



# 10 Year Anniversary of the CRO Forum

Bologna, September 2014



# CRO FORUM

**10** YEARS OF ENHANCING RISK  
MANAGEMENT

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Picture frontpage: Back door, San Petronio Basilica in Bologna



# Ready for another ten successful years!

We have been honoured to celebrate and host the 10 year anniversary of the CRO Forum together with you in the beautiful city of Bologna. We combined serious work and some fine entertainment, just as we have been used to combine hard work, frank discussions, tangible results and good friendship ever since the Forum took off in 2004. And we are proud to say that the CRO Forum has been very successful, both from the industry's, the professionals' and the regulator's point of view.

The programme of 26 September 2014 was packed and took off with a roaring start with the morning visit to Ferrari, which was of course a boy's dream come true! After lunch it was time for some serious exchange of views and information, with key note speeches and panel discussions on Risk Management, Cyber Risk and Regulation.

In this publication, you can read three interviews with people who have been and still are closely related with the history and the success of the CRO Forum. The first interview presents the views of Tom Grondin, CRO of Aegon, and Tom Wilson, CRO of Allianz, who have been members of the CRO Forum for many years. Both were chairs of the Forum and Tom Grondin was even a Founding Father back in 2004. Talking about their experiences with the CRO Forum, its achievements and its future, they are looking forward to a 'post Solvency II era', in which risk managers can return to what they are good at and like most: being a successful professional risk manager who helps his company create value.

The interview with Raj Singh, now CRO at Standard Life in the UK, highlights a Founding Father of the CRO Forum who was, in his capacity as CRO at Allianz, involved with the Forum before it even officially existed and was still an informal gathering of risk professionals without official status.

The third interview is with Karel Van Hulle, for the CRO Forum 'the man at the other side of the table'. As Head of Insurance and Pensions of the European Commission, Van Hulle was responsible for the preparation of the Solvency II Directive. In the interview he praises the contribution of the CRO Forum to the Solvency II process, saying that "several submissions were received and were taken into account in the drafting of the Framework Directive."

The three topics in the afternoon programme of our Bologna meeting highlight three core subjects for the CRO professional: Risk Management, Cyber Risk and Regulatory Risk. We were fortunate to have two excellent guest speakers; Sarah Stephens of Aon, who gave a key note speech about Cyber Risk, and Gabriel Bernardino, Chairman of EIOPA, who delivered a key note speech about regulatory developments.

Looking at the future of the CRO Forum, we believe its main goals will remain the same: enhancing risk management by (1) championing best practices that advance business, (2) alignment of regulatory requirements with those best practices, and (3) providing insights on emerging and long-term risks. The focus, however, will change over time. Although the 'big topic' Solvency II has been finalized (albeit not yet completely implemented into local regulation), there is certainly a future for the Forum, to improve and spread risk management best practices and to stay involved in the implementation of (international) regulation.

To conclude this introduction of this 10 Year Anniversary publication, we would like to express our wish – and indeed firm intention - that the CRO Forum continues to be a meeting place that gives professional satisfaction as well as pleasure and friendship.

We wish you happy reading!



Marco Vet, Chair CRO Forum



Renzo Avesani, Vice Chair CRO Forum

# Interview with Tom Grondin and Tom Wilson



Tom Wilson, CRO Allianz  
Tom Grondin, CRO Aegon

Tom Grondin (TG), CRO of Aegon, and Tom Wilson (TW), CRO of Allianz, have been members of the CRO Forum for many years. Both were chairs of the Forum and Tom Grondin was a Founding Father back in 2004. The interview with Tom and Tom provides a personal account of their experiences with the CRO Forum, its achievements and its future.

*Can you tell us something about founding the CRO Forum? It was on a Greek island wasn't it?*

TG: "The meeting was hosted by a Greek insurance company, so that was probably the reason we were on a Greek island. The Geneva Association wanted to create a CRO Roundtable, after the CEO and CFO fora that existed already. I remember there were about 13 people.

We had 3 objectives: to get to know each other, to talk about risk management topics for the Roundtable and whether we wanted a position in the debate of Solvency II as a professional body. Then we understood that the Geneva Association could not take a position on Solvency II as an academic knowledge sharing institute. We concluded that our group would have to be an independent one and decided to call it the CRO Forum. So about 6 of us hijacked the meeting at that point and started to discuss which companies we should have in the Forum, what should be the mission and the focus areas. Not sure what the other 7 people did at that point!

The official kick-off of the Forum was in Munich, at Allianz a few months later. Raj Singh took the lead in setting it up. That meeting was in a sort of bunker like underground training facility down by a lake, so quite different from a Greek island. It was there that the foundations of the Forum were set."

*Is the mission still the same as ten years ago?*

TW: "I think the general spirit is still in the same direction, but the emphasis has changed over time. When I think back to 2006 when I joined the Forum, it was very much focused on getting best risk management principles into Solvency II. In the first three years, best risk management practices and Solvency II were synonymous."

TG: "We were really busy with the concept of diversification, I remember having an article pinned to my office wall called *The Great Diversification Debate*."

TW: "As the Solvency II discussion progressed, we got involved in more compromise and more complex issues than just from a purely risk management point of view. In this regard, the development of the CRO Forum is U-shaped: In the beginning it was about risk management, settling the foundations for internal business steering, internal governance and best practices, and feeding this into the original Solvency II design negotiations. The financial crisis made it clear that a compromise from first principles was needed, especially for long term retirement and savings products. Now that the compromise has been achieved in November 2013, I think we are going back to our roots again, moving back to a focus on risk management."

# Interview with Tom Grondin and Tom Wilson

TG: "Regarding Solvency II we were probably a little naive in the beginning, thinking that best risk management practices could just be inserted into Solvency II. In the first phase we had locked in principles of market valuation and it was considered really well aligned with what the industry was looking for. But then we got into the political process with the supervisors and member states. Then it changed significantly because that's when the debate started and as a result the principles were weakened. And then the crisis hit and consensus broke down. It still required a lot of debate and discussion before we arrived at the present Solvency II agreement in which the CRO Forum played a significant role."

*What do you consider the biggest achievements of the Forum in the past 10 years?*

TW: "If I reflect back on my participation over the last 8 years, I would say that the CRO Forum has excelled in three things: first of all, from a personal perspective, the Forum has been a great platform to interact with specialists, but more importantly with friends, on important issues. The strong sense of camaraderie as well as the alignment with professional interests has been one of the most enjoyable personal aspects of participating in the Forum. Secondly, I think we have had a disproportionately positive influence on Solvency II. There is no denying that it has been tough - I remember periods where emotions were high, especially when discussing fundamental issues and compromises. Nonetheless, we have consistently given solid counsel that has been heard in the drafting of Solvency II. Thirdly, we have contributed to risk management best practices in the insurance industry, typically by codifying our own internal best practices and making them more broadly available to other firms."

