

New risks, new requirements

Insurance CEO Outlook 2017

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The risk environment continues to change. And insurance CEOs say they are taking steps to respond. But are insurers doing enough to protect themselves and their stakeholders?

These are not easy times for insurance CEOs and their risk management functions. In part, this is because new risks are moving up the agenda. According to a recent survey conducted by KPMG International, insurance CEOs are currently focused on three big risks: emerging technology risks, operational risks and regulatory risks. Last year, it was cyber security that topped the risk agenda.

At the same time, many CEOs recognize that they are operating in an increasingly uncertain environment. Indeed, 45 percent of the insurance CEOs participating in our survey highlighted that the uncertainty of today's political landscape is having a greater impact on their organization than they had seen in years. In the US, that number spiked to nearly three out of five.

Most insurers say they are now working hard to improve their risk management capabilities. More than three-quarters of our respondents (76 percent) told us they were now spending 'much more' time on scenario planning as a result. Seventy percent said that they were recruiting new skills and specialists to help them better understand the geopolitical risks that they face.

Most also said they are about to start pouring new investment into improving their governance and risk functions. According to our survey, 70 percent of insurance CEOs plan to increase investment into the function over the next 3 years; almost a quarter (23 percent) suggest that this new investment will be 'significant'.

Go deeper and think differently

On face value, this seems like good news for the risk function. More investment, improved capabilities and increased focus on scenario planning will certainly be important as risk managers fight to get their arms around a wider and more uncertain risk environment.

However, our experience suggests that CEOs and their risk managers may have to go deeper and think differently if they hope to keep up with the pace of change and meet the needs of the organization.

Increasing the frequency and scope of scenario planning, for example, will certainly help insurers prepare for the risks that they know. It will also help decision-makers start to better understand the roles, responsibilities and reactions they must undertake when unknown or unexpected risks arise. But that is just the first step.

Once the scenarios are understood and developed, the next step is to convert the findings into a tactical action plan. Knowing what you want to do when faced with a particular situation is one thing. Knowing how you will do it is another thing altogether.

Every insurer worth their salt conducted scenario planning around a potential Brexit before the UK referendum; few (if any) then drilled down to assess what the 'unexpected' outcome would actually mean for their operations, people, investments or customers. Fewer still considered the potential opportunities that may arise for their firms in the aftermath.

Moving to higher value activities

The commitment to hire more specialists and recruit new skills will also help improve the capacity and capabilities of the risk management function. In today's analytical enterprise, the risk function desperately needs more data analytic capability and more resources capable of working with the business to identify new risks and support growth.

But, along with adding more bodies, risk management functions will also need to focus on enabling those resources to start focusing on more 'high value' activities. In part, this will be accomplished by leveraging new technologies and tools to automate many of their manual and repetitive tasks and processes.

To be fair, risk management functions have come a long way with automation over the past few years. But much more can — and should — be done.

Looking for the opportunity in the risk

Another way that risk managers could be better protecting themselves and their stakeholders is by shifting their role from being the 'police' of the organization to focus more on being the 'enablers' of the business.

Rather than simply identifying and raising risks, they should be working with the business and stakeholders to also find ways to make those risks more manageable.

Instead of conducting scenario planning to uncover unexpected risks, they should also be looking for the unexpected opportunities that could emerge from the different scenarios.

And they could be using their technology to speed up processes in a way that hands flexibility back to the business rather than using it to simply speed up the identification of risks.

Time for a step-change

The reality is that the risk environment is continuing to change. So, too, are the expectations of the business and its stakeholders. And that means that risk management functions will need to find ways to dig deeper and to think differently about the way they serve the business and the value they return to customers and stakeholders.

The fact that CEOs are planning to increase investment into the risk function is good news. Now it's time for the risk function to use those new capabilities and resources to make a real step-change in the way they operate.

Contact

Michael van Vuuren
Partner, Actuarial and Insurance Risk Management
KPMG Hong Kong
T: +852 3927 5947
E: michael.vanvuuren@kpmg.com

kpmg.com/socialmedia



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