New Zealand Insurance Update

KPMG New Zealand

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Contents

Foreword

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Our New Zealand Insurance Update 2022 provides access to our KPMG Insurance Insights Dashboards and offers insights into relevant topics including how insurers are helping lead New Zealand's response to climate change, updates on external reporting requirements, including the new climate reporting regime and also a glimpse at what's likely coming next, such as the nature related financial disclosure regime.

We touch on the importance of trust in customer relationships, consider the question of whether insurance is at risk of becoming too personal with the ever-increasing volume of data we're able to capture and leverage, and look at New Zealand's response to improving backlogs in the health system, backlogs we believe may drive increased demand for health insurance, with self-funded treatments also likely to rise.

Our Insights Dashboards bring to life key financial information from insurers' filed financial statements through a range of interactive charts and graphs presenting key industry metrics, financial position and results up to 30 June 2022. We have published two Insights Dashboards – the KPMG General and Health Insurance Insights Dashboard includes financial information on all general and health insurers and the KPMG Life Insurance Insights Dashboard includes financial information on all life insurers.

On page 5, Katie Biddle summarises the information from the KPMG General and Health Insurance Insights Dashboard to provide an overview of these markets to 30 June 2022 and on page 8, Kris Velonza provides an overview from the KPMG Life Insurance Insights Dashboard.

Next, our KPMG experts dive into some of the topical issues affecting the insurance industry today.

New Zealand insurance chief executives are taking the initiative and raising climate change in the public arena. On page 10, Sarah Bogle says that so far two key messages are clear. Firstly, climate change is here and impacting New Zealand today. Secondly, if we want to maintain the ability to spread risk via insurance, we all need to get smarter about avoiding risk wherever we can. This is going to involve collaboration across and between sectors to build the resilience and agility required to succeed.

On page 13, Sanel Tomlinson touches on external reporting updates, of which there are many! You may be surprised to hear that in practice it is not regulatory requirements driving reporting. We see more and more that market and societal pressures are determining who makes disclosures. This means that even if you are not caught by the upcoming climate reporting regime, you may be asked by your suppliers, customers, funders, reinsurers, and employees to provide information about your greenhouse gas emissions and how climate change will impact your business. It makes good business sense to be prepared – even if you decide not to do a formal report.

Trust is important in any customer relationship but even more so in the insurance industry. Insurance is a promise and trust is built on delivering on that promise. On page 16, Cathrin Edelmann says that we are seeing a shift towards 'buying into' companies rather than simply 'buying from' them. Therefore, moving Corporate Social Responsibility to the forefront and demonstrating your purpose and values through every customer interaction and along the entire customer journey is what will win customers' trust.

For the actuarial profession, that fundamentally relies on data sets to predict expected future outcomes, the ever-increasing volume of data and new data points can be seen as a treasure trove. However, in the article on page 19, Alex Kuhnast questions whether insurance is at risk of becoming too personal with the ever-increasing volume of data we're able to capture and leverage.

Lastly, on page 23, John Bennett looks at New Zealand's response to improving backlogs in the health system and uses the UK's experience to provide further insight into the outlook for New Zealand. He believes that it will be vital for health insurance providers to be able to respond to savvy and empowered customers with products and plans that are responsive to capacity constraints in our public services.

On behalf of KPMG, we hope you enjoy the read. Please do not hesitate to contact one of the team at KPMG to assist your organisation in addressing any of the matters raised in this publication.

GENERAL + HEALTH INSIGHTS

New Zealand General and Health Insurance market: Results and analysis

KPMG's 2022 New Zealand General and Health Insurance Insights Dashboards contains a range of interactive charts and graphs which present key industry metrics for the last five years, enabling a comparison of metrics for an individual insurer to others in the market.

General + Health Insurance Insights Dashboard

The highlights

Overall, profit improved across the general insurance market, increasing 8% from $2,061 million in 2020/21 to $2,217 million in 2021/22.

Results and analysis

The key contributors to this improvement include:

— an 9% increase in gross written premium increase from $7,558 million in 2020/21 to $8,264 million in 2021/22. This is compared to 3% growth between 2019/20 and 2020/21. Net earned premiums also increased 9% from $4,833 million in 2020/21 to $5,252 million in 2021/22.

— an offset from an increase in net claims expense of 9%, increasing from $2,779 million in 2020/21 to $3,035 million in 2021/22.

The above has resulted in a slight deterioration to the overall loss ratio, increasing from 57% in 2020/21 to 58% in 2021/22.

The overall increase in gross written premium can be attributed to the performance of some of the larger general insurers including:

— AA Insurance Limited which had an increase of $104 million from $551 million in 2020/21 to $655 million in 2021/22.

— IAG New Zealand Limited which had an increase of $179 million from $2,981 million in 2020/21 to $3,160 million in 2021/22.

— Vero Insurance New Zealand Limited which had an increase of $147 million from $1,186 million in 2020/21 to $1,333 million in 2021/22.