**"We were really busy with the concept of diversification, I remember having an article pinned to my office wall called "The Great Diversification Debate"**

*Tom Grondin*

TG: "Personally, I really enjoy coming to the CRO Forum meetings, not only for the discussion but to catch up with friends. The Forum has proved quite resilient over time. We have had a number of people leave and then replaced by others who came into the fold and developed relationships quite quickly. That has really been memorable for me. Also, when we started, there was quite a bit of consultant work around the risk management practice and academic work, but there wasn't a lot of industry practice that was shared at that time. So we brought that forth and that had impact on ourselves and on the industry in general, around the world."

*How do you see the future of the Forum? Is there still a future?*

TW: "In the past we focused on risk management and sharing best practices; later, we focused more on Solvency II. Because Solvency II is no longer debated, what's in the future for us? We already talked about a return to risk management, but there is also another force on the horizon: I'm reasonably certain that the regulatory "tax" in terms of increased supervision, parallel capital frameworks and reporting will increase rather than decrease in the future. We already see the consequences in terms of the "alphabet soup" for G-SII's (HLA, BCR, RRP, etc.) and for IAIGs (ICS)<sup>1</sup>, I predict that a large amount of my Risk resources will be geared for not necessarily complementary but parallel international regulatory requirements. These will have increasing bite for insurers if the stress tests for banks in the US are any indication, and their application is not likely to stop with large international firms. As such, I could see the CRO Forum becoming more active in these areas as well.

<sup>1</sup> G-SII stands for Globally Systemically Important Insurer, BCR for Basic Capital Requirement, HLA for Higher Loss Absorbency, RRP for Recovery and Resolution Planning, IAIG for Internationally Active Insurance Group and ICS for International Capital Standards.

# Interview with Tom Grondin and Tom Wilson

As a consequence, we will continue to face a key question: How do we turn these activities from compliance and regulatory functions into something that has positive business impact and ensures that our company does good business on a daily basis. We have recently done some work that highlights business impact, for example the recent article on the role of the CRO and the Chief Underwriting Officer. I think that is a nexus that needed to be explored, not in the sense of regulatory compliance, but in the sense of daily decision making and objective standards. I would also like the CRO Forum to continue this tradition, primarily out of self-interest – I would hate to turn Risk into purely a regulatory compliance role as I think that we can make a substantial contribution to our companies.”

TW: “That’s one of the core principles of the way we try to operate. It’s been challenging over the last couple of years, also because we are part of firms which are in the debate. You cannot be the Knights Templar that are so principled that they become locked in their tower contemplating perfection and so can’t influence the business. We are part of this world whether we like it or not.”

*What do you consider your most important personal contribution to the Forum?*

TW: “Being the chairman of the Forum during the most critical period during which time political, as opposed to theoretical, trade-offs were first being discussed. We weathered through some tough negotiations and set the stage for independent thought in the future. ”

TG: “My most personal memorable contribution to the Forum is suggesting the “Best Risk Management Practice” series and I personally led several of the early working groups in this area. There was also the time when I was Chair and our output and contribution increased a lot from prior years. I now realize, it pretty much increases every year! ”

**“Being the chairman of the Forum during the most critical period during which time political, as opposed to theoretical, trade-offs were first being discussed.”**

*Tom Wilson about his personal contribution to the Forum*

*Finally, what would be your most memorable moment or anecdote in relation to the Forum?*

TG: “The meeting in Venice was a spectacular setting and a great personal experience! ”

TW: “Enjoying each other’s company before the meetings; each and every time.”



# Interview Raj Singh



Raj Singh, now CRO at Standard Life in the UK, has been involved with the CRO Forum right from the beginning in 2004 when he was CRO at Allianz. Before that, when the Forum was still an informal gathering of risk professionals without official status, Singh participated in creating an expert group that would promote best practice risk management and engage in dialogue with regulators.

*You have played an important role in the early stages of the CRO Forum. Can you tell us something about that?*

"Well, I actually initiated the Forum and was its first chairman, for about two years. The Forum was founded formally in 2004 but we started on an informal basis in 2003. This was before the first inaugural meeting in Starnberg, Germany, under the auspices of Allianz in early 2004. The original idea of a forum was floated at the first Geneva Association Annual Roundtable of CROs in Athens, Greece, under the auspices of Ethniki Insurance. In Greece we thought we should form a CRO Forum of the larger groups, on an international basis, and set it up separately."

*What were the main goals of the CRO Forum and have they been reached?*

"We first wanted to set up a global CRO Forum with all the large institutions, and focus on general risk management. But soon the focus shifted to Solvency II. We considered that there was no official body who could influence the developing legislation from a technical and risk management perspective. There was no dialogue with the EU on this with the risk management community. Originally the Forum was not an official negotiating party with official bodies and we could only be invited to speak as individuals representing specific companies or as a person. Over time the Forum became an official body for the dialogue with the regulators, so that goal has certainly been achieved. Karel Van Hulle was very helpful in getting us invited to the EU negotiating tables. Our aim of promoting best practice risk management has also been met, because we have published a series of high quality papers over the years. We have also set up official benchmarking because there was no proper benchmarking being done in the Solvency II process. Because the work of the Forum became very Solvency II oriented, some international companies started to drop out or slow down."

*Do you think the CRO Forum has promoted the position of the CRO as a separate function in the insurance world?*

"Certainly. You see, when we started, there were officially very few CROs in the insurance groups. In the beginning I just called the companies to find out who was there and would be interested. I was pushing personally all the time for the CRO to become independent of the CFO. This was also heavily promoted by the Forum and it played a critical role, even though it was not overt. But by doing the right things, people were seeing this was a profession by itself. The first insurance company to appoint a CRO on an executive level was Swiss Re, followed by Allianz, Munich Re and ING. Then slowly others began to follow."

*Why is your company, Standard Life, not a current member of the CRO Forum?*

"Standard Life is still one of the largest life insurance companies in the UK. But our new business is more focused around asset gathering and asset management rather than underwriting risks. So that's the only reason I have not applied for CRO Forum membership."

*Being an outsider now, do you think the CRO Forum is still valuable? Do you still read the papers that come out?*

"Well, I am very fond of the Forum because I initiated it. I still feel it's almost my little baby. And yes, I still read the papers. I think the Forum has been very successful, but I think its influence has lessened a bit, mainly because Solvency II has come into its final stage."

