



Chief Risk Officer Survey

Industry perspective:
Healthcare and Life Sciences

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Introduction

The Healthcare and Life Sciences (HCLS) industry is constantly evolving, presenting organizations with a range of emerging risk challenges.

Chief Risk Officers (CROs) in those fields are putting new regulatory compliance issues and increasingly sophisticated cyber threats at the top of their agendas, while they work to build a strong risk and compliance culture to align risk objectives with business goals. Part of that effort is seeking additional support from their C-suite, as well as providing training and upskilling opportunities for staff. And to accelerate risk management processes, CROs are spending more on technology, particularly artificial intelligence (AI) and machine learning (ML). That includes working to improve their data and analytics capabilities to better address risk challenges.

To gain better insights into the risk-management issues facing businesses today, KPMG LLP (KPMG) conducted its 2023 Chief Risk Officer Survey. The survey results show how companies are addressing current and future risk challenges, opportunities, and priorities across five intersecting drivers of risk transformation: de-risking, growth or strategic change, compliance risk, effectiveness and efficiency, and cost takeout (Exhibit 1). This report digs into our overall survey to identify the challenges specifically facing the HCLS sector, reflecting data from 82 U.S. HCLS risk executives who responded, coupled with the analysis and perspectives of KPMG Risk Advisory partners.

The report also analyzes the results by the two constituent HC and LS subsectors. Although they share certain concerns, HC and LS companies have divergent needs and priorities in many areas, and this report calls out these differences when they occur.

Overall, our survey found that regulatory issues and cybersecurity threats are the top risk-related challenges anticipated by HCLS

organizations, with regulators and government agencies seen as the primary source of pressure on risk functions. However, respondents also said their organizations demonstrate some level of preparedness to meet these risk challenges. As for addressing these risk problems, respondents are placing their top focus on improving data and analytics, diligence in policy management and controls, and increasing employee training.

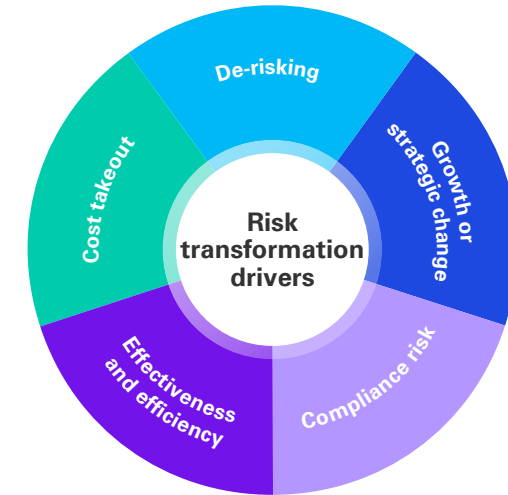
There are also increasing expectations that risk becomes a more strategic partner to the overall business. Because of that, CROs are working to build and foster a strong risk and compliance culture, establishing a risk governance structure, and providing training and resources for employees as their top strategies for aligning risk objectives with strategic goals.

Support from leadership is essential for success, and respondents said that while their organizations receive strong support from their C-suite, there is a desire for greater support in aligning risk management with overall business strategy. To that end, some respondents also indicated they are prioritizing proactively engaging with the C-suite and board in planning and strategy development.

Funding can often be a challenge, but respondents said their organizations anticipate an increase in risk management budgets, with technology, particularly information technology infrastructure and technology-driven risk management, being the top priorities for budget allocation. Moreover, CROs are recognizing AI and ML as critical tools for optimizing risk management processes.

Overall, this survey report provides valuable insights into the risk management efforts within the HCLS sector and its two subsectors, highlighting the challenges, strategies, and priorities for risk management in the coming years.

Exhibit 1. Five intersecting drivers



De-risking: Organizations' efforts to reduce risk exposure and hedge against expected market conditions

Growth or strategic change: Organizations' organic or inorganic growth; change in products, services, delivery channels; and/or other large-scale strategic initiatives

Compliance risk: New or emerging regulatory requirements, non-compliance with existing requirements, or need to enhance the relationship with oversight authorities

Effectiveness and efficiency: Increase the quality, consistency, extensibility, and confidence in risk management requirements and outputs

Cost takeout: Reduce the overall costs associated with the governance, maintenance, oversight, and execution of risk requirements and practices

De-risking

Organizations' efforts to reduce risk exposure and hedge against expected market conditions

Key findings

HCLS companies see regulatory issues as the top risk-related challenge in the coming years, suggesting that organizations anticipate upcoming changes that could affect their business practices or operations. This phenomenon connects directly to the incredibly fast pace of changing regulations, as well as the rapid rise of and impact from generative AI and how that will impact the way companies do business across the board. Cybersecurity threats were also seen as a top risk, which is understandable given that healthcare organizations have been subject to cyber-attacks for some time, including the rise of ransomware attacks, and that bad actors are becoming increasingly advanced. Moreover, HCLS companies handle large amounts of health information, which commands top dollar to secure to mitigate breaches and meet HIPAA standards.

