General Insurance Update 2016

Empowering New Zealand for the future

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Contents

Welcome to the 2016 edition of our General Insurance Update

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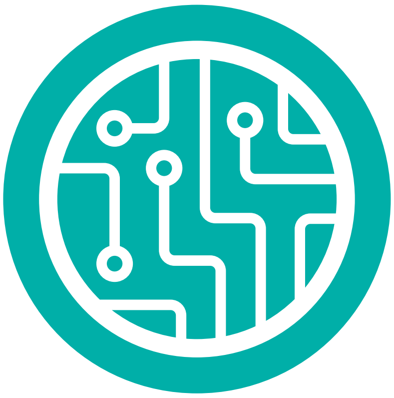
To prosper and fuel New Zealand's economy, insurers must continue to adapt their business strategies to respond to changing customer needs, technology advances and regulatory demands.



As we stand at the edge of the Fourth Industrial Revolution, never has the need to adapt and innovate been more imperative. The industry must continue to consider how technology will reshape the economy, and social and cultural environments, and impact day-to-day lives.

This year's publication has a strong future focus.

In our first article, on page 3, Steve Graham, KPMG's Head of Digital Futures, discusses how Artificial Intelligence (AI), new business models, simplification of transaction processes, changes in risk, competition and customer behaviour are impacting the way in which insurers are conducting business and thinking about the future. In the words of Albert Einstein, insanity is "doing the same thing over and over again and expecting different results". New mental models are critical to the future of the industry.

Next, we consider the new Fire and Emergency New Zealand Bill, and what this means for both policyholders and insurers, and whether the proposed expansion of the insurance levy model is equitable and, indeed, sustainable as a funding base.

Last year, we discussed the increasing prominence of conduct risk. One year on, the focus is now on the underlying drivers of conduct risk, and what insurers can do to mitigate and manage that risk. An insurer's operating model, organisational culture and values are key.

We are, once again, privileged to have Tim Grafton, Chief Executive, Insurance Council of New Zealand, as a guest author. In the article on page 15, Tim explores the concept of adaptation and change, particularly in respect of climate change and emerging risks such as cyber threats and interconnectivity. Tim highlights both the need for, and the importance of, setting aside time and resources for idea generation to create new opportunities.

The Reserve Bank of New Zealand (RBNZ) announced that, later this year, they intend to consult on the Insurance (Prudential Supervision) Act 2010. This is timely, given that the legislation has now been in place for just over five years and, also, given the recent International Monetary Fund Financial Sector Assessment Programme review. Whilst there is currently no Internal Capital Adequacy Assessment Process (ICAAP) requirement in place for New Zealand insurers, nevertheless, given the recent media reports around conduct risk gone wrong, we look at how ICAAP requirements can contribute to better conduct risk and ask if it is time for the RBNZ to introduce ICAAP for insurers in New Zealand.

Following on from this, and keeping to the topic of risk and regulation, Rob Curtis, KPMG Global Insurance Regulatory and ASPAC Risk Lead, presents the key findings arising from the recent KPMG global evolving insurance risk and regulatory survey. The survey focuses on four major areas: governance, capital/ICAAP, risk management and regulatory developments, with responses grouped by area: Australia, Europe, Japan, US and the rest of the world (including New Zealand). One thing is certainly clear, both senior management and boards are spending more time on risk management than they did this time last year.

Earlier this year, KPMG International surveyed more than 100 insurance CEOs to discuss the question on everyone's mind – how to achieve profitable growth in today's insurance market. On page 25, we share an article from the KPMG Global Insurance team based on the insurance CEO survey results. The findings highlight the importance of inorganic growth, strategic partnerships and alliances; these are increasingly important given low-interest-rate, highly competitive market conditions.

While the release of the long-awaited new insurance contracts accounting standard is now not anticipated until Q1 2017, our article on page 29 discusses the key areas of change. The anticipated effective date is annual periods beginning on or after 1 January 2020. We note the impact of the new standard will reach beyond financial reporting processes and, therefore, it's crucial that insurers start now to assess not only the financial reporting changes but also the wider business impacts: actuarial, capital and risk, asset-liability management, IT requirements, and, last (but by no means least), people/training needs.