**"...they started to invite us for meetings and we got a seat at the negotiating table"**

*Raj Singh about the most memorable moment of his involvement with the CRO Forum*



# Interview Raj Singh

I think the Forum can now go back to its normal purpose, which is best practices in risk management. Then I might become more interested myself. The Forum has to find its next dialogue with the regulators. That is the biggest challenge at the moment. It has been very successful but now it must find a new reason to be successful again. You know, the biggest achievement of the CRO Forum is making it the best place for insurance CROs. To share ideas, to influence each other and learn from each other. It is a voice of reason in the industry. So I think it really has a lot of key roles to play. The Forum has always been very credible for the regulators. There was a time when the credibility was waning a bit, because it became too aligned with the CFO Forum and got involved with very political debates. It should stay away from political debates and always go back to the risk management aspects. Also the Forum should evolve with the nature of insurance, because the industry is becoming less and less insurance and more and more investment oriented."

*The CRO Forum currently has 25 members. What is the ideal size in your opinion?*

"Thirty to fifty financial institutions is a manageable size, which will result in an average attendance rate of thirty. The most important thing is that the Forum is representative of the industry. It has to be more of a think tank than a lobbying group, lobbying is okay but only on technical matters regarding risk management."

*Do you think the Forum should pursue the international dialogue more?*

"I think this will be a challenge because North America has set up its own forum, as they did not agree with some of the Forum's philosophical ideas. I think there is still a hope for international reconciliation, because the Solvency II issues have now been resolved and the focus will be on new global solvency rules. So they should try and combine forces and work for communality in these global solvency rules. There is more in common than not in common. With the international capital standards (ICS) and the basic capital requirements (BCR) and other new things that are coming out we will all be tied together by global standards. So there possibly is a reason to be more united, and my ambition has always been to be more than just a European Forum. It's already the best insurance forum that exists for CROs, so they can tie in the global people relatively easily if they want to. And I think globally regulators are all moving towards different forms of risk based solvency. If they are going for one standard we all will have our interest, so it will be better to work together."

**"The CRO Forum is a voice of reason in the industry"**

*Raj Singh*

*What has your membership and chairmanship of the Forum meant for you personally?*

"The most valuable thing I have got out of the CRO Forum is gaining a group of best friends, peers and colleagues. I can pick up the phone to all of them anytime even today, even though they may be in completely different jobs. And we talk together and do business together and we see each other regularly. So the long term friendships we have formed there are really the most valuable personal result of having been a member. When I stepped down as chairman we created the rolling kind of chairman and vice chairman positions. I have a strong belief that the chair must be rotational. Never should one person or one company have significant influence."

In the beginning I had to put in a lot of effort in bringing people together, but then I got help from others, for instance from Hans Peter Boller, (then CRO of Converium), Christian Mumenthaler (then Swiss Re CRO), John Hele (then ING CRO), Tom Grondin (Aegon CRO), François Robinet (then AXA CRO) and of course Charlie Shamieh, who was then the CRO of Munich Re."

*What was your most memorable moment of your involvement with the CRO Forum?*

"That certainly has been the moment the Forum was getting the recognition of being an official body in a paper that came from the European Union, which recognised us in the diagram as being one of the core negotiating parties for the Solvency II Directive. Then they started to invite us for meetings and we got a seat at the negotiating table."



# Interview Karel Van Hulle



*Interview with Karel Van Hulle, former Head of Insurance and Pensions of the European Commission*

For the CRO Forum, Karel Van Hulle was the man 'at the other side of the table'. As Head of Insurance and Pensions of the European Commission, Van Hulle was responsible for the preparation of the Solvency II Directive. In October 2013 he retired from the Commission and is now an academic member of the newly constituted Insurance and Reinsurance Stakeholder Group of EIOPA. Van Hulle is currently also a professor at KU Leuven in Belgium and at the Economics Faculty of the Goethe University in Frankfurt.

*How did the CRO Forum contribute to the development of Solvency II and its objectives?*

"The CRO Forum was actively involved in the development of Solvency II. It was one of the privileged stakeholders that was consulted by the Commission at every stage in the process. Numerous contributions were received from the CRO Forum and several meetings were held by the Commission with representatives of the CRO Forum. As Solvency II is a risk based solvency regime, it was obvious that there was great interest in the Commission to hear the views of experts in the

field of risk management.

The discussions with the CRO Forum were at high level and of great quality. Several submissions were received and were taken into account in the drafting of the Framework Directive.

The CRO Forum insisted very much – at several stages in the negotiation – that no departure should be made from an economic risk based solvency approach. I would say that the single most important contribution of the CRO Forum has been the economic balance sheet. In the various stages of the negotiation, the CRO Forum insisted very much that the economic risk based approach should firmly remain in place."

*How did the CRO Forum become an official dialogue partner in the Solvency II process and what was your personal role in this?*

"I have always had the opinion that a broad consultation would help improve the quality of the Solvency II process. We have talked with hundreds of people, especially with the professionals in the industry, including the CRO Forum. This broad approach has proved to be really beneficial for the project and has been recognised as such. The first contacts with the CRO Forum were established before I was responsible for the project, the industry came forward with the ideas about the economic balance sheet. I remember that I had contacts with CROs like Raj Singh, Tom Wilson and John Hele in an early stage of the project."

**"I would say that the single most important contribution of the CRO Forum has been the economic balance sheet. In the various stages of the negotiation, the CRO Forum insisted very much that the economic risk based approach should firmly remain in place."**

*Karel Van Hulle about his contribution to the development of Solvency II*

*What is your most memorable moment in relation to the Forum?*

"The most memorable moment in relation to the Forum was a meeting that was held in the Commission offices concerning group support.

# Interview Karel Van Hulle

Whilst there was great support from some Member States (mainly home Member States), there was at the same time great opposition from host Member States, i.e. those Member States that did not have headquarters of major insurers. These host Member States, under the chair of Luxembourg and Hungary, mounted a campaign against group support and the discussions in the Council of Ministers working party on group support were very difficult.

The Commission – very much supported by the European Parliament on this issue – defended the group support concept using arguments that had been brought forward also by the CRO Forum, and which were based on economic and risk management best practices views. In practice, however, during a meeting between the Commission and the CRO Forum in Brussels, it became clear that capital management within groups was not centralised, that capital was not freely transferable and that parent undertakings could not claim in many cases total ownership of the capital of their subsidiaries (not all participating interests were 100%).