— Tower Limited which has an increase of $28 million from $377 million in 2020/21 to $405 million in 2021/22.

Insurance Council of New Zealand data shows a continued trend of more frequent natural disaster events, showing the impacts of climate change are becoming more visible. There were twelve natural disaster events in the June 2022 year at a total cost of $449.6 million, the largest of these being the North Island Floods in March 2022 with a cost of $119.7 million. This compares to nine events at a cost of $309.5 million in June 2021 year and six events at a total cost of $245.3 million in the June 2020 year.

2022 general insurance results snapshot

Finally, the results announcements from some of the large insurers indicate that the key themes of 2021/22 were inflation and supply shortages resulting in increased claim costs, and higher weather event related claims.

Gross written premiums		Insurance profit	
$8,264m	2021/22	$2,217m	2021/22
$7,558m	2020/21	$2,061m	2020/21
$7,343m	2019/20	$2,147m	2019/20
$7,045m	2018/19	$2,091m	2018/19
$6,745m	2017/18	$1,651m	2017/18

Net earned premium		Net incurred claims	
$5,252m	2021/22	$3,035m	2021/22
$4,833m	2020/21	$2,779m	2020/21
$4,755m	2019/20	$2,607m	2019/20
$4,503m	2018/19	$2,412m	2018/19
$4,199m	2017/18	$2,548m	2017/18

Loss ratio	
58%	2021/22
57%	2020/21
55%	2019/20
54%	2018/19
61%	2017/18

The highlights

Overall, the health insurance market was more profitable in 2021/22. Insurance profit increased 54% from $276 million in 2020/21 to $425 million in 2021/22, compared to 6% decline between 2019/20 and 2020/21.

Results and analysis

The key contributors to the increase in industry profit include:

- an increase in gross written premium increase of 8%from $1,690 million in 2020/21 to $1,831 million in 2021/22. Net earned premiums also increased 8% from $1,679 million in 2020/21 to $1,820 million in 2021/22.
- a decrease in net claims expense of 1% from $1,403 million in 2020/21 to $1,395 million in 2021/22.

The above has resulted in an improvement to the overall loss ratio, decreasing from 84% in 2020/21 to 77% in 2021/22.

Southern Cross Medical Care Society was the key contributor to the industry with a 76% share of gross written premiums. The Society had an increase in gross written premium of $105 million from $1,290 million in 2020/21 to $1,395 million in 2021/22. This favourable movement was also seen in net claims incurred, with a decrease of $25 million from $1,125 million in 2020/2021 to $1,100 million in 2021/22.

Across the market, all insurers experienced growth in gross written premium as the Covid-19 pandemic encouraged New Zealanders to prioritise their health and the tight labour market encouraged employers to invest in the healthcare of employees.

2022 health insurance results snapshot

Gross written premiums		Insurance profit	
$1,831m	2021/22	$425m	2021/22
$1,690m	2020/21	$276m	2020/21
$1,516m	2019/20	$294m	2019/20
$1,421m	2018/19	$220m	2018/19
$1,303m	2017/18	$187m	2017/18

Net earned premium		Net incurred claims	
$1,820m	2021/22	$1,395m	2021/22
$1,679m	2020/21	$1,403m	2020/21
$1,510m	2019/20	$1,216m	2019/20
$1,414m	2018/19	$1,194m	2018/19
$1,296m	2017/18	$1,109m	2017/18

Loss ratio	
77%	2021/22
84%	2020/21
81%	2019/20
84%	2018/19
86%	2017/18

LIFE INSURANCE INSIGHTS

New Zealand Life Insurance market: Results and analysis

KPMG's 2022 New Zealand Life Insurance Insights Dashboard contains a range of interactive charts and graphs presenting key industry metrics for the past five years. It also enables comparison of metrics for an individual insurer to others in the market.

Life Insurance Insights Dashboard

The highlights

Overall, profit has decreased across the life insurance market, half halving from $388 million in 2020/21 to $183 million in 2021/22.

Results and analysis

The key contributors to the reduction in profit include:

— decreases to investment earnings and the impact of changes in non-economic assumptions, such as increasing discount rates.

— an increase in claims expense from $1,985 million in 2020/21 to $2,042 million in 2021/22.

— an increase in gross premium revenue from $3,765 million in 2020/21 to $3,943 million in 2021/22.

The above has resulted in a slight improvement to the claims ratio, decreasing from 53% in 2020/11 to 52% in 2021/22.

The overall increase in gross premium revenue can be attributed to the performance of some of the larger life insurers including:

— Fidelity Life Assurance Company Limited which had an increase of $59 million from $279 million in 2020/21 to $338 million in 2021/22). [1]

— Partners Life Limited which had an increase of $44 million from $326 million in 2020/21 to $370 million in 2021/22).

— AIA New Zealand Limited/Sovereign Assurance Company Limited which had an increase of $43 million from $948 million in 2020/21 to $991 million in 2021/22.

Finally, the results announcements from some of the larger insurers indicate that the key themes of 2021/22 were the challenging financial markets and inflation putting pressure on living costs.

