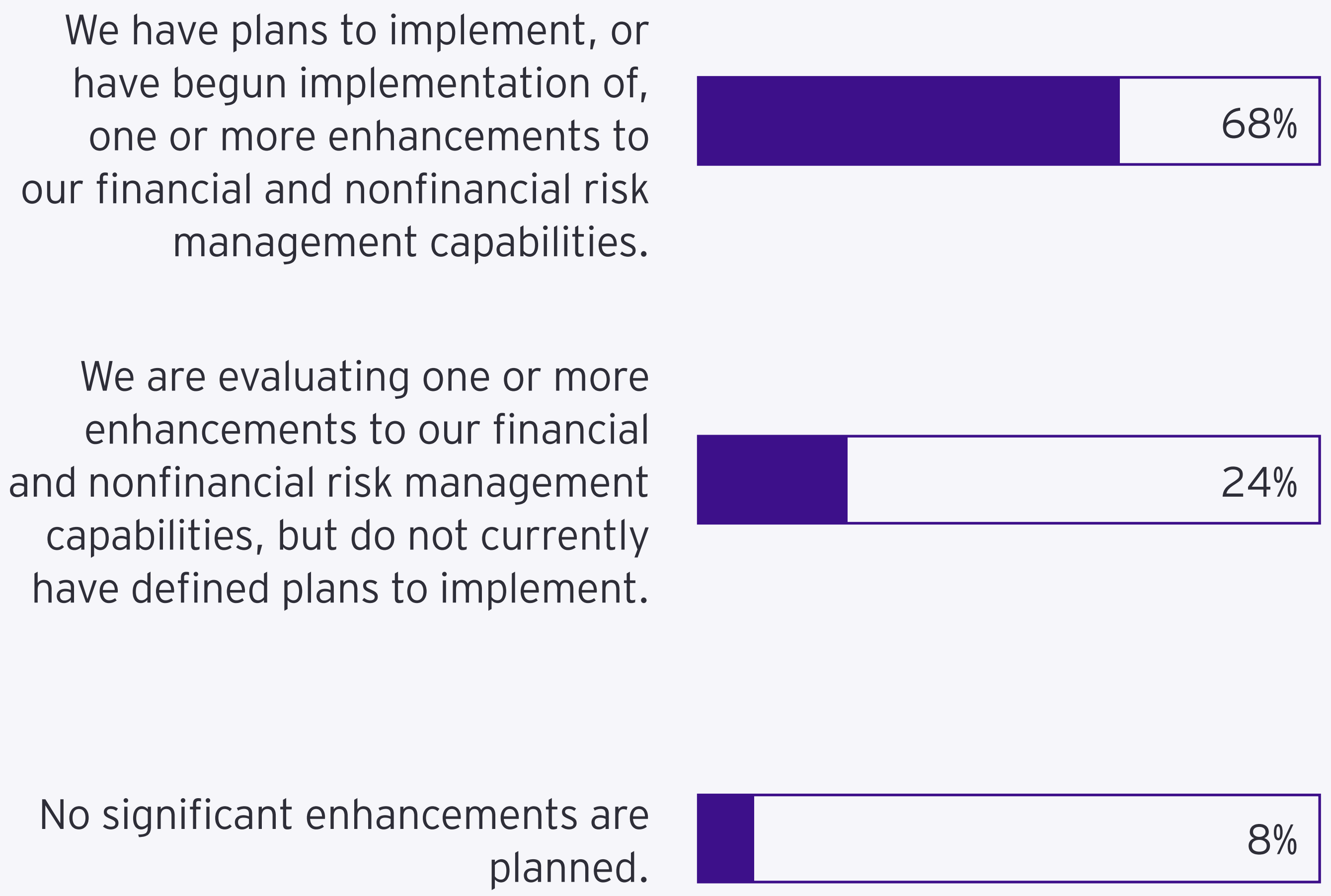
Figure 6. What actions has your company taken during the past 12 months to enhance risk management practices following market events in 2023 (e.g., rapidly rising interest rates, inflation, market volatility following bank failures)?



CROs at Asia-Pacific carriers are most likely to have acted on risk governance (85% of survey respondents from that region cite this as a key enhancement vs. 49% of their global peers) and contingency planning (69% vs. 46%). Nearly two-thirds, or 64%, of participating Americas CROs say they have examined the strength and stability of banking partnerships, compared with 35% of all survey respondents. In the EMEIA region, only 54% of CROs say they are implementing or have plans to implement enhancements, compared with 100% in the Asia-Pacific region and 79% in the Americas.

Looking at enhancements, all survey respondents at Asia-Pacific insurers said their firms were implementing or planning enhancements to risk management capabilities. Among CROs in Europe, 54% are in implementation mode and 34% in a planning or an evaluation phase.

Figure 7. Is your company planning to implement any significant enhancements to its financial risk management (e.g., credit, market, liquidity) and nonfinancial risk management (e.g., operational, strategic reputation) over the next 12 months?



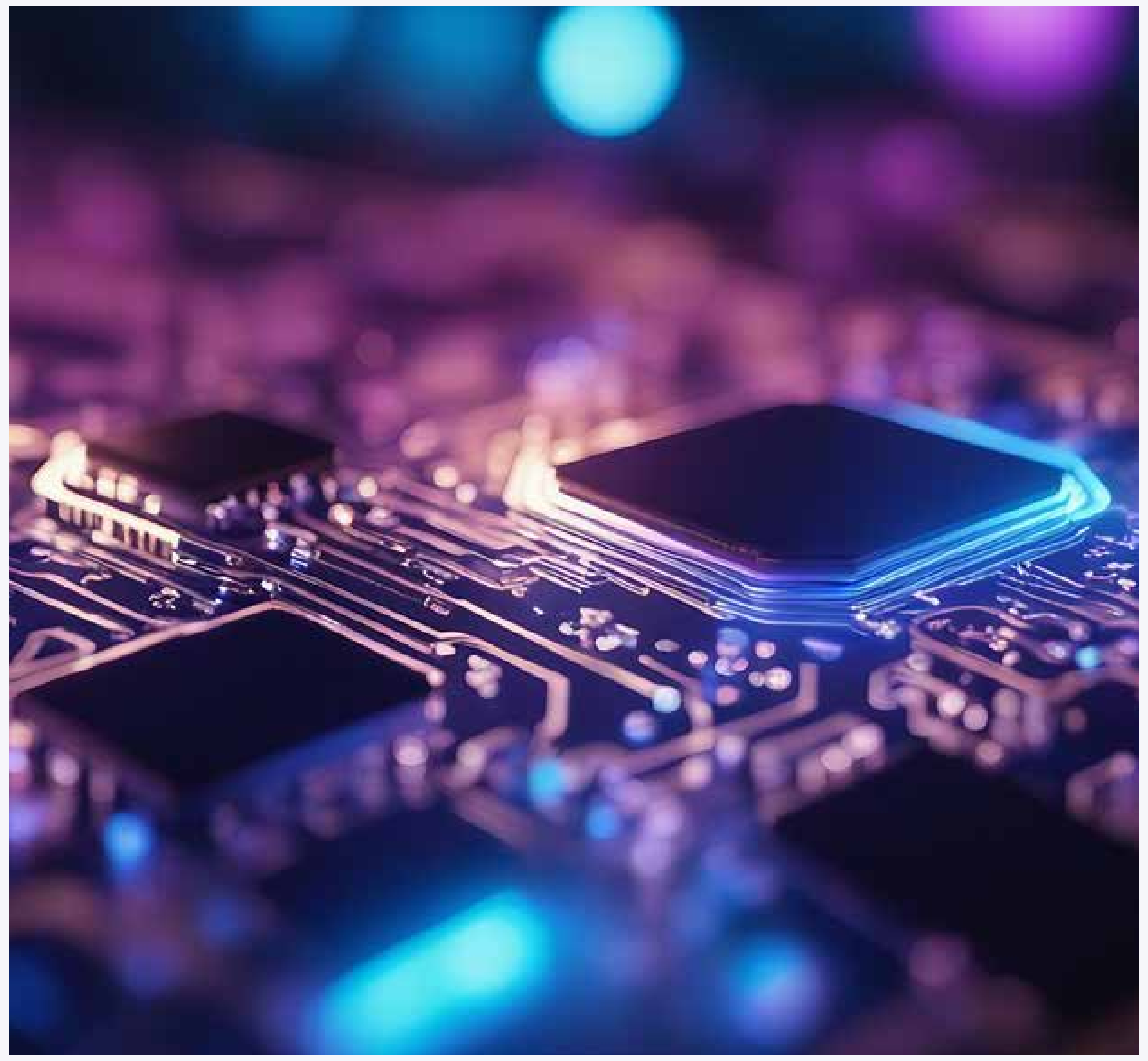
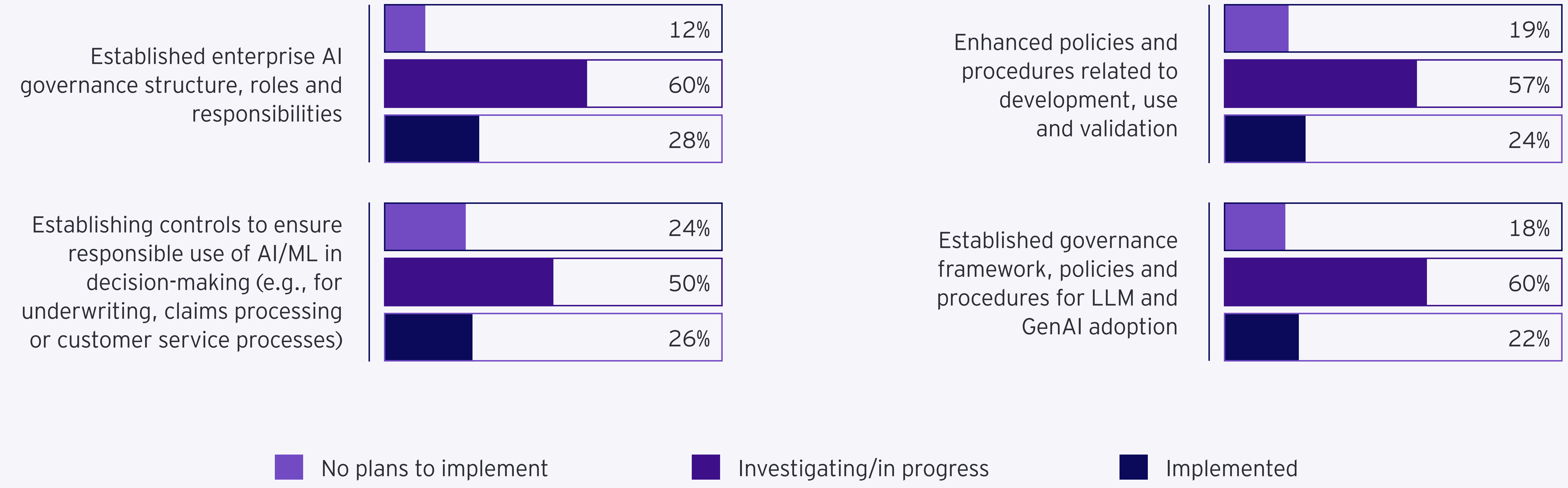


Figure 8. Which actions has your organization taken to manage and mitigate the risks associated with the implementation and use of ML, AI, GenAI and large language models (LLMs) in your operations?



Risk in the AI era

From a business perspective, insurers are at different stages in their AI journeys – from initial investments and pilots to more extensive deployments in data modeling and predictive analytics. Preparations for AI and GenAI seem to be proceeding slowly and cautiously, though CROs recognize how much more activity will be necessary in the not-too-distant future. Our research shows that roughly a quarter of firms have implemented core components of the necessary frameworks to address AI-related risks. See figure 8.

Clear progress has been made, but much work remains. Even firms that have established the foundation must plan for ongoing refinements and enhancements as they deploy more AI use cases. The bottom line is that the industry is in the early stages of what will be a long – perhaps never-ending – journey.

The many hats of highly effective CROs

Both in the immediate and longer terms, CROs have an incredible variety of issues and threats to consider. That explains not only the breadth of activities and investments they currently oversee, but those which will also shape the future of the job itself. Our survey respondents seem well aware of the coming evolution and the general trend toward more strategic considerations. When asked about their future priorities, cultural building and strategic engagement with the business topped the list. Risk-informed cultures are ultimately a function of the priorities and commitments on the front line of the business, though CROs can help facilitate such thinking.

While 55% of all participating CROs say they are focused on embedding a strong risk culture, that number is significantly higher in the Asia-Pacific region (77%) and considerably lower in the Americas (43%) and EMEIA (38%). Meanwhile, only 38% of European CROs expect advising business leaders to be a key part of the evolution of their role, compared with 52% of CROs overall.

This gap is likely caused by the fact that many European CROs already serve as trusted advisors, indicating a generally higher level of risk management maturity at European insurers. When carriers have robust first-line risk management capabilities, CROs have less need to advise on specific threats or practices, though they may consult on the risk implications of growth and transformation initiatives.

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Risk focal points: where CROs are investing time, energy and resources

CHAPTER 2

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Chapter 2

Risk focal points: where CROs are investing time, energy and resources

Given the disruptions and market turbulence of the last few years, it's no surprise that many insurers are modernizing and upgrading their core risk management capabilities. The situation within risk management functions is analogous to developments in the broader business during the last few years: a focus on process automation and operational excellence to unleash innovation and foster new ways of working.

In addition to our survey results, our engagement with the market confirms that many in-flight initiatives are centered on operational resilience, controls, reporting and technology. In many cases, insurers are aiming to digitize manual processes to improve coverage and transparency.

This foundational work is critical to helping organizations prepare for the future and to free up skilled talent for higher-value analytical and advisory work. By maturing the core, CROs will put their organizations in a stronger position to address operational resilience, climate and environmental risk, GenAI and other urgent issues.

Taking action: how CROs are managing through the volatility

CROs recognize that a wide range of action is required for insurers to manage these risks effectively. See figures 9 and 10. For both the next 12 months and the longer term, CROs are emphasizing investments and efforts that enable their teams to meet more complex needs. In many cases, CROs are moving to strengthen core capabilities so insurers can continue operating in lines of business and regions where risks are increasing, rather than simply exiting those markets.

Figure 9. What key enhancements is your company planning to make to enhance financial risk management (e.g., credit, market, liquidity) over the next 12 months?