The discussion showed very clearly the difference between a pure economic approach and the (legal) reality. In the end, group support did not survive in the negotiations although the Directive contains an article that indicates that the issue will be reviewed at a later stage.”

*Where do you think the CRO Forum can improve its effectiveness as a lobbyist group and think tank?*

“It is important for the CRO Forum to recognise that theoretical concepts do not always work in practice. A closer liaison within the companies between the CROs and the CFOs would be advisable. I observed many times that views expressed by the CRO Forum were not necessarily shared by the CEOs and by the CFOs of the same companies. That is not helpful as it reduces the strength of the arguments.

This was also the feeling when the issue of long term guarantees was put on the table. Suddenly, the same people that a few years before had strongly argued in favour of an economic balance sheet, now lobbied to neutralise the consequences of the economic approach.

It is important to recognise that lobbying becomes less credible if the arguments turn out to be arguments “pro domo”. It is therefore better to show from the outset the advantages and disadvantages of various approaches so as to allow the decision makers to decide on the basis of facts and not only on the basis of theoretical concepts.

Looking back, I would say that, compared with the CEOs and the CFOs, the CRO Forum’s contribution to the Solvency II process has been the most effective and constructive.”

*What do you believe are the biggest future challenges for the CRO Forum from a regulatory perspective?*

“Much of the future work on Solvency II will be produced by EIOPA, which will get a much more active role than the Commission. The CRO Forum should therefore ensure a good cooperation with EIOPA, participate in the many consultations and provide good arguments that can be used, for instance, in the Insurance and Reinsurance Stakeholder Group of EIOPA, when that Group is asked for its views.

# Interview Karel Van Hulle

I would like to stress the importance of the Insurance and Reinsurance Stakeholder Group (IRSG), because EIOPA will have a great deal of responsibility and needs to hear good technical arguments "from the other side". The IRSG can act as a countervailing power that asks questions and makes comments, to which EIOPA will have to respond publicly. I would urge the CRO Forum to work closely together with the Group and help the IRSG to bring forward a good technical response to the draft proposals presented by EIOPA. From an institutional point of view, the IRSG was set up as the primary body to challenge EIOPA."

*Do you expect that EU regulators will "stick" to Solvency II or will we see "local" solutions which are outside the framework, e.g. Capital add-ons, local reserve requirements for low rate environment, etc.? If so, how can we achieve a level playing field?*

"There will be a lot of pressure also within EIOPA to keep some powers at national level. The EIOPA leadership is very much aware of this and is trying to avoid this by issuing detailed rules (Guidelines) that aim at avoiding different interpretations and the risk of having 28 Solvency II regimes. EIOPA is also preparing a manual for supervisors that should ensure that a similar approach is being followed in all Member States. The question remains to what extent Solvency II is a maximum regime. That was clearly the intention. It is therefore important for the CRO Forum to closely watch the implementing legislation in Member States and to react when it becomes apparent that Member States provide mechanisms at national level that allow them to depart from a common approach."

*In your opinion, did the Lamfalussy process work in Solvency II or would you have preferred in hindsight to have more integrated drafting of proposals involving the EC, EIOPA and industry (like the long-term guarantees working group)?*

"Solvency II was the perfect example of the Lamfalussy approach: a Framework Directive (level 1), combined with implementing measures to be issued by the Commission (level 2) and by guidelines from EIOPA (level 3). However, the disadvantage of this approach is that some political issues are pushed during the negotiations from level 1 to levels 2 or 3. We saw that clearly when we had the difficult debate on long term guarantees and had to define the concept of "a risk free discount rate". Furthermore, since the Lisbon Treaty, the European Parliament has gained more powers. This means that the European Parliament now wants to co-decide on all important issues. This means the end of Framework Directives, more detailed level 1 legislation and thus the end of the Lamfalussy approach."

*How do you see the future role of the CRO Forum?*

"The adoption of the Framework Directive (as amended by Omnibus II) is only a first stage in the development of a risk based solvency regime. Much work still remains to be done. The CRO Forum can contribute to the further development of a risk based solvency regime by bringing forward practical experience with the economic risk based approach. It will be very important in the future to make sure that the regime does not become too complicated and that supervisors do not depart from the approach that was agreed."





# CRO Forum Anniversary event topics

This chapter gives a brief overview of the topics discussed during the Anniversary event, namely Risk Management (A), Cyber Risk (B) and Regulatory Risk (C).

## A *Risk Management: the search for excellence continues*



The first topic in the afternoon is risk management, tackled by a panel chaired by Jerome Berset (Zurich), with Renzo Avesani (Unipol), Axel Lehmann (Zurich), Alberto Corinti (IVASS) and Joël Wagner (University of Lausanne). After a short historic overview, with the introduction of integrated risk management in the nineties and the first corporate CRO positions after 2000, the minds turn to the future of risk management. First of all, it is paramount that the use of often very technical risk management tools results in transparent, understandable and actionable outcomes that can be communicated clearly to a non-specialist audience, both inside and outside the company. Technique is not the problem, the risk management profession knows how to improve risk measurement, but equal attention should also be on risk culture. With a focus on good principle based risk management, re-addressing the agenda to guidance and best practices, risk management will have a bright future.



Regarding the role of regulators, a phase of potential de-regulation is expected sometime in the future; risk management is at present in compliance with regulation and is even performing work for the regulator. Shouldn't we redirect the focus on helping the company forward, and drive change? Or is risk management pulling back and set into reactive mode? The regulator's view in the discussion is that sound internal risk management practices by the industry must be the starting point. There is no success by regulation only. Solvency II has been a catalyst of improving internal risk management and better communication to explain business decisions, but there is still a lot of room for improvement.



Looking ahead, the risk management function is in an excellent position to develop and mature further. The framework that the Audit Committee and the external auditor have established over the years allowing independent review and validation could be a model to look at by risk management, in cooperation perhaps with regulators and/or rating agencies.

In any case, there continues to be an important role for the CRO in promoting an environment that favours a risk based management approach, innovation in risk management expertise, proactive communication and robust risk culture throughout the organization.

# CRO Forum Anniversary event topics

## B *Cyber risk; fear of the unknown?*

Cyber risk is one of the more recent 'stars' on the risk firmament. And it is coming towards us at a dazzling speed. Introduced by Nick Kitching (Swiss Re), Sarah Stephens, head of Cyber Risk for EMEA at Aon Risk Solutions, sketches the scope of cyber risks as malicious, accidental, internal and external threats, lurking online and offline, directed to technology, media and protected data. Cyber risk has become a leading issue for many organisations as awareness of cloud computing, social media, corporate Bring Your Own Device policies, big data, and state-sponsored espionage has grown. In an increasingly punitive legal and regulatory environment, and in the face of more frequent contractual insurance requirements specifying cyber liability, forward-thinking companies are taking proactive steps to explore and transfer cyber risk, Sarah explains.

