

Cost transformation in insurance

**Uplifting efficiency and productivity
across your organisation**



The cost agenda in insurance has been elevated to a new level of importance in 2023 as the global economy transitions into a new period of higher inflation, slower growth and increased economic uncertainty.

For insurers, there have been a number of headwinds that have been challenging business performance and medium-term business resilience. To weather the storm, insurers are placing an increasing focus on cost management to become more than business-as-usual. But making it an enduring and strategic part of the business can create competitive advantage. Pricing strategy, dividends and investment capacity are all served by having an edge in cost management and productivity.

Having helped insurers locally and globally with their cost objectives, we see four key themes that should form part of an insurer's cost transformation:

- It's **easy to focus on claims** given the sheer size and impact they have on insurance profits. There are always opportunities for greater efficiencies and improved results. But there is more on offer beyond claims; and having a clear understanding of the drivers of volume and complexity across the value chain will open up new opportunities to drive cost and productivity.
- Increasing the **disciplines in workforce management** and where insurance teams are spending their time will harvest significant benefits before the need to jump to technology-enabled solutions.
- **Technology has come a long way**, and before adopting the emerging benefits of generative AI; more traditional automation avenues are being enabled through reliable low/no code systems.
- A number of insurers have long histories in Australia and have grown through acquisition. **Legacy technology and processes** have wide reaching impacts in the business of IT; but also downstream for finance and the actuaries. Challenging the business case for simplification of IT and the role of data in enabling better cost outcomes would benefit from a fresh assessment.

We are also seeing sub-sector trends playing out within Australia which executives need to consider in line with their cost transformation agenda:

- **General insurance** is facing significant inflation pressure, which coupled with recent catastrophic events are driving up premiums and claims costs, impacting affordability.
- **Life insurance** is being impacted by a continued low growth environment and product sustainability challenges.
- **Private health insurance** is seeing a renewed focus on proposition development and digital customer experience enhancements.

We bring a strong framework to scoping cost transformation which we call the 12-levers model, but we also bring real-life experience in reducing cost and improving productivity for insurers and that constructive challenge that organisations benefit from.

Our track record in insurance

19%-25%

savings in FTE across all functions, significantly decreased turnaround times, and improved NPS scores. A cost transformation program aimed at streamlining operations and improving operational efficiency, while building a foundation for scalable growth through automation and digitisation across relationship management, finance, actuarial, underwriting and claims.

100%

same day processing for select products and created FTE savings of ~15 percent from a program designed to deliver operational enhancements, resulting in elimination of unnecessary overtime for an Australian health insurer.

\$1b+

expense reduction achieved within the first two years of a multi-year global transformation program for a UK based insurer. KPMG conducted a global enterprise-wide expense assessment identifying opportunities for cost reduction and mobilised a cost transformation program to realise savings.

KPMG research highlights the challenges in achieving sustainable cost reduction

Top barriers to deliver on cost reduction initiatives

87%

Length of time needed to achieve cost outcomes

84%

Competing management agenda

81%

Prioritising easy wins over systemic issues

Top success factors to achieving sustainable cost reduction

91%

Committed leadership

89%

Company and team culture

89%

Accountability

Top focus areas in cost transformation

59%

Digitisation and process automation

52%

Reduce headcount through organisation redesign

50%

Modernisation of legacy IT systems

Source:

KPMG International, [New cost imperatives in banking](#), [PDF], 2021.

KPMG International, [2022 Insurance CEO Outlook](#), [PDF], 2022.

How can KPMG help you?

KPMG's expertise can help you across your cost transformation journey

- **Cost baseline and opportunity shaping:** an end-to-end review of the cost baseline, identifying a prioritised list of cost reduction opportunities across the organisation.
- **Operational efficiency:** review and redesign your business processes to remove waste and inefficiency across all parts of the value chain.
- **Operating model redesign:** design a future state operating model to achieve efficiency uplift.

- **Digitisation:** enhance digital capabilities across business processes and customer touchpoints.
- **Procurement and sourcing review:** review sourcing arrangements to identify consolidation and re-contracting opportunities.
- **Transformation delivery:** program planning and mobilisation, project leadership and management, portfolio and project office services including benefits realisation, and cost transformation initiative delivery and execution.

Our tools and capabilities to ensure your project is a success

- **Cost benchmarking:** benchmark productivity metrics against global peers facing similar challenges to identify specific areas of inefficiency.
- **Thought leadership:** the latest insights on cost optimisation in insurance from our global network of experts in the insurance sector.
- **Operational analysis:** a diverse set of accelerators will allow us to effectively analyse your data and generate key value creation hypotheses to support your journey.

KPMG'S 12 cost out levers for insurance

Macro cost lens	Cost out opportunities in insurance
Strategy Focus on markets, products and business models that deliver value for customers and shareholders	1 Geographies, markets, products: Optimise portfolios, products and policies to reduce resources dedicated to low performing customer segments and books of business (including exit and run-off)
	2 Operating model and balance sheet: Optimise right-sourcing arrangements for capabilities within underwriting, servicing, claims and support functions (e.g. finance and HR)
Simplicity Ensure the organisational, accountability and governance arrangements enable efficient decision-making and operational agility	3 Organisational model: Simplify organisational structure, streamline decision-making and optimise delegated authority models across underwriting and claims
	4 Transformation optimisation: Enhance organisational transformation capabilities to drive agility and competitiveness
	5 Cost management focus: Better define and communicate accountabilities and strategy to drive holistic organisational cost focus
Engineering Manage and optimise how service is provided to customers, including use of technology, channels to market, and deploying automation and data strategies to drive productivity	6 Digitisation and operational efficiency: Deploy operational excellence to improve ways of working and intelligent automation capabilities to transform process, productivity and customer journeys across core insurance value chain components (e.g. distribution, underwriting, servicing and claims)
	7 Channel optimisation: Utilise enhanced analytics to segment customers and rationalise channels to drive distribution efficiency
	8 Organisation design and people: Streamline organisational design and drive performance and productivity through resource optimisation
	9 Technology optimisation: Accelerate cloud migration, platform consolidation and decommissioning while rationalising licencing costs
	10 Asset optimisation: Rationalise and adjust physical footprint in both head and regional offices and branches
	11 Vendor and sourcing management: Review third party and provider network arrangements and associated consolidation/renegotiation opportunities
	12 Regulatory, governance & risk compliance (incl tax & legal): Optimise tax and legal structures, and streamline compliance reporting

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