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Conversation with a CRO

An Interview with John Rhodes

John Rhodes, CRO of Athene Holding, Ltd

For this edition of *Risk Management*, we were honored to have the opportunity to interview one of the insurance industry's most well-known and respected executives, John Rhodes, CRO of Athene, one of the fastest growing and innovative companies in the retirement space. John's incredibly diverse background, including leadership roles in the U.S. Navy and investment banking, gives him a unique perspective on the insurance industry, and as we expected made for a fascinating interview.

John was interviewed over the phone on Aug. 17, 2018 by Tony Dardis of Milliman Inc.

John Rhodes is executive vice president and chief risk officer of Athene Holding, Ltd, a leading retirement services company that issues, reinsures and acquires retirement savings products. Athene has grown tremendously in recent years and is known for its superior and unique investment capabilities through its strategic relationship with Apollo Global Management. In particular, Athene has found success in being able to generate exceptional yield pick-up on long-dated liabilities, made possible by combining highly specialized expertise in nuanced asset categories with world-class credit and liquidity risk management. This is something that many insurers have struggled to achieve within the current investment environment. With Athene's corporate headquarters in Bermuda, U.S. headquarters in West Des Moines, Iowa, an office in New York, and the asset management function in Los Angeles, John invariably spends considerable time on the road.

Prior to joining Athene, John held CRO positions at Allstate and Lincoln. Positions prior to that included head of hedging operations and performance management at ING U.S. Financial Services, and risk management roles at JP Morgan Chase and GE Capital. And if that wasn't enough of a diverse background, John started his career as a commissioned officer in the U.S. Navy—something we explored in our interview as giving John a very unique foundation for his career in insurance risk management.

Q: Please tell us about your career in risk management and your path to where you are today.

It has been an interesting path for sure. While it has been a diverse path, I think when looked at overall, it all fits together quite nicely. First off, after graduating from the U.S. Naval Academy, I spent six years as a commissioned officer, having obtained my undergraduate degree in Oceanography. My responsibility was to supervise the operation of Nuclear Power Plants—that of course had a huge risk management aspect to it. But equally important was the leadership side of this position. I started off, straight from college, with 35 people reporting to me and that grew to 100 people in the department by the time I left. At the time I didn't think a lot of this, I was just getting on with my job, but little was I to know that my Navy experience was giving me an incredible foundation for the risk management and leadership roles I would take on later in my career.

My first job out of the Navy was as a residual risk analyst at GE Capital. GE Capital was a large equipment leaser, and my focus was in managing the risks around that. A lot of what I had learned in the Navy was how to think about a problem, how it all fits together, and to look for patterns. This skill was further refined while at GE.

A couple of years after starting at GE, I was hired by JP Morgan Chase as head of their Residual Risk function, which I did for three years. This was in the early 2000s and many banks faced big residual losses at that time. Then in 2004, I switched to the investment banking side of JP Morgan Chase, specializing in valuation and market risk, which included working in the derivatives markets. Around the same time I also got my MBA at NYU. I wasn't necessarily the expert, but I had a broad-based knowledge of derivatives, which again became a great foundation for work I was to do later in my career.

In 2006 I was looking to get off the investment banking treadmill and made the big switch into insurance when I accepted an offer from ING U.S. to run their hedging operations. I ran that for a couple of years, during the economic crisis, so another unique experience. This was followed in 2009 by a move to head up Lincoln's hedging program, and then in 2012 I was promoted to CRO. In 2015, I started as CRO of Allstate and then moved to Athene in the summer of 2016.

Bringing this all together, I think the basic core skill set this has given me, as I've already hinted at, is the ability to think about patterns in business problems. This has helped immensely in being able to break things down into their component parts, which is so essential in being able to size up risks and prioritize them. And I think having started in non-insurance has been very helpful in that regard. I've been able to identify patterns that help me think about risks more broadly, not simply focused on insurance.

Q: Your comments on leadership are very interesting. Can you say a little more about how your unique background has helped develop your leadership skills?