1. 2021/2022 results include 9 months (from 1 October 2021 to 30 June 2022) performance from Westpac Life (now Fidelity Insurance Limited) consolidated into Fidelity Life Assurance's 30 June 2022 consolidated results following its acquisition.

Gross premium revenue		Reinsurance expense	
$3,943m	2021/22	$1,672m	2021/22
$3,765m	2020/21	$1,850m	2020/21
$3,725m	2019/20	$1,571m	2019/20
$3,178m	2018/19	$928m	2018/19
$2,951m	2017/18	$636m	2017/18

Claims expense		Reinsurance recoveries	
$2,042m	2021/22	$815m	2021/22
$1,985m	2020/21	$788m	2020/21
$2,004m	2019/20	$759m	2019/20
$1,680m	2018/19	$529m	2018/19
$1,636m	2017/18	$349m	2017/18

Claims Ratio		Insurance Profit (NPAT)	
52%	2021/22	$183m	2021/22
53%	2020/21	$389m	2020/21
54%	2019/20	$373m	2019/20
53%	2018/19	$424m	2018/19
55%	2017/18	$536m	2017/18

CLIMATE CHANGE

Insurance taking climate change leadership role

In 2022, the topic of climate change has emerged from the risk and actuarial departments, and gained a foothold in the boardroom and c-suite.

Insurance CEOs are not waiting for the media to come to them, they're now taking the initiative, raising climate change in the public arena. So far, two key messages are clear:

We're seeing climate change impacts here in New Zealand, today.

If we want to maintain the ability to spread risk via insurance, we all need to get smarter about avoiding risk wherever we can.

The costs of climate change today and in the future were starkly laid out in New Zealand's first National Adaptation Plan (see right) but how we ensure that the bill is shared equitably remains to be seen.

In 2022 general insurers, like many other sector groups in New Zealand, have been working together through the ICNZ Climate Group, supported by KPMG, to develop shared climate change scenarios. These narratives explore how our heating climate and a range of different transition pathways to a low carbon economy might create risks and opportunities for the sector. Looking at the dynamic interactions between different driving forces over short, medium and long-term time horizons is an effective way of illustrating how changes might accelerate and feedback across a wide range of socio-economic, organisational and wellbeing factors. These 'shared scenarios' are a key recommendation from the External Reporting Board (XRB), providing a foundation for comparable sector level reporting and an efficient way to explore the common challenges and opportunities that the sector is likely to face. These are expected to be published in early 2023.

Applying foresight

The shared challenge over the next few years will be the task of embedding and applying this rich source of foresight to every aspect of the insurance value chain. For many insurers, upcoming climate disclosure requirements have provided additional impetus to pan-organisational teams already considering how to make this happen. Following the XRB's recommended approach has lifted the level of the discussions into the realm of strategy and business model, and has emphasised two immediate areas for action:

1. Close collaboration on proactive risk management, across and between sectors, and
2. Transforming organisational capability and capacity.

"Some assets could become uninsurable. This will create further issues if they are used as collateral for lending. The value of buildings exposed to coastal flooding could increase from $12.4 billion now to $26 billion for a sea-level rise of 0.6 metres, and $44 billion at 1.2 metres. Insurance retreat would likely reduce private and public asset values, making households and firms or public entities less able to invest in adaptation. There are likely to be more insurance claims, greater damage repairs and higher premiums. Claims for extreme weather events hit a record $321.6 million in 2021, breaking the previous record set in 2020 at $274 million."

National Adaptation Plan 2022, Ministry for the Environment New Zealand

Working together

Collaboration across and between sectors will be essential for building the resilience and agility required to succeed in the medium and long term. Many projects will need to work in parallel as opportunities to reduce or avoid risk occur at the same time as extreme weather events requiring response and recovery activity. Effective adaptation is locally owned and therefore while central and national leadership and structure is needed, equally vital is involvement of place-based cooperative groups including councils, Iwi, business communities and social services.

Insurance businesses, with their expert understanding of risk and significant stake in the outcome of adaptation, could take a leading role in these efforts. The speed at which climate-related risks and opportunities are evolving are already placing strains on resource capability and capacity throughout our socio-economic system. These challenges are impacting insurance earlier than many other sectors, providing an opportunity for purpose driven transformation, developing innovative approaches to efficiently share core knowledge and practical expertise while maintaining key competitive insights.

Transformational change

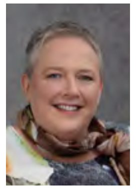
Achieving this, and leveraging the opportunities emerging today and over the next few years will require a willingness to challenge the status quo and overcome significant organisational inertia. Conventional, static approaches to risk will need to become dynamic and adaptive, recognising the interconnections of cause and effect and the accelerating pace of disruption. Rapid new product development approaches will be needed to both seize opportunities and support the transition to a low carbon economy. New products could include insuring non-financial value and enabling nature-based and people-centred solutions.

