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How to set-up the risk management function of the future in insurance?

January 2022

In a consistently changing world, insurance companies need to re-think the set-up and purpose of their risk functions

Several external drivers affecting the way how insurers should deal with risks...



Changing risk environment – In addition to insurers' traditional risk taxonomies mainly focusing on financial risks (e.g., credit and market risks), non-financial risks (e.g., climate risks, cyber risks) gain importance, emphasized by the COVID19-crisis



Increased complexity – Growing interconnection of industries and business areas leads to increased complexity of risks to be managed by insurers; an early warning radar for new risks and event risks is required



New technologies – New technologies involve a fundamental shift in how insurers can interact with their customers and stakeholders (in real time) but also go hand-in-hand with new risks (e.g., security risks, organizational risks)



Regulatory urgency – The evolvement of new (country-specific) regulations, triggered by the speed of innovation and a rapidly changing world, requires insurers to respond quickly



New business models/ecosystems – Increased focus on B2B partnerships/skills required to gain additional flexibility, agility and technical compatibility for being able to respond to customer and industry trends

Key players in the insurance market have put a focus on the transformation of their risk management functions



While COVID-19 is still very fresh in our minds, we have a **unique opportunity** – if not an **obligation** – to **build greater resilience** against future pandemics and other systemic risks.

Christian Mumenthaler
Group CEO at Swiss Re

The health, economic and social crisis provoked by the COVID-19 pandemic shows we live in a **world of heightened risks that are interconnected and increasingly systemic**. [...], we have been preparing by maintaining an extremely robust solvency ratio and diversifying our business portfolio.

Alban de Mailly Nesle
Chief Risk and Investment Officer at AXA

Despite the justified focus on the pandemic, we **must not forget** that **other major risks of a systemic nature also pose enormous challenges to our industry**. Cyber risks and especially climate change both pose major risks.

Dr. Joachim Wenning
Chairman of Board of Management at Munich Re

The Group's top management has taken a proactive approach, at national and European level, to **forge dialogue** with the most important institutional players and with other leading groups in the insurance industry, with a view to implementing solutions that guarantee the **ability to tackle future systemic risks**, [...], in the best way possible.

Philippe Donnet
Group CEO at Generali

It is **no longer enough** to react and adapt. In a world that is more volatile and inter-dependent than ever before, the pandemic is proof that risks once thought of as **rare** are becoming more **common**. The **need to better assess, understand and plan** for potential risks, particularly those that are long-tail in nature, has never been greater