When broken down by subsector, our survey found that HC and LS respondents had differing views on the long-term challenges potentially facing their organizations. LS respondents were significantly more concerned about future regulatory challenges than HC respondents (60 percent versus 30 percent). In addition, 55 percent of LS respondents cited environmental, social, and governance (ESG) risk as a top challenge—bigger than cybersecurity threats and geopolitical risks—compared to only 3 percent of HC respondent who saw ESG as a concern (Exhibit 2).

It is essential that risk management is prepared for unexpected and potentially damaging incidents. In our survey, respondents were asked to describe their organization's preparedness for a list of risk challenges.

Exhibit 2. Top challenges your organization will face within the next 2–5 years

Q. What do you think are the biggest challenges your organization will face within the next 2–5 years?

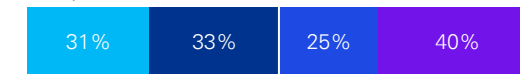
Regulatory changes and compliance issues



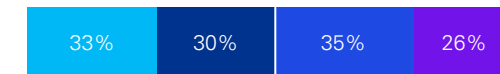
Cybersecurity threats and data breaches



Geopolitical risks



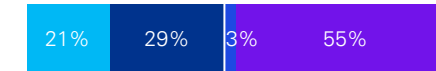
Economic downturn or recession



Evolving export controls and sanctions regulations



ESG risks



Overall | HCLS | Healthcare | Life Sciences



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Among HC respondents, the top challenges respondents felt they were well or very well prepared for were market risks, cited by 83 percent, cybersecurity threats and data breaches (cited by 71 percent), business resiliency (71 percent), and financial risks (70 percent). These include market risks, such as convergence and consolidation, as well as business resiliency and financial risks, like changes related to reimbursement and risk-bearing providers. The challenge they are not at all prepared for is ESG (100 percent). Among LS respondents, 100 percent said they were well or very well prepared for the challenges associated with market risks, while 96 percent said they are prepared for ESG—an area that the overall sector has been addressing for some time.

Recommendations

- Building resilience concepts into the risk management framework will help ensure first-line risk processes and controls stand firm in case of disruption or significant, unexpected “black swan” events.
- With technology evolving faster than cybersecurity, risk management, and governance, companies should thoroughly assess changes to vulnerabilities due to the integration of emerging technologies across the enterprise.
- While complex, external risks like economic downturn, geopolitical instability, and the possibility of another pandemic certainly may require enhanced attention, do not forget the array of other non-exceptional risks facing enterprises like third-party risk or litigation.

“Cybersecurity will remain a top risk concern for healthcare organizations. Hospitals and healthcare systems have long been subject to cyber-attacks, and the bad actors are only becoming more sophisticated. There is also more value in healthcare data than other types of data, so it is a lucrative target.”

— Ash Shehata, Principal,
U.S. Sector Leader, Healthcare



Growth or strategic change

Organizations' organic or inorganic growth; change in products, services, delivery channels; and other large-scale strategic initiatives

Key findings

We asked respondents what their strategies were for the next two to five years to ensure that risk management and the business were in sync. Among all HCLS respondents, 56 percent said that fostering a strong risk and compliance culture as part of enterprise-wide strategy is the top factor for aligning risk objectives with the strategic goals. This was followed by establishing a risk governance structure that includes corporate strategy oversight, at 50 percent, and providing training and resources for employees on risk management and corporate strategy, with 49 percent (Exhibit 3).

A larger portion of LS respondents (62 percent) cited providing training and resources to employees on risk management and corporate strategy as a means to align.

As HCLS CROs look ahead, they will be seeking ways to enhance their risk-management activities. Overall, respondents said they aim to prioritize "emerging risk and trend analysis" (46 percent), followed by "risk identification and assessment" (41 percent) to fortify their capacities in identifying and mitigating emerging risks effectively.

