



Institute
and Faculty
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+
LCP powering
possibility

The risk function of the future

*Helping risk teams evolve and navigate the
changing risk landscape*

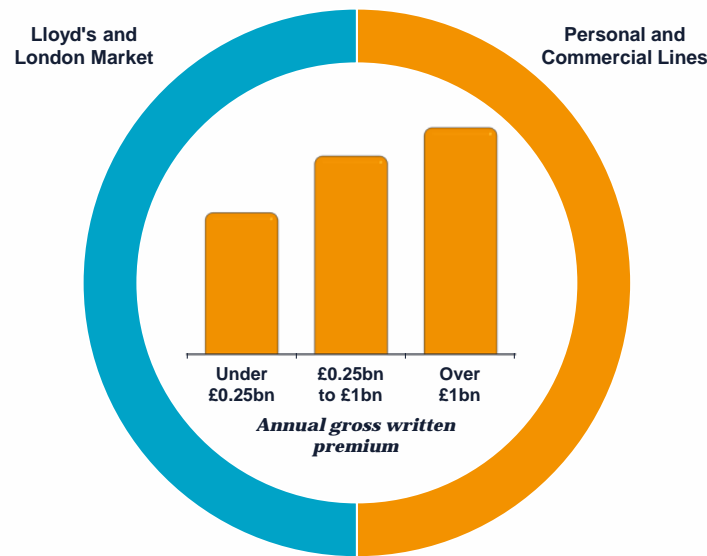
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Overview

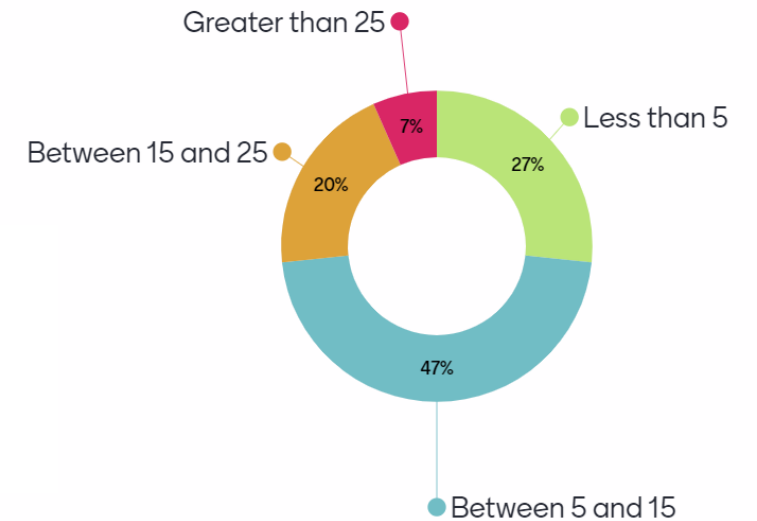
Research programme

- 50+ conversations with senior risk leaders and NEDs.
- Interviews with 20 firms including with CROs, risk managers and NEDs
- Hot-topic discussions at LCP CRO roundtable events

Size and business type of participating firms



Size of participating risk teams (number of people)

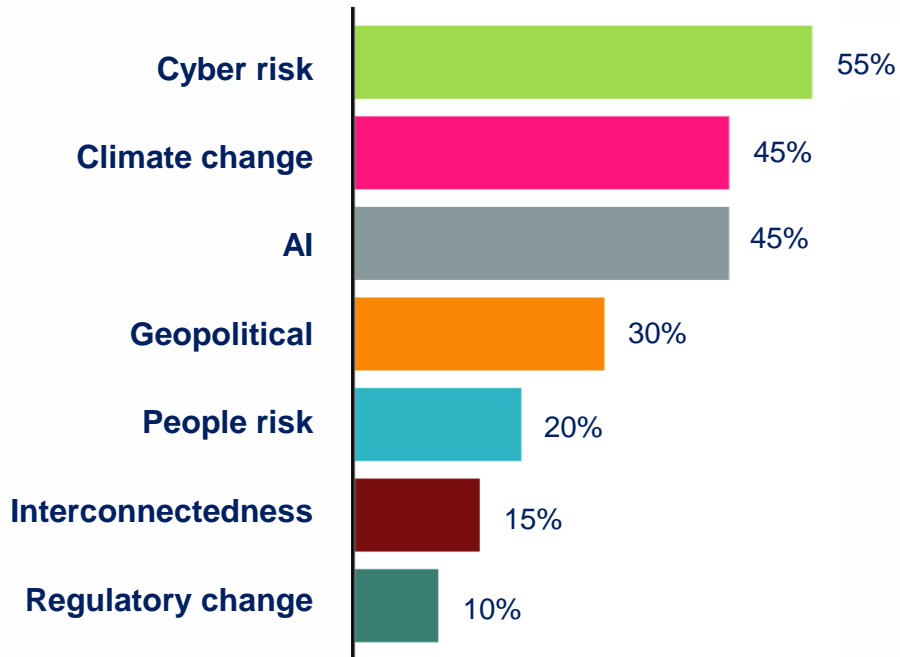


Read our full report...