Insurers will need to predict the profitability of these new service lines as well as how to embed a dynamic risk approach that relies on climate science and scenarios more than on historical evidence and experience. For many organisations this will require a review of the insurance operating model, and a transformation of people, process and systems capabilities at least on a par with the shift to computing in the 1980s.

Gaining advantage

The New Zealand Climate Disclosure regime provides a framework and principles-based approach to embark on this process of transformation. Insurers are already, or will soon be, asking themselves tough questions about why they exist, what markets they serve, and how to balance the needs of current and future stakeholders. As organisations become more mature and sophisticated in their understanding of climate change, so do shareholders, suppliers, policyholders and employees.

Authenticity will be the real key to future advantage and disclosure will be the first and most obvious place to look for evidence. Just as authentic leaders share their vulnerabilities alongside their strengths and confidence, an authentic climate disclosure needs to tell the full story for your business. Acknowledging the risks you have explored and are monitoring; the challenges you are leaning into; how you have reinforced the values at the heart of your business, and; are looking to maximise a broader range of outcomes and benefits - telling your story will be what differentiates you from your peers and reassures your investors you're serious.



Sarah Bogle
Director
Sustainable Value

Authenticity will be the real key to future advantage and disclosure will be the first and most obvious place to look for evidence

CLIMATE RELATED REPORTING

External reporting: never a dull moment

By now you should know whether your organisation meets the definition of a climate reporting entity (CRE), and that the External Reporting Board's (XRB) new mandatory climate reporting regime is planned to go live in less than two months, on 1 January 2023.

The key message in KPMG's submission on the exposure draft of Climate Standard 1 was that we believe the standard is sufficiently robust and that further fine-tuning is unlikely to deliver a significantly different result. We believe that entities should 'just get started'. There is a lot to be done before the first reports are required to be published in 2024. And it doesn't help that 2023 is also the first year that the new Insurance Accounting Standard (NZ IFRS 17) needs to be applied – as the heading says: never a dull moment!

The proposed climate standards have real potential to drive the change that is needed in New Zealand, but not if adoption is seen as merely a compliance exercise. It's encouraging to hear that many entities who are already on their reporting journey have also realised the extent of benefits that can be achieved by making the most of this opportunity.

The insurance sector is in a good place, having already completed sector-level climate scenarios earlier this year. The key now is to keep the momentum going and plan have an early draft of your report ready for a 'pre-assurance' engagement; a dry run before the assurance requirements become effective from 27 October 2024.

A quick reminder, for those that are not yet sure whether they are in or out, that the regime applies to financial market participants that are 'large' for two accounting periods before the first year of reporting. These include:

— Listed issuers with a market capitalisation of more than $60 million;
— Licenced insurers with total assets of more than $1 billion or annual gross premium revenue of more than $250 million;
— Certain other financial market participants with total assets of more than $1 billion.

In addition, a few public sector entities have been directed to prepare climate reports starting as early as 30 June 2023.

If the entity is an overseas company, then the criteria above are applied to the New Zealand business as if it were an entity. Also, the test is based on New Zealand accounting standards – so once again, NZ IFRS 17 could have an impact here.

Also remember that this is not a one-off test of whether the entity is in or out of the regime – it is an ongoing test. So, something to have top of mind if your entity is in growth mode or maybe you are considering a debt offering.

You may be surprised to learn however, that in practice it is not the regulatory requirements that drive reporting. We see more and more that it is market and societal pressures determining who makes disclosures and also driving the quality of disclosures. All businesses contribute to our ecosystem, and you may be asked by your suppliers, customers, funders, the Government and employees to provide information about your greenhouse gas emissions and how climate change will impact on your business. It makes good business sense to be prepared – even if you decide not to do a formal report.

The climate standards provide a good framework to help you through the reporting process, while at the same time encourage you to think about the opportunities presented as New Zealand transitions to a sustainable, low-emissions economy. The requirements cover every aspect of the organisation: from the top of the entity (the Board), through risk management and strategy down to operational targets and metrics.

But wait, there's more

Have you considered what information should be included in your next financial statements about the impact of climate change?

Most industries have been, or are likely to be, affected by climate change and are undertaking efforts to manage its impact. Investors and other stakeholders are increasingly interested in understanding the potential effect on companies' business models, cash flows, financial position and financial performance.

For most entities climate reporting under the new climate standards will remain voluntary. However, all entities are required to comply with the New Zealand Generally Accepted Accounting Practice (GAAP). To argue that the accounting standards do not specifically deal with climate-related issues and therefore these need not be considered, is a misapplication of GAAP.

NZ IAS 1 Presentation of Financial Statements contains overarching requirements that could be relevant when considering climate-related matters. For example, it requires disclosure of information, not specifically required by an accounting standard and not presented elsewhere in the financial statements. but is relevant to an understanding of the financial statements. Another section requires an entity to consider whether any material information is missing from its financial statements— i.e., an entity is required to consider whether to provide additional disclosures when compliance with the specific requirements in the accounting standards is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance.

