Which CRO Will Succeed in the Next Decade?

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Introduction

Throughout my career in banking, investment banking, insurance, asset management, and regulation, I have been a risk manager.

I have learnt and applied the fundamentals: risk analysis, Monte Carlo simulations, Value at Risk (VaR) models, Greeks, sensitivity analysis, stress tests, scenario analysis, risk-based capital models, Quantitative Impact Studies (QIS), forecasting, back tests, variance analysis, risk governance, risk reporting, risk appetite, risk culture, and Board reporting of Key Risk Indicators (KRIs). I have managed financial and non-financial risks, micro - macro risks. Been there, done that. Like many who have spent decades in finance, I have experience with all these, plus emerging tools like predictive analytics and machine learning, which are beginning to transform how we anticipate risks.

Traditional Risk Management: Limitations and Problems

Even when these techniques are executed perfectly, they have not directly led to successful risk management. Many Chief Risk Officers (CROs) have struggled - most, in fact. Even those with top-notch qualifications or who have written risk management standards have not always excelled.

If CROs stick to century-old practices and frameworks, I reckon they may harm themselves and their businesses. The future of risk management demands a fresh skill set alongside that foundational knowledge. CROs need to identify tomorrows risks and address them today.

My Recipe

The future is uncertain. So, what will make a CRO effective in the next decade?

Success and failure stem from many factors - mistakes, flukes, luck, vision, and ambition. This is what my journey has taught me.

1. Encourage Risk Taking

Risks are essential for business success. The psychological profile of a CRO makes a significant difference. A risk-averse CRO will deliver mediocre results. A spineless, laissez-faire CRO could ruin the entire business. A successful CRO, therefore, must be a skilled risk-taker.

The CROs role is to ensure the business takes well-informed risks, not to avoid them. If the CRO does not guide the business in taking risks, the business will take them regardless, rendering traditional risk identification methods theoretical and ineffective.

It is possible to assess a CROs risk-taking ability, and numerous professional tests exist for this purpose (see **Box 1**).

Box 1: Tests to evaluate CRO's capacity to take risks

I am not a certified psychologist, so I will not advise you. Here is a collection of tests I like and would use if I were hiring a CRO or Deputy CRO.

Investment Risk Tolerance Assessment:
Developed by Lytton and Grable in 1999, this test is available online[1] at the University of Missouri website. I have included a link to the original research paper[2].

If I ran a business involving investment risk, I would use this test for the CRO.

DOSPERT Scale:

Developed by Weber, Blais, and Betz in 2002, the Domain-Specific Risk-Taking (DOSPERT) Scale has been referenced by many researchers and practitioners. I have included a link to the questionnaire[3], if that interests you.

I would use this test to complement sector-specific tests.

Situational Judgement Tests:

If you run a business involving technology risk and decisions - such as cyber, information technology (IT), or transformation - it may be ideal to create a bespoke test with professional assistance. I would advise against using standard tests, such as those for a typical Civil Service, as they can be easily '*broken*'. Ask your favourite AI, if you do not trust me.

2. Trust Your Intuition

Everyone has intuition. Few act on it. Most CROs would hesitate to act on their instincts simply because they lack historical evidence, without which they feel vulnerable to the rhetorical question, "So, when did that happen before?".

Even when historical evidence exists – such as massive shocks to Swiss Francs against USD and EUR – people will be cheeky to ask you "And how often does that happen?".

Risk managers must understand the history of incidents, their context, root causes, lessons learnt, and statistical datasets to assess the probability of impact. More often than not, this leads to suboptimal risk decisions. Typically, a CRO hopes to manage risks by setting concentration limits within the risk appetite - a century-old risk management tool.

This outdated approach, however, ensures that your business will lose not only the exposure limit but also incur greater losses due to risk correlations. I shudder to think of the grave mistake I would have made by approving part of an investment allocation to Icelandic banks before the Global Financial Crisis.

Can intuition be enhanced? The short answer is yes. **Box 2** offers practical tips.

[1] University of Missouri: Investment Risk Tolerance Assessment. If the link stops working, you could use the investment risk tolerance used by many CFAs and Asset Managers. Vanguard's questionnaire is good.
[2] "The Grable and Lytton risk-tolerance scale: A 15-year retrospective".
[3] DOSPERT Scale Questionnaire on Google docs. If the link stops working use search engine.

Box 2: Enhancing Intuition

Intuition is a complex subject requiring a lifetime of research, but that is not our goal today. Here are my practical tips to enhance your intuition.

1) **Daily Activity**
   Practise daydreaming. Imagine future scenarios to sharpen your ability to sense emerging risks. CROs are accustomed to what-if scenarios used for centuries. You need only break free from their structured construction and calibration.
   [Example: The textbook construction is stereotypical, and calibrations are typically benign and lack credibility. This is why PV01 type sensitivity measures do not work during crisis.]
2) **Book 1: Thinking, Fast and Slow**
   Daniel Kahnemans Thinking, Fast and Slow describes intuition as System 1. I differ from Kahneman on the heavy emphasis on past experience shaping intuition. I believe a sixth sense is not always tied to the past. My friend KNV was due for an interview at the World Trade Center on 9/11. Intuition saved him.
3) **Book 2: Blink: The Power of Thinking Without Thinking**
   Malcolm Gladwells Blink: The Power of Thinking Without Thinking encourages you to trust your instincts. In my view, it is far more helpful for CROs navigating dynamic risk scenarios, where historical incident logs are utterly useless.
4) **Audiobook**
   Both books above are available as audiobooks. Additionally, Dan Arielys Predictably Irrational will help a CRO move beyond evaluating all possible options before deciding.
5) **Films**
   Several fictional films explore intuition. Inception (2010) and Déjà Vu (2006) are worth watching. As you watch, ask yourself, “Why did I not see that coming?” Inception highlights intuition’s role in internal navigation, while Déjà Vu emphasises its role in external action.
6) **YouTube**
   You could watch a three-hour 1957 interview[4] with Carl Jung in full or skip to the 52-minute mark and start there. Many - though not all - CROs are introverts, and Jung explains why intuition poses an explainability challenge for introverts. I am not asking you to explain intuition, but to develop and rely on it. Jung discusses gamblers, bankers, and doctors, and their approaches, highlighting the role of sense perceptions. His insights remain strikingly relevant, even 70 years later.