Organisations should be concerned about cyber risk if they gather, maintain, disseminate or store private information, and have a high degree of dependency on electronic processes or computer networks. Also, companies that rely on or operate critical infrastructure, engage vendors, independent contractors or additional service providers run risks. In the discussion, the importance of cooperation between business and governments is stressed, to collect data and create frameworks for fighting cybercrime.

The CRO Forum has been discussing cyber related topics since 2008. In 2014, a dedicated working group was launched by the CRO Forum to stimulate industry dialogue around techniques to manage cyber risk and respond to the evolving threats from the cyber environment. The working group is also exploring ways to manage the opportunities cyber risk presents for the insurance industry as it provides protection and promotes improvements in resilience to cyber-attacks.



## C *Regulatory Risk*

### **Europe's risk-based framework**

In a heavily regulated industry such as the insurance sector, a 10 year's anniversary party cannot be complete without the presence of the supervisor. As guest of the CRO Forum, Gabriel Bernardino, Chairman of the European Insurance and Occupational Pensions Authority (EIOPA), gave the keynote speech in which he made some firm statements. Talking about risk management, congratulating the CRO Forum with its achievements since 2004, Bernardino stressed first of all that sound risk management and a strong risk culture must come from the industry. Fundamental risk management clearly goes beyond compliance and is not about ticking the box. "All strategic decision making should include risk awareness. In order to achieve this, CROs must be in the centre of the organisation and preferably be part of the Board... and this will help the regulator as well!"



Bernardino warned that economic improvement is still very fragile and investments driven by a perception of excessive liquidity still pose serious risks for stability, while low interest rate and Sovereign risks create revenue challenges. On the other hand, Bernardino notes that "we are back to the volatility levels that existed before the crisis, which is interesting." All in all, companies have to adapt to a new reality, which implies new product development and further diversification, to reach a sustainable way of revenue growth, in which prudentially undue incentives should not be part of investment allocation.

# CRO Forum Anniversary event topics

## More informal contact

Assuming his supervisory role, Bernardino pleaded for more informal contacts between the industry and the regulator, in order to prevent a situation where formal, written requests for more explication and detailed guidance of Delegated Acts will only result in more detailed regulation: "We stand ready to become more granular", he said. As to calibrations of e.g. capital buffers, Bernardino stated that there is no absolute truth and this is a topic that will continue to develop. Talking about the implementation of European directives in the different Member States, Bernardino stressed that "we have done our best in being as clear as possible and not make them too lengthy. But absence of guidelines will not create a better world, and more variation in implementations are not in the industry's interest." He added that informal contacts will work better than formal letters, which includes talking to EIOPA about local regulators who do not work in accordance with the European directives and prevent a level playing field to be created.

Bernardino ended his speech in an optimistic vein, stressing the importance of a risk based regulatory regime. "Companies and supervisors should be faithful to the risk based framework, this will enhance protection against systemic and conduct risk, enable convergence, consistency and a level playing field. Of course this is a challenge and will take another ten years before it is completely implemented. But if we keep working together in a proactive and friendly dialogue, we will surely get there."



## Conduct and duty of care

The ensuing open discussion amongst the CRO Forum delegates zoomed in on several items in the much-praised speech. It is generally recognised that the industry can and must do more about conduct and duty of care, and that stricter regulation will surely come if the industry does not act. Bernardino: "Your attitude is still too reactive, the industry should be preventive! Give more attention to miss-selling, otherwise you will be flooded by regulation."

There is also room for improvement regarding risk culture. At the same time, one of the biggest achievements of the CRO Forum has been the development of an economic risk based approach, which Bernardino called "an immense and very courageous contribution" to the development of the new regulatory framework in the past years.



## Armageddon or Divine Comedy?

A long but fruitful day was concluded by a lively session, led by Philippe Brahin, in which he challenged the delegates to describe the Solvency II regime in an allegoric way, using films, literature or geography.

The prevailing market view in 2004 was described by Tom Wilson as a romantic movie, turning into Armageddon (with Bruce Willis) in 2008 when the crisis broke out. The following years were like Dante's epic poem Divina Comedia, with its Inferno, Purgatorio and Paradiso (although that last phase may not have been reached completely yet!). Or should the regime be compared with the movie Mission Impossible, Gabriel Bernardino hinted. Another allegory, suggested by Karel Van Hulle, was Solvency II as a red wine, which will age and even improve for a long time to come (and is quite healthy when consumed in moderation.). Still other creative contributions came from Tom Grondin who saw Solvency II as a town with a strong city center and lively suburbs, and from Raj Singh who heard a song that may not sound exactly like Happy Birthday but more like Imagine (John Lennon) or My Way (Frank Sinatra). ■