Even if it's determined that these overarching requirements do not apply, any standard that requires measurement using future cashflows will require consideration of the impacts of climate change on your entity's future business model and activities. For this, think about impairment testing, deferred tax asset recognition, provision for doubtful debts and measurement of insurance contract liabilities.

As mentioned, you may decide not to prepare formal climate statements that comply with the climate standards. However, using the climate standards as a guide to consider the risks, opportunities and impacts of climate change will also be useful in determining what information to include in the financial statements.

And for those that like to be ahead of the curve…

The next wave of external reporting requirements already sparking conversations in New Zealand is reporting and acting on evolving nature-related risks.

You may have heard already the saying "we cannot get to net zero (on climate) unless we become nature positive".

Nature loss poses both risks and opportunities for business, now and in the future. A framework is currently being developed by the Taskforce on Nature-related Financial Disclosures (TNFD). This is based on the same structure as the framework developed by the Taskforce on Climate-related Financial Disclosures (TCFD), on which the New Zealand Climate Standards are based. Beta versions of the TNFD framework have already been released and updates are expected over the next few months, with the aim to release the framework in September 2023.

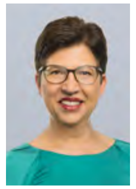
In New Zealand we are expecting Modern Slavery legislation to be enacted in the coming year. The proposed legislation will create new responsibilities for all businesses across their operations and supply chains both within New Zealand and internationally. The size of your business will determine the steps required under the proposed legislation. Medium and large sized organisations will be required to disclose steps they are taking to ensure there is no modern slavery or worker exploitation in their business operations or supply chains. Large organisations will also be required to undertake due diligence.

The XRB has also initiated a project to develop an ESG framework referred to as Ngā Pou o te kawa ora. The initial focus of the project will be on exploring te ao Māori views and a mātauranga Māori approach to determine the specific needs of Māori entities when reporting on the intergenerational and interconnected impact of the various activities they undertake. Ultimately, the framework will evolve and be sufficiently principles based for use by many, and to hold entities to account for uplifting the wellbeing of future generations in Aotearoa New Zealand.

We welcome these developments. They bring us closer to the ultimate goal of having integrated financial and non-financial reporting. We look forward to the day when sustainability or impact reporting is the norm rather than the exception.

For more information on how you can get ready for climate-related disclosures, please view the resources on our website:

Aotearoa NZ's climate-related disclosure standards



Sanel Tomlinson
Principal KPMG IMPACT
Measurement, Assurance & Reporting

CUSTOMER EXPERIENCE

In customer experience we TRUST

Trust is important in any customer relationship but even more so in the insurance industry. Because insurance is a promise, and trust is built on delivering on that promise.

Going by the FMA's inaugural customer experience survey it appears trust has become a fleeting commodity in the sector. Less than half of New Zealanders trust insurance companies (48%), with even less having faith in insurance brokers or advisers (42%).

In a world where customers are inundated with choice, and little distinction between providers, delivering unparallel customer experiences will set companies apart from competitors and build customer trust as competing in a crowded landscape, has consumers asking who they know and trust, before making a purchasing decision.

Losing trust means losing business

Trust is the result of customers having a superb customer experience every time they interact with an organisation whether they choose to interact digitally, over the phone or through an intermediary. A good experience grows into loyalty and ultimately long-term business benefits.

KPMG's 2018 global customer experience excellence study[1] found that the top 50 brands studied, deliver revenue growth that is 50% larger than the bottom 50% and EBITDA growth that is 202% greater.

Other global research suggests that companies excelling at customer experience have 1.5 times more engaged employees and thereby outperform the competition with less engaged employees.

Considering these facts, the rewards for gaining and maintaining customer trust by way of delivering great customer experiences are invaluable.

Course correction to building greater trust

If insurers want more customer engagement with their brand, products, or services, it's clear that managing the customer experience well needs to be a priority. And there are simple, first steps insurers can take towards this goal:

Make insurance more accessible

Customers perceive insurance products as highly complex and the insurance onboarding process as cumbersome. The perceived lack of clarity and transparency can lead to customers' disengagement or misalignment between their expectations – what customers think they have – and the actual benefits of their insurance product or services. Guiding customers through the insurance conversation in a few easy steps, simplifying the small print and using plain language to describe product benefits is a first step to making insurance more accessible. Additionally, tailoring the offering to customers' behaviours using customer data and digital technology, takes the hard out for customers to better understand products and services.

Build a customer-centric culture

Customer experience is the sum of all the interactions customers have with an organisation. Organisations that have made customer centricity a cornerstone of their internal culture are able to provide positive experience through the entire customer journey. Building a customer-centric culture requires commitment from across the organisation along with an understanding from every person on what part they play in the journey and their touch point with the customer. Insurers need to understand what customers want and need, and tailor their customer strategy around this. Aligning organisational values with customer, building out an integrated customer strategy and hiring and training for excellent customer experience are ways to build a culture that puts the customer first.