We close with a cyber risk update. We highlight the importance of balancing risk acceptance, mitigation and transfer, with the protection of assets, noting that such a strategy can be the key to transforming your business strategy from one that's reactive to one that's energised and proactive.

On behalf of KPMG, we hope you enjoy the read.

Please do not hesitate to contact KPMG to assist your organisation in addressing any of the matters raised in this publication.

Creating a digital future

Steve Graham – Head of Digital Futures

The exponential explosion of technology applications and the assumption that digital solutions are the panacea for all the corporate ills will only perpetuate the role of digital disruption.

Digital disruption: two words that, when combined, often stir anxious provocation. According to the KPMG 2016 Global CEO Outlook, 82 percent of CEOs are concerned their current products and services may not be relevant to customers three years from now. The root cause of the CEO apprehension may stem from the digital speed of change.

The exponential explosion of technology applications and the assumption that digital solutions are the panacea for all the corporate ills will only perpetuate the role of digital disruption.

Despite this perpetuation, industry is being disrupted by more than just digital. Consequently, it's important to develop a comprehensive view of disruption that includes new technologies, new business models, simplification of processes, competitive threats, customer behaviour and the transformational mind-set, critical to the way forward.

As the Head of Digital Futures at KPMG New Zealand, I am of the view that successful insurance firms will systematically develop plausible future state scenarios. It's my hope that the trends that are highlighted in this article will help contribute to the forming and framing of a transformed digital future.

Artificial Intelligence (AI) and new business models

To illustrate the possible disruptive opportunities within general insurance, we look at a start-up that has combined cutting-edge AI technology with a cloud-based, agile business model.

The world's first peer-to-peer (P2P) insurance company

Lemonade.com boldly states on its home page that it is The World's First P2P Insurance Company. Scroll down its home page and you are immediately introduced to Maya, its charming AI bot who will craft the perfect insurance policy for you. It couldn't be easier or faster. Scroll a bit further down and you view an explanation of how peer-to-peer insurance works. "P2P reverses the traditional insurance model. We treat the premiums you pay as if it's your money, not ours. With P2P, everything becomes simple and transparent. We take a flat fee, pay claims superfast, and give back what's left to causes you care about." Scroll a wee bit further, and Lemonade discusses the social impact. "Lemonade Inc. is a Public Benefit Corporation and certified B-Corp. Social impact is part of our legal mission and business model – not just marketing fluff."

How relevant is a potential P2P model in general insurance? And when you combine AI, does the model become more significant? If we travel back in time to 1999, we are reminded of the P2P architecture popularised by the file-sharing system of music-sharing company, Napster. How big was that impact? Global recorded music industry revenue, adjusted for inflation, dropped from approximately $40 billion in 1999 to less than $15 billion today. General insurance firms should continue to monitor the opportunities and impacts of new business models that are incorporating leading-edge digital solutions.

Simplification of transaction processes

Insurance experts agree that there will be gargantuan cost reductions on the horizon due to technology solutions providing insurance firms with simplified transaction processing. Old actuarial practices and statistical modelling will be displaced by highly effective algorithms based on AI, cognitive computing, big data, the Internet of Things (IoT) and sensors. Anything predictable or repeatable will be automated by robots, leaving the human being to other forms of work that more commonly involve empathy, creativity, problem-solving and negotiation skills.

Change in competition

It's not only autonomously driven vehicles and the introduction of new business models that need to be considered when looking at the future of general insurance. Digitally focused organisations with robust balance sheets and significant networks of friendly customers, such as Apple, could, potentially, sell insurance.

Start-ups like lemonade.com, with high levels of automation and no unwieldy legacy IT systems, may be able to pivot rapidly according to customer desire, subsequently attracting some of the most profitable customers of traditional insurance firms. According to the popular business book *Exponential Organizations* by Salim Ismail, "New organisations are ten times better, faster and cheaper than yours".

Change in risk

Examining the potential implications of driverless vehicles on the general insurance market, one is instantaneously struck by the potential blow the insurance industry may sustain after automotive manufacturer Mercedes-Benz and tech behemoth Google both announced that they would cover claims that occur from the faults of self-driving cars, hence reducing the need for insurance by a significant number of existing policyholders, potentially, to third-party cover only.