# Impressions

## Villa Benni



## Ferrari and Maserati visit



## Anniversary diner

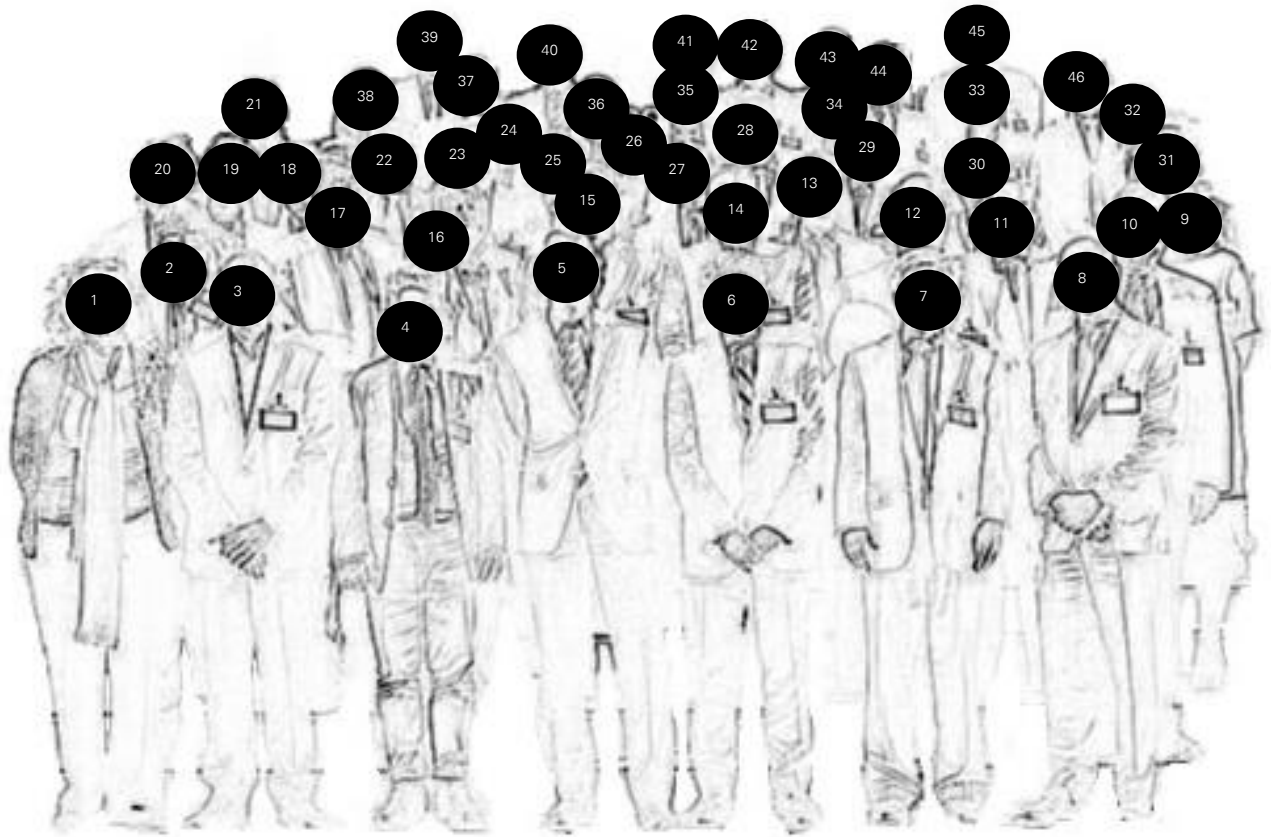




# Group picture



# Group picture



- |                         |                                     |                            |                                       |
|-------------------------|-------------------------------------|----------------------------|---------------------------------------|
| 1 Sarah Doring          | Delegate Unipol                     | 24 Henk van Mourik         | Delegate Achmea                       |
| 2 Luigi Lubelli         | CRO Mapfre                          | 25 Jean-Christophe Ménioux | CEO of AXA Global Life                |
| 3 Paul Caprez           | Current CRO of Genworth             | 26 Hélène Chauveau         | Former delegate of AXA                |
| 4 Jérôme Berset         | Delegate Zurich                     | 27 René Cado               | CRO Groupama                          |
| 5 Marco Viet            | CRO Achmea (Chair CRO Forum)        | 28 Frieder Knüpling        | CRO SCOR Group                        |
| 6 Renzo Avesani         | CRO Unipol (Vice-chair CRO Forum)   | 29 John Lister             | CRO Aviva                             |
| 7 Shaun Wang            | Geneve Association representative   | 30 Simon Gadd              | CRO Legal and general                 |
| 8 Tom Grondin           | CRO Aegon                           | 31 Adam Clint Joseph       | Former secretary CRO Forum office     |
| 9 Carola Steenmeijer    | Former secretary CRO Forum office   | 32 Philippe Brahin         | Delegate Swiss Re                     |
| 10 Karel Van Hulle      | Chairmen of our friendly bodies     | 33 Axel Lehmann            | CRO Zurich                            |
| 11 Doug Caldwell        | CRO NN Group                        | 34 Joël Wagner             | Professor on Actuarial Science        |
| 12 Gabriel Bernardino   | Chairman of EIOPA                   | 35 Patrick Geskus          | Working Group Lead Consumer Risk      |
| 13 Jeffrey Savers       | CRO Lloyds Banking Group            | 36 Fanny Pouget            | CFO Forum representative              |
| 14 Alberto Corinti      | IVASS representative                | 37 Andrew Birrell          | CFO Guardian Financial Services       |
| 15 Andreas Grünbichler  | CFO Wüstenrot Gruppe                | 38 Sarah Stephens          | Head of Cyber for EMEA at AON         |
| 16 Alessandra Quane     | CRO AIG                             | 39 Floris Kloosterman      | CRO Forum office                      |
| 17 Diethard Kaiserseder | Working Group Lead Operational Risk | 40 Tom Wilson              | CRO Allianz                           |
| 18 Malcolm Campbell     | Chairman of AAE                     | 41 Sascha Brehm            | Delegate Munich Re                    |
| 19 Jorg Sauren          | Delegate NN Group                   | 42 Sean Ringsted           | CRO ACE                               |
| 20 Eberhard Mueller     | CRO Hannover Re                     | 43 Sandro Panizza          | CRO Generali                          |
| 21 Hans Peter Boller    | Secquaero Advisors AG               | 44 Daniel Butler           | Managing Director, Aon Benfield       |
| 22 Raj Singh            | Current CRO of Standard Life        | 45 Hans Peter Würmli       | The Geneva Association representative |
| 23 Bernhard Kaufmann    | CRO Munich Re                       | 46 Nick Kitching           | Delegate Swiss Re                     |



# About the CRO Forum

The CRO Forum was formed in 2004 to advance risk management practice in the insurance industry. The CRO Forum member companies are large multi-national insurance companies. Our members are headquartered across the world with a concentration in Europe.

The CRO Forum has three core aims. By bringing together Chief Risk Officers of the various institutions, we are able to identify and benchmark good practice in risk management and share our ideas with the wider industry through publications – with the goal that these good practices encourage robust risk management within the industry, thereby advancing their business [Core aim #1].

In a shifting regulatory landscape, the CRO Forum seeks to promote alignment between regulatory regimes and industry best practice. The CRO Forum supports the development of risk-based regulatory systems which it considers to be in line with best practice risk management within the industry. [Core Aim #2].