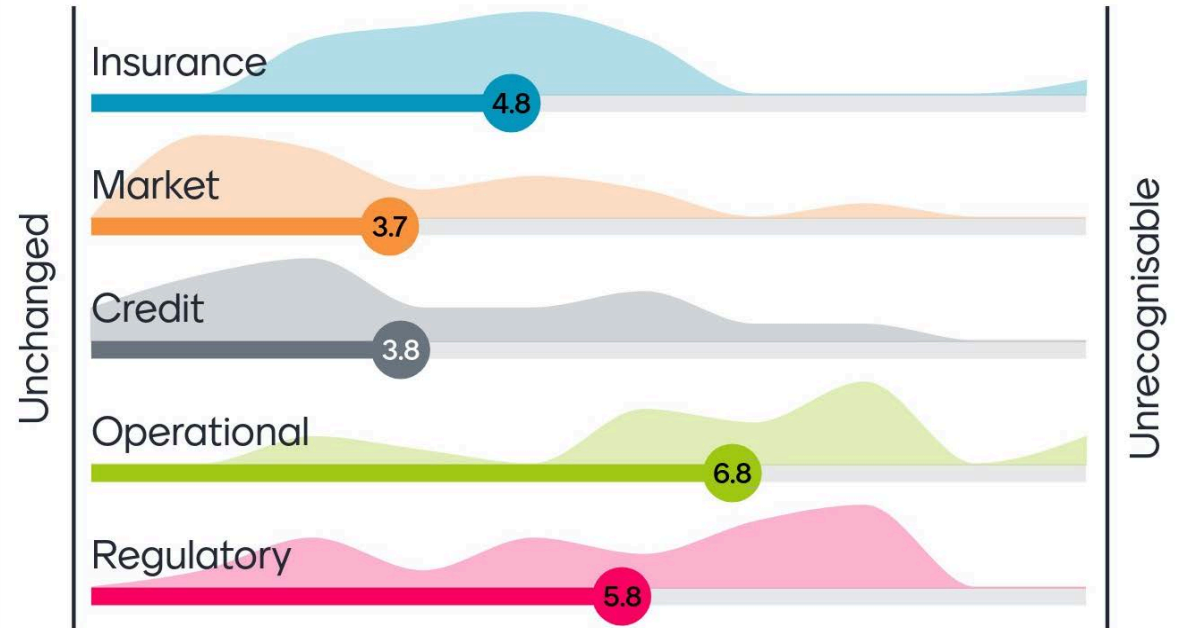
<https://www.lcp.com/insurance/publications/the-risk-function-of-the-future>

The changing risk landscape

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



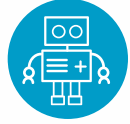
How will the risk landscape change over the next 10 years in each of the following areas?



Megatrends in insurance

Based on our discussions we identified **five megatrends**. These are risks which:

- Impact multiple parts of the business
- Cause multiple different risk areas to evolve
- Drive change over a prolonged period of time



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



Geopolitical risk: The global order may be changing, with a weaker West and a tilt towards emerging economies.



ESG (including climate change): Tangible climate risks are beginning to emerge, and ESG is an increasing regulatory focus.



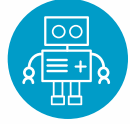
Evolving social and cultural trends: Social media, culture wars and changing attitudes to work create new risks for all employers.



An interconnected world: Events and risks are more related than ever before, driving higher risk of “once in a generation” shocks.

Megatrends in insurance

Good discussion and awareness in interviews



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



Geopolitical risk: The global order may be changing, with a weaker West and a tilt towards emerging economies.



ESG (including climate change): Tangible climate risks are beginning to emerge, and ESG is an increasing regulatory focus.

Flying under the radar?



Evolving social and cultural trends: Social media, culture wars and changing attitudes to work create new risks for all employers.



An interconnected world: Events and risks are more related than ever before, driving higher risk of “once in a generation” shocks.

