

Insurance Chief Risk Officers

Develop the competencies that will set you apart
A joint paper by Lloyds' Market Association and Korn Ferry



Purpose of a Chief Risk Officer:

There is an intimate connection between the role of a Chief Risk Officer (CRO) and the objectives an organisation establishes for itself in putting in place an Enterprise Risk Management (ERM) framework. Insurance companies and Lloyds' managing agencies operate in a fast-moving and challenging environment and need to instil a risk aware culture. Insurance companies by their very nature identify, analyse and accept risk. A CRO's role embraces both the mitigation of negative 'threats' and the realisation of positive 'opportunities'. Articulating risk appetite in terms of the balance between risk and reward is central to the role. CROs are there to support and challenge their organisations in making informed and appropriate risk-based decisions.

Context:

Since the beginning of the financial services crisis, we have seen an evolution of the CRO role across financial services; perhaps the quickest progression has been in the Insurance sector where the shift from technical guru to business advisor has catapulted the CRO in to a world of complex stakeholder relationships, business navigation and regulatory expectations.

With such a quick shift, capability cannot keep pace; thought and dedicated focus is needed by CROs and their business and Board stakeholders to develop existing and aspiring CROs to ensure expectations are matched and businesses maximise the effectiveness of their risk functions.

A survey was recently conducted by Korn Ferry with the help of the Lloyds Market Association (LMA) CRO forum. This highlighted the following:

1. The CRO role has broadened, but is still developing. Today the role is relatively tactical, but becoming more strategic.
2. Stakeholder relationships have increased in number and are more complex.
3. Boards and CEOs' expectations have shifted but are beginning to appreciate the value a CRO can bring to the strategic and commercial debate.

THE CRO ROLE

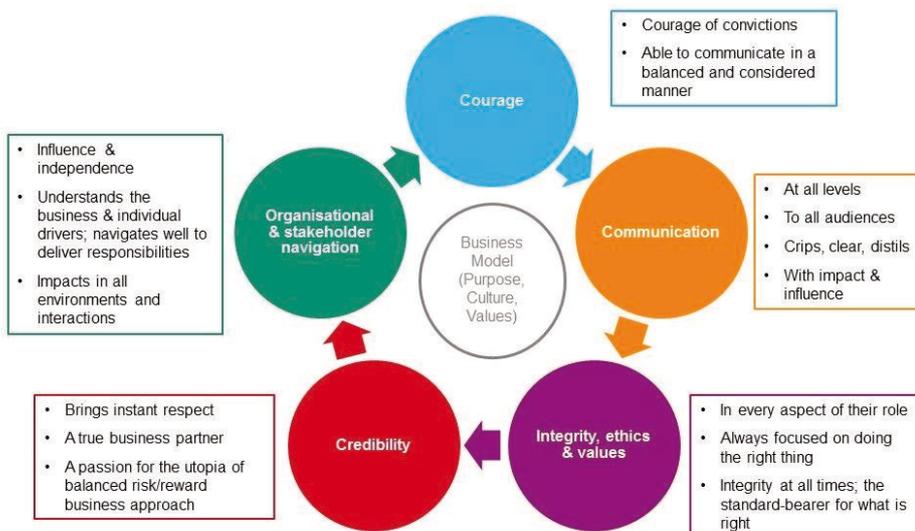
The diagrams below highlight the brief for the CRO today together with the competencies required.

Diagram A: CRO role today



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Diagram B: The competencies of today's CRO



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Skill set and capability

Today, the technical skills and business knowledge provide the foundation of what is expected in a good CRO, but they are no longer enough on their own. CROs are now expected to understand the broader financial and economic landscape as opposed to being a deep expert. They should be able to provide counsel on the strategic and operational elements of the organisation in addition to the technical specifics.

Whilst some CROs have the mental agility to provide this, it does not come naturally to many. The ability to switch from strategic to detail is a difficult balance to successfully achieve and one which deep functional experts are often challenged with.

Diagram 3: Competency requirements shift and vary over time...



The diagram above illustrates how competencies for the Risk Leader develop over time, advancing in their complexity as the career develops. As an individual becomes more senior, the mix of skills and competencies that are required evolve; the competencies for the enterprise leader are far more complex than those expected from an individual contributor.

Core competencies for today's CRO:

What are the key competencies that an enterprise risk leader needs to develop in order to match increased expectations for today's CRO? Our research for this paper and overarching market activity indicates that there are four standout competencies:

- *Managing Ambiguity* - the ability to operate effectively even when things are not certain or the way forward is not clear.
- *Managing Conflict* - handling conflict situations effectively, with a minimum of noise.
- *Cultivate Innovation* - creating new and better ways for the organisation to be successful.
- *Situational Adaptability* - adapting approach and demeanour in real time to match the shifting demands of different situations.