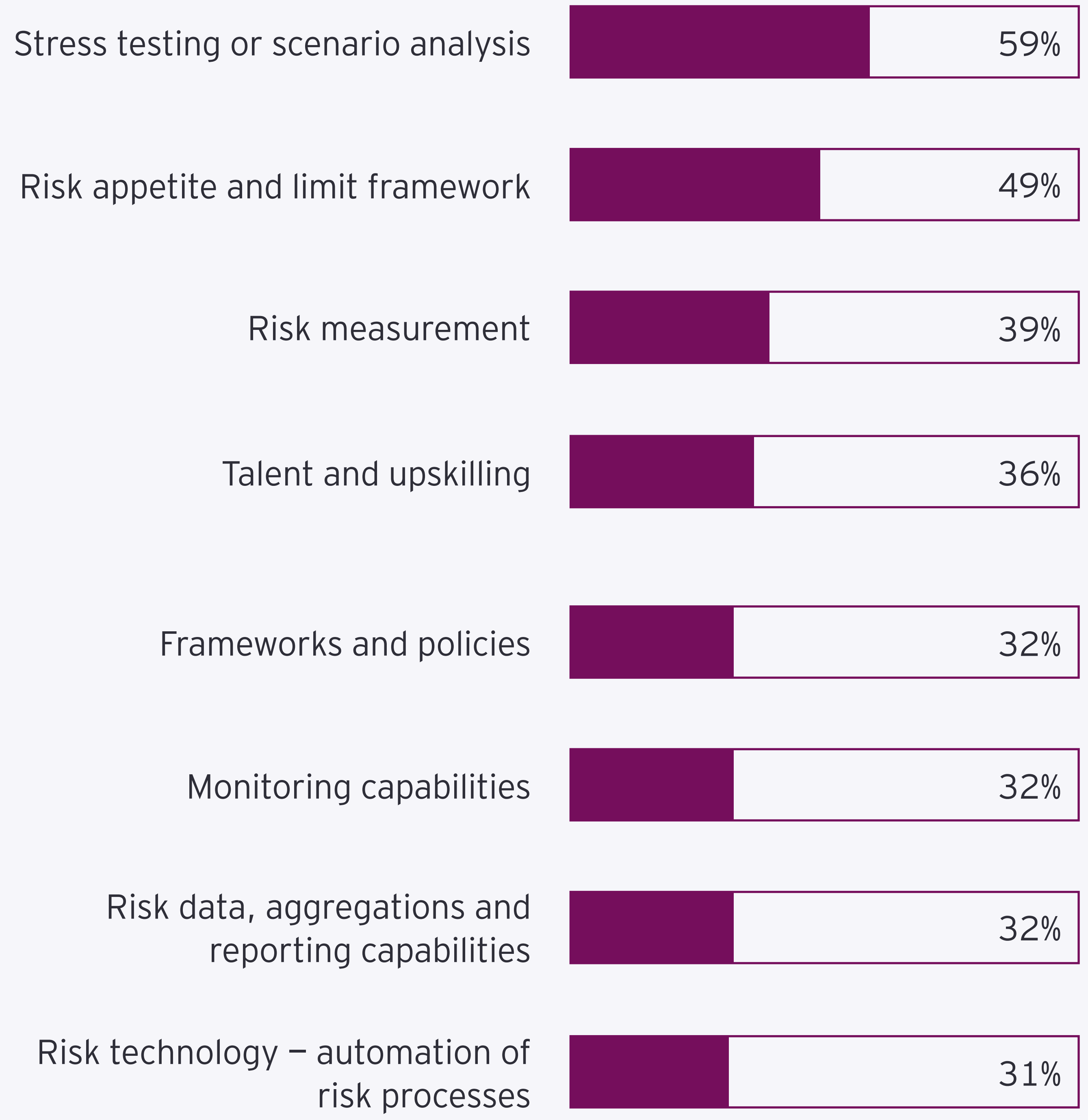

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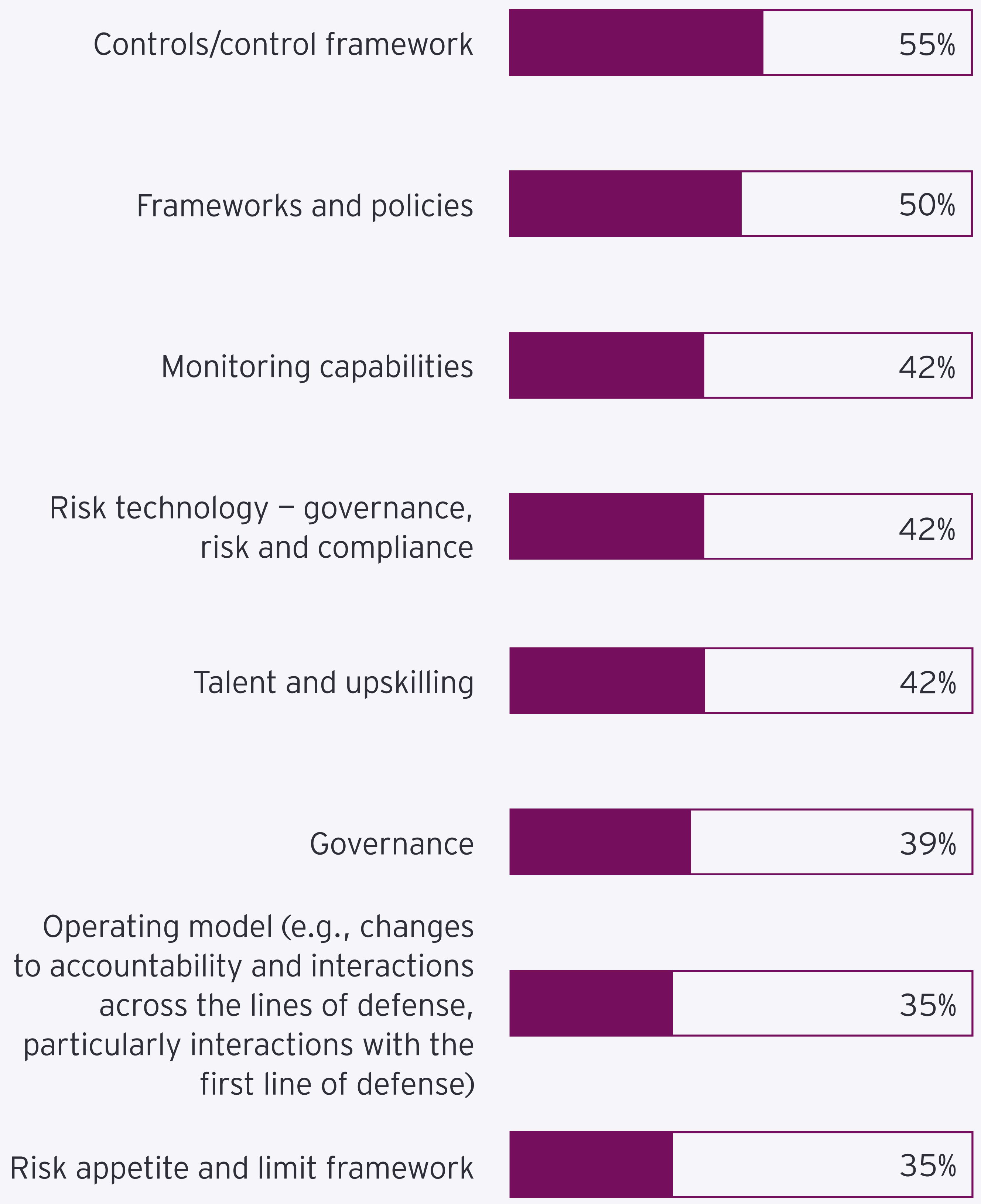
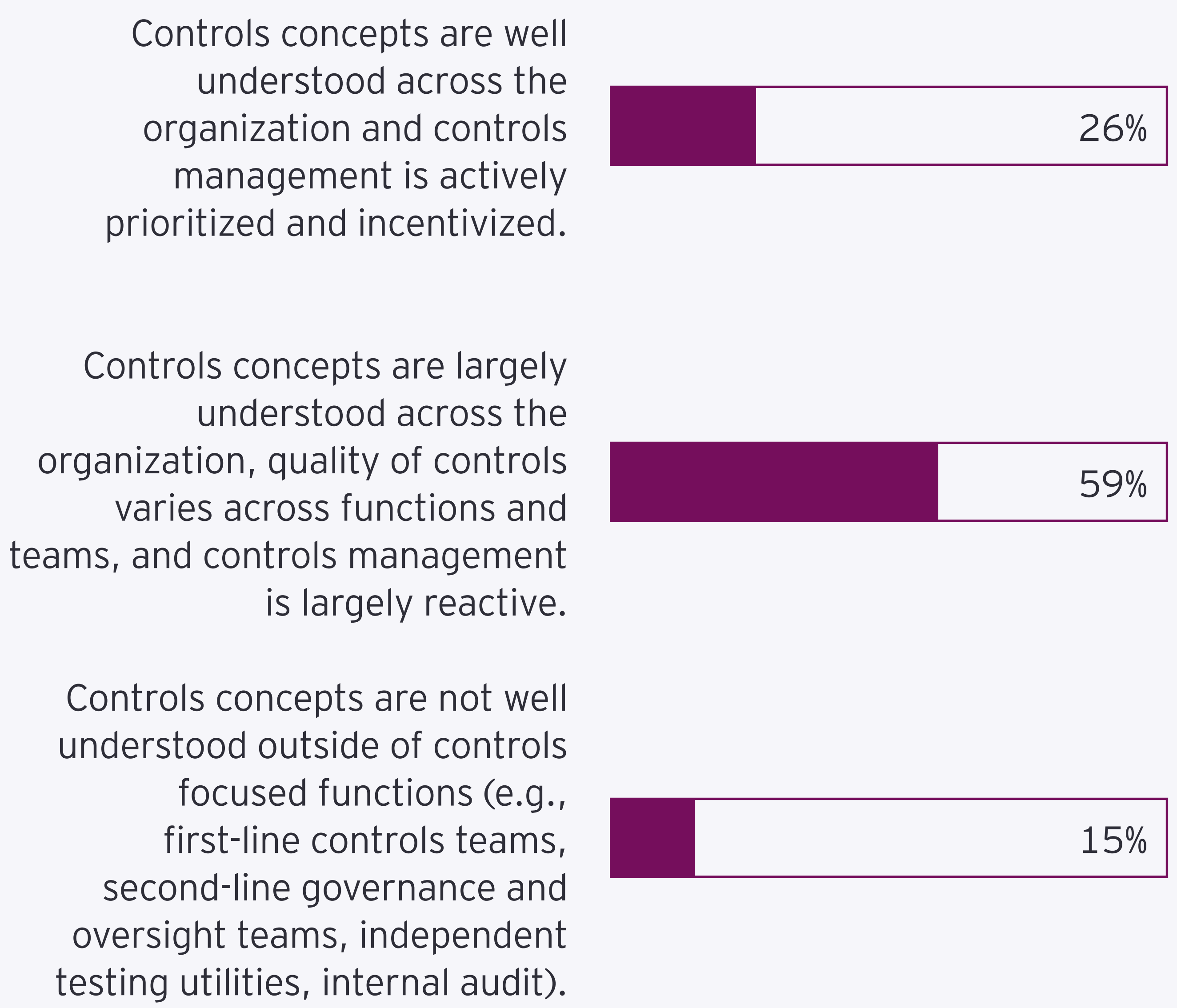
Figure 10. What key enhancements is your company planning to make to enhance nonfinancial risk management (e.g., operational, compliance, strategic, reputation) over the next 12 months?

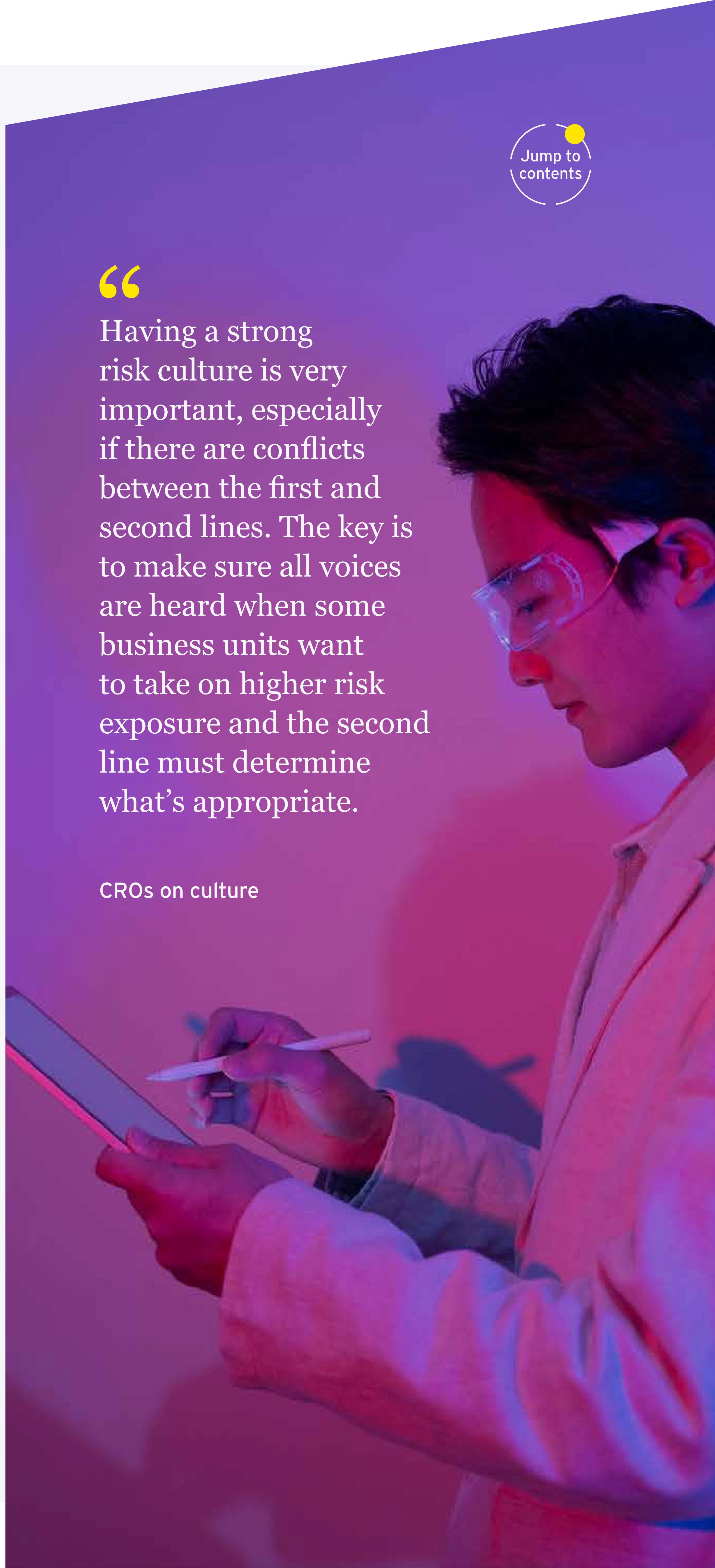


Strengthening risk cultures will be a priority in the future, given that our results show the need to encourage more risk-informed thinking and proactive controls management at many carriers. When CROs and business leaders work together to embed risk mindsets into the business, firms will be better positioned to deliver safe innovation and sustainable growth. See figure 11.

Figure 11. How robust is your organization's culture around controls?



The value of a healthy risk culture is that it enables leaders and teams to spend time on the right risks and highest-value activities, to test their thinking and challenge conventional wisdom, and invest sufficient time focused on horizon scanning and future scenarios. Building such cultures will require ongoing and thoughtful engagement with the business leaders and the establishment of more advanced risk management operations and high-performance teams.



“Having a strong risk culture is very important, especially if there are conflicts between the first and second lines. The key is to make sure all voices are heard when some business units want to take on higher risk exposure and the second line must determine what's appropriate.

CROs on culture

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Strengthening controls

Many current enhancements are related to controls, the heart of effective risk management. See figure 12. These efforts tend to strengthen core risk management capabilities, while also boosting efficiency and reducing costs.

Advancing toward the tech-driven future of risk management

The vast majority of our survey respondents recognize the need for mature risk technology strategies and capabilities. See figure 13. Most firms are either in the "maturing" or "developing" phase, with investments designed to pay off on two fronts — efficiency and effectiveness.

Figure 12. What are the organization's top priorities related to enhancing the control environment?

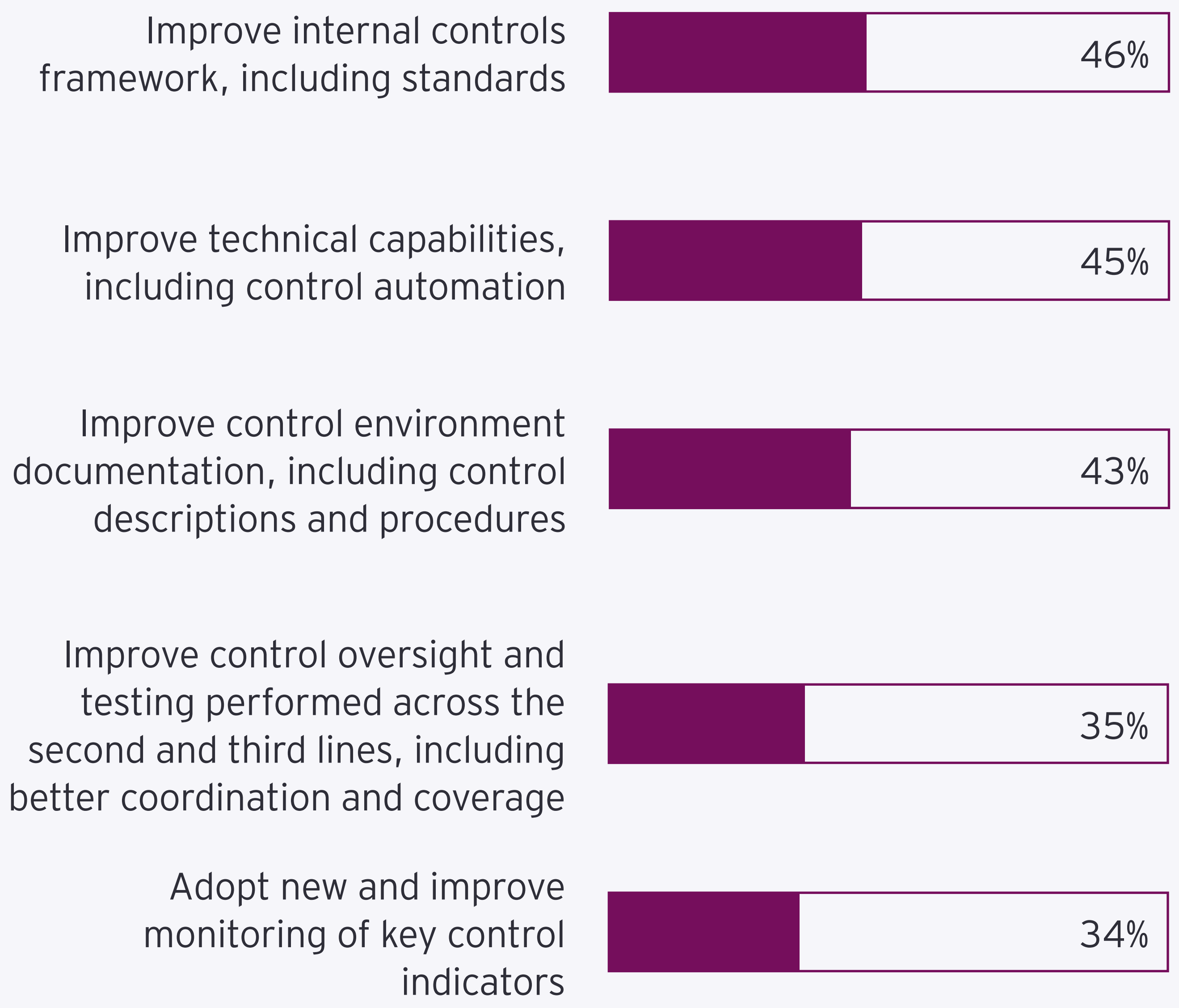
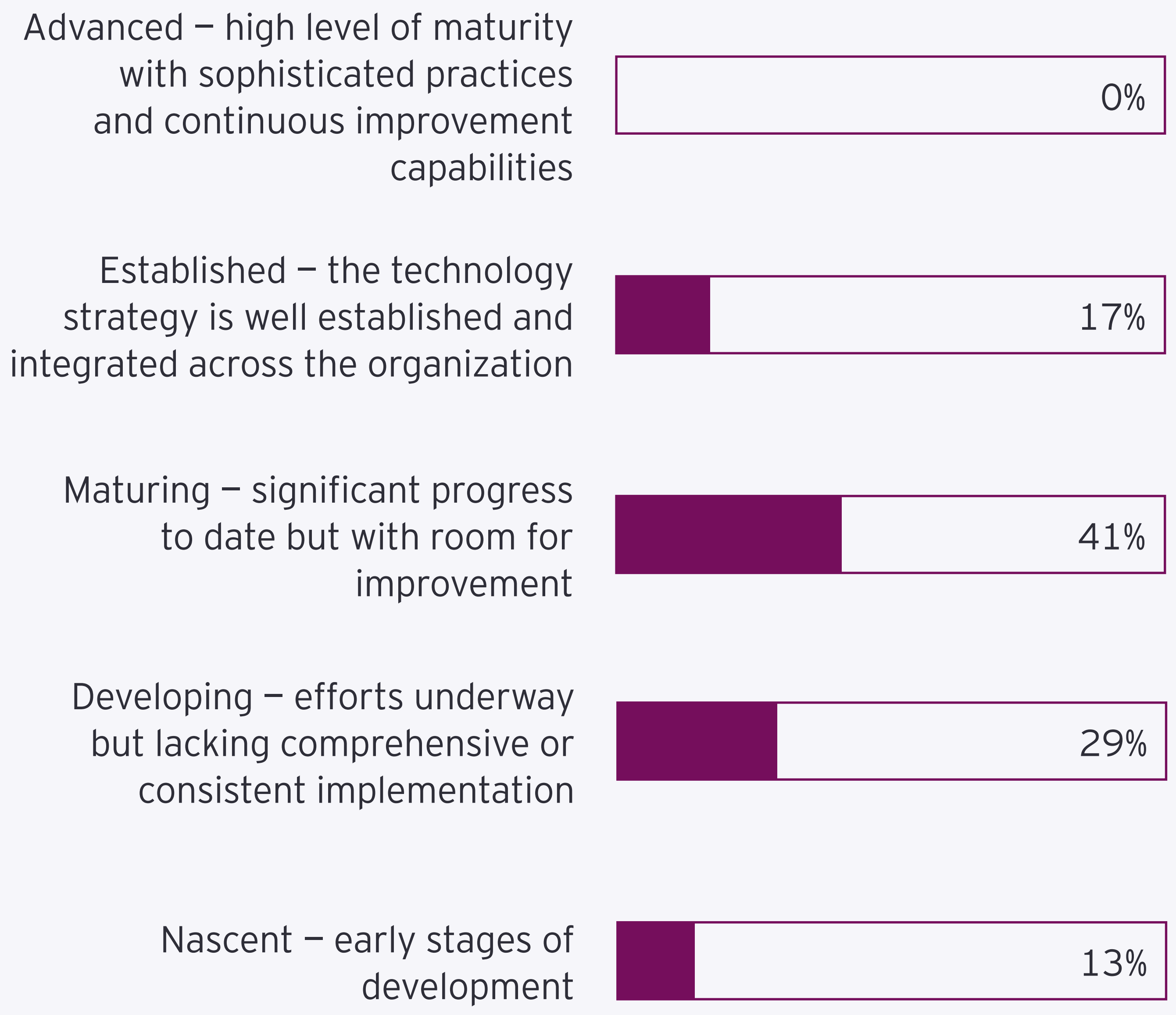


Figure 13. How would you characterize the maturity of your organization's risk technology strategy and capabilities?