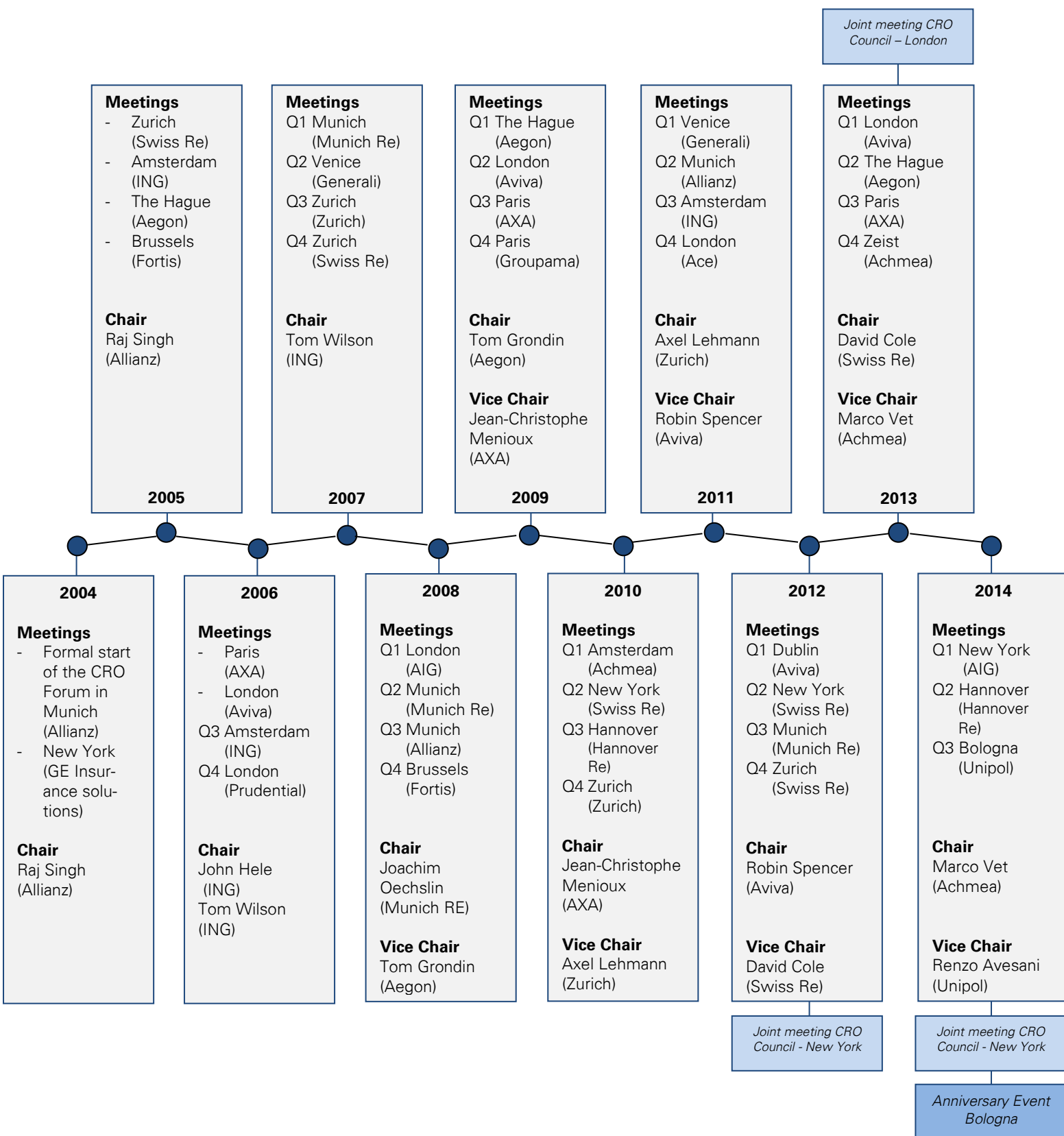
Risk Management is also about looking ahead to risks that could develop, and as such, the CRO Forum runs an Emerging Risk Initiative [Core aim #3]. Emerging Risks consist of new or developing risks as well as existing risks that are difficult to quantify in terms of frequency and severity of potential losses. Emerging risks are extremely relevant for the insurance industry due to their accumulation potential, long-term exposure and the initial difficulties experienced with respect to establishing a clear causal link.

The CRO Forum's Core Aims:

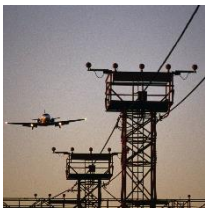
1. Championing best practice in risk management to advance business;
2. Alignment of regulatory requirements with best practice in risk management; and
3. Providing insights on emerging and long-term risks.

The CRO Forum aims to share its views on topics related to these aims through publications and papers (see page 20).

# CRO Forum meetings and chairs



# Publications



## 2014 - Operational Risk paper

The 2014 White Paper on Operational Risk is an update to the 2009 CRO Forum White Paper. The primary objective is to highlight the development of operational risk in the insurance industry. The White Paper summarizes the important principles and considerations

that should form part of the best practices for the management of operational risk. Additionally, a section dedicated to the measurement of operational risk.



## 2014 - CRO/CU paper

Over the last several years, there have been well publicized industry incidents linked to costly failures which could have been, in part, prevented by stronger relationships between the Chief Risk Officer (CRO) and parts of the organization that assume risk. Following a survey

of nine key insurers, the best practices that characterize a strong relationship between the CRO and the Chief Underwriting, or Product, Officer (CU/PO) were identified and are presented in the paper.



## 2014 - Consumer protection paper

Insurance provides a valuable contribution to society by enabling customers to protect themselves from the consequences of risks that may otherwise be unaffordable. The aim of the industry is therefore to provide products that meet

the customer's needs. To ensure that customers indeed get fair and appropriate outcomes, it is important for insurers to effectively manage their conduct risks.



## 2013 - Stress test and scenario setting paper

The CRO Forum believes that scenario analysis and stress testing are valuable tools for (re-) insurers' risk and capital management processes. They provide important insight and complement results from internal economic models.

There is a wide range of current and potential applications for scenario analysis and stress testing.



## 2013 - Establishing and Embedding Risk Appetite: Practitioners' View

Risk appetite has been at the forefront of risk management discussion, especially since the global financial crisis, which is the first paper jointly authored by the CRO Council and CRO Forum.



## 2013 - Food and its impact on the risk landscape paper

Food risk, whether food insecurity or unsafe food, has wide ramifications for society and businesses, exposing risk managers and insurers both directly and indirectly to a large number of risks.

Different areas of business and different types of insurance cover can feel the impact of food insecurity and unsafe food ranging from crop insurance through to liability. It is not just a risk in itself, food will also fuel other risks. This issue will require a multi-stakeholder solution with risk management playing a key role in promoting risk mitigation.



## 2013 - Diversification – Consideration on Modelling aspects & Related Fungibility and Transferability

Diversification is at the heart of insurance business and risk management. The CRO Forum continues to believe

that recognizing diversification benefits provides a key tool in meeting policyholder protection and financial stability objectives. This paper builds on the 2005 publication from the Forum on this topic and provides a basis for companies to evaluate and justify their treatment of diversification identified within their modelling.