1. https://home.kpmg/nz/en/home/insights/2018/06/customer-experience-excellence-report.html

Re-engage with purpose

One of the biggest changes we're seeing is how customers have become more thoughtful and intentional in their decision-making. This is partly due to COVID-19 and its impact on people and society. Organisations that demonstrate a clear purpose and take sides on contentious issues appeal more to today's conscious and values-based consumers. Rather than 'buying from' businesses, consumers are shifting towards 'buying into' companies. Therefore, moving Corporate Social Responsibility to the forefront and demonstrating purpose and values through every customer interaction and along the entire customer journey is what will win customers' trust.

Make it easy and personal

Simplicity and convenience will always remain number one in providing great experiences, and even more so now with an abundance of customer data at our fingertips and advanced digital technology. Insurers need to build and be able to access a single view of the customer to surface actionable insights and create personalised experiences that resonate with customers. This includes anticipating the next best offer that helps them move further through the journey or build brand affinity.

If you want to transform into a customer-centric organisation, talk to us.

Cathrin Edelmann
Senior Manager
Management Consulting

FUTURE OF INSURANCE

The data dream: Is insurance at risk of becoming too personal?

We have all likely gotten tired of hearing 'unprecedented' when discussing the risk environment, global markets, climate change or even employment and behavioural changes. The rise of these 'unprecedented' conditions, or even just our perception of this, is an indication of just how general uncertainty has been on the rise. Much of this is facilitated by record levels of data points and general access to information, alongside an increase in reporting on conclusions drawn from those. So where will this take us in terms of the future of the insurance industry?

"The number of climate-related disasters rose by 83% in the first two decades of this millennium (as compared to the last to decades of the 1900s). In 2020 alone, natural catastrophes resulted in an increase in global insured losses of 40% over 2019." – KPMG Future of Personal Insurance 2021.[1]

1. https://assets.kpmg/content/dam/kpmg/xx/pdf/2021/12/future-of-personal-insurance.pdf

Risk pooling to incentivised individual risk reduction

Over time we have seen this increase in data points lead to more bespoke underwriting and pricing in the insurance sector - a move away from the traditional insurance principle of risk pooling, where those fortunate enough not to experience a claim event, subsidise those who do. This has been partly in response to ever-increasing risks and partly driven by advances in data and analytic capabilities, including our ability to identify and classify the differences in risk profiles of insured parties or assets.

For the actuarial profession, which fundamentally relies on data sets to predict expected future outcomes, the increase in data points is seen as a treasure trove. In uncertain times, potential future scenario paths become more varied and with a greater diversity and ranges of potential outcomes, our natural reaction is to seek more data and refine our modelling methods further in attempts to reduce that uncertainty. This enables us and our stakeholders to better proactively manage future outcomes. These trends are leading to ever more granular insurance risk pricing. As highlighted by the Institute and Faculty of Actuaries such practices result in losers and winners, "since smaller risk pools are more reflective of precise risk profiles, those with lower risk enjoy lower premiums while those at higher risk pay more."[2]

In New Zealand, the increased awareness of climate change and its potential (and experienced) impacts on insurance portfolios is leading to more and more property insurers considering risk-based pricing - where they charge differentiated property insurance premiums depending on the property's location, and thus propensity to flood for example. Similarly in the life and health insurance spaces we have seen pricing and underwriting practices make use of more and more of the information at their disposal, with the latest trends being the use of wearables and potentially at some point, swallowables (sensors and drug delivery devices that can be ingested), in order to inform not only health care management but also insurance pricing.

We have also seen an increase in the use of data to drive a more prevention-based approach. Some insurers have recognised that they may be able to play more of an influential role in driving risky behaviours down, thus reducing their own claims cost pay-outs and simultaneously improving the risk characteristics and lives of those they insure.

Shared value reward programmes look to influence policyholders' behaviours to reduce their risks through scientifically proven drivers. This reduction in claims costs to the insurer is then shared with the policyholder via rewards and benefits. This has wider spinoff benefits to society, where the cost of risk events is reduced and, particularly in the life and health space, individuals and their families benefit from a healthier existence and better quality of life. This is all enabled through the collection of data via sensors, telematics and biometric testing.

The rise of real time data collection, through the Internet-of-Things (IoT) telematics and sensors will lead to an ever-increasing pot of data that insurers could consider using to not only unlock more bespoke products and pricing for clients, but also to pro-actively warn policyholders of impending risk events and dangers or encourage them to take actions to reduce their risk of future elevated health or risk exposures. In the general insurance space, we are seeing good use of IoT sensors placed in water boilers or basements to warn of impending flood or spill damages.

2. https://www.actuaries.org.uk/system/files/field/document/TGRT_Campaign_Recommendations_FINAL.pdf

Dynamic pricing innovations

There has been an increase in the use of dynamic pricing in insurance, where real-time data is added to historic data to continuously update and validate pricing models. This allows the insurer to use artificial intelligence to rapidly react and adapt pricing to real world changes.