Given the amount of technology-driven change and recent advancements, which can put much more power in the hands of risk managers (e.g., the use of advanced analytics to gain increased visibility into risk exposures), this is no surprise. That no respondents said their organizations have reached an advanced level of maturity is somewhat surprising. It's notable that a comparable number of respondents said their firms have established strategies and capabilities for risk technology (17%) and are in the early stages of development (14%). Similarly, the shifting proportions of carriers currently in the maturing (41%) and developing (29%) stages of forming their technology risk strategies and capabilities will be worth watching in future surveys.

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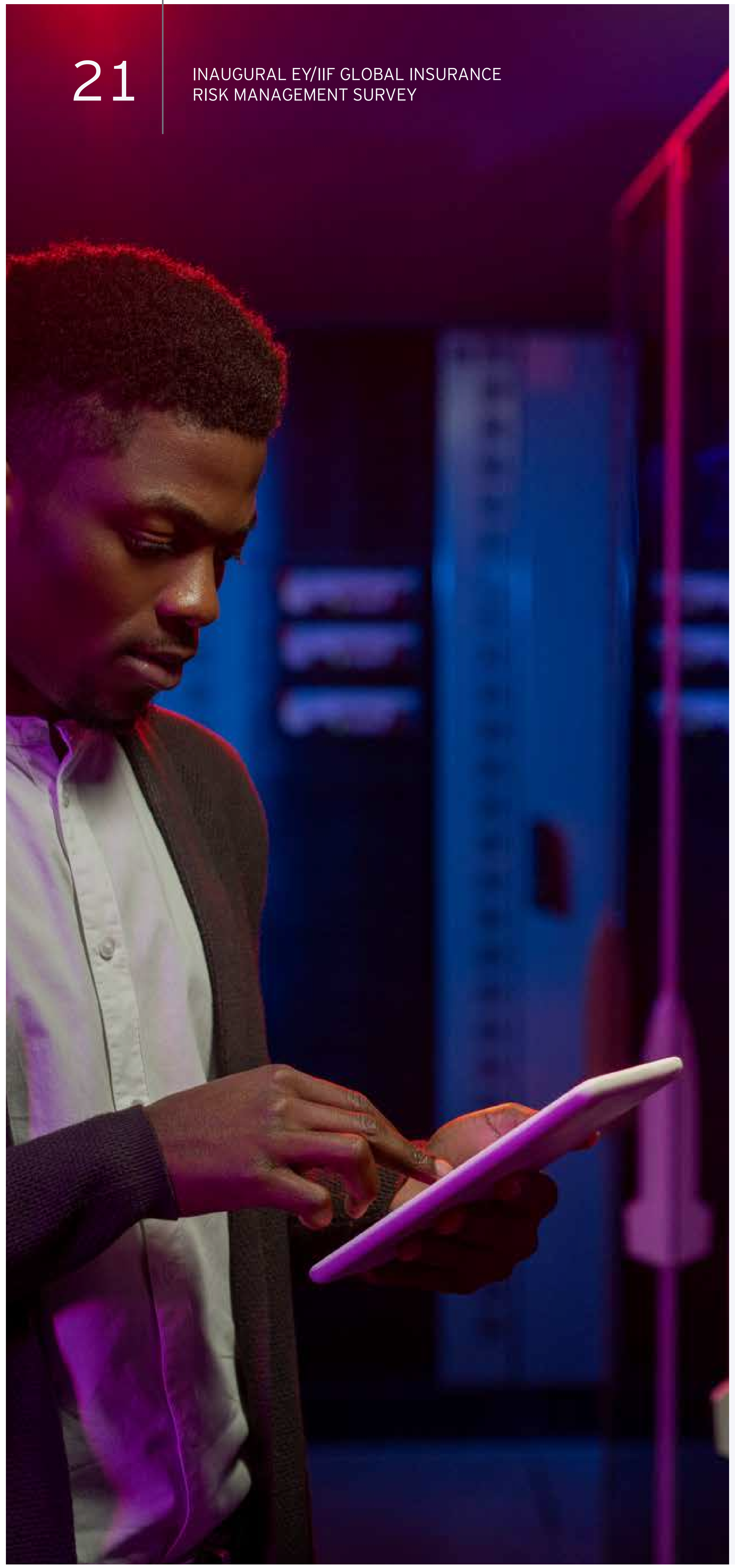
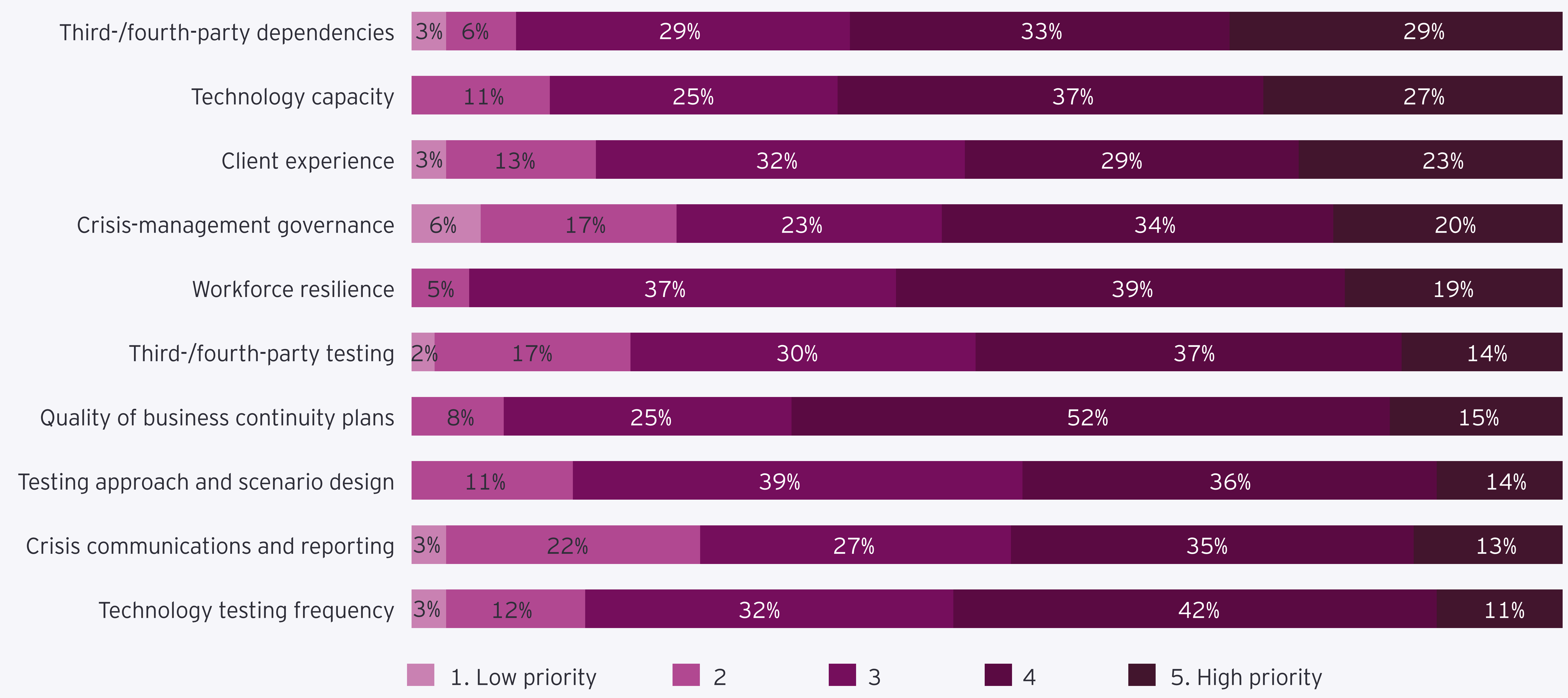


Operational resilience

Strong risk management fundamentals are the foundation for operational resilience. According to our survey, CROs are focused on strengthening those fundamentals. CRO priorities regarding resilience are well aligned to the biggest challenges they face – three of the top six are related to external parties. See figure 14.

The impacts of ongoing transformation programs on the risk management agenda are worth noting here. During the last decade, many insurers have stopped building custom systems and replaced legacy systems, with their connectivity constraints and high maintenance costs. Instead, they've implemented a myriad of solutions from different suppliers. The legacy replacement effort was certainly necessary, but it has made insurers more reliant on third parties, with potential exposure to the vulnerabilities of more partners and vendors. Such third-party risks will remain a priority until the long (and expensive) journey to core system modernization concludes. And the tech-centric third-party exposures are analogous to those presented by more extensive ecosystem strategies.

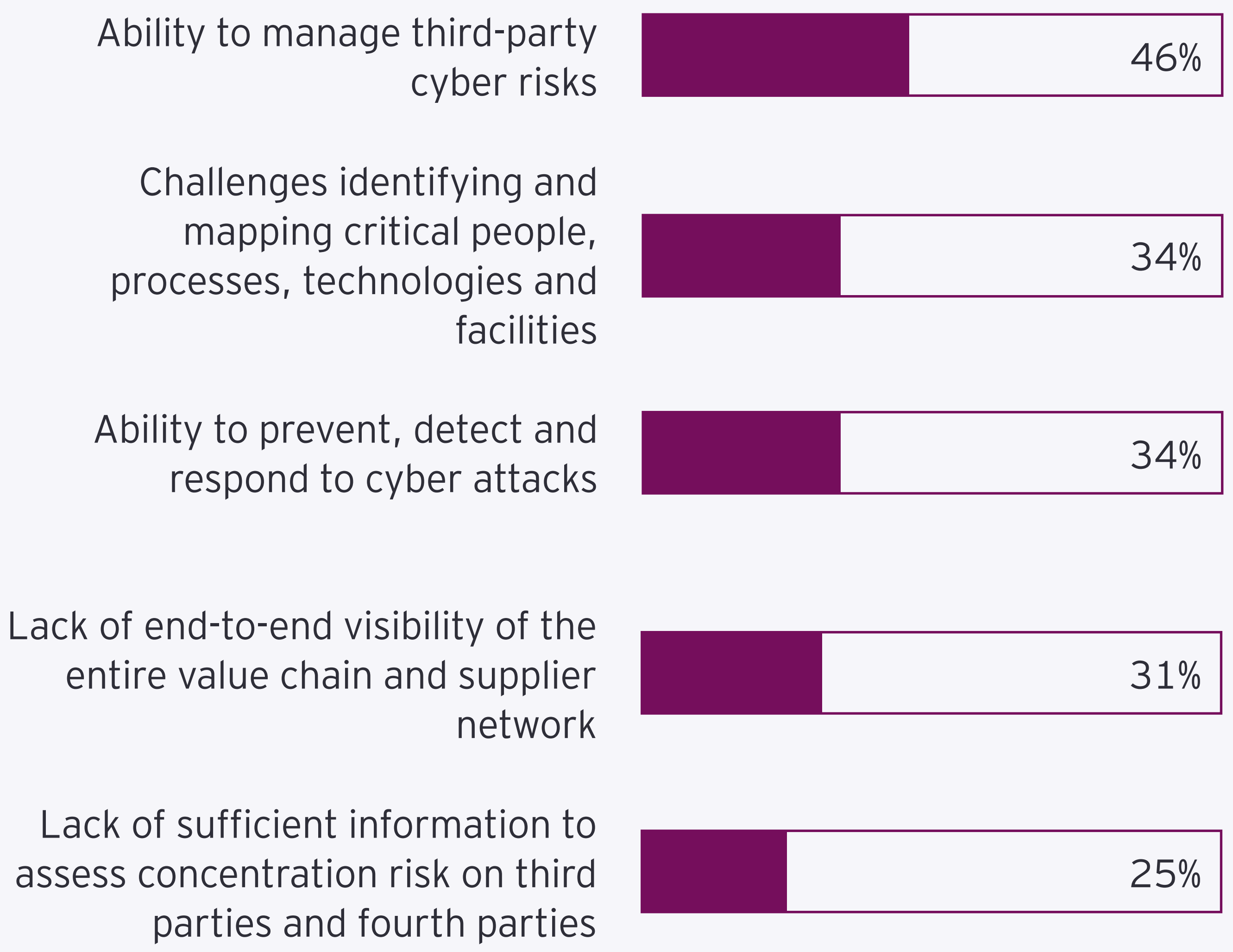
Figure 14. What level of priority would you assign to each of the following areas of operational resilience for enhancements over the next five years?

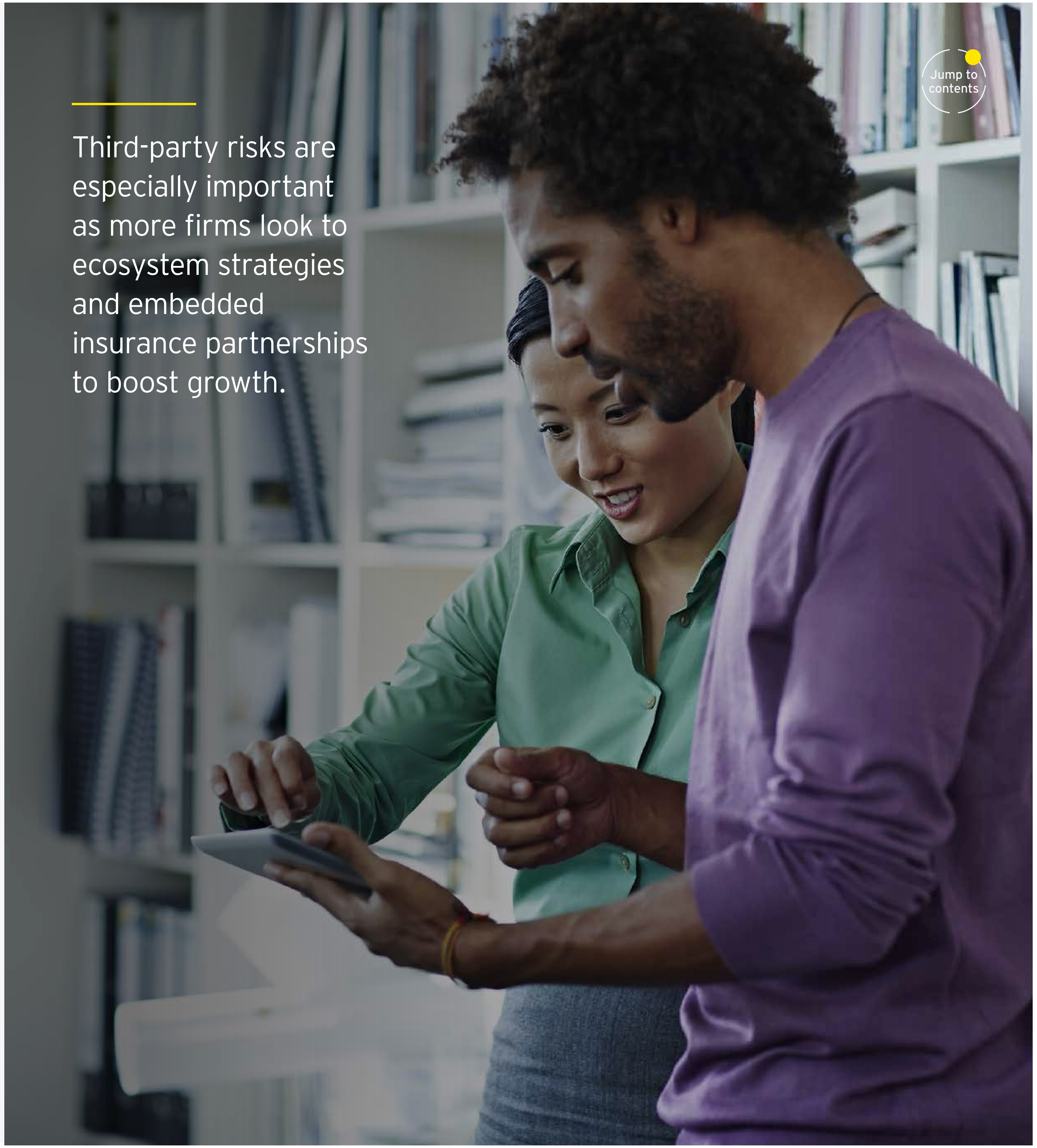


For all their progress in shoring up the core, CROs still face challenges relative to operational resilience. See figure 15. Addressing these challenges requires more performance and risk data, including data from third and fourth parties, and increased visibility into the entire value chain and supplier networks. Third-party risks are especially important as more firms look to ecosystem strategies and embedded insurance partnerships to boost growth.

Though insurers have been conducting third-party risk management for a long time, those that go all-in on ecosystems and alternative sourcing strategies will need to ensure existing frameworks and practices are geared to today's more interconnected operations. They will also need to validate that their key partners have appropriate levels of risk management and controls.

Figure 15. What would you view as the biggest challenges related to operational resilience?





The short-term and long-term impacts of ESG and climate risk

Like cyber risk, environmental, social and governance (ESG) and climate risk incorporate a highly complex matrix of risks and opportunities, with many constituent elements. ESG and climate risk strategies must account for physical and transition risk and legal, regulatory and litigation risks, as well as political sensitivities and public perceptions regarding the industry's commitment to provide protection. Multiple significant workstreams are underway at many carriers to address these many different variables.

Certainly, ESG is being factored into the risk management agenda. See figures 16 and 17. Within risk teams, the focus is on refining risk frameworks and enhancing the metrics and key performance metrics with which climate risk is monitored and progress toward climate goals is measured. In satisfying reporting requirements, CROs and key business partners are having to contend with varying standards across jurisdictions as they seek to automate data gathering and filing processes for increased accuracy and efficiency. ESG remains a more urgent priority on the risk management agenda in the EMEIA and Asia-Pacific regions than in the US. European CROs in particular report more activity on ESG across the board.

Figure 16. In what ways are you incorporating ESG factors and sustainability risk into the risk management agenda?