According to Bloomberg, insurers such as Allianz SE and Munich Re are trying to assess the impact of automation on their biggest non-life insurance market as car makers from Tesla Motors Inc. to Daimler AG and Volvo AB embrace technology. Personal auto insurance accounts for 47 percent of global premiums, according to Aon. In Europe, motor insurance is the main non-life insurance business line with annual premium income of about 120 billion euros (NZD $187 billion), according to data from Insurance Europe. KPMG researchers have predicted that the motor insurance market may shrink by 60 percent by 2040 and some think that number is a serious underestimate.

Change in consumer behaviour

It's quite clear that digital is pushing the market from a reactive disposition to a proactive focus on risk prevention. This trend has introduced tools that enable a 'pay as you behave' model. TOWER Insurance has a SmartDriver app that collects driver information through sensors on your smartphone, including GPS locations. The data collected includes the distance travelled and your braking and acceleration. This information is then used to assess driving behaviour. The app shows you how you compare to other drivers, which could be a bit of fun but, more importantly, your score could reduce the cost of your premium. Some 'safer' drivers would hypothesise that this approach is a fair way to pay for car insurance.

Progressive.com, an American insurance provider, is aligned to TOWER Insurance's behaviour-driven incentives, saying it just makes sense – insurance should be based partly on how you actually drive, rather than just on traditional factors like where you live and what kind of car you have.

Solutions such as the SmartDriver app are based on understanding the customer journey, the experience and the ability to reward individual behaviour through understanding their unique interactions.

Blockchain

As a former Microsoft employee, I concentrated on assisting enterprise firms to develop adaptive environments so that they could meet the future expectations of both internal and external stakeholders. I encouraged clients to consider future state questions in order to anticipate the changes required for future operating models.

In 1985, Microsoft leaders posed the question, "How do we solve the problem of distributed trust in a global computer network so we do not need trusted intermediaries?" Twenty-five years later, the answer to this question emerged in the form of Blockchain. Blockchain technology is a distributed ledger that is trusted and verifiable through a distributed consensus mechanism. When more than 50 percent of involved parties support the transaction, the transaction is accepted into the ledger, completely automated and anonymised. It's a tool that disintermediates multiple layers of bureaucracy and inefficiencies. Therefore, from both an internal process efficiency improvement and an external engagement approach that digitally supports intermediaries attempting to establish trust (e.g., underwriters, agents, brokers, banks and lawyers), the possibilities for simplifying and reducing costs are significant.

From vertically to horizontally integrated

Blockchain is itself a way of verifying the accuracy of data and has all sorts of applications that move beyond the traditional vertically integrated hierarchies.

Blockchain, the IoT, AI, new business models and P2P models all enable individuals to take big data and analytics and create new algorithms that produce insights that allow us to do new things more efficiently, including buying just the right amount of general insurance, when needed. Jeremy Rifkin, author of *The Zero Marginal Cost Society: The Internet of Things, the Collaborative Commons, and the Eclipse of Capitalism* is, according to Forbes, "very good on the historical origins of the giant, vertically integrated organisations that dominated the 20th-century economy. He makes a powerful case that from a longer-term perspective, it is these giant hierarchies that are the anomalies of economic history. The shredding of vertical value chains, the creation of vast new horizontal value chains, and the social change of people preferring access to ownership… bring massive economic and social changes to business and society, the implications of which are only beginning to be glimpsed".

Lessons from other industries

Long-established industries, e.g., newspaper, photography and music, have all been decimated by technological change. Less-high-profile industries have also been digitally/technologically disrupted. Mr Rifkin notes the energy sector as an excellent example, highlighting that the marginal cost of renewable energy is zero and, therefore, effectively becomes free. In Germany, in less than seven years, 25 percent of electricity is now green electricity. How? A million buildings have used technology to convert to micro power plants. Germany is now producing an abundance of free energy and, therefore, the large multi-billion-dollar global power and electricity companies in Germany are rapidly declining, e.g., E.ON, EnBW. Did they anticipate the speed of change and erosion of market share?

