

GENERAL INSURANCE EMERGING FOCUS AREAS

Risk Strategy and Technology

As the Industry continues to respond to a rapidly changing operating environment, there are several areas where we are expecting to see changes which will impact the market, bringing additional focus on the risk environment and risk management practices for General Insurers in Australia.

General Insurance

– Emerging Focus Areas

After two years of ongoing change and disruption in the General Insurance (GI) industry, many organisations were breathing a sigh of relief to have made it through the significant milestone of October 2021, which saw the last of a raft of new and enhanced regulatory guidance take effect. From the changes to Deferred Sales Model, Anti-Hawking, Product Design and Distribution Obligations, Breach Reporting, Unfair Contract Terms to implementing the 2020 General Insurance Code of Practice and preparing the implementation of Claims Handling as a Financial Service, General Insurers have been busy.

Having focussed on the deployment of the additional and updated processes to meet the requirements of reforms driven out of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, General Insurers were hopeful for the opportunity to take the time to embed and refine the changes throughout 2022.

Insights from Regulators across the Australian market indicate that the environment is likely to continue to evolve at pace with revised changes supporting the focus on enhanced customer outcomes and transparency.

With the increased focus placed on matters related to conduct and a continued evolution in the area of non-financial risk, we are expecting the velocity of change to continue for some time.

Fortunately, we can look to international markets to glean some insights into what the future of GI change and regulation may look like over the next few years.

In particular we can look to the UK's Financial Conduct Authority (FCA) to understand several thematic areas which are likely to gain momentum.

GI PRICING PRACTICES

This theme started to emerge through a targeted review initiated by ASIC in **October 2021**. Taking learnings from the Lloyds case in the UK, the FCA has recently focused heavily on the introduction of Policy which reduces the opaque nature of GI pricing and the use of broad and ambiguous terms which influence consumer behaviour. ASIC is in its initial stages of requesting organisations to complete a lookback of this topic, but we anticipate this area will gain significant momentum and likely follow a similar pathway to that in the UK.

ENHANCED PRODUCT GOVERNANCE

Additional practices have been introduced to govern and regulate the use of terms such as 'fairness' in the design and distribution of products. This has seen the introduction of attestation processes and assessments against principles such as fair value.

We expect that this will be a focus area with the GI Pricing Practices review informing policy development regarding product and pricing transparency. We anticipate this will be closely connected to future refinements of the Product Design and Distribution regime.

ADDITIONAL CUSTOMER DUTY

The FCA has plans throughout **2022** to introduce an additional Duty, which builds on the equivalent requirement contained within **912A** of the Corporations Act to include a requirement for firms to '*act to deliver good outcomes for retail clients*'. This includes the requirement for organisations to review, monitor and evidence that consumers are receiving the outcomes which are expected. Although we anticipate any change of this nature to be further away, we do see this as a logical additional step from the review of pricing and overall customer transparency.

Domestic Focus areas

From a domestic perspective, we are anticipating the following areas to continue to gain momentum over the coming year and require either a response to consultation, or changes to be implemented, which will be critical for how general insurers operate.

A YEAR OF CONSULTATION ON PINNACLE GI PRUDENTIAL STANDARDS

APRA has already indicated a busy slate with the below standards being consulted on:

01

Contingency
Planning &
Resolution

02

Stress
Testing PPG

03

Operational
Resilience

04

Operational
Risk

05

CPS510
Governance

06

CPS220 Risk
Management

07

CPS511
Remuneration

08

CPS520
Fit & Proper

As indicated by the APRA corporate plan, we can also expect to see regulatory focus from APRA to be diverted into the strengthen, resolution and crisis management capability and the promotion of the sustainability of insurance products for the long-term benefit of consumers. We are expecting greater collaboration between regulators as some critical areas of focus can have impacts across multiple regimes.

GI CODE OF PRACTICE: ENFORCEABLE CODE PROVISIONS

Given the deferment of the complete implementation of the General Insurance Code of Practice, (The Code) to **July 2021**, the subsequent enforceable Code provisions were also postponed, providing subscribers an opportunity to embed the changes contained within the new Code.

Following the updates to s1101A of the Corporations Act, which provides powers to make certain provisions of an industry code of conduct enforceable; we are anticipating this gaining velocity with the Insurance Council of Australia, particularly given recent findings around areas of opportunity in the management of vulnerable customers. Subsequent to the recent adoption of The Code and considering that the Code Governance Committee has been provided an opportunity to monitor the effectiveness of the implementation, we expect this area will further activity over the course of next year.

In addition to the above, we anticipate that as the impacts of the pandemic begin to normalise, there will be an even greater focus on reducing claims costs and accelerating in-flight remediation. A continued emphasis on enhancing digital experiences and talent acquisition will also be evident for the GI industry over the coming year.

How do you prepare for the change ahead?