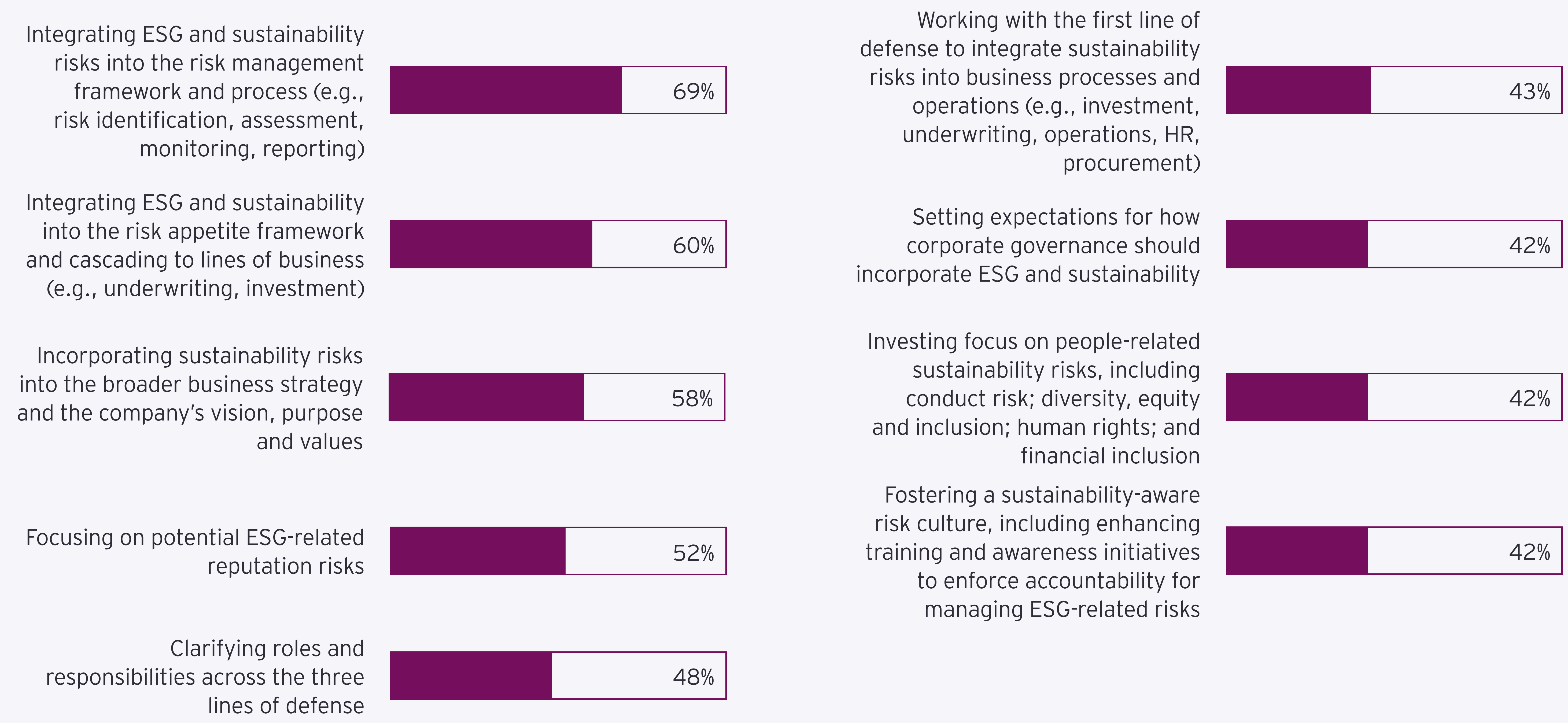
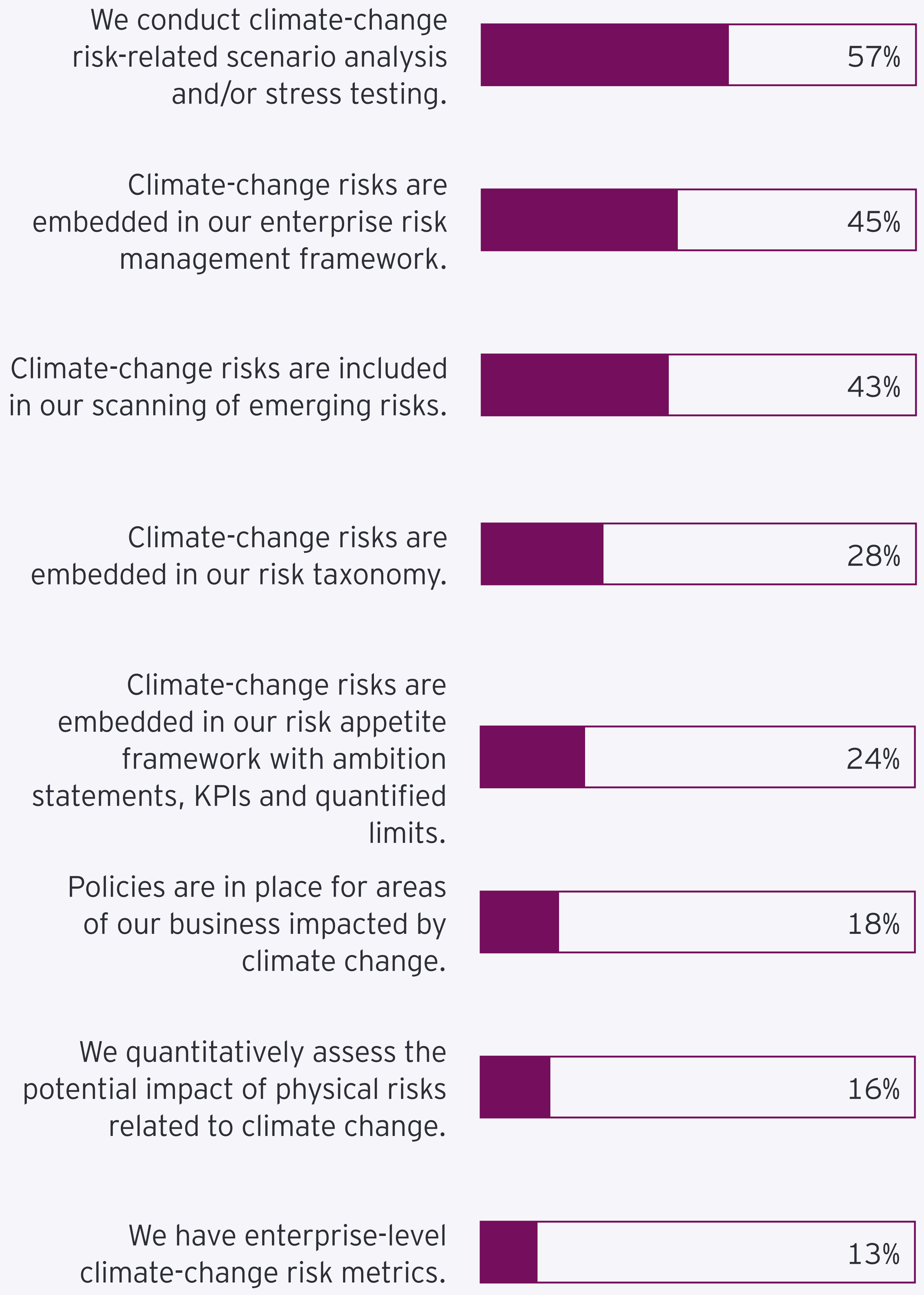
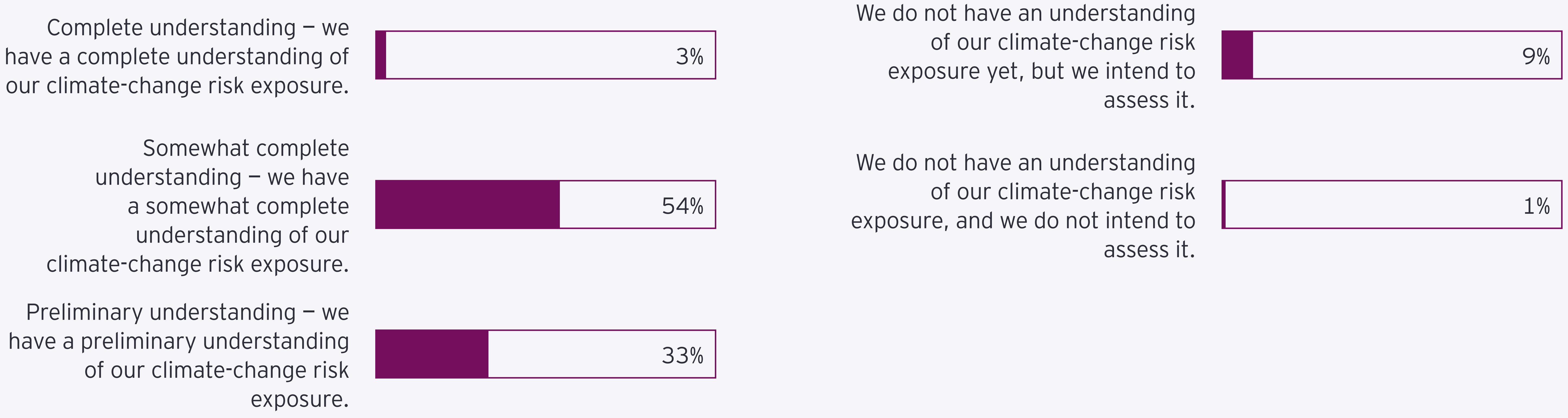


Figure 17. Which of the following are the most important ways climate-change risks are incorporated into your firm's risk management activities?



Climate and ESG are being incorporated into overall strategic planning at a significant number of firms, with the involvement of both the first and second lines. Most firms believe they have more to do to mature their understanding of exposures, including visibility into the materiality of those exposures. See figure 18.

Figure 18. How would you characterize the maturity of your company's understanding of its exposure to both physical and transition risks of climate change?



Holistic approaches are necessary to account for the widely varying impacts across lines of business, different links in the value chain and across markets. Business leaders and innovation teams are examining the potential for new products and services (including risk prevention and disaster response). Underwriting and actuarial teams are modeling potential claims impacts under a range of scenarios. IT groups are looking at powerful new technologies for assessing and pricing risk with much greater precision than in the past. Ideally, CROs are engaged with all of these efforts, either providing general guidelines or ongoing strategic advice.

See the 2023 EY Global Insurance Outlook for more of our point of view on ESG and climate risk.

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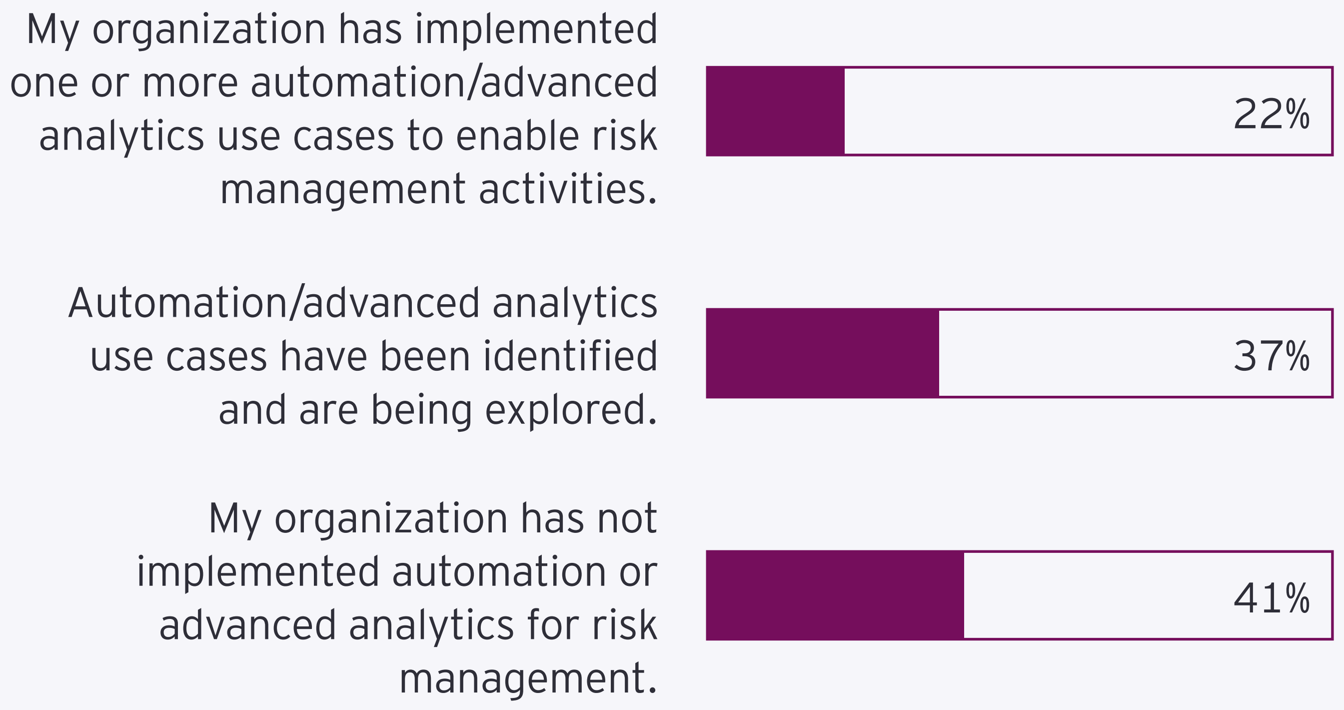
AI in risk management and beyond

Adoption of AI is still in its ramp-up phase. See figure 19. Based on our survey results and interviews, it's clear that CROs see both the risks and the necessity of adoption, both in the business and their own operations. The value proposition incorporates business innovation (e.g., more personalized service, new product development) and operational excellence (e.g., back-office process automation).

In risk management, GenAI can help with threat detection, documentation and regulatory reporting and many other tasks, though of course bad actors will be looking to harness its power, too. AI risk management plans must be similarly holistic and broad based, incorporating everything from robust governance frameworks, to clear oversight boards and use case inventories, to user training and organizational change management plans.

Figure 19. To what extent has your institution implemented automation or advanced analytics (including AI, GenAI, ML)?



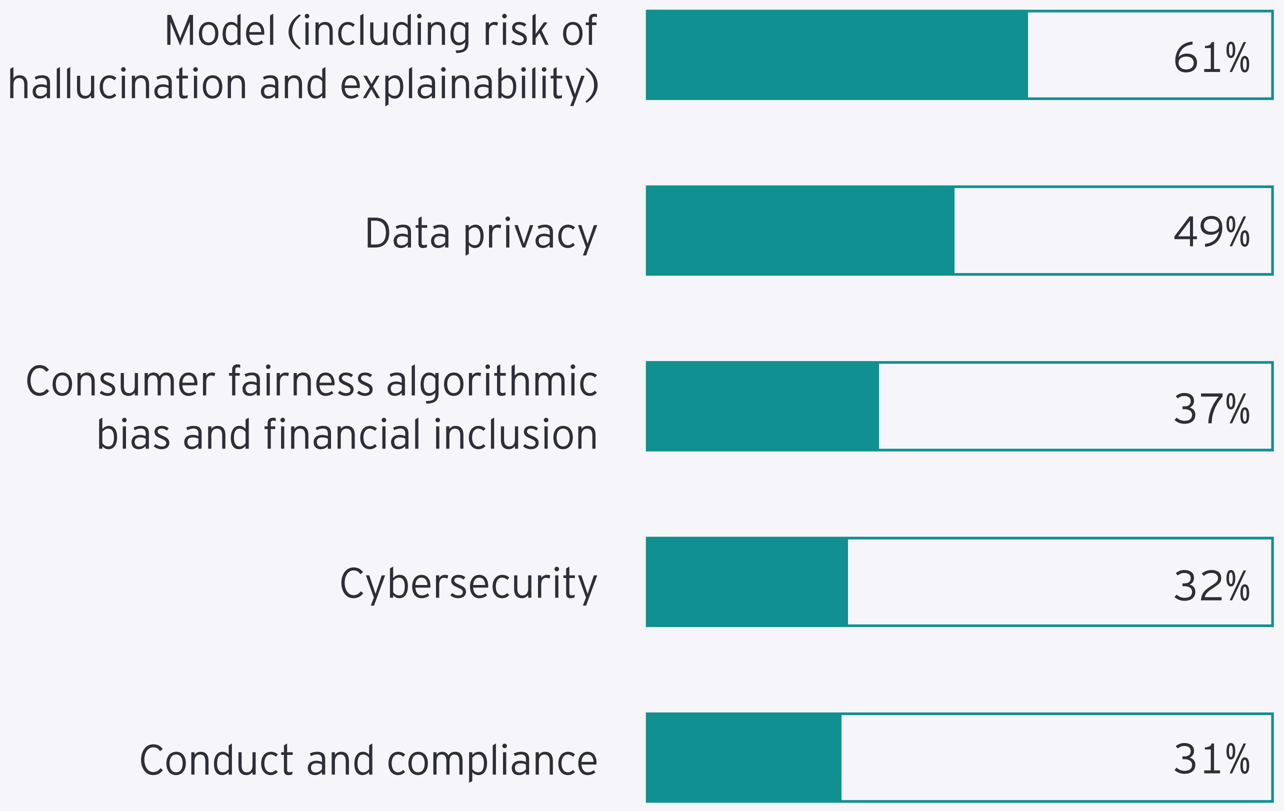
For more on how risk management teams are using AI, see page 22.

In terms of AI usage, Asia-Pacific insurers are the most advanced in implementation, according to our results; 38% have already implemented, compared with 22% worldwide. In the EMEIA region, insurers are the farthest behind in implementing automation or advanced analytics for risk management; according to our respondents, only 15% have done so, compared with 41% of all respondents. That lagging position may be a result of the higher regulatory standards in Europe, particularly the EU AI Act and the General Data Protection Regulation.

But technology and data factors may also play a role; EU insurers have been relatively slow to adopt enterprise governance, risk and compliance platforms, which typically provide a foundation for development of AI tools. They are also lagging in terms of identifying the use cases, compiling the data assets and engaging the talent they need for broader and faster AI deployments.

Looking at the use of AI in the business, CROs have a range of concerns, as befits the technology's unique power and complexity. See figure 20.

Figure 20. For which of the following risk areas do you see the most heightened risk from the use of ML, AI, GenAI and LLMs in key business processes?