In the LS subsector, emerging risk and trend analysis was cited by 52 percent of respondents as their top priority for risk management activities. In the HC subsector, the topic is also a priority, but with a smaller percentage of respondents—around 40 percent.

Meanwhile, risk identification and assessment are a priority for 50 percent of respondents from the LS subsector, whereas only 33 percent of HC respondents feel the same way.

The success of risk management initiatives is enhanced with the backing of top leadership. Among all respondents, a majority said they have a high level of support from their C-suite (84 percent). In the subsectors, responses were also high, with 73 percent of

HC respondents and 95 percent of LS respondents acknowledging strong support from top company executives.

Among those respondents who say they have a low or moderate level of C-suite support, 9 out of 13 expressed a desire for greater support from senior management regarding alignment of risk management with overall business strategy.

Exhibit 3. Top strategies for aligning risk objectives with business goals in the next 2-5 years

Q. Looking ahead over the next 2-5 years, what can your organization do to effectively align or continue to align risk objectives to the strategic goals and priorities of the business?

Foster a strong risk and compliance culture as part of enterprise-wide strategy



Establish a risk governance structure that includes corporate strategy oversight



Provide training and resources for employees on risk management and corporate strategy



■ Overall ■ HCLS ■ Healthcare ■ Life Sciences



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Recommendations

- To make progress on strategic enterprise risk management, incorporating shifting risks and strategic changes into the risk framework should be a key risk transformation goal.
- Raising risk's profile is a must, particularly around strategic thinking skills. Risk leaders will need to bring to leadership strategic insights that create value aligned to the business objectives to earn regular inclusion in strategic business discussions.
- Ensure trusted, respected risk professionals who sit outside of independent functions who report high enough in the hierarchy to affect positive strategic change and help drive a risk mindset up and down the organization.
- The HC industry has recently experienced considerable inorganic growth and convergence. Organizations seeking acquisitions should ensure that risk leaders have a seat at the table at the start of the process to make certain the risk component is synthesized and integrated throughout the combined entity.
- LS companies are also growing through acquisitions and need to ensure that the acquired entity is properly incorporated into the existing risk framework and that the new team is appropriately trained on the company's risk policies and protocols.
- As access to data increases, look for ways to leverage data and analysis so risk and compliance teams can identify trends and work with the business to help mitigate future risks. This also helps to continually strengthen the organization's compliance culture.

“We’ve seen a lot of convergence in the healthcare industry through mergers and acquisitions. That opens organizations up to a lot of new risks around quality of care, increased costs, workforce and cultural challenges, and increased regulatory scrutiny. So, healthcare CROs should be taking a fresh look at all of these areas to determine new risk vulnerabilities and how to mitigate them.”

— Jaime Pego, Principal, Advisory, Forensic

Compliance risk

New or emerging regulatory requirements, non-compliance with existing requirements, or need to enhance the relationship with oversight authorities