Greg Case
CEO at AON

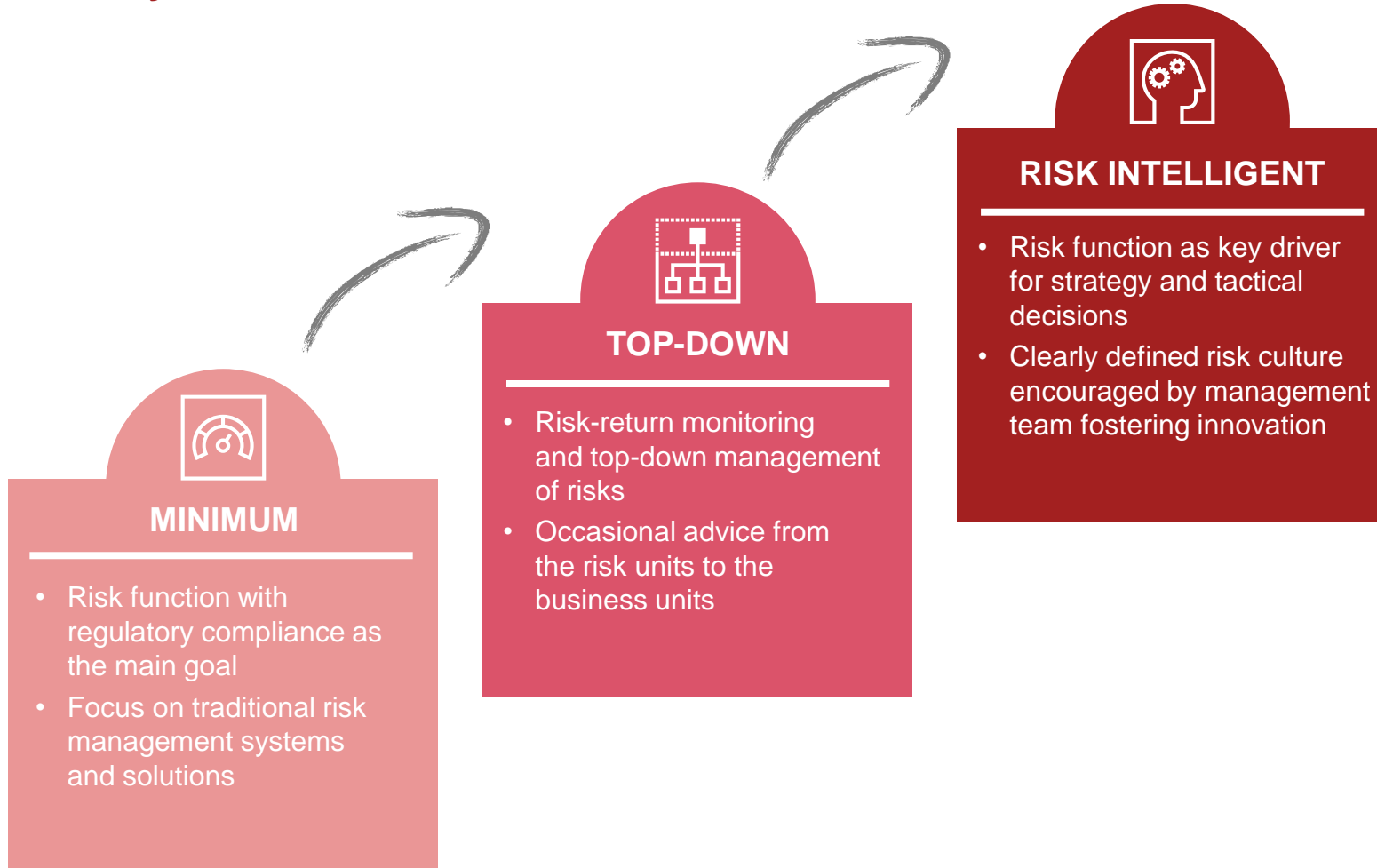
Ultimately, financial institutions and their directors are having to navigate a rapidly changing world, and one in which **risk management will increasingly need to focus on so-called “non-financial risks” and emerging societal trends**.