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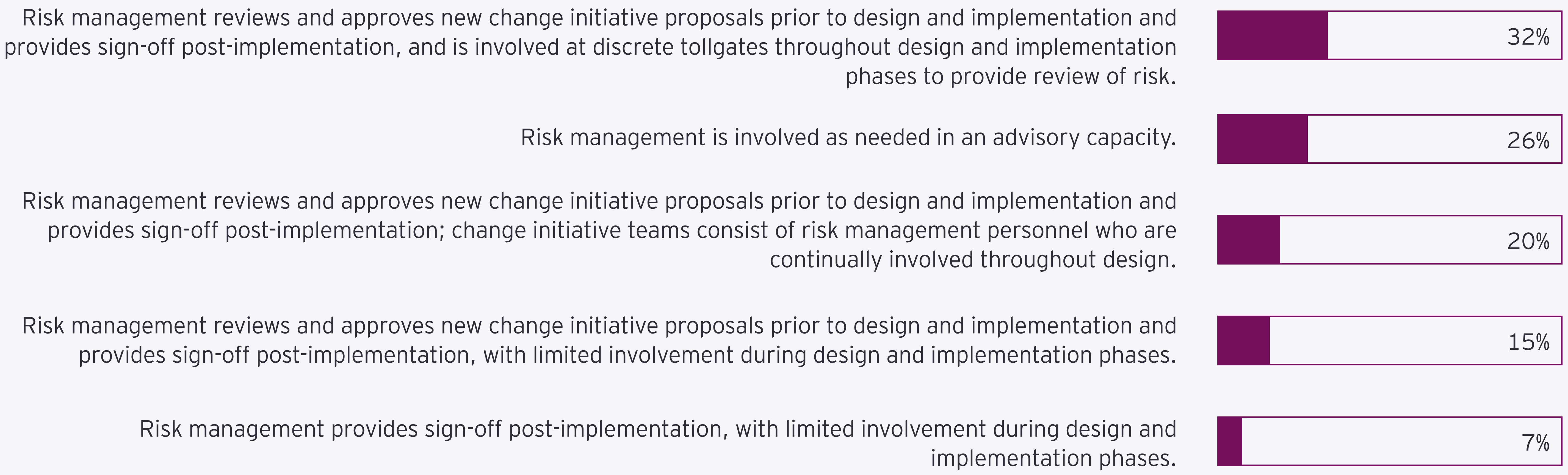
Our survey respondents in the Americas are most focused on model risk – fully 92% of them cited it as a top risk area, compared with 61% of all respondents. More than half of them (54%) are concerned about consumer fairness, vs. just more than a third (37%) of all respondents. Given the focus of European regulators, it's no surprise that more CROs in the EMEIA region (61%) are focused on data privacy compared with their peers worldwide (49%). However, it's likely that European risk leaders will spend more time and attention on model risk as the effective date of the EU AI Act approaches, as well as that of other local regulations.

In the Asia-Pacific region, conduct and compliance is a more urgent concern than elsewhere; 54% of CROs there said they saw heightened risk from conduct and compliance vs. 31% of their peers worldwide. That disparity is surely the result of supervisors throughout the region – including those in Australia, Hong Kong, Japan, Malaysia and Singapore – establishing conduct-related regulations.

Risk-informed transformation and growth

As the pace of change in the industry increases, CROs are increasingly involved with critical change initiatives. Even as they provide guidance on risk management and controls relative to new business model design, ecosystem development, data management transformations and related programs, CROs maintain an appropriate level of independence. In our survey, CROs reported varying degrees of engagement with business leaders and project teams. Given the prevalence of transformation initiatives across the industry, we expect even greater future involvement among a larger percentage of CROs throughout the project lifecycle. See figure 21.

Figure 21. **How would you characterize risk management's involvement in your organization's major enterprise-wide change initiatives?**



At insurers in the Americas, more participating CROs (71%) report playing an advisory role as needed than do their counterparts at EMEIA (17%) and Asia-Pacific (8%) carriers. In a perfect world, CROs and/or their lieutenants would be closely involved – proactively in the earliest stages of planning and embedded within project teams throughout implementation.

Close collaboration with business and other functional leaders will be important to retaining their confidence that they have – or will soon have – the capacity to manage change. See figure 22. Given the amount of change on the agenda, maintaining that confidence will require detailed planning, sophisticated scenario modeling and threat monitoring, and continuous improvement in process automation and analytical capabilities.

CROs' forward-looking focus tracks to their sense of emerging risks. See figure 23. The emphasis is clearly on GenAI adoption and other tech-related initiatives (e.g., platform modernization and cloud migration). The good news is that CROs understand the importance of data to growth-oriented transformation initiatives and recognize how they must attend to both new technologies and traditional insurance risks in engaging in future transformation initiatives.

Figure 22. How would you characterize the level of change occurring in your organization that directly impacts the risk management function's ability to manage change?

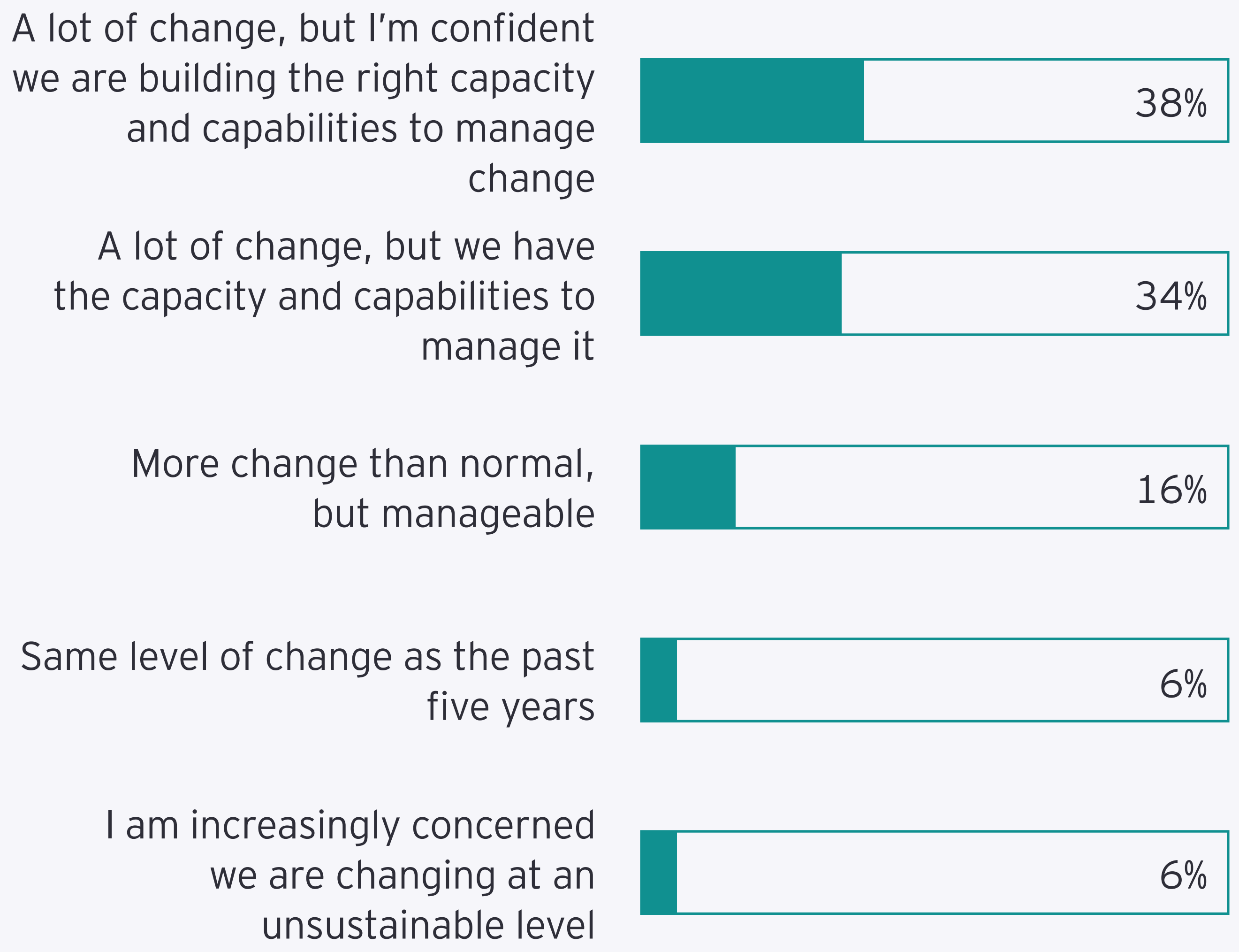
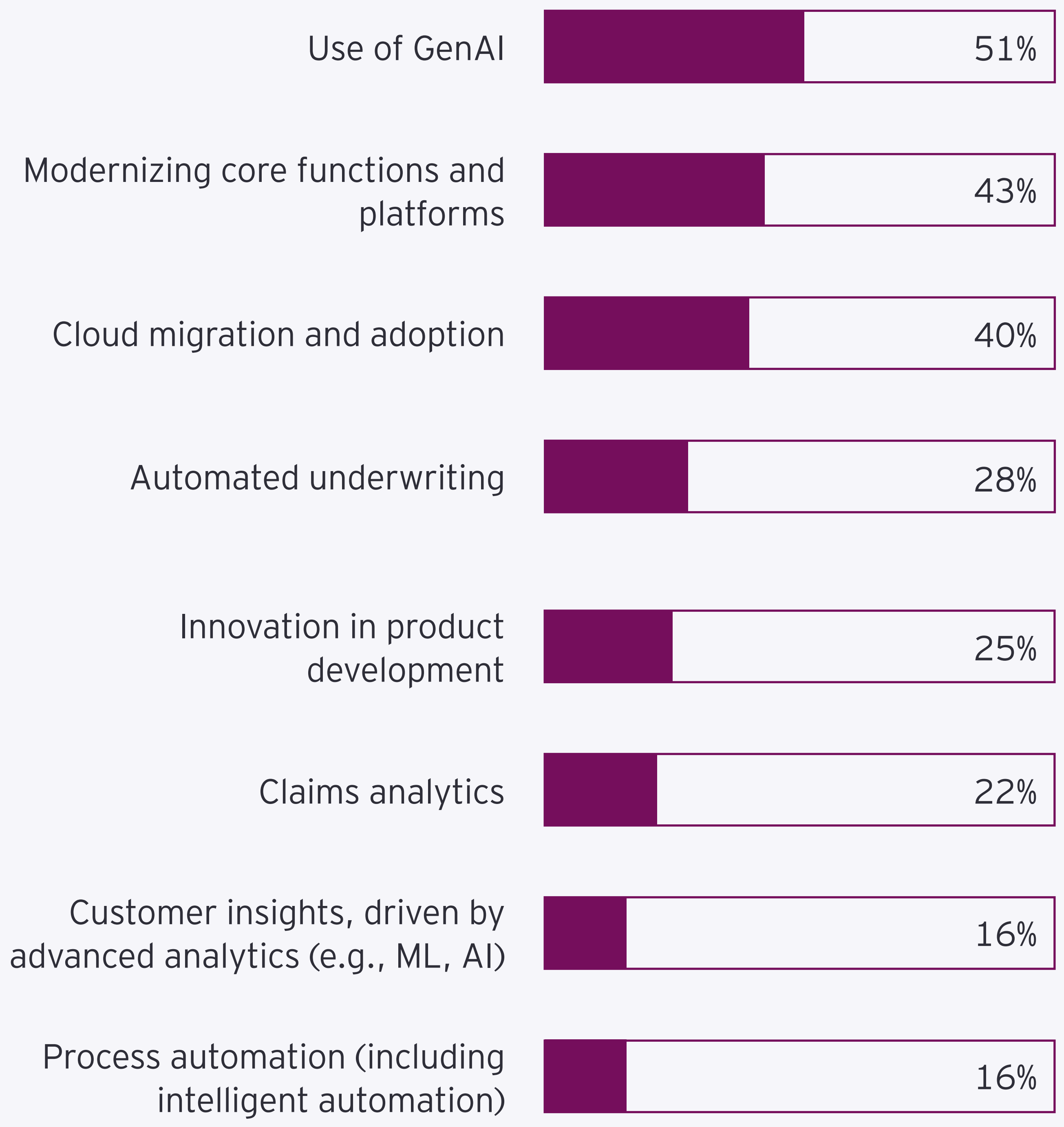


Figure 23. Of your organization's planned digital transformation initiatives, which will require the most CRO attention in the next five years?



Here again, the regional variations tell a tale of many markets, in terms of priorities. According to our data, CROs in the Americas are more than twice as likely (86%) as EMEIA CROs (40%) to expect to focus on GenAI adoption in the next five years. That differential may be a function of clearer regulatory guidance in the latter region and a reluctance to use AI solutions developed externally or using open-source data. Americas CROs expect to prioritize initiatives related to customer insights to a greater extent than their global peers (29% vs. 16%), while EMEIA CROs will be more focused on cloud migration (50% vs. 40%). In Asia-Pacific, CROs will invest more time on claims analytics initiatives (38% vs. 22%).

CROs in the Americas are more than twice as likely **(86%)** as European CROs **(40%)** to expect to focus on GenAI adoption in the next five years.

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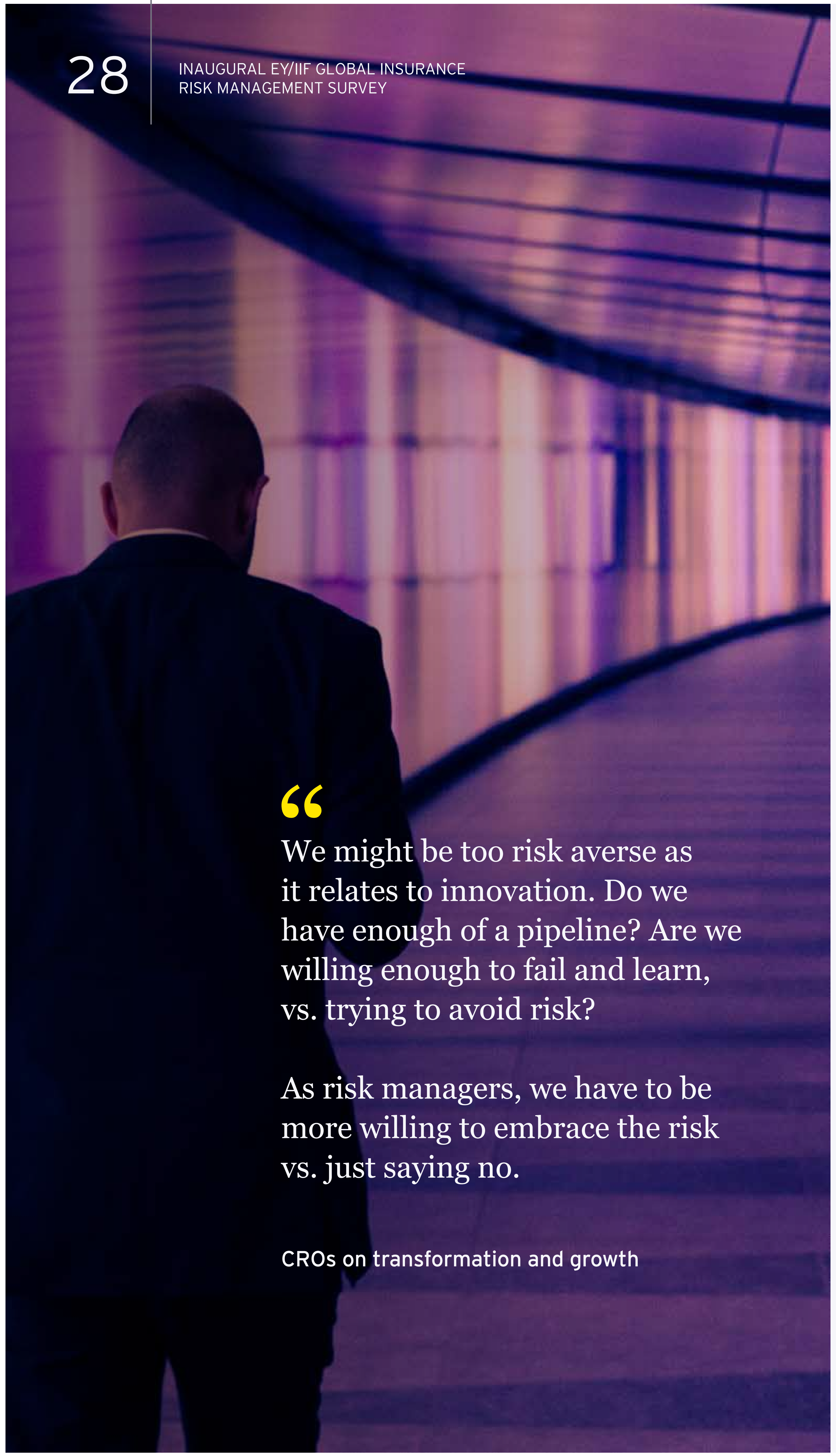


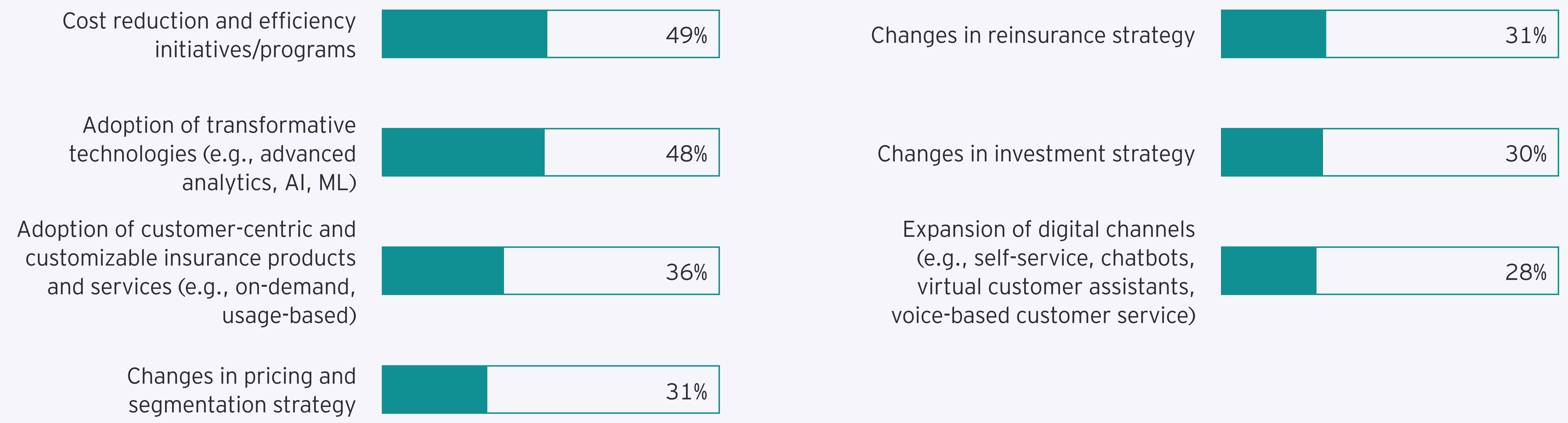
“We might be too risk averse as it relates to innovation. Do we have enough of a pipeline? Are we willing enough to fail and learn, vs. trying to avoid risk?

As risk managers, we have to be more willing to embrace the risk vs. just saying no.

CROs on transformation and growth

The varying transformation agendas in insurance are yet another reflection of CROs’ multifaceted jobs. See figure 24. They must be informed about a wide range of issues — from transformative technologies and digital operations to shifting customer preferences (e.g., for more personalization) to capital management and investment strategies.

Figure 24. What are the top ways in which your organization has adapted its business model to the changing landscape of insurance?



Engaged as they are in transformation efforts, CROs should ask whether the business considers strategic risk in keeping up with the highly dynamic market. The range of risks is daunting, but insufficient innovation and the resulting lack of growth may be the biggest threat to most insurers.