I've certainly had some significant leadership roles during my career, including now three CRO positions. But even at the age of just 21, I was offered an immediate leadership opportunity in a technical space. It is rare that anyone has an opportunity where their first job is running a team of 35 people. That position framed my views of what works, from a management perspective, early on. Most people will have to wait 10 years or more to get any leadership experience. Today, I am 46 and have spent the last 19 years in the corporate space. To this point in my career, I have always been the youngest at the table when the management team gets together.

Q: What would you view as today's biggest issues facing the insurance industry overall, and also facing your company specifically. How are these issues being addressed?

From an industry perspective, there are indeed many big issues and opportunities, but I will highlight four topics, in particular:

- The impact of technology,
- Changes on the regulatory and political fronts,
- Dangers associated with complacency around "protected" markets, and
- Big Data.

So as far as the impact of technology is concerned, the key is to be able to leverage the value of this and anticipate the competition it could bring in the future. Cyber risk is, of course, very much a focus for the industry, and for Athene.

Most insurance companies have a "technology debt" they are trying to repay. This is to say there is a need to balance the investment in customer service and claims efficiency versus the need to maintain a bottom line. And then how do we think about future competition? More complex products are sold and not bought, and the big competition will come from more simple products, that are bought and not sold. And it could well be that the new generation of competition comes from the start-up community, not from the established players.

On the regulatory and political fronts, things are extremely active and the burden of changing regulations in particular is large and increasing. On our table now we have new regulatory items in areas such as Group Capital, VA reform, RBC ratios and new cyber mandates. How do I ensure I am an active part of the dialogue in the creation of the regulations in the first place and then prepare myself to be able to meet the regulations once they are effective?

The danger of complacency around the markets is another area to highlight. Since 2008 the impact of world events has been very short lived and really had minor effects on the markets long term. Investors have known there is an implicit backstop in the event of a problem, i.e., Fed intervention, so that has helped create an underlying current of complacency. Is market risk being framed appropriately to account for this? As spreads tighten, how do we make smart decisions without reaching too far, and understand the implications and not take for granted 9–10 years of protected markets?

Big Data or Data Mining is another topic and opportunity that is very much front and center. Understanding the potential for Big Data in the life & annuity industry is still at an early stage, and clearly, there are big opportunities and potentially big rewards for those who act early. At the very least, better use of data will mean you can create a better priced product, that is better understood and better managed from a risk perspective. And of course, on the underwriting side, you can be more efficient in doing more with fewer data points.

Moving away from the overall industry perspective and looking more specifically at a big topic we have really focused on addressing at Athene, I would again have to start off with technology with a specific focus on cyber risk. Like all insurers, we are exposed to cyber risk by having a workforce that's required to be digitally connected.

For that reason, we do dedicate significant resources to managing that risk and we have brought in some great people from very large multinationals to run the program. Our program involves many layers of testing, including realtime monitoring, and penetration testing. We have software that looks for areas of compromise. We also look at historical data patterns to indicate where we may have been compromised where that isn't obviously apparent on the surface—a "silent" breach. And of course, we have software to test for phishing, etc.

I personally meet twice a month with our head of cyber risk. Also, one of my team chairs the Operational Risk Committee which the head of cyber works with very closely.

We also have a focus on third party risk. Our vendor function works very closely with our cyber team. From the outside, you might think this sounds like an outsized group for a company of our size, but we take third party risk very seriously, and we monitor key vendors very carefully.

The other big risk we think about all the time at Athene will not surprise you given our business model. That is asset risk. As you know, we have built up unparalleled expertise in being able to enhance yield on assets supporting long-dated liabilities. This, of course, has associated asset-side risks that have to be carefully monitored. We have a dedicated asset risk function that carefully monitors transactions and poses key questions and oversight to asset managers during the underwriting process. We are big users of collateralized loan obligations and alternatives, so the expertise required there is very specialized, and the risk management highly sophisticated.

I also highlighted changing regulation as a big issue for the industry and certainly that is another focus area for Athene. There are many parties involved in the issues around regulation, including our Executive Vice President, Legal. We recently spent many hours with the group capital management team discussing the implications of the emerging capital standards.

Q: What are your views on what makes for an effective risk management framework? What have you done to implement such at Athene?