Focus on social and cultural trends



Emerging risks

- Changing workforce expectations
- Populist politics and civil disturbance
- Fake news and post-truth
- Social media amplification
- Litigious society
- Culture wars – woke and ESG pushback
- Boycotts, adverse publicity and reputational risk



Future risks

- Attracting talent to risk and insurance
- Insurance industry perception – ESG
- Effect of AI on work and employment
- Intergenerational fairness & wealth gap
- Developing future talent when working remotely
- An aging workforce globally
- Public attitude to AI and big tech

Focus on interconnectedness

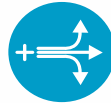
“Interconnectedness is really important - and difficult. You need a broad range of expertise to work through everything. You can end up with some very extreme scenarios that have a surprisingly high likelihood.”

Participating CRO

Drivers of interconnectedness



Systemic cyber risk



Complex supply chains



Outsourcing risk & critical systems



Social media and communications



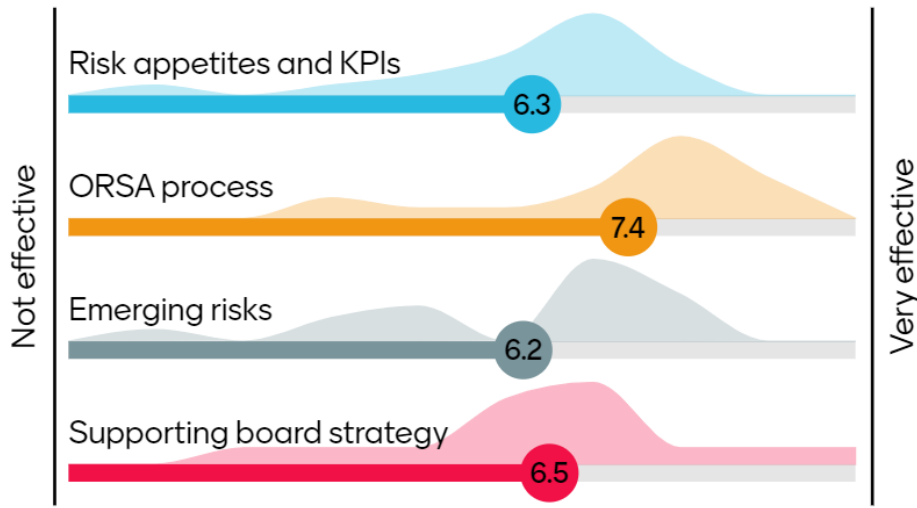
Homogenous modelling and processes

Focus areas

- ✓ Review capital model dependencies
- ✓ Deep-dive into reinsurance credit risk
- ✓ Consider appropriateness of risk appetites and KRIs:
- ✓ Review business continuity for 3rd party supplier relationships
- ✓ Enhance cyber security measures
- ✓ Connectedness workshops

The risk function today

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 highlights

Risk appetites

- Automation was key area of focus
- Ensuring process covers all areas / minimises gaps also important

ORSA Process

- Process / report generally value adding.
- Key focus is making reports shorter and more value adding.