More data is also allowing innovation through flexible insurance product and contract designs. One of the perceived challenges to customer centricity has been the lack of personalisation and control the policyholder has over their policy. With the help of more granular data, insurers have been able to develop more flexible usage-based policies and just-in-time-coverage. These products offer innovative features such as motor vehicle products where the premium is dependent on the amount the vehicle is driven and thus its exposure to risks (supported by telematic and vehicle tracker data), or life insurance products that can be turned on or off for short periods of cover when the policyholder feels they may be at increased accidental risk (for e.g., a pilot about to embark on a day of crop spraying, or an adventure racer about to undertake a multi-day endurance event). Thus, the increase in data is allowing insurers to not only price policies in a more bespoke manner at policy issuance but also alter premiums over time as the underlying risk profile of the insured changes over time.

But is all this improvement in modelling and access to data ultimately in the best interest of society and the insurance industry?

The Institute and Faculty of Actuaries' The Great Risk Transfer Campaign recommendations [2] details a number of areas of concern where individuals are increasingly being left to manage their own risk, often where historically this was pooled and managed centrally via government entities or private enterprises. Now individuals are increasingly required to make decisions about managing their complex set of risks themselves. A daunting task for most.

A number of these changes have arisen due to the increase in collected data and ability for companies to model more granularly whilst also using Machine Learning and Artificial Intelligence based techniques. This has further cast the ethical spotlight on such practices. There has long been an ethical debate in insurance pricing circles questioning at what point it becomes unfair or unethical to use genetic or other non-behavioural characteristics to price insurance products. Those unlucky enough to have been born into or circumstantially dealt riskier (data based) characteristics, be they socio-economic, geographic or genetic, are further penalised with the inability to provide financial buffers and protection offered by insurance due to higher or unaffordable premiums resulting from factors beyond their control. Those living in a higher flood risk or crime area and unable to afford to move, a younger or older driver, or being genetically pre-disposed to certain health conditions or having lower access to quality education or family wealth and thus socio-economic benefits associated with that. This further increases the social divisions many modern societies offering insurance products are seeking to reduce.

The risk of pushing specific higher cost risks into the realm of uninsurability could potentially start to increase. There is also the risk of increasing the complexity of insurance products, already an issue in insurance markets. Alternatives to increases in premium, such as increased excesses and exclusions could be carefully considered. Where there is disparity in the industry with only certain players moving to more bespoke pricing, there is an increased risk of anti-selection further accelerating the move to inequality and potential uninsurabiity, with those offering more differentiated and bespoke pricing likely landing with a higher proportion of the lower cost risks by virtue of their lower premium offering.

Regulated data use

Social movements and regulations looking to reduce the level of discrimination that entities are permitted to employ when dealing with customers as well as their ability to access and use different sources of this immense pool of now recorded data have been gaining prominence. In December 2012 the EU rules on gender-neutral pricing in insurance come into effect. Under that legislation, insurers were no longer allowed to price differentially for genetically male and female policyholders. This caused an initial stir in insurance circles as it has been widely recognised that one of the main indicators of risk differences in underlying life expectancy as well as risk behaviour (such as driving habits) is sex. Initial fears that the removal of sex as an insurance rating factor could lead to disruption in insurance markets, as well as a domino effect of the removal of further rating factors cited as discriminatory, proved to be unfounded. More recently there have been various other movements and regulations that may further result in a reduction in the ability of insurers to use personal data for pricing and risk management practices as well as how Artificial Intelligence techniques can be used. These include; EU Artificial Intelligence Act (AIA), Dutch Association of Insurers framework for the responsible use of AI, the UK Code on Genetic Testing and Insurance (2018), EU Right to be forgotten laws.

The future

This path of evolution is based on sound underwriting and risk pricing principles, however could this lead to the end of the risk pooling concept underpinning insurance and ultimately put the private insurance industry at risk. Looking at KPMG's global Voices on 2030: Financial Services reinvented[3] report, consensus is strongly indicating that we can expect, without regulatory prohibition, more data will be used by insurers going forward, with pricing and underwriting techniques continuing to be refined. Ultimately, we may be faced with some fundamental industry questions around our direction of travel. Should we continue to move away from the large-scale pooling of risks where those with poorer risk profiles are subsidised by those with better profiles, to a world of bespoke individualised pricing where we all pay a unique price based on our unique set of characteristics, whether we can influence those or not? Or is there a third option, do we settle on some form of compromise? A compromise where certain uninfluenceable or less influenceable (determined by historic inequalities) risk factors are prohibited by consensus or regulation, whilst other factors are used in pricing, along with incentives to reduce personal risk exposures?

3. https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/10/voices-on-2030-fs-reinvented-web.pdf

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HEALTH

The backlog-system driven responses to planned care

With the New Zealand Ministerial Planned Care Taskforce within Te Whatu Ora working on a full reset and restore plan[1] of Aotearoa's current waiting list backlog in the Spring of 2022, there is a challenge for the New Zealand health system to improve waiting time standards in New Zealand.

This challenge of ensuring access to high quality care for patients at the right place and right time is the responsibility of the whole healthcare system – both public and private, with the latter extending to health insurers.