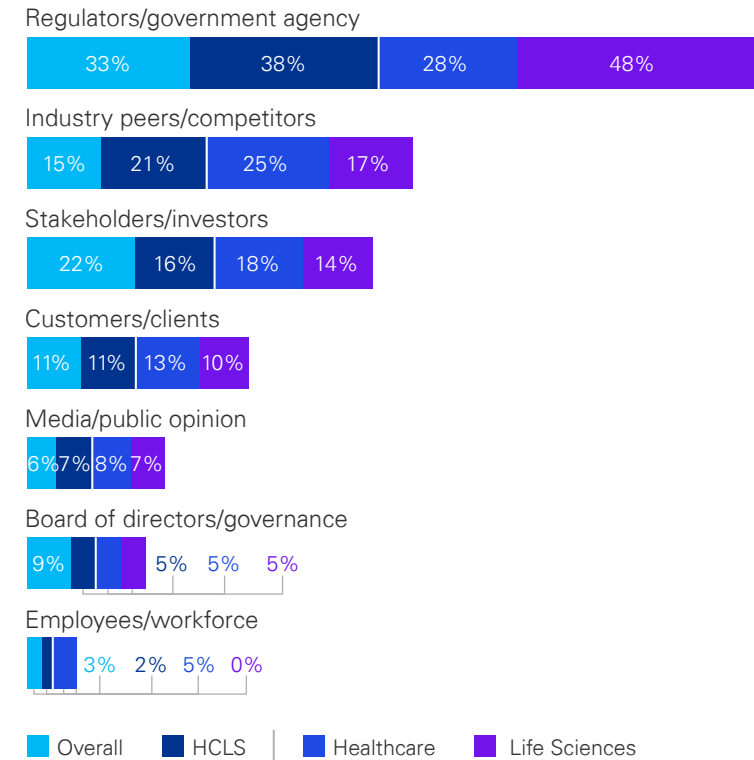
Key findings

HCLS CROs see regulatory challenges and compliance issues as the top challenge they expect to face in the coming years, cited by 45 percent of respondents. This concern was even higher in the LS subsector (60 percent), though less of an issue among HC respondents (30 percent).

HCLS CROs also agreed that the greatest source of pressure and heightened expectations on risk functions came from regulators and government agencies, chosen by 38 percent of respondents. This sentiment was more intense among LS respondents, 48 percent of whom cited regulatory and government agencies. However, HC respondents cited industry peers and competitors (25 percent) as almost an equal source of such pressure as regulators (28 percent) (Exhibit 4).

Exhibit 4. Sources of pressure and heightened expectations on risk functions

Q. As it relates to risk management, from which of the following stakeholders are you getting the most pressure, interest, and/or heightened expectations?



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Recommendations

- Expend effort to understand the principles that regulators are looking to see the organization embrace, in addition to the formal regulatory obligations, and align the risk strategy to meet those objectives.
- While it might require significant changes to the risk function, do not shortcut potential issues with regulators or other stakeholders and be sure to appropriately assess potential risk impacts. Invest accordingly to help ensure small problems do not become big.
- Organizations that have acquired other entities should take a second look at compliance risks, particularly when the acquired entity has a different risk profile or operational footprint, for example, a provider taking on a payor organization.
- HC organizations should be prepared for increased regulatory scrutiny, particularly around the monetary relief programs that were enacted during the COVID-19 pandemic.

“Building a strong risk and compliance culture is critical for life sciences companies as they navigate complex and evolving regulations around FDA approvals, clinical trials, and data privacy laws.”

— Kent Cowser, Partner, Advisory, Products
Line of Business Leader, Risk Services



Effectiveness and efficiency

Increase the quality, consistency, extensibility, and confidence in risk management requirements and outputs

Key findings

HCLS CROs say their budgets will increase for their functions to enhance efficiencies and quality, following relatively static funding in the past 12 months. Overall, 55 percent of the respondents reported that their risk management budget remained the same (-5 percent to +5 percent) in last 12 months, while 39 percent experienced an increase of 5.1 percent to 10 percent in their budget. Looking ahead, however, almost 90 percent of the respondents anticipate an increase of more than 5 percent in their risk management budget for the next 12 months.

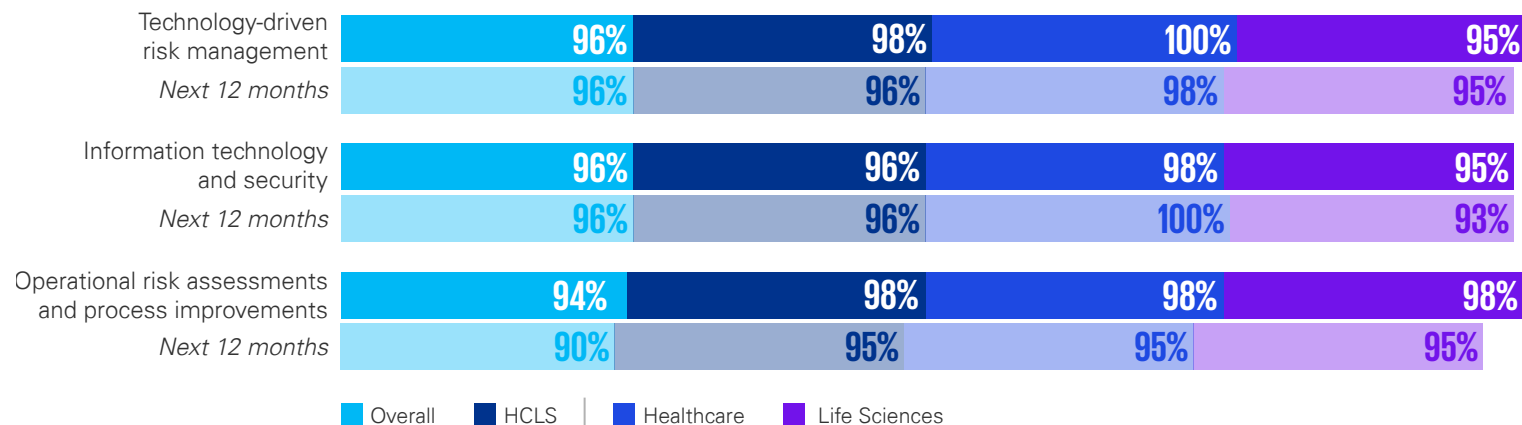
Among subsectors, a higher percentage of HC respondents reported an increase of 5.1 percent to 10 percent in their risk management budget for the next 12 months compared to the LS subsector (65 percent vs. 45 percent).