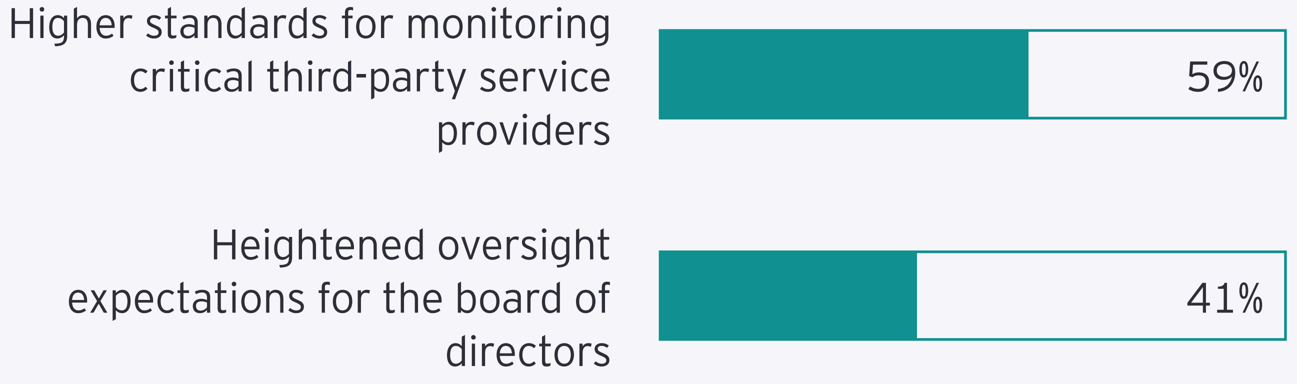
No discussion of risk management in insurance is complete without acknowledging the increasing scrutiny from regulators around the world, and the significant variances in rules and guidance from authorities in different markets. The industry's regulatory landscape is uniquely fragmented: in the US, 50 individual state regulators, the National Association of Insurance Commissioners and the federal government (i.e., the Securities and Exchange Commission, Financial Industry Regulatory Authority) all play prominent roles.

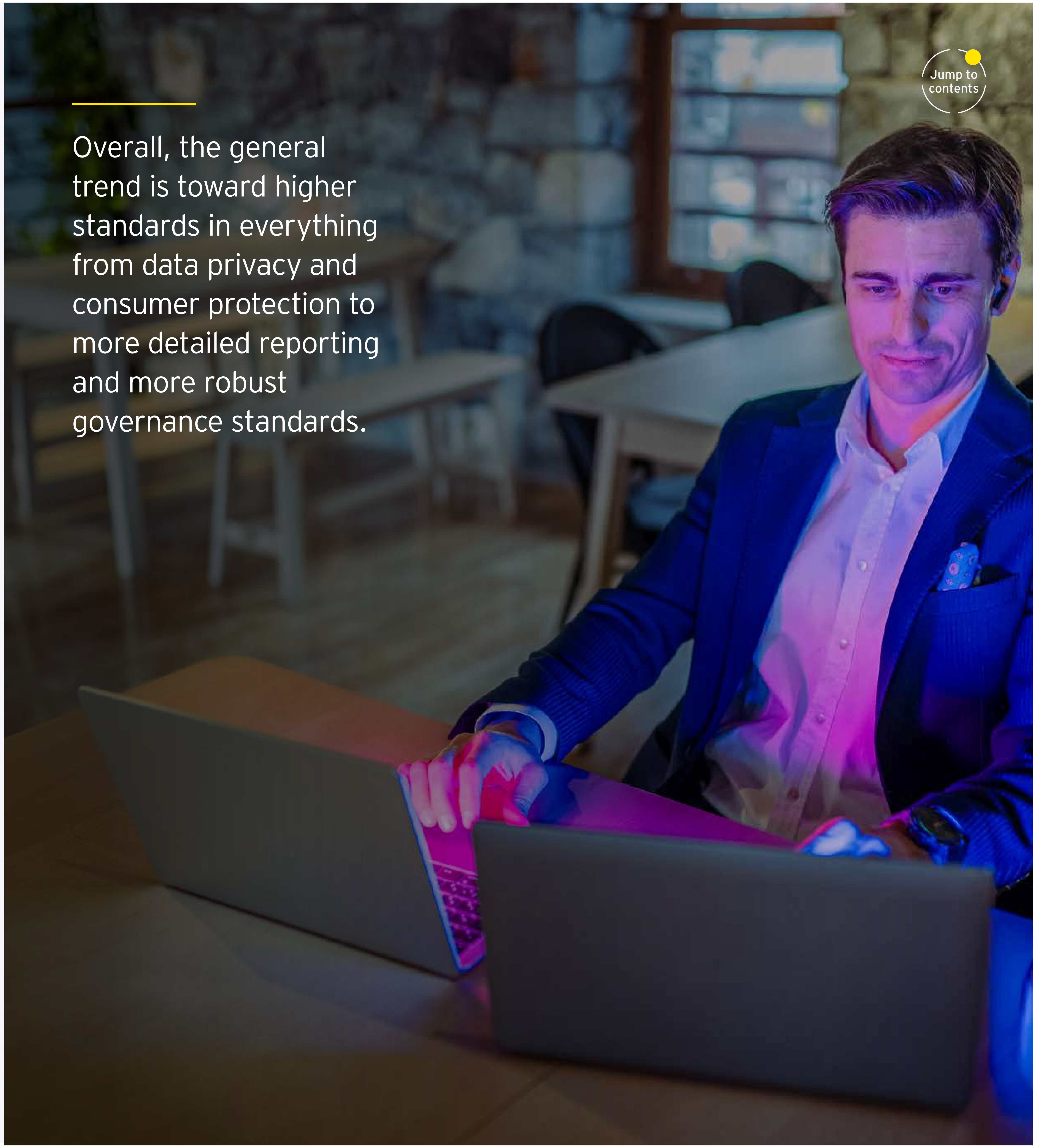
The conventional wisdom holds that the European Union is usually the first mover and standard setter for the sector globally, with requirements being defined by multiple entities, including the European Insurance and Occupational Pensions Authority. The UK's Financial Conduct Authority and Prudential Regulatory Authority also wield considerable influence, as do regulators in Australia, Hong Kong and Singapore.

CROs at global carriers must be aware of and prepare for the unique requirements of different regulators across many different risk types (e.g., cyber, climate, AI). Overall, the general trend is toward higher standards in everything from data privacy and consumer protection to more detailed reporting and more robust governance standards.

Part of the challenge is that regulatory risk is embedded in every other major risk stripe, including threats to operational resilience. See figure 25. Across jurisdictions, our survey respondents expect third-party risk management to be a top priority for regulators going forward.

Figure 25. **What additional operational resilience requirements do you expect your regulator(s) to impose over the next two years?**





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Overall, the general trend is toward higher standards in everything from data privacy and consumer protection to more detailed reporting and more robust governance standards.

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CHAPTER 3

Advancing risk management: how CROs will shape the future of the function

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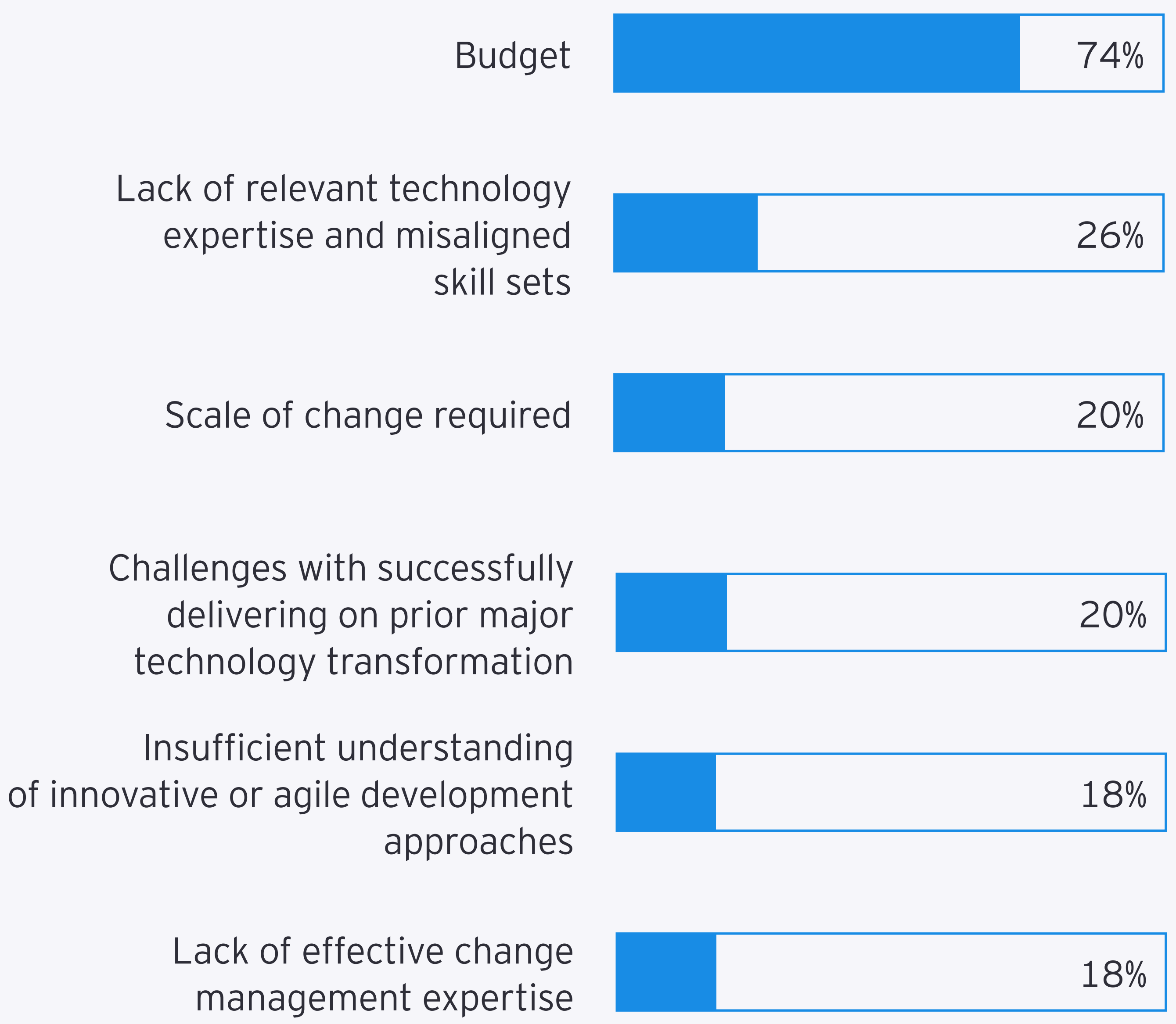
Chapter 3

Advancing risk management: how CROs will shape the future of the function

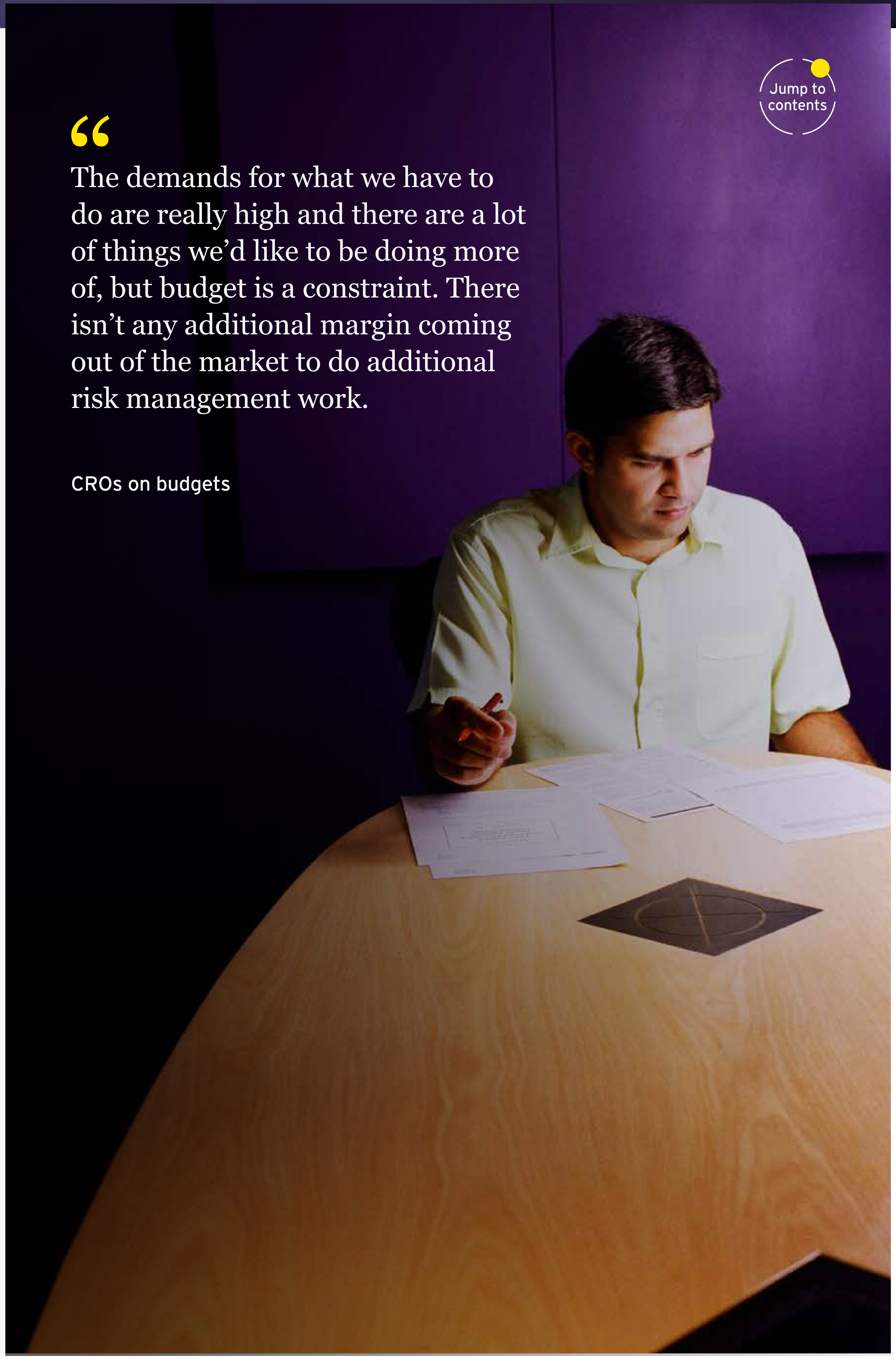
CROs clearly recognize the need to advance the capabilities of the risk function and have set bold agendas to achieve higher levels of efficiency and effectiveness. That's an optimistic sign though finite resources will be a constraint. Talent and technology are top priorities, with the need to shore up their expertise and toolsets in key areas — including technology risk, many different GenAI use cases, ESG and climate risks and opportunities, not to mention cyber — the perennial top concern.

In deploying limited budgets, CROs may have to make tough choices, balancing the growth priorities of the business with needs in their own functions. See figure 26. Human skills and knowledge will be as important as financial resources in building and maintaining the frameworks, processes and operating capacity insurers need to manage their diverse risk profiles.

Figure 26. What are the top constraints your company will face in accelerating digital transformation of the second line of defense/risk management?



Limited budgets are the top constraint across all regions, but interesting variations emerge across regions. In our research, CROs in the Asia-Pacific region expressed a greater sense of constraint on multiple fronts, including tech skills (38% vs. 26% of global CROs), the scale of change (31% vs. 20%) and shortcomings on past technology transformations. In the Americas, CROs report a lack of foundational risk architecture (38% vs. 14%). Those can be formidable barriers to progressing risk management capabilities.

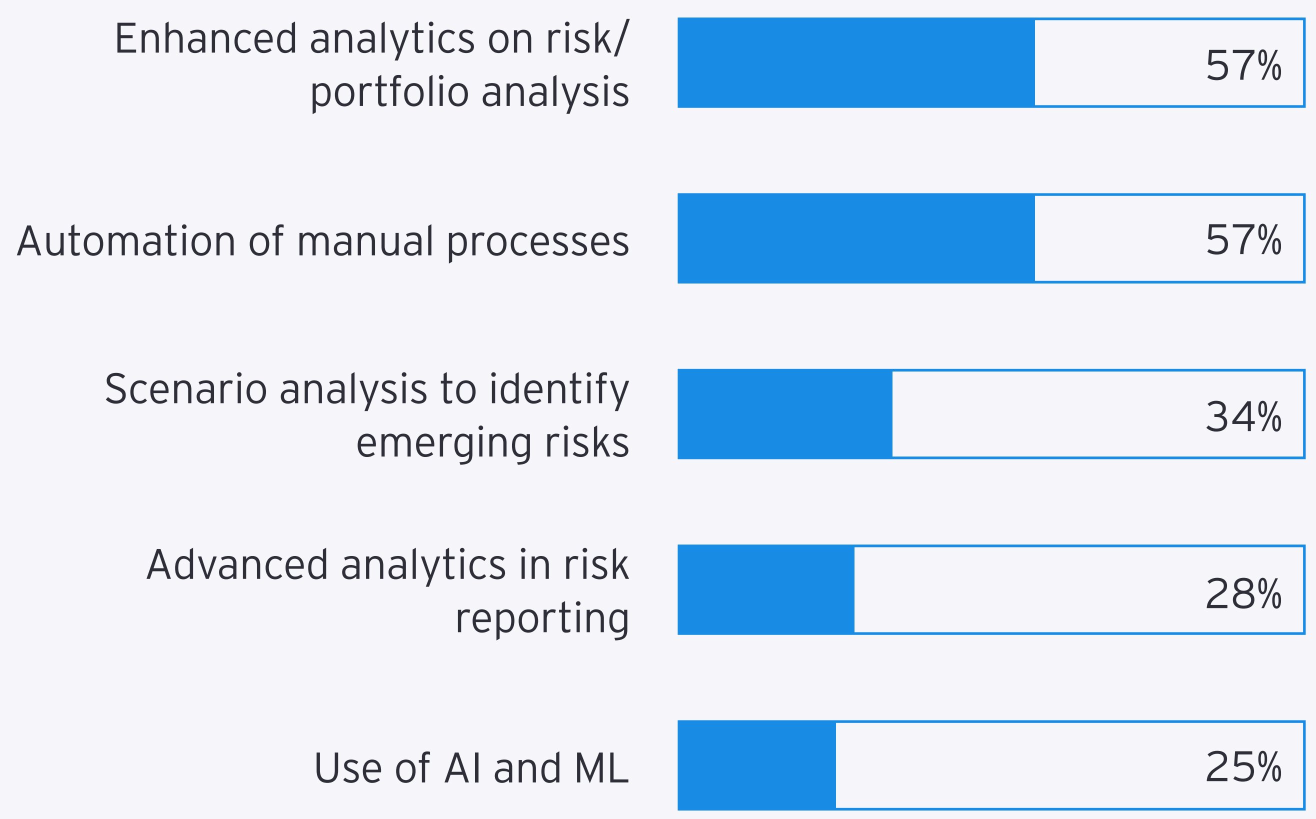


"The demands for what we have to do are really high and there are a lot of things we'd like to be doing more of, but budget is a constraint. There isn't any additional margin coming out of the market to do additional risk management work.