To help prepare for the continually changing regulatory and operating environment there are a number of actions which we are encouraging organisations to consider in order to prepare themselves for the next wave of change.

MONITORING EMERGING RISKS

Practices relating to the monitoring, management and pre-empting of emerging risks should be uplifted to help prepare organisations for the integration of these risks into risk profiles. This should include a review of both domestic and international trends as well as areas which have historically received less focus including **ESG** and **Cyber** and areas of non-financial risk. Uplifting the identification, monitoring and surveillance of emerging risks will assist to mitigate the impacts felt by new reforms.

EMBEDDING RISK CULTURE

Several reforms which are likely to impact organisations in the coming years will rely on a deeper level of maturity in terms of risk culture and the ability to be adaptive in the implementation of change. Risk culture is a fundamental building block in developing a sustainable response to ESG. With this in mind, organisations should continue to focus on building, monitoring, and enhancing their risk culture to allow for embedment of these changes to be accelerated.

STRENGTHENING THE FIRST LINE

The role of the first line in owning and managing risk is vital, and this is set to increase in importance with the impending changes to the way regulators expect operational risk to be managed. As custodians of the BAU systems and processes which are performed within an organisation, they are the front line in ensuring risks are identified, managed, and reported effectively and efficiently. Having a clear and well-defined Target Operating Model (TOM) for the Three Lines of Defence, with a focus on ownership in the first line is the key to effective risk management. A critical element in this process is ensuring the TOM has sufficient granularity to provide confidence that all obligations are captured, understood and owned.

UPLIFT GOVERNANCE

Organisations should review and document their internal governance practices, including a focus on ensuring that appropriate approvals are in place for any decisions which materially impact the risk profile of the organisation. This also includes consideration of enhancing areas of governance which have historically been managed at a more operational level such as marketing and distribution scripting. The organisational culture behind governance should encourage the transition from legacy practices of seeking 'sign off', to actively engaging in the approval process and managing the risk to the business.

TRANSPARENCY WITH REGULATORS

Insurers should embrace transparency with Regulators, particularly as changes are developed and implemented., Regulators will be drawing on industry insights and consultations to help shape the reform of the future. Coupled with increased communication across regulators, and the revised requirements under RG78, now is the time to be open and transparent about control weaknesses which have resulted in organisations falling short of regulatory standards or customer expectations.

CUSTOMER EXPECTATIONS & FAIRNESS

As change continues in the regulatory space, continuous monitoring of business insights has never been as critical. Despite a number of organisations having developed robust approaches to monitoring risk, now is when we are encouraging insurers to look at the topic of continuous monitoring from a different lens, pivoting from a litigious, obligations-based, black and white view to the perspective of customer expectations and to include the concept of fairness and a real understanding of conduct risk. This will see a shift in the way organisations think and interact with customers with a pivot in areas like disclosure, to effective disclosure. This change supports the insurers journey towards a genuine 'customer centric' organisation with benefits for all stakeholders – customers, shareholders, regulators, your people and the community.

Why should you choose KPMG to assist getting your business ready for these changes?

01

Proven track record in providing qualified and knowledgeable resources to help solve complex business problems

We have worked with some of the largest insurers in Australia and internationally to help solve complex problems which have ranged from risk and compliance transformation programs, support with remediation through to assisting organisations with enforceable undertakings.

02

Access to industry leading tools to help us understand, ingest and synthesise business insights to get you the outcomes you need

KPMG has access to technology platforms and artificial intelligence tools which allows us to analyse data in a prompt manner to enable us to understand your business efficiently and effectively.

03

Deep insights of the Australian GI market

We have extensive experience working within the Australian GI market. Our team is comprised of industry experts, who understand, and can design, implement, and embed what better practice risk management looks like. Additionally, our team has intimate knowledge and detailed understanding of the insurance value chain, with resources who have experience in Product, Underwriting, Distribution, Claims and Reinsurance and can equip your business for the future of the market.

04

Detailed experience and support available to help remediate matters which require customer redress

We have supported some of the largest organisations in the delivery of remediation programs. With a specialised remediation facility, we have specialists who have deep knowledge in the design, development and execution of remediation programs.

05

An ability to provide benchmarking insights to allow you to understand how your business is performing in the current marketplace

Given our geographical reach and span of clients we work with, we are equipped to provide insights which demonstrate how you are comparatively performing in the way you manage risk. We have the ability to leverage insights across industries, countries and from within the firm to provide our clients with the best advice to resolve their business problems.

06

Multi-disciplinary teams who can provide rich insights across the value chain from product design to product run off

We have specialists available from all aspects of the Insurance value chain who we can bring together to provide you with the capability and capacity to resolve any business challenge or problem. Our people are focussed on helping our clients get the best outcomes for their business.

Contact us

For assistance in helping to prepare your business for the emerging trends in General Insurance, any of the below Audit, Assurance and Risk team members can assist.

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