When it comes to where CROs are spending their dollars, technology was uniformly at the top of the list. Technology-driven risk management followed by information technology and security were the highest two priorities for HCLS respondents as of today and appear to remain important in the future as well (Exhibit 5).

For HC respondents today, operational risk assessments and information technology and security currently share equal significance in budget allocation. However, in the future, IT infrastructure and security are expected to become more important. In the LS subsector, operational risk assessments and process improvements was the top budget allocation today; in the next 12 months, it shared equal weight with technology-driven risk management.

Exhibit 5. Current and future allocations of risk management budget

Q. How is your risk management budget currently allocated? How do you anticipate allocating your risk management budget for the next 12 months?



CROs are also looking to apply digital tools to optimize the risk management process. A majority of HCLS respondents in both the current (62 percent) and future (68 percent) state indicated that AI and ML would play a critical role in accelerating risk management processes within their organizations. In both the LS and HC subsectors, AI and ML were also both seen as important tools now and in the future. However, the survey results indicated that LS respondents view AI and ML as more critical for risk management, with a larger anticipated role in current and future states compared to HC respondents.

Recommendations

- The most successful risk functions leverage the power of technology convergence. Take a broad view of technologies, knitting them together to empower one another to support larger enterprise goals.
- Individual digital tools can help drive specific outcomes. But collectively, they are especially powerful, transforming the risk ecosystem into one that can respond to changing circumstances and improve over time.
- Ensure digital acceleration of the risk function is in sync with the organization's transformation goals. Integrating strategically selected digital tools and techniques into risk processes in a way that is aligned to where the organization is headed can meaningfully propel its transformation.

“As Chief Risk Officers support the development of life sciences innovation in their organizations, especially in artificial intelligence and precision health, they are addressing new ethical considerations, compliance pressure, regulatory challenges, and impact on patient outcomes in addition to the challenges they have faced for the past two decades. These new challenges need to be diligenced and addressed constantly in order for their organizations to continue to evolve both organically and inorganically.”

— Kristin Ciriello Pothier, Global Deal Advisory and Strategy Leader, Healthcare and Life Sciences



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Cost takeout and optimization

Reduce the overall costs associated with the governance, maintenance, oversight, and execution of risk requirements and practices