CROs on budgets

Budgetary constraints may be a barrier to CROs looking to accelerate the digital transformation of their own operations. Our survey respondents cited several such priorities. See figure 27.

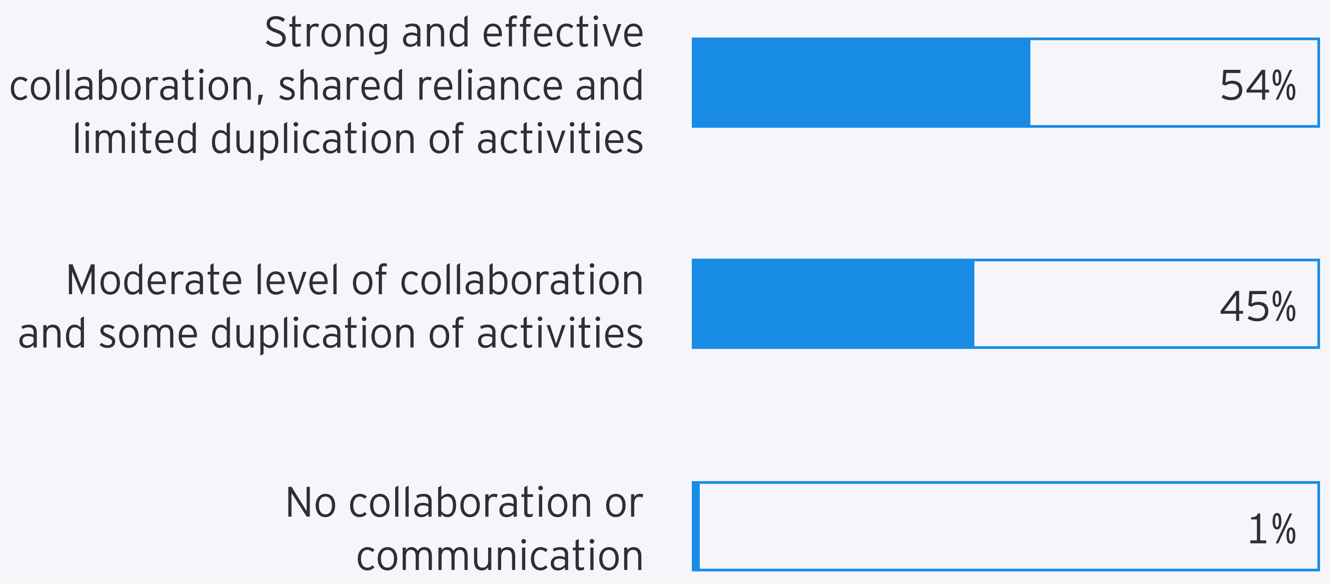
Figure 27. In what areas do you think you will accelerate your digital transformation of the second line of defense/risk management?



The state of the first and second lines

CROs have confidence that the first and second lines of defense are working well. See figure 28. Specifically, CROs express confidence about collaboration and progress in the first line taking more ownership of risk management activities.

Figure 28. How would you rate the level of interaction and collaboration between the three lines of defense, particularly between the first and second lines of defense, within your organization?



Our research also clarified current ownership and responsibility structures and transformation priorities. See figure 29. Again, advanced tech and richer data hold the key to meeting CROs' goals.

Figure 29. What risk management activities are the first-line risk and control functions responsible for?

"Cost reduction will be a priority. Market signals are pointing us to a more careful cost control model and simplified ways to interact across business units.

CROs on cost pressures

"There is a symbiotic relationship between actuarial and risk to better support growth and innovation. Our mindset is, 'If we are taking risk for the customer, the best place to understand the risk is where we price it.' We are constantly balancing that formula by having risk and finance work together.

We are changing the risk model to be more integrated.

CROs on collaboration

Deploying technology to drive efficiency

Solutions, tools and automation that will free up resources for higher-value analytical tasks are the first priority, both for current implementations and the plans for the next three to five years. See figures 30 and 31.

Figure 30. For which risk management activities has your organization implemented or explored potential implementation of automation or advanced analytics (including AI, GenAI, ML)?

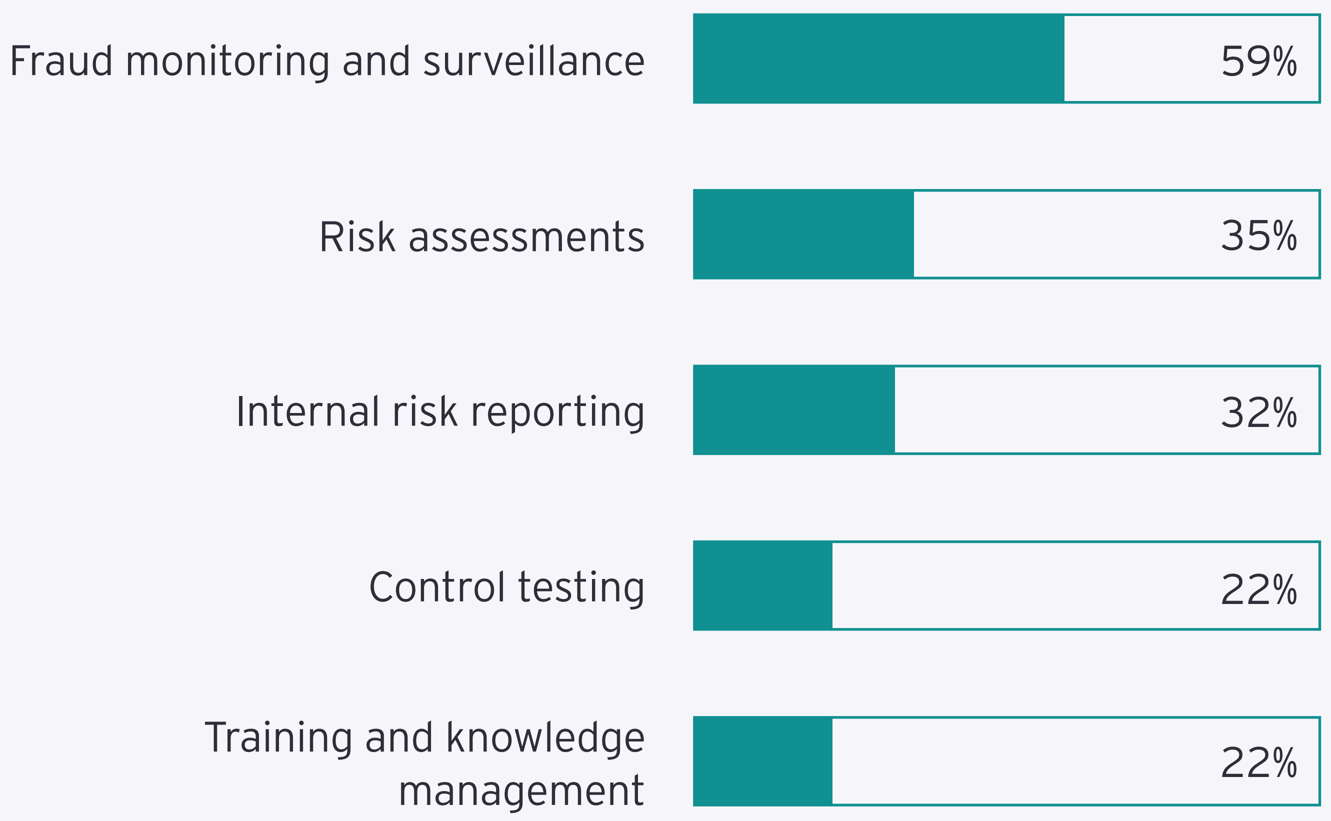
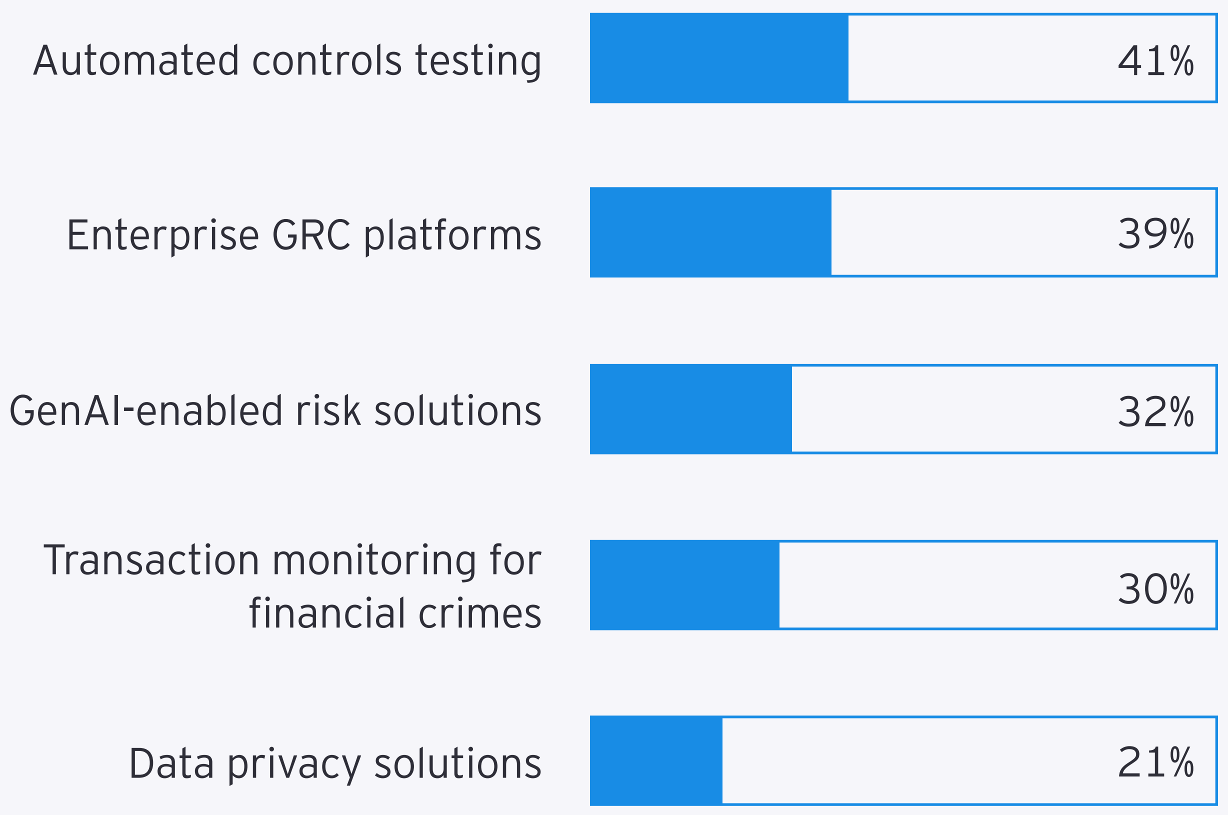
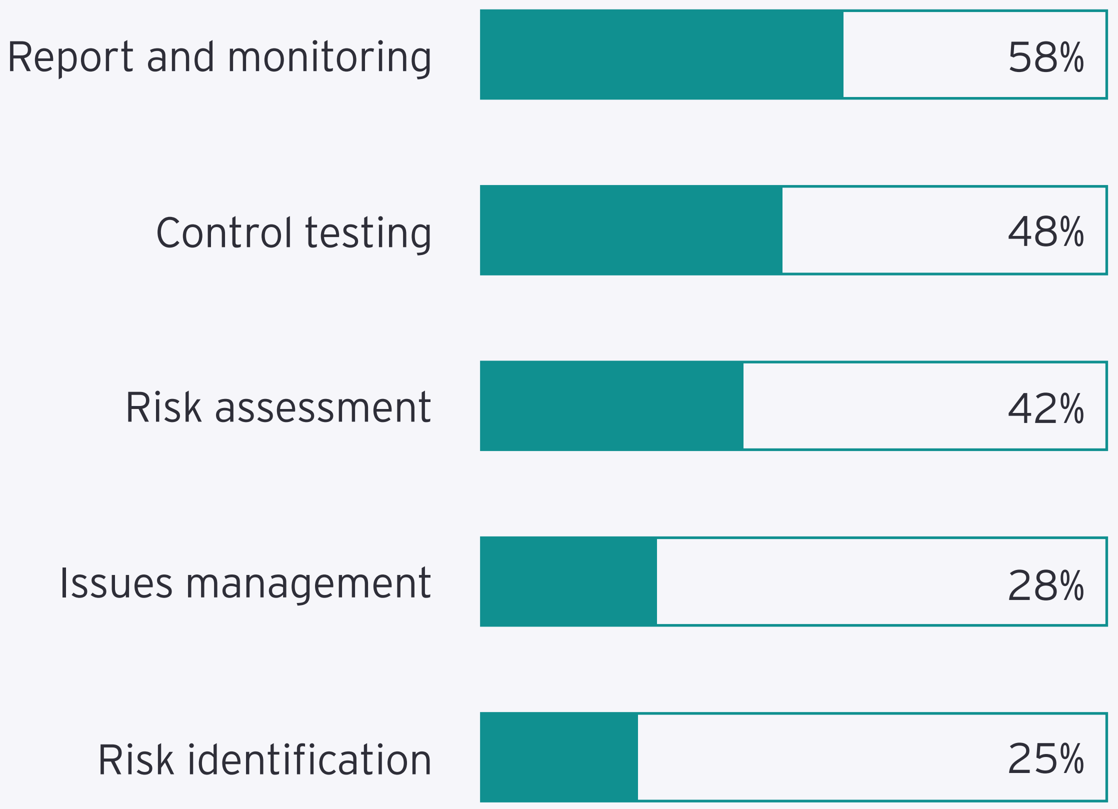


Figure 31. Which of the following risk management technology solutions and capabilities are high priorities over the next three to five years?

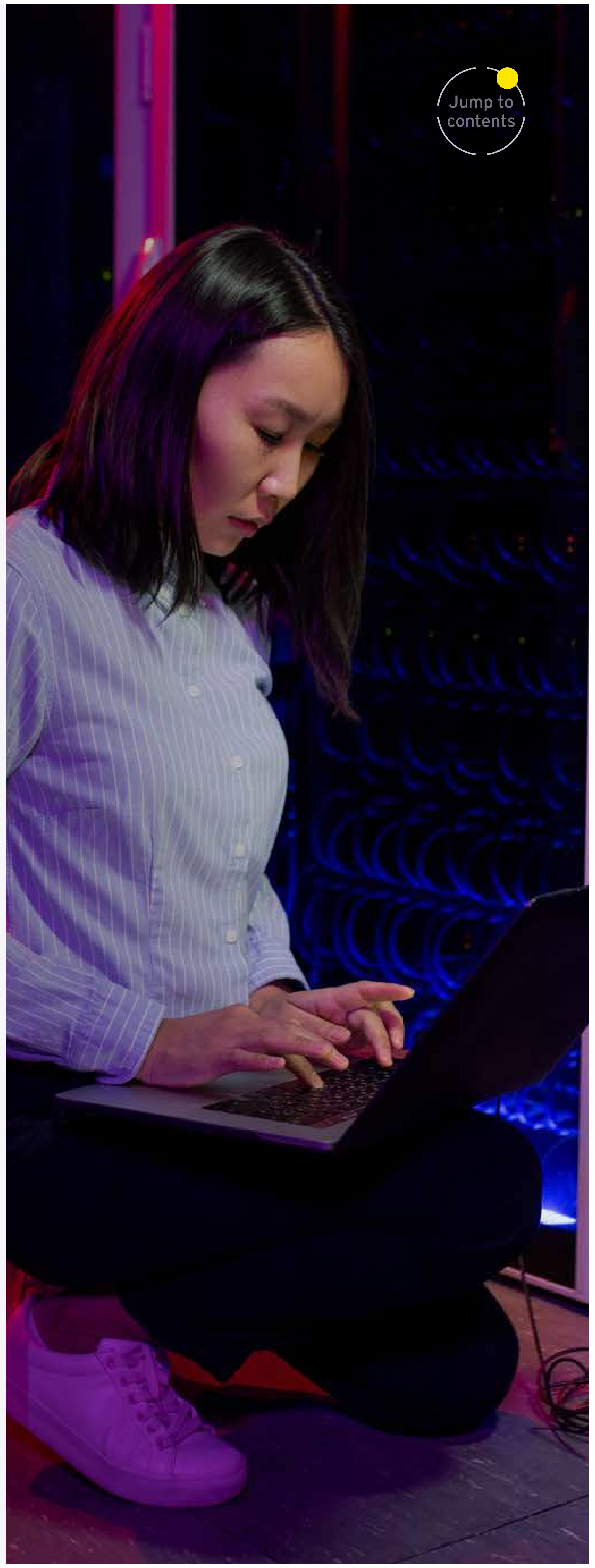


Extending automation to incorporate more processes will help establish lean, highly efficient and productive operations and streamline traditional tasks. CROs currently see inefficiencies in these areas today. See figure 32.

Figure 32. For which risk-related activities do you think there are currently inefficiencies within your organization across the three lines of defense (e.g., different approaches, methodologies, tooling)?



CROs in the Americas report notably higher inefficiency between the lines of defense than their peers in several key areas, including reporting and monitoring (77% vs. 58%), risk assessment (69% vs. 42%) and risk identification (46% vs. 25%). Participating CROs in the Asia-Pacific region see the fewest inefficiencies across the board.



Staffing and talent in a tight market

CROs know they need more talent for specific roles in both the first and second lines. But they also recognize the cost pressures that prevent them from staffing up. See figures 33 and 34.

Figure 33. Is your talent pool equipped to meet the changing needs of the risk management function over the next five years?

Yes, no additional resources or skill sets required in either first- or second-line risk functions	0%
To some extent, but some targeted, additional skill sets required in first line	12%
To some extent, but some targeted, additional skill sets required in second line	41%
To some extent, but some targeted, additional skill sets required in both first and second lines	42%
No, additional resources/headcount required across numerous skill sets in both first and second lines	5%

Figure 34. How do you expect the number of full-time equivalent (FTE) risk management professionals to change over the next five years?