Korn Ferry's extensive research into competency development also indicates that these four competencies are amongst the hardest to develop, whatever your background. Therefore early and dedicated focus will provide the best chance of enhancing capability.

Competency definitions and how to recognise strengths or development needs:

Manages Ambiguity, *meaning the ability to operate effectively even when things are not certain or the way forward is not clear.*

Individuals who are skilled at this are able to deal comfortably with the uncertainty of change and therefore are able to effectively handle the risk that goes with this type of environment. Those able to manage ambiguity can decide and act without the total picture and are calm and productive, even when things are up in the air. They are able to deal constructively with problems that do not have clear solutions or outcomes.

Those that are less skilled can struggle to make progress when facing ambiguous or uncertain situations, or delay moving forward until all the details are known. They can appear stressed when things are uncertain and generally operate best when things are structured and predictable.

Those that are talented at managing ambiguity:

- *Are energised when faced with ambiguity and uncertainty.*
- *Make significant progress and remain calm and composed, even when things are uncertain.*
- *Manage the risk that comes with moving forward when the outcome isn't certain.*
- *Adapt quickly to changing conditions.*

Overuse of this skill can also be a challenge as individuals may move to conclusions or action without enough data, or may err towards the new and risky at the expense of proven solutions.

Manages Conflict, *meaning handling conflict situations effectively, with a minimum of noise.*

Individuals who are skilled at this are able to step up to conflicts, seeing them as opportunities. They can work out tough agreements and are able to settle disputes equitably. They can facilitate breakthroughs by integrating diverse views and finding common ground or acceptable alternatives.

Those who are less comfortable with conflict, avoid it. They can struggle to make progress when working through disagreements or take sides without digging deeply enough to fully understand the issues. They can possibly allow conflict to cause massive disruption in an organisation, and have a knack of putting people on the defensive or may accommodate views, wanting everyone to get along.

Those that are talented at managing conflict:

- *Anticipate conflicts before they happen, based on knowledge of interpersonal and group dynamics.*
- *Ask questions and listens closely to all issues presented by stakeholders.*
- *Find common ground and drives to consensus, ensuring that all feel heard.*
- *Defuses high-tension situations effectively.*

Those who overuse this competency may be seen as meddling in others' issues, or are too eager to engage others in debate. They may be viewed as someone who pushes for resolution before others are ready.

Cultivates Innovation, *meaning creating new and better ways for the organisation to be successful.*

Those that are skilled at this come up with useful ideas that are new, better or unique. They can introduce new ways of looking at problems or can take a creative idea and put it into practice. They are able to encourage diverse thinking to promote and nurture innovation.

Those who need support to develop stay within their comfort zone rather than experimenting with new ways of looking at things. They can present ideas that are ordinary, conventional and from the past and can tend to be critical of others' ideas. Or perhaps they have a style that discourages the creative initiatives of others.

Those that are talented in cultivating innovation:

- *Move beyond traditional ways of doing things and push past the status quo.*
- *Continually assess the market potential for an innovative idea or solution.*
- *Find and champion the best creative ideas and actively moves them into implementation.*
- *Try multiple, varied approaches to innovative ideas.*
- *Build excitement in others to explore creative options.*

Those that overuse this skill gravitate towards the new and reject the old. They can come up with so many unusual ideas that it overwhelms others or takes up too much time and effort looking at creative alternatives instead of taking action. They relentlessly pursue change and innovation at the cost of efficiency and reliability.

Situational Adaptability, *meaning adapting an approach and demeanour in real time to match the shifting demands of different situations.*

Those that are capable in this area pick up on situational cues and adjust in the moment.

They are able to readily adapt personal, interpersonal and leadership behaviour, and understand that different situations may call for different approaches. They can act differently depending on the circumstances.

Those that need development, use the same style and approach regardless of the situation. They can fail to notice changing situational demands or expect others to adjust to his/her preferred style and approach. Perhaps they believe that being true to self is all that matters and they don't take time to understand interpersonal dynamics.

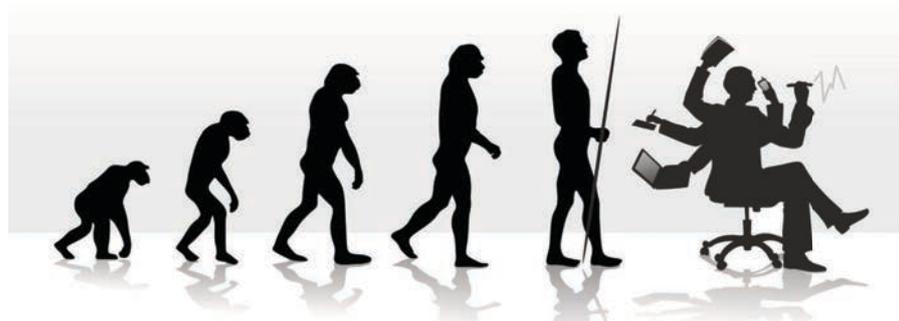
Those that are talented in situational adaptability:

- *Pick up on the need to change personal, interpersonal and leadership behaviour quickly.*
- *Observe situational and group dynamics and selects the most appropriate approach.*
- *Seamlessly adapt style to fit the specific needs of others.*

Watch out for those that overuse this skill – they may be seen as a social chameleon, leaving others unsure of when he/she is being genuine. They can become hyper-vigilant in monitoring situational dynamics to the point that the desired outcome isn't met or they may come across as indecisive or wavering.