Paul Schiavone
Global Industry Solutions Director
FS at Allianz GCS



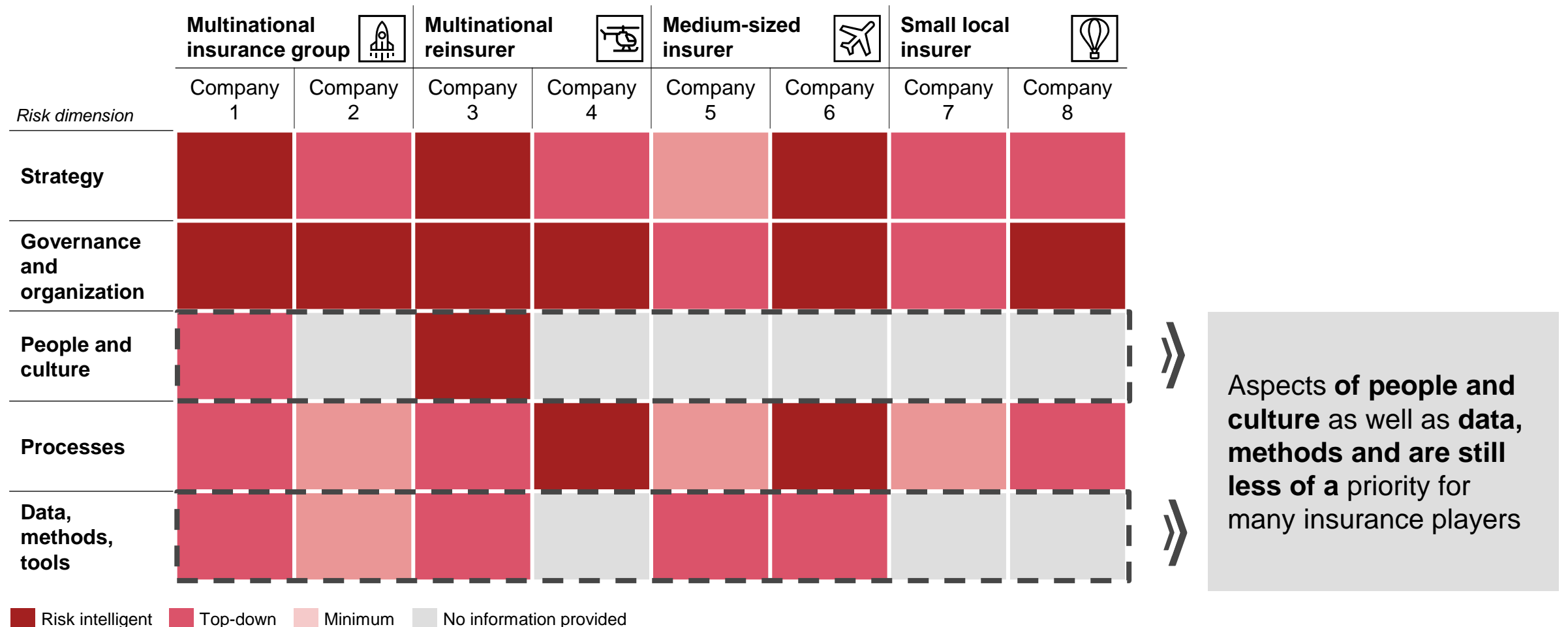
Strategy & breaks down the development stage of risk functions into three maturity levels

Maturity levels



Risk culture and the use of innovative technologies are key differentiators in taking risk functions to a higher level

Benchmarking heat map¹⁾



Five elements to be addressed in building a risk unit

Principles for a risk intelligent CRO unit



Strategy

1

Do you have a **profound perspective on future risks** and is **this perspective in-line with your corporate strategy**?
How **risk-oriented** is your current **core business steering**?



Governance
and
organization

2

Are your risk-related responsibilities **effectively delineated across the three lines of defense**? How does the **collaboration** between your **operational risk management** and **compliance function** work?



People and
culture

3

Do you have an **integrated perspective on your company's risk appetite** and a **risk culture encouraged by leadership** in place? Does your **risk function** have **AI/data analytics** capabilities?



Processes

4

To which degree are your processes (e.g., operations) **automated**? Which **risk metrics** do you use? How **agile/compliant** are you in **adopting new regulations**?



Data,
methods,
tools

5

To which extent do you **make use of advanced analytics** and **AI-supported software** for **automated risk identification** and as a baseline for **decision making**?

Your contacts



Dr. Peter Gassmann

Partner,
Managing Director
Strategy& Europe

+49 170 2238 470

[peter.gassmann@
strategyand.de.pwc.com](mailto:peter.gassmann@strategyand.de.pwc.com)



Dr. Gero Matouschek

Partner,
Strategy&

+49 151 6732 6502

[gero.matouschek@
strategyand.de.pwc.com](mailto:gero.matouschek@strategyand.de.pwc.com)



Jeroen Crijns

Partner,
Strategy&

+31 65156 6470

[jeroen.crijns@
strategyand.nl.pwc.com](mailto:jeroen.crijns@strategyand.nl.pwc.com)



Dr. Karina Dietermann

Manager,
Strategy&

+49 170 2238 872

[karina.dietermann@
strategyand.de.pwc.com](mailto:karina.dietermann@strategyand.de.pwc.com)

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