	First line	Second line
Increase >25%	8%	6%
Increase 16%–25%	3%	8%
Increase 1%–15%	29%	38%
No impact	52%	32%
Decrease 1%–15%	8%	14%
Decrease 16%–25%		2%

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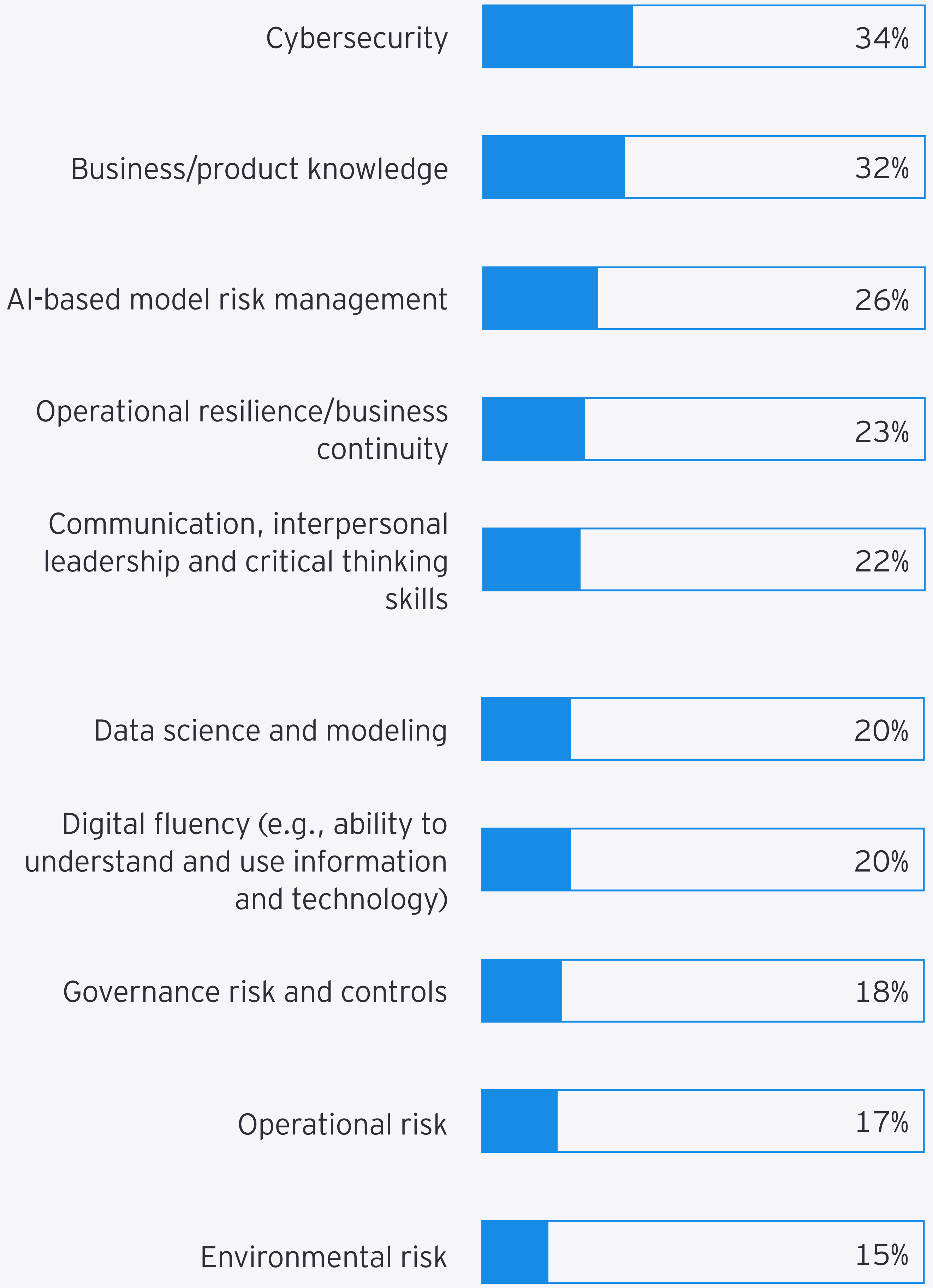
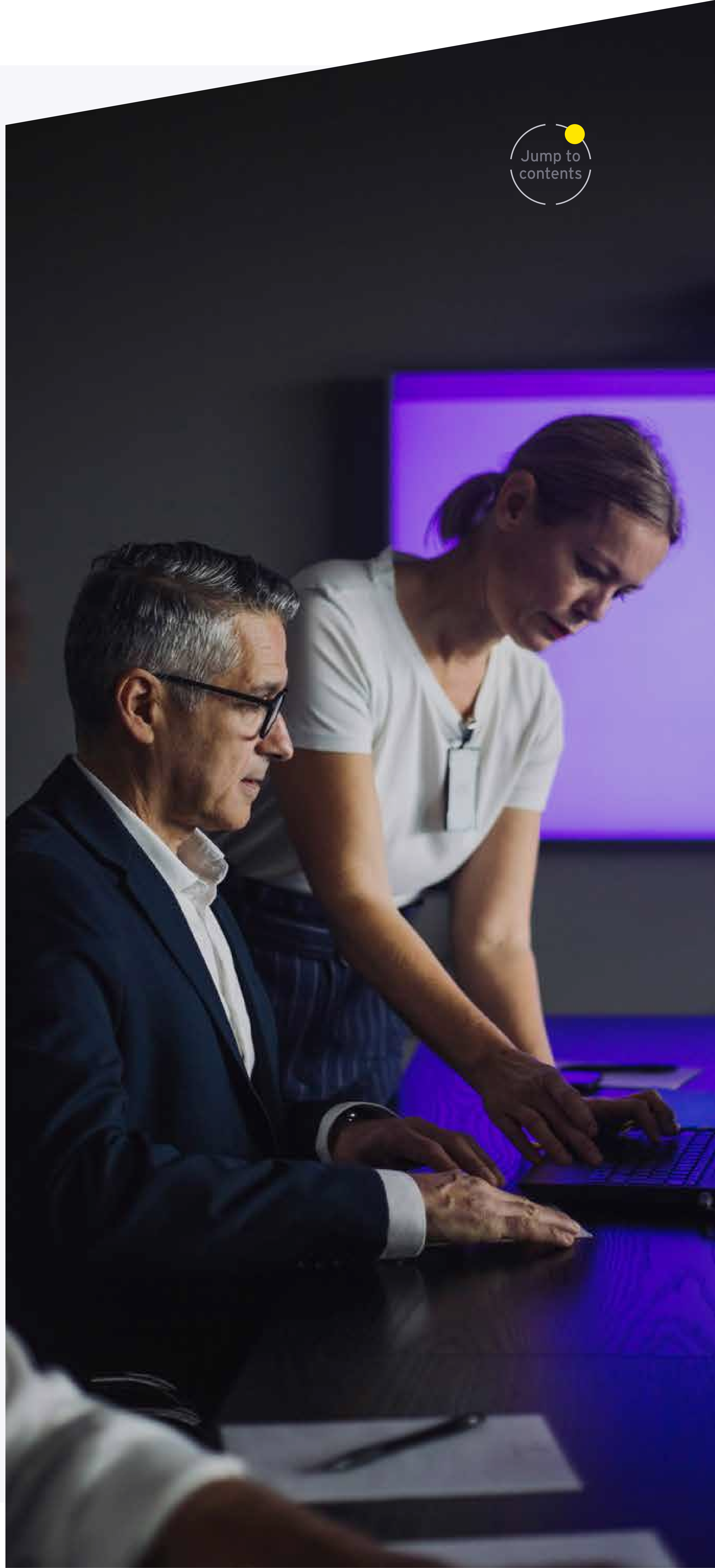
CROs and risk leaders are accustomed to doing more with less. While our survey respondents expect to expand their teams in the future, operating lean is likely to remain the norm, given overall cost and bottom-line pressures. Adopting more technology will help in that regard, while a risk-based approach will direct resources to the risks that matter most. First-line resources will remain largely flat and the second line will see only modest gains.

The good news is that the emphasis for more talent is to support business growth, according to 56% of CROs. In contrast, only 31% of CROs said increased staffing is being driven by increased regulatory activity. Similarly, any decreases in talent are far more likely to be a result of tech-driven efficiency gains (cited by 67% of our survey respondents) than organizational cost-cutting mandates (22%) or perceptions of reduced risk management needs (11%).

Our research underscores the need for – and scarcity of – technical talent. See figure 35. Interestingly, European CROs cite the greatest need for cyber skills (48% vs. 34% of their global peers), while CROs in the Asia-Pacific region prioritize operational risk talent (38% vs. 17%). CROs in the Americas are seeking professionals to help manage AI-based model risk management (38% vs. 26%) and communication and leadership skills (31% vs. 21%).

Figure 35. What are the most important skill sets required in the risk management function (the first line of defense) over the next five years?





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“We need more of those technical skills now than we did in the past.

We have to be more intentional to make sure the next generation of talent is getting the right knowledge and insights to drive the business.

CROs on talent

The importance of communication, leadership and other such soft skills was another common theme from our findings and interviews: CROs want people on their team who understand the business's big picture as much as the technical risk details. See figure 36. One challenge CROs face in attracting talent with the most in-demand skills (e.g., data science, AI, analytics): The business wants these people, too. In the near term, CROs will likely prioritize those skills that are needed in both the first and second lines, including as they seek out alternative sourcing strategies to access them.

Figure 36. What are the most important skill sets required in the risk management function (the second line of defense) over the next five years?

Communication, interpersonal leadership and critical thinking skills	41%
Cybersecurity	39%
AI-based model risk management	33%
Business/product knowledge	30%
Data science and modeling	27%
Governance risk and controls	18%
Operational resilience/business continuity	18%
Operational risk	18%
Environmental risk	17%
Digital fluency (e.g., ability to understand and use information and technology)	15%

To be clear: It's not an either-or proposition. Consider that 77% of CROs in the Americas cited communication and leadership skills as important (vs. 41% of all global respondents). They were also far more likely to cite data science and modeling as important, too (46% vs. 27%). Again, CROs are challenged to build teams and capabilities with the skills and knowledge to address the many intricacies and multiple dimensions of the industry's risk profile today.

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The future of risk management sourcing

Given limited budgets and the unlikelihood of adding a lot of staff, CROs will likely need to embrace a risk-based approach to accessing tools and resources. The basic question to ask is: how to cost-efficiently gain access to the right skills and leading practices, the most useful data and the latest technology we need to drive stronger performance?

But our results show the adoption of alternative sourcing arrangements is fairly limited to date, though modest future growth is expected. See figures 37 and 38. CROs have more options than ever to gain that access in support of a broader range of processes and activities, and they see a few clear priorities, including modeling, analytics and data management functions. See figure 39.

Figure 37. Currently, how significant is right-shoring and outsourcing/co-sourcing as part of your overall talent strategy for the risk organization? What percentage of your workforce would you say is right-shored or outsourced?

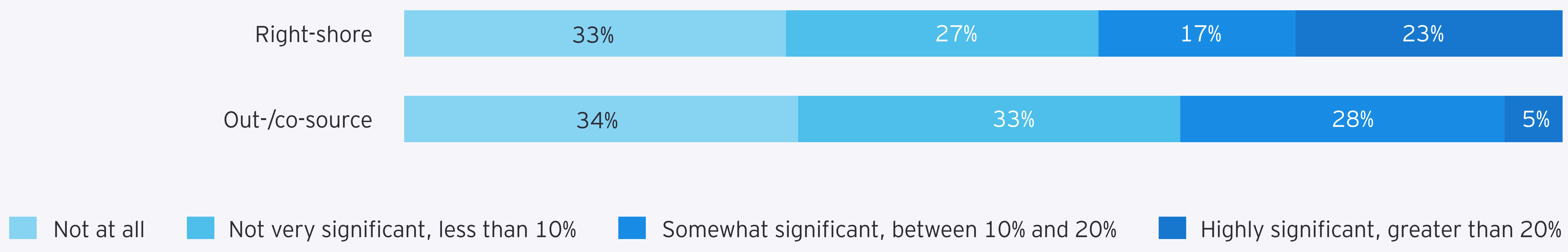


Figure 38. How significant do you anticipate right-shoring and outsourcing/co-sourcing to become as part of your overall talent strategy over the next five years?

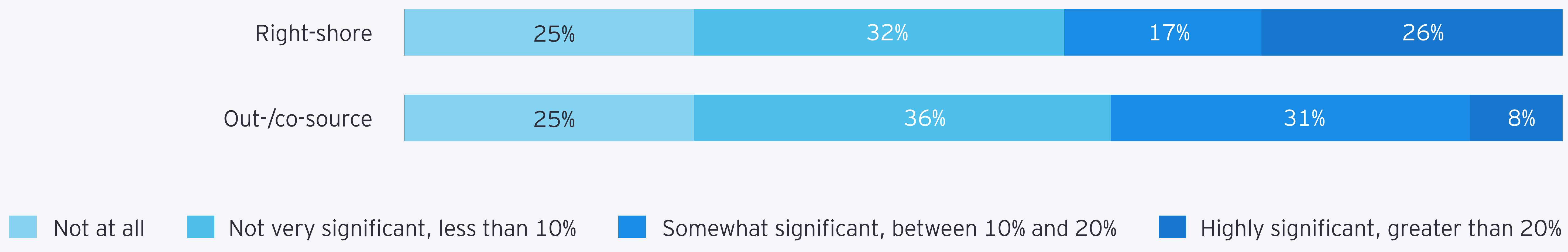
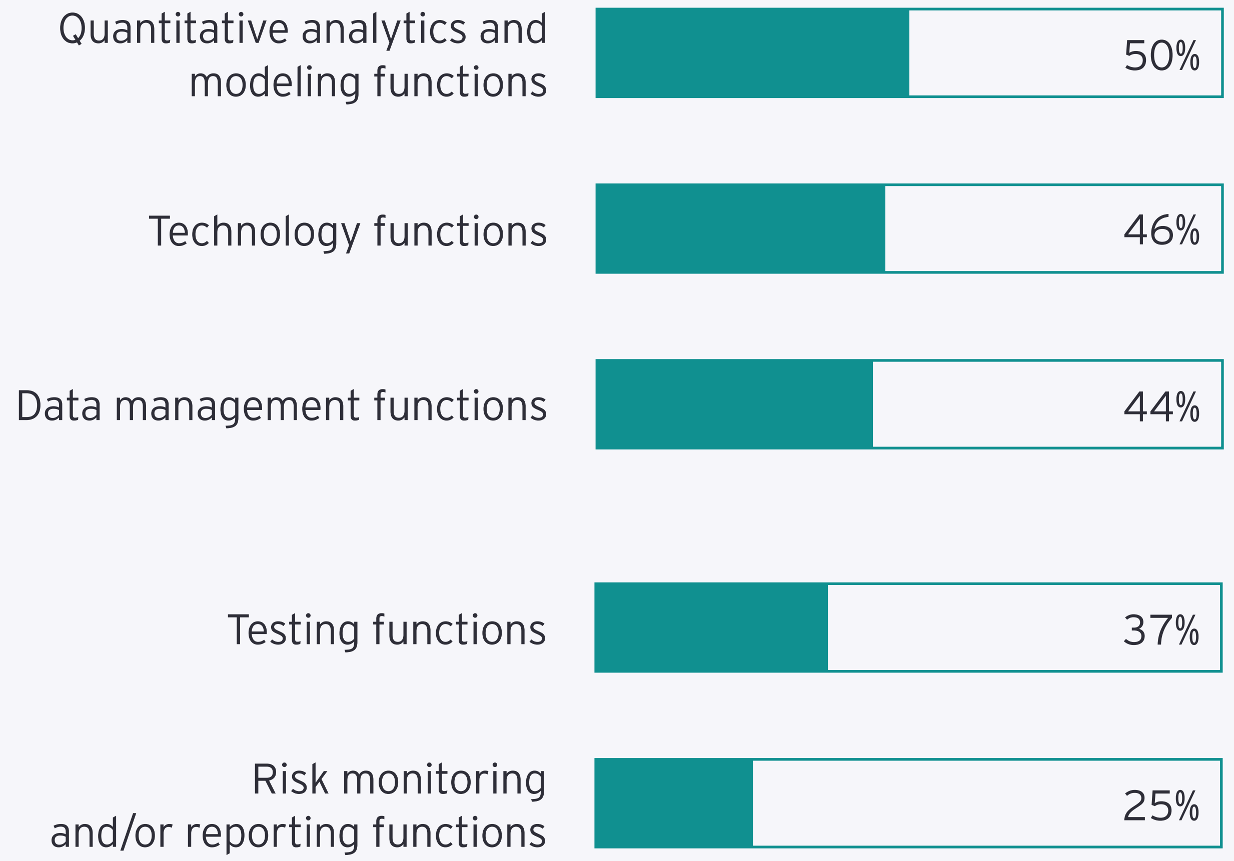


Figure 39. What types of risk management roles and functions do you anticipate will have the greatest opportunity to be optimized through a right-shoring or outsourcing/co-sourcing strategy over the next five years?



"We've identified a huge need to grow in a sustainable way. Having the right balance between risk and growth is important.

We are constantly scanning the environment to understand how things can change. What do we need to better understand how risk evolves within our four walls? How can we evolve our thinking about managing risk?

Risk has to keep up with the company, keep up with the world. We have to learn new things.

CROs on the road ahead

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Conclusion: a checklist of recommended actions

1. Consult and collaborate with chief information officers, chief technology officers, and other senior business and product peers to ensure the risk management program is meeting the needs of the business today and is prepared for tomorrow.

2. Develop relationships across the organization to ensure that the voice of risk management is heard in senior-level and strategic discussions.

3. Monitor both internal operations and external forces to stay focused on top trends and priorities.

4. Design robust, risk-based governance models for GenAI to ensure direct alignment with business objectives and flexibility to adjust as the technology matures.

5. Increase risk management ROI by deploying resources in a risk-based fashion, with the right people and tools focused on the right risks at the right time.

6. Closely monitor regulatory developments and, where possible, engage with industry groups and government authorities to inform potential standards for the industry.

7. Strengthen the risk culture by engaging with and educating first-line business leaders and encouraging accountability and sound risk management practices.

8. Develop tools, resources and processes that transformation leaders can use to identify and track risks in the context of their goals and plan appropriate checkpoints.

9. Find opportunities to engage with the board – to share information on key topics, but also to better understand how to serve their needs, triangulating with business leaders to serve as the organizational "watchtower" where possible.

10. Share environmental risk insights with product development teams where they may be useful to develop risk prevention services and other new offerings.

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A special thank-you to these contributors:

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Further reading

13th annual EY/IIF global banking risk management survey

Third annual EY Global Board Risk Survey

The right approach to generative AI in insurance

2023 IIF-EY Annual Survey Report on AI/ML Use in Financial Services

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Appendix: methodology and supplemental data

The global EY organization, in conjunction with the IIF, surveyed IIF member firms and other insurance companies across four main regions globally (Asia-Pacific, Europe, Africa and North America) from September 2023 through November 2023. Participating companies' CROs or other senior risk executives were interviewed or completed a survey or both. In total, 68 financial institutions across 15 countries participated.

Participating insurance companies were fairly diverse in terms of asset size, geographic reach and type of insurance company (property and casualty, life, health, reinsurance and specialty). Regionally, those companies were headquartered in Asia-Pacific (18%); Europe, the Middle East, India and Africa (60%); and North America (22%).

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