We've seen other nations' demand for healthcare insurance and self-funded treatment increase off the back of high rises in waiting times (largely due to the Covid-19 pandemic and global workforce crisis) and in New Zealand, the Southern Cross Medical Care Society has reported its highest membership numbers in 30 years.[2]

Planned care delivery requires a whole system working in unison and, more importantly, aware of its accountabilities and the dynamics at work that drive forward sustainable performance. Engagement between Te Whatu Ora, private sector providers and insurers over the next 12-24 months will be crucial as workforce shifts cause gaps in capacity and backlogs in treatment, and, insurers will need to be assured approaches to national workforce shortages and skills gaps are being addressed adequately by providers in the private sector.

1. https://www.tewhatuora.govt.nz/about-us/publications/planned-care-taskforce-reset-and-restore-plan/
2. https://mc-fec8b19f-c7fd-4e56-8bfe-1850-cdn-endpoint.azureedge.net/-/media/files/corporate/annual-reports/scmcs-2022-annual-report-summary.pdf

Disruption ahead for both insurers and providers

A lesson from the pandemic in other nations is that planned care demand profiles, capacity for treatments and workforce constraints must be responded to in partnership between public and private healthcare partners. As demand increases from backlogs and staff are stretched, there is likely to be disruption for insurers and providers in equal measure.

We expect the recent publishing of data by Te Whatu Ora and the associated media coverage referencing the increase in wait times and life-altering delays for treatment to accelerate a new type of health consumer in New Zealand – one who seeks more power and influence over their treatment times and access to health care.

The waiting lists are getting too long. Demand for health insurance and self-funded treatments will rise.

The outlook for healthcare consumerism

Looking first to other industries, we see digital technology enabling instantaneous access to products and services. Consumers can select delivery schedules to fit their needs, provide real-time feedback, share information about goods or services with their online networks, and receive personalised recommendations based on their purchase history.

As health care waiting times grow and capacity is constrained, consumers accustomed to high levels of service and control in their relationships with other product and service providers are likely to demand similar from health care providers and the organisations supporting them.

Healthcare consumerism is increasing, and for insurance providers it will be vital to respond to savvy and empowered consumers with products and plans that are responsive to capacity constraints in public services and provide a sense of control and security.

System Delivery

Patient	Literacy basic rules & rights, choice, change of condition, ability to comply, communication, expectation
Commissioner	Access rates, clinical effectiveness, targets & monitoring, contract management, benchmarking, BI, service configuration
General Practice	Referral patterns, specilaist interests, demand mangement, rules, advocacy, choice, clinical effectiveness
Outpatients	Referral access points, triage, treatment mangement compliance, appointment & booking systems, clinical decay, attendance mangemen, workforce distribution, clinical effectiveness
Related Systems	Independent sector capacity, integrated care hubs, mental health, pre-admission planning, diversion schemes
Regulator	Business intelligence, patient acess standards, performance mangement, escalation, enforcement
Impatients	Treatment management compliance, pre-op assessment, theatre schedules, booking systems, workforce distribution, clinical effectiveness
Diagnostics	Triage, treatment management compliance, direct access, referral management, workforce distribution, clinical effectiveness

The UK experience

Self-pay admissions — where people choose to fund their own healthcare — rose 39% across the UK in the two years to the end of 2021, according to the independent Private Healthcare Information Network, an organisation that tracks treatment data. Demand rose by 90% in Wales and 84% in Scotland. In England, the increase in self-funded treatments was highest in the East Midlands, at 75%, compared with 20% in London, where demand was already the highest nationally.

David Hare, chief executive of the Independent Healthcare Providers Network in the UK, identified "a very strong correlation between growing NHS waiting lists and those patients that are choosing to self-pay". About half of Britons would consider private treatment, polling by the organisation showed. In almost half of cases this was because people were having difficulty accessing NHS care.

In the UK, demand for private healthcare is soaring post-pandemic.

John Bennett
Principal
Health Industries SME

Thought Leadership

Australian General Insurance Insights Dashboard

An overview of the Australian General Insurance industry through interactive dashboards (updated July 2022) providing a summary of key performance statistics by Institution and Product Class.

Voices on 2030: Financial services reinvented

Predictions on 2030 from industry leaders, including Blair Turnbull from Tower Insurance alongside global insurance leaders.

Frontiers in Finance: Innovating through platforms and ecosystems

The latest global market insights and forward-looking perspectives for financial services leaders and professionals.

New Zealand CEO Outlook: Realistic optimism in turbulent times

Unique insight into the mindset, strategies and planning tactics of New Zealand CEOs in comparison to leaders in the rest of the world.

Big shifts, small steps

Survey of Sustainability Reporting 2022.

The Future of Large Commercial Insurance: Helping to drive the future of insurance transformation

Evolving global trends and their impacts on the future of the sector, alongside three winning business models of the future.

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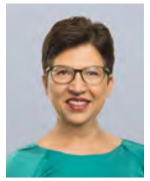

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