## 2013 - Environmental, Social and Governance factors in Country Risk Management – a new horizon paper

This paper is the fourth blueprint in our series on managing environmental, social and governance (ESG) challenges in business transactions, focusing on the core functions of the insurance industry – risk transfer and investments. Environmental, socio-economic and geopolitical developments shaping country risk profiles have become a focal point for the insurance industry in the past few years. This is because they address one business-critical issue, namely the stability of countries.



# Publications



## 2013 - NTNI from a CRO Forum Perspective paper

The International Association of Insurance Supervisors (IAIS) is participating in a global initiative, with the Financial Stability Board (FSB) and the G20, to identify potential global systemically important insurers (G-SIIs). As part of

this initiative, the IAIS has issued a public consultation on proposed measures to identify any insurers whose distress or disorderly failure, because of their size, complexity and interconnectedness, would cause significant disruption to the global financial system and economic activity.



## 2012 - CRO Forum Blueprint on Oil Sands

The purpose of this paper is to raise general awareness of the sustainability challenges related to the extraction of oil sands. In addition, the paper sets out possible ways of how (re-)insurance companies, from a risk management

perspective, could address business transactions in relation to oil sands. It should be noted that the paper does not present any technical, legal, financial or underwriting views.



## 2012 - Endocrine Disruptors

Human and animal life is widely exposed to many artificial substances that interfere with the sensitively constructed hormonal system. Substances that interfere with hormones are called Endocrine Disrupting compounds/chemicals (EDC). EDCs are a

truly emerging risk. There is strong evidence for negative effects on animal organisms and mounting evidence for effects on human health. Evidence is mounting that specific substances are connected to human bodily injuries.



## 2012 - The Right to Underwrite

Recent and pending EU Anti-discrimination law (Directives, European Court of Justice ruling) poses a major challenge to the insurance industry. In this paper, the CRO Forum expresses their views on how such legal framework affects insurers' risk management practices, and looks

into potential consequences in a voluntary insurance market.



## 2012 - CRO Forum Blueprint on Anti-Personnel Mines and Cluster Munitions

The purpose of this paper is to raise general awareness of the issues related to APMs and cluster munitions and the consequent reputation risks. In addition, the paper sets out possible ways

of how (re-)insurance companies, from a risk management perspective, could address business transactions in relation to APMs and cluster munitions.



## 2012 - Recovery and Resolution

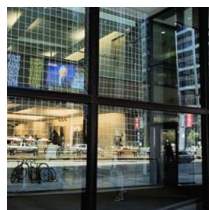
In light of the heightened regulatory interest in Recovery and Resolution, this CRO Forum Paper highlights the good risk management practices that insurers should undertake to avoid the requirement for resolution.



## 2012 - CRO Forum Paper on the Own Risk and Solvency Assessment (ORSA)

In this discussion paper the CRO Forum provides a set of standards that could be applied by insurance undertakings with respect to conducting a self-assessment of risk and capital solvency

called Own Risk and Solvency Assessment ('ORSA').



## 2012 - Contingency Planning

The Euro area crisis of 2011 has stirred up a certain amount of thought and publication on how to deal with the potential consequences of a possible break-up of the monetary union. In light of these events, the CRO Forum investigates the potential risk management

considerations that companies could take with the objective of limiting the potential impact by providing considerations to improve companies' responsiveness to adversity.

# Publications

## 2011

- Power blackouts pose growing challenge to society and industry: urgent action is needed
- Practical application of Liquidity Premium
- Currency Risk under Solvency II
- Insurance industry urges EU Commissioner Barnier to correct Solvency II implementing measures
- Economic (in)solvency is different from actual (in)solvency
- Treatment of Deferred Tax Assets

## 2010

- Principles Governing Transitional Provisions
- Nanotechnology
- Longevity risk
- Sustainability Framework 2010
- Extrapolation of Market Data
- QIS5 TS High Level Issues
- QIS5 Technical input
- QIS5 Detailed Feedback
- Why 'expected future profits' must be treated as tier 1 capital
- QIS 5 Technical Specification Risk-free interest rates
- CP80
- Market Risk Calibration March 2010
- Environmental Liabilities
- Work related stress
- Carbon nano tubes

## 2009

- CRO Forum responses Wave 3 Consultation
- Solvency II Calibration
- CRO Forum response to the financial crisis
- Internal Model Myths
- Press release on Solvency II
- Internal Model Admissibility
- Operational Risk Management
- Calibration Principles
- Insurance Risk Management Response to the Financial Crisis
- Internal models benchmark study

# Publications

## 2008

- Addressing the pro-cyclical nature of Solvency II
- Public risk discl. under Solvency II
- ERI – Critical Information Infrastructure
- CRO Forum QIS4 Benchmark Study
- Liquidity Risk Management
- Market Value of Liabilities for Insurance Firms
- European harmonization of reporting formats
- Comments on QIS4 Draft Technical Specification
- Solvency II Methodology to calculate the MCR

## 2007

- Position paper – Influenza pandemics Position paper
- CRO Forum comments on Consultation Paper no. 18
- Terrorism – A unique challenge for the insurance industry
- A benchmark study of the CRO forum on the QIS III calibration
- CRO briefing Emerging Risk Initiative: Climate Change & Tropical Cyclones in the North Atlantic, Caribbean and Gulf of Mexico
- CRO Forum comments on Consultation Paper no. 20
- CRO Forum comments on Consultation Paper no. 16
- CRO Forum comments on Consultation Paper no. 17
- CRO Forum comments on Consultation Paper no. 19

## 2006

- CRO Forum response to FSA/HMT Discussion Document
- CRO Forum feedback on key issues arising from the QIS II consultation
- Feedback on CEIOPS Consultation Paper 14
- Feedback on CEIOPS Consultation Paper 13
- CRO Forum Feedback to Fitch on June 2006 Exposure Drafts
- Financial risk mitigation in insurance
- A market cost of capital approach to market value margins
- Feedback on CEIOPS Consultation Paper 9
- CRO Forum comments on Consultation Paper no. 15

## 2005

- Solutions to major issues for solvency II
- Response to CEIOPS Second Wave Calls for Advice
- A framework for Incorporating diversification in the solvency assessment of insurers
- Benchmarking Study of Internal Models

## CRO Forum website

All publications can be found on our website ([www.thecroforum.org](http://www.thecroforum.org)) which was launched in 2011.

The average annual number of visits is around 20,000 visits were recorded. Of these visits around 60% is originating from Europe. About 15% is traced back to the United States. Most of the remaining is traced back to Asian countries.

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