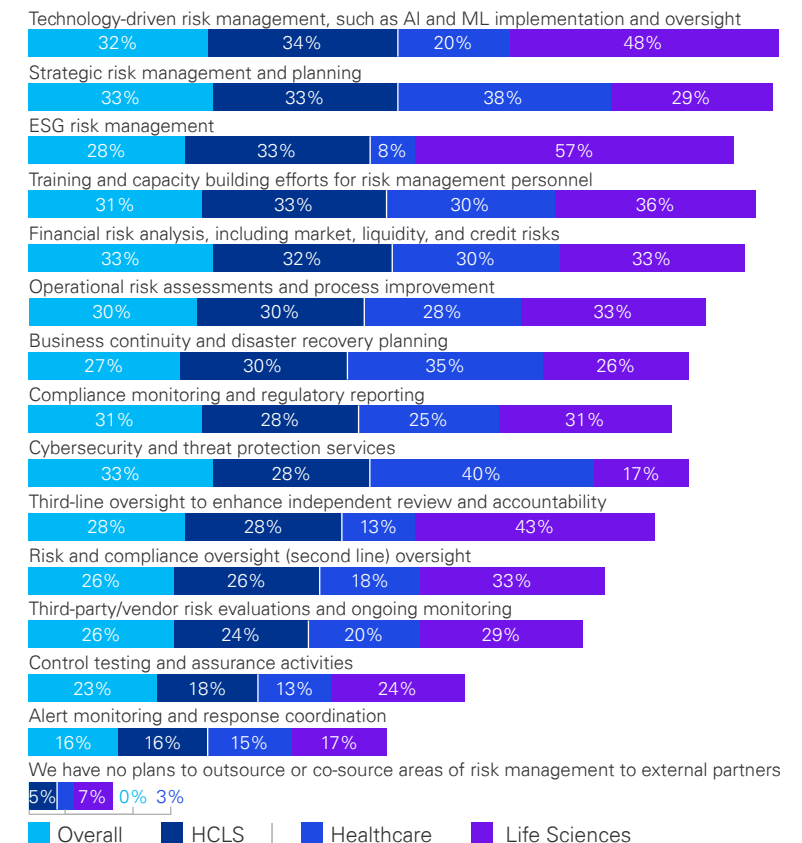
Key findings

Cost-conscious CROs can look to outsourcing certain parts of their risk management functions to reduce expenses and drive long-term value. Among HCLS respondents, 34 percent consider outsourcing technology-driven risk management. At a subsector level, LS respondents (at 57 percent) are more likely to outsource ESG risk management, while HC respondents favored cybersecurity and threat-protection services (40 percent) (Exhibit 6).

HCLS CROs continue to evolve how best to organize the risk function and how roles and responsibilities are allocated. Overall, 29 percent of HCLS risk management roles and responsibilities have a centralized dedicated risk management department, followed by the regulatory defined three-lines-of-defense model. However, there is a split among subsector respondents with regards to their approach to risk management structure. Among HC respondents, 35 percent said they have a centralized framework, while 33 percent of LS respondents have a regulatory-defined, three-lines-of-defense model.

Exhibit 6. Areas considered for outsourcing to enhance risk management strategies

Q. Which areas of risk management within your organization would you consider outsourcing or co-sourcing to external partners in order to enhance the efficiency and effectiveness of risk mitigation strategies?



Recommendations

- A modern risk management operating model makes the best use of technology, location strategy, and talent pools to lower costs while maintaining or improving risk posture. Start by understanding what is driving incremental spending in risk management before launching cost-cutting efforts. Consider direct spend categories but also cost avoidance categories, which are often unintended outcomes of an ineffective risk infrastructure.
- Use third-party vendors to execute select risk management oversight or execution activities as a key lever not only for cost takeout, but also for other long-term outcomes, such as growth, speed, and enhanced reputation. It can especially drive value in complicated, high-risk areas with significant investor attention, such as cybersecurity and ESG, where many risk organizations lack methodologies, technology, and skills.

“Modern managed services are very different from traditional outsourcing models based on labor arbitrage for transactional work. Today’s leading providers are strategic collaborators. They combine advanced tech, data management, and sector expertise to deliver critical risk processes, such as cybersecurity and regulatory compliance, with outcomes like stakeholder trust, customer retention, and resilience. They can also reduce total cost of operations by as much as 15 percent to 45 percent, without prohibitive upfront capital investments.”

— David Brown, Principal, Advisory,
Global Head, Managed Services



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How KPMG can help

KPMG Risk Services brings the strategic vision and technical edge to help you earn the trust of your stakeholders. Our deep HCLS industry skills concentrated in risk, regulation, cyber, and ESG, and our time-tested change experience, combine to create one powerful capability.

KPMG teams can help you anticipate and balance risk to generate value and a competitive advantage across your enterprise. By incorporating a detailed approach to risk, compliance, cyber, and ESG, we can help you identify new opportunities.

We are obsessively focused on the delivery of your strategy, your priorities, and your agenda. Using tools and solutions that accelerate your modernization journey and balance risk, we then apply deep domain knowledge across the spectrum of risk and regulatory issues, along with our skills in risk, technology, and consulting, to help drive borderless collaboration to convert the opportunities of risk into a sustainable competitive advantage for your organization.