The evolution of our risk governance and risk management framework is an on-going continual improvement process and is something we are doing more and more on.

I personally spent months looking at Athene's risk management process before Athene went public in 2016, and we did make some adjustments in our governance structure as a result. For example, I carefully evaluated our risk appetite, risk limits, and stress testing work, with a view to ensure it was right-sized for Athene. And given Athene's short history, this merited an extra deep dive into our risk management framework. With our focus on M&A, it is particularly important that we have a dynamic framework. We must be nimble enough to change our risk management framework to adapt to our asset and liability mix. It is exciting that given the right strategic fit, we have an appetite for any type of liability, but this in turn creates challenges from a risk management front.

My responsibility in overseeing the risk management of such a fast-growing company includes ensuring each of the first, second and third lines of defense are all doing what they need to be doing in meeting their risk management responsibilities. I can't over emphasize the importance of this.

Another aspect of governance, and another that we are heavily focused on, is using all the information and data our company generates in a very positive manner. We continue to exploit technology to get more effective risk reports and analytics. Effective risk reporting enables us to make better, more informed decisions on our business. This includes having rapid turnaround times on our basic reporting to the board and various committees. In many instances we are now near realtime turnaround on risk reporting.

Q: On the topic of risk reporting, what do you view as things that can be done to make for risk reports that are actionable and genuinely assist management in making strategic decisions?

I have been very influenced by my Navy experience in having a strong orientation towards dashboarding. I use dashboards incessantly—any chance I can get. At Athene we have key dashboards across all of the risks we face. For board reporting, we lay out our current risk position versus our limits. The limits include credit, rates, liquidity, and equity. We focus our reports on the things that are critical to our business, not inundating our audience with too much information. It is my job to take the noise out of the information and to bring things down to the most salient points. Our company's senior management dashboard is just two pages in length. In my mind, this is appropriately sized for a senior audience and ensures we get the right points on the table for senior level meetings.

Of course, we also have deep dives of our asset portfolio, as well as all the other key risk areas such as operational and regulatory. But the detailed reports are not for top-of-the-house digestion.

Q: Much attention has been given by the industry in recent years to building out model risk management capabilities. What would you view as the key to a successful model risk management program?

Model risk management is very important especially on more complex liability profiles. As part of our operational risk strategy we have four key component parts:

- Cyber risk,
- Governance risk,
- Continuity risk, and
- Model risk.

Then for model risk, we have established three pillars of activity:

- Tiering and prioritization of models,
- Risk rating of each model, and
- The type of review that is appropriate for each model, in the light of its prioritization and risk rating.

There is then the question of who does the work. Some companies have invested in building out a separate, centralized model risk management function, while others have taken a more decentralized approach, and give the first line of defense more direct responsibility. There are a number of ways to approach it and I wouldn't say any one approach would necessarily be better than the other. Having a smaller group at the central level might help better facilitate tapping into the talent and knowledge that resides elsewhere in the company, so there are potential advantages there. The fact that model risk management is such a big area of concern for the industry it is not a surprise.

Q: Do you think it is useful to have an internal company ("economic") view of capital?

I think taking an internal perspective on capital has its uses. At Athene, we do look at incremental risk costs and we are very mindful in making strategic decisions that consider how much risk capital are we eating up for any given action and gauging whether it is the right trade-off.

We look at our various lines of business—retail, reinsurance, institutional and inorganic—and in considering what to do from a transactional basis, we measure the incremental return from risk capital. We spend a lot of time looking at the risk-return profile. So our "economic" framework is all about understanding the incremental changes to liability and asset risk profiles that arise from any given decision.

Q: Are there any other big topics you wanted to raise that we haven't already talked about?

One thing that we haven't covered in our discussion that we should highlight is the topic of culture. Having the proper culture in an organization is very important to successful risk management and it is often underestimated. That includes having the right incentive structure which will help build the right mindset. We have an extremely good culture in place at Athene. It starts right at the top and flows throughout the organization. If you don't have the right culture, everything else is for naught. My ability to do my job is entirely dependent on having a team around me that understands the importance of risk and the role they play in managing risk. We are all acting like owners every day. ■

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