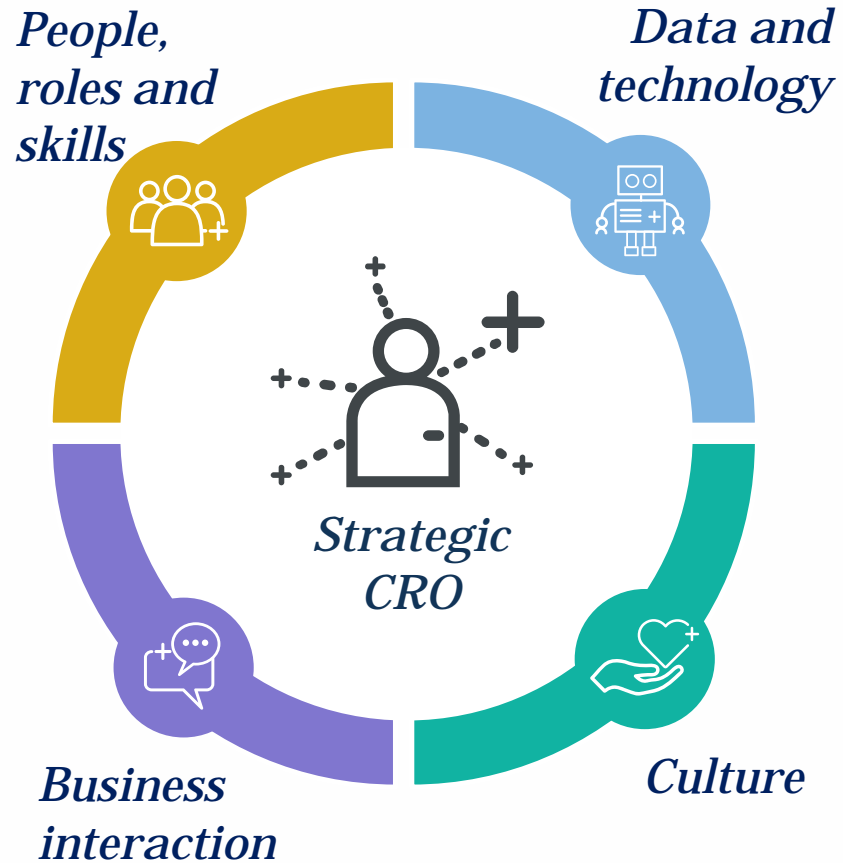
Emerging risks

- Most think process is good in comparison to the market.
- View that market practice is weaker than it should be.

Supporting board strategy

Significant room for many CROs to develop stronger links with the Board and become “strategic CROs”.

The future of risk management

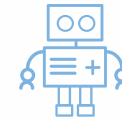


Looking ahead – pillars of a successful risk team



People, roles and skills:

- The right people, with the right knowledge and skills.
- Career development pathway from analyst to CRO



Data and technology:

- Risk intelligence is captured, analysed and reported efficiently.
- Increase the chance of success for the business.



Business interaction:

- Partnering effectively.
- Prompt risk input from strategy setting to business-as-usual risk monitoring.



Culture:

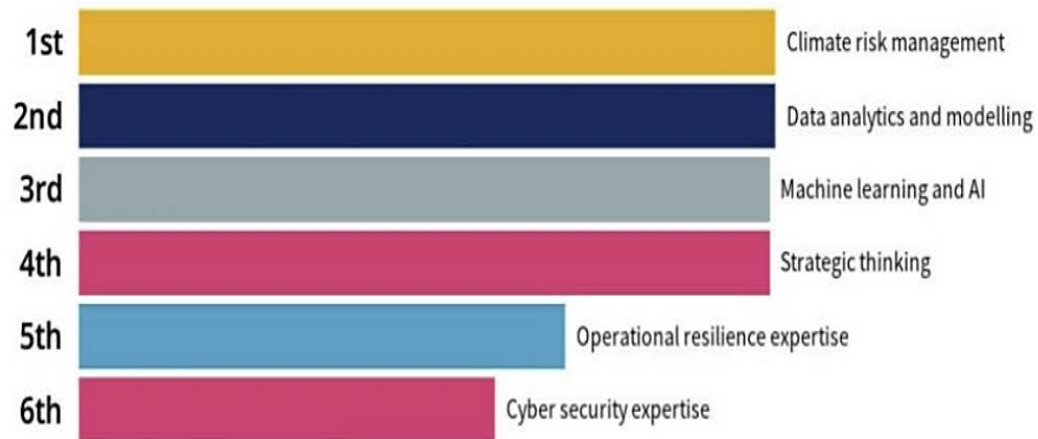
- Collaborative, supportive and dynamic environment.
- Supports measured risk taking.



The future of risk management | People, skills and roles

Individual technical skills

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 the following skills:

Strong communicators

Excellent business partners

Balanced view of risk taking

Risk specialists or generalists?

Specialist roles:

- Best for managing megatrends.
- 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.
- Seeing “the big picture”.
- Build up skills through rotations between risk and different first-line departments.

The future of risk management | Business interaction

Areas 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.

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

LCP CRO roundtable participant



What does good partnering mean?

- Create watercooler moments
- Ask “so what, what if, what next?”
- Support 1st line risk ownership
- Link risks back to business strategy
- Awareness of behavioural biases
- Keeping an open mind and asking open questions
- “How can we help” vs “how can we stop” mentality
- Avoid creating a box ticking exercise. *(And don't let first-line teams create one either!)*

5 tips to improve engagement with boards



Ask the board what they want and when they want it



Write short reports and use plain language



Give clear opinions / recommendations



Engage regularly and in advance of reporting



Proactively seek feedback on risk input

The future of risk management | Culture

How are CROs managing people risk?