[4] YouTube. Carl Jung interview 1957.

3. Think Like an Entrepreneur

In any risk decision, ask yourself what you would do if you had founded and owned the entire business. Your success or failure is at stake. For a moment, set aside everything - your second-line role, internal politics, and your training as a CRO. Simply ask: if my own money were at risk, what decision would I make?

More often than not, the CRO will arrive at the most effective decisions, whether it is a go/no-go call on a transformation project, the launch of a new product, an investment in derivatives, or setting the risk appetite. Be accountable to yourself, and others will naturally respect your decision.

You may wonder how a risk manager or CRO can think like an entrepreneur without ever running their own business.

In my case, I do not run a business. Not yet. But I have my experimental labs where I make technology risk decisions. You could explore situations tied to your passions and interests.

Even if that feels out of reach, the power of imagination can help you think like an entrepreneur. Here is a tip: imagine you were Elon Musk - would you have invested USD 44 billion of your own money to buy Twitter? There is no right or wrong answer, but the ability to think like an entrepreneur can be sharpened by studying successful entrepreneurial role models.

In **Box 3**, I list my own role models and their biographies. Personally, I prefer watching their live interviews over reading curated biographies. But that is just me.

Box 3: Entrepreneurs that Inspire Me

Elon Musk

Several recent books cover Elon, but in my view, Tesla, SpaceX, and the Quest for a Fantastic Future by Ashlee Vance (2015) offers the insight I seek. I prefer watching his more recent interviews, though.

Jeff Bezos

Amazon and Jeff are renowned for their customer obsession, a principle central to my career. Mark Ritsons 2021 article provides an insightful read.

Dhirubhai Ambani (1932-2002)

In my view, Indias most influential entrepreneur, from whom you can learn the art of negotiation and growth. The film Guru (2007) is officially fictional, but is it? A compelling watch.

Jack Ma

With his vision for China-World commerce and relentless perseverance, Jack Mas entrepreneurship shows how to turn problems into opportunities.

4. Keep Business Focus

Align risk strategy with business strategy - otherwise, you are doing it wrong. This will be even more vital in the decade ahead.

Many traditional business models are no longer viable or sustainable. Neither outsourcing nor insourcing offers a perfect solution. Digitalisation is a one-way street. Social media has become a double-edged sword.

I do not believe any business in 2025 will remain unchanged by 2035; your views may differ.

Where I hope we agree is that the CROs role in this decade of uncertainty has shifted from producing Key Risk Indicators (KRIs) to acting as a strategic risk adviser.

5. Accept Accountability

Build a culture that measures how risk decisions affect both the upside and downside. This is going to be the most difficult challenge for a CRO.

6. Influence, Not Veto

Wield your influence carefully, not your veto. The second-line powers and access to the Chair of the Board Risk Committee are not for reckless use.

Note: I have always believed that the Governance, Risk, and Controls (GRC) model, involving four lines of defence, outperforms the commonly used Three Lines of Defence (3 LoD) model for assessing CRO performance. That, however, is a topic for another article.

7. Assemble a Star Team for Risk

If I could freely select a risk team, I would prioritise age diversity and create a talent mix of 25% experienced professionals and 25% promising newcomers. The remaining 50% should complement each others skill sets, ensuring the team collectively delivers holistic value to the business.

Consider a couple of complex scenarios that test your risk knowledge. A traditional CRO would be fortunate to grasp concepts like network segregation or delta hedging of a barrier option as the underlying price (S) approaches the Barrier Level (H).

This means the CRO must either upskill, ensure everyone's skills remain sharp, or both, regardless of their own area of expertise. Lack of knowledge increases risk.

8. Create Your Own Culture

Nobody expects these qualities from traditional CROs. Without waiting for someone to demand change, establish your own risk culture.

Boxing Game

I reckon the top team - Chief Executive Officer (CEO), CRO, Chief Operating Officer (COO), Chief Financial Officer (CFO), and other C-suite executives (CxOs) - should act like entrepreneur-owners who spar together, not merely employees. The CRO is in the ring with gloves of independence and ethics, not aiming for a knockout but maintaining discipline.

I have been lucky to be witness two such organisations and therefore believe this is not a pipedream.

Evolution or Revolution

Research indicates a significant gap between the respective approaches of a Traditional CRO and a Future CRO! This is not a perfect science, but I consider the gap requires a revolution than a slow evolution.

Luckily, none of us are the stereotypes which are described as under.

Traditional CRO Characteristics	Future CRO Characteristics
• Risk-averse, focuses on control / compliance	• Balanced risk-taking with strategic insight
• Relies heavily on historical data / processes	• Combines data with intuition and experience
• Often seen as a "business prevention" role	• Business enabler and strategic partner
• Hierarchical decision-making structure	• Collaborative and influential leadership style
• Reactive approach to risk management	• Proactive risk identification and management

What next?

Reflect on this for yourself, please - I am not seeking a debate. Do you believe the stagnant methods of the past two centuries will suffice for the next decade?

A coffee chat is always welcome!

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