Development tips:

Competencies vary in how easy or difficult they are to develop.



Managing ambiguity, managing conflict, cultivating innovation and situational adaptability are difficult competencies to develop. Becoming skilled at one or all of them, requires significant support from stakeholders and substantial effort by the individual. Most individuals will require a coach to work alongside them especially if there is a need to develop in more than one area. The first step is to acknowledge the need for personal change and establish an actionable development plan.

However, there are actions that individuals can take to support personal development:

Managing Ambiguity:

- *Break down the task creating more bite size chunks that will enable those less comfortable with ambiguity to create a deliverable plan.*
- *Convey your overall intention. Try to articulate the goal you are trying to achieve and seek support in creating a plan all can follow.*
- *Overheat when stressed? Try to recognise the signs of situations that create stress ahead of time and then use the above mechanisms to support creating a structured plan.*

Managing Conflict:

- *Encourage healthy conflict. Create a lively debate with others being encouraged to take a perspective.*
- *Try to deliver clear, problem-focused communication.*
- *Unsure of the culture? Watch and observe.*

Cultivates Innovation:

- *Innovation involves all sorts of individuals and skills – you don't need to be the blue sky thinker but could have a role to play.*
- *Want to enhance creativity? Create diversity in those around you or mix up those that engage on a topic.*
- *Worried about making mistakes? Treat them as stepping stones and learning experiences.*

Situational Adaptability:

- *Find it hard to read others? Really tune in and listen.*
- *Not sure about which path to take? Consider the consequences before you start.*
- *In a hurry to get down to business? Manage the first three minutes when first impressions are formed.*

Conclusion:

The nature of the CRO role is rapidly evolving which poses significant challenges for incumbents in keeping up with changing expectations. At the same time finding the next generation of talent can prove difficult for many organisations. Organisations that get this right will establish a CRO as a senior executive and close confidant of the CEO and their team; someone able to contribute positively to the strategy and operation. For those that fail to grasp the opportunity, they may be left with a regulatory relationship manager, a 'necessary evil'.

About the authors

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Amelia Stubbs is a Senior Client Partner at Korn Ferry in London. One of the firm's functional Partners, her primary focus is Risk and Audit functions, and she Co-Leads the Global Risk Practice. With over 14 years of experience in senior functional appointments, and 17 years in Executive Search, Amelia has worked extensively across financial services with CEO's, Boards, CFO's or CRO's in their appointment of senior risk and audit leaders. She also advises clients across a range of other organisational and talent management matters from risk culture and compensation structures to assessment and development of their functional professionals.

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Alex Hindson is Chief Risk Officer at Argo Group where he is responsible for the implementation of Enterprise Risk Management across the Group as well as the Corporate Compliance function, adoption of the Internal Capital Model, relationship management with credit rating agencies and purchasing of corporate insurances. Previous roles included Chief Risk Officer of Amlin AG, Head of Group Risk at Amlin plc and Head of ERM at Aon Global Risk Consulting.

“As Chair of the LMA Chief Risk Officer Committee I believe this report is an important contributor to the evolving discussion regarding the nature of the role held by Chief Risk Officers and hence the personal qualities required to fulfil such a role in the insurance industry, now and into the future. Developing the risk management talent of the future and ensuring it is prepared to meet the threats and opportunities facing our industry is an important element of building the risk function of the future.”

About Korn Ferry

Korn Ferry is the preeminent global people and organizational advisory firm. We help leaders, organizations and societies succeed by releasing the full power and potential of people. Our more than 7,000 colleagues deliver services through our Executive Search, Hay Group and Futurestep divisions.

About The Korn Ferry Institute

The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books and a quarterly magazine, Briefings, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth and success.

About Lloyd's Market Association

The purpose of the LMA is to identify and resolve issues which are of particular interest to the underwriting community and, working in partnership with the Corporation of Lloyd's and other partner associations, to influence the course of future market initiatives.

The LMA Board's long term strategic objectives are to:

- increase the flow of profitable business into the market
- maintain capital flexibility
- reduce costs.

The LMA's agenda is driven by and on behalf of the members - the Lloyd's underwriting community - many of whose staff freely give up their time to participate on LMA committees and business panels.