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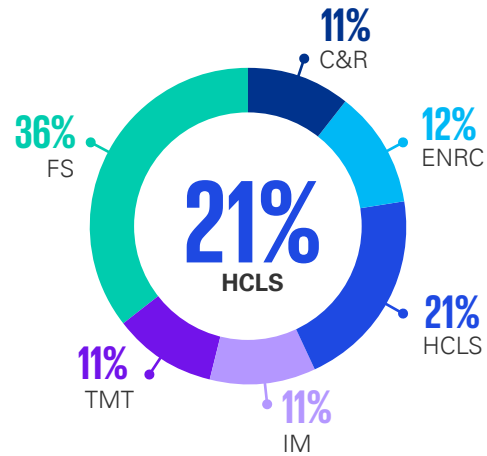
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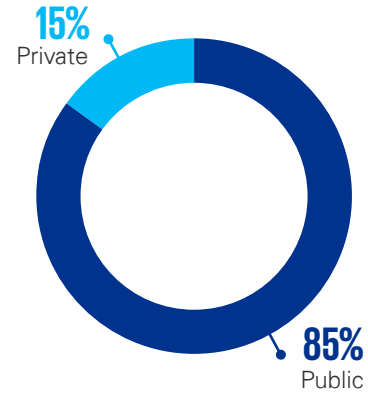
Research methodology

From July to September 2023, KPMG conducted an online survey of 390 enterprise risk officers representing U.S. organizations across six industry sectors with at least \$4 billion in annual sales or \$25 billion in assets under management (AUM). Eighty-two respondents participated from the HCLS sectors. Our research is designed to track trends in enterprise risk management and provide an outlook on the future of the enterprise risk function. Survey questions explore risk officer views on current and expected trends in the following areas: Risks and readiness, activities and investments, roles and approaches, and maturity and modernization.

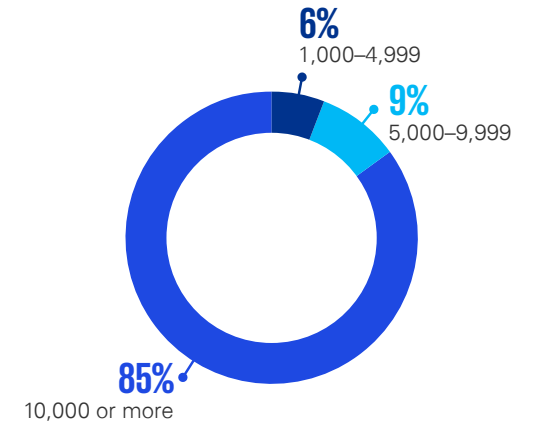
Organizational sector



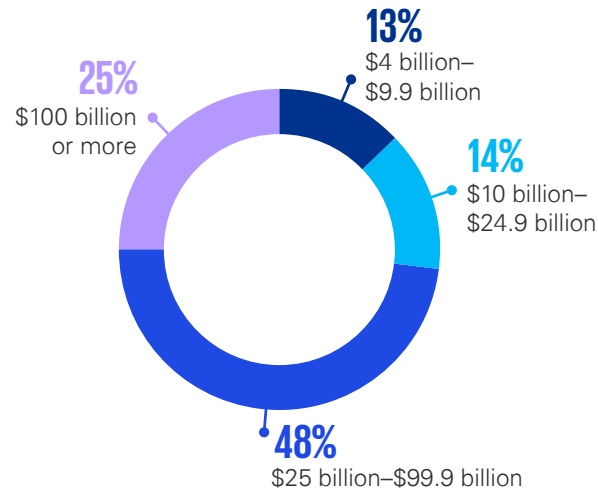
Organization type



Full-time employees in the company (Globally)



Company's annual revenue



Of the 390 enterprise risk officers responding to the survey, 82 respondents (21%) participated from the HCLS sectors.

Notes: N=390; Single select; Percentages may not total 100 due to rounding.



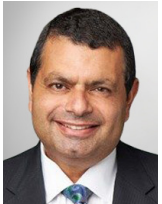
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KPMG is recognized as a leader in risk consulting



Financial risk



Third party assurance



Client advocacy in risk*

KPMG ranked No. 1 across multiple risk categories in Source's report, *Perceptions of Risk Firms in 2023*.

The Source study, *Perceptions of Risk Firms 2023*, is based on a U.S. client and prospect perception survey about risk consulting firms, led by Source. It reveals what 300 senior users in the U.S. think about the 16 leading risk advisory firms and examines how clients see firms differently as they move from awareness, to shortlisting a firm, to becoming a direct client. The report is intended to help in understanding each firm's positioning in the market and the overall competitive landscape in which they operate. For more information please visit: <https://www.sourceglobalresearch.com/>

*Advocacy score is based on the percentage of KPMG client respondents that say they would use the firm again and would put their personal reputation on the line for the firm.

 [visit.kpmg.us/SourceRankings](https://www.kpmg.us/SourceRankings)



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