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

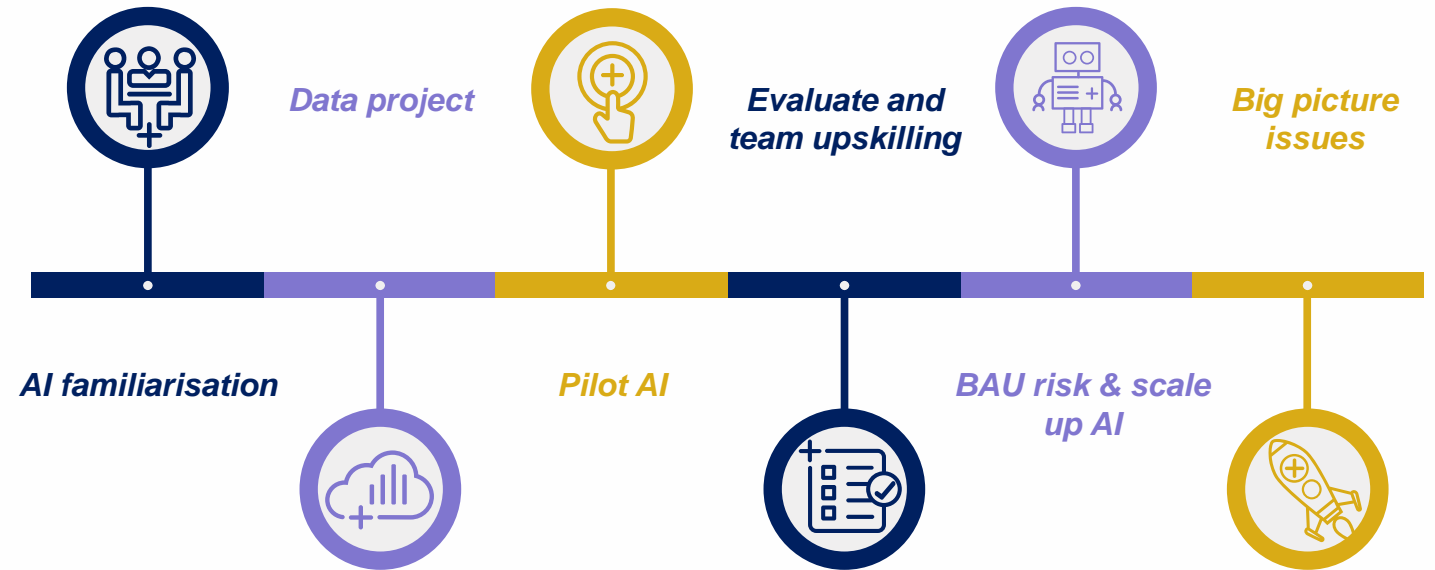
The future of risk management | Data and technology



The risk management engine

- ✓ Brings in real-time quantitative information from around the firm for analysis.
- ✓ Large language model distils key information from qualitative first line reports and converts into summary data.
- ✓ Uses AI to perform initial analysis, helping risk team quickly identify key trends for feedback.
- ✓ Risk appetites monitored in real time and breaches forecast at early stage.
- ✓ Reports populated automatically with key exhibits and draft text.
- ✓ Bespoke dashboards generated for execs and NEDs in real-time as they query.

Risk management engine – development plan



- Automation is already here, so you can start now!
- Technology will evolve, and so our approach to using it needs to as well!

The future of risk management | The strategic CRO

What makes a strategic CRO?

- ✓ Consulted 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.

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

How to become a strategic CRO



Give reports a clear link to strategy.



Arrange regular one-to-ones with NEDs.



Build strong links across the market.



Make your department market leading!

The risk function of the future | A blueprint

Bringing everything we learned together, the risk function of the future is one that uses rich data and leverages an AI risk management engine to produce value adding business insights efficiently. It is led by a strategic CRO who ensures it partners effectively with the business and Board and is well placed to respond to the megatrends driving change in the risk landscape. The team's main focus is business partnering and helping drive a culture of measured risk taking.



**Strategic
CRO**

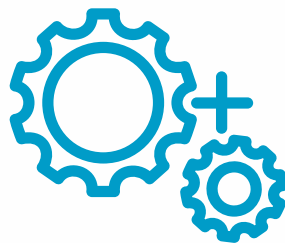
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**Effective business
partnering**



- ✓ Support first line risk ownership.
- ✓ Embeds risk awareness within business.
- ✓ "How can we help" vs "how can we stop" mentality.

**Risk
management
engine**



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**Protecting
people &
culture**



- ✓ See culture / human capital as a key asset.
- ✓ Collaborating with HR to help develop and enhance culture + with board to drive change.
- ✓ Act as cultural ambassadors through business partnering.

**Key
general
skills**



- ✓ Excellent communicator
- ✓ Strong business partnering / negotiation skills
- ✓ AI / analytics knowledge – both running and validating AI tools
- ✓ 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.

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.