The way forward

Digital disruption conversation can be very demoralising or incredibly exciting. How do we govern and lead amidst the continuous technology change and the need for transformation? What can we do to prepare ourselves? How do we lead in a volatile, uncertain, complex and ambiguous emergent future?

I believe Jeremy Rifkin would encourage leaders to think differently, become more circumspect and engage in an ongoing dialogue that supports the development of fresh narratives and rich scenarios that include millennial social behaviour, new technology solutions and future operating models.

New mental models are critical to the future of industry: in other words, thinking in a new way. Albert Einstein said, "We cannot solve problems with the same thinking that created them." Outdated mental models are intellectually bankrupting our future economic prosperity so the time to reimagine the future is now.

When Bill O'Brien, the late CEO of Hanover Insurance, was asked about leading transformational change, he said, "The success of an intervention depends on the interior condition of the intervener".

Otto Scharmer, Senior Lecturer at MIT and creator of Theory U, heard O'Brien respond this way and thought, "What do I really know about this inner place? I know nothing. I didn't know, because that place is in the blind spot of our everyday experience. We can observe what we do and how we do it. But the quality of the source from which we operate in the now tends to be outside the range of our normal observation, attention and awareness. The essence of our view concerns the power of attention: We cannot transform the behaviour of systems unless we transform the quality of attention that people apply to their actions within those systems, both individually and collectively".

Scharmer goes on to say that wherever you place your attention is where the energy of the system will go: "Energy follows attention". This means that we need to shift our attention from what we are trying to avoid to what we want to bring into reality. This is at the heart of dealing with digital disruption… we need to shift the focus from being disrupted to creating a digital future. It is imperative we continue to identify critical trends, uncertainties and disrupters, and recognise that the best way to predict the future is to create it.

Next steps

The sheer pace of change and market disruptions are forcing leadership teams to create more structured ways to anticipate the future. The temptation to remain focused on the certainty of current operational demands is understandable but, ultimately, will prove to be strategically ineffective.

Leaders must talk about the vision of a digital future and recognise the inherent possibilities that change brings. It's also important to engage with the disruptive thinkers in your organisation. Management guru Gary Hamel has said that young people, dissidents and those working on the geographic and mental peripheries of your organisation are the most interesting, free and open thinkers. Look for rebels. The good news is that they won't be difficult to find and they can be excellent participants in the development of future scenarios.

The need to embrace uncertainty and drive the strategic conversation is now more vital than ever. A useful approach to the development of the strategic dialogue is through strategic foresight – a set of techniques used to help inform, challenge and frame plausible future states through future-oriented insight. Developing plausible future state scenarios helps organisations understand the impact of change, see the implications of change and tackle existing assumptions.

From my experience, the strategic foresight approach provides the foundation to achieve this. It enables leaders to explore future worlds and develop a collective understanding of preferred future state scenarios.

You can engage the foresight approach on your own, request assistance from KPMG or continue doing what you've always done.

You may also choose to do nothing and, as one of my favourite cartoons illustrates: "Instead of risking anything new, let's play it safe by continuing our slow decline into obsolescence!"

The Fire and Emergency New Zealand Bill - private insurer funding model

Nicholas Moss – Senior Manager, Audit

On 30 June 2016, the New Zealand Parliament introduced the Fire and Emergency New Zealand Bill (the Bill). The Bill seeks to replace the New Zealand Fire Service Commission with a new entity: Fire and Emergency New Zealand (FENZ).

New Zealand's fire services legislation has not changed fundamentally since the 1940s. However, since then, the activities performed by the New Zealand Fire Service have developed in response to community demand – particularly in providing assistance in non-fire-related emergencies. As a result, the current funding mechanism for the fire service does not align with the activities it performs and does not necessarily provide a stable and sustainable funding base. For this reason, a review of New Zealand's fire services legislation is appropriate and welcomed.

The Bill follows the government's release of its Terms of Reference for the Fire Review Panel in 2012 and its Fire Service Review Discussion Document in 2015.

The Terms of Reference for the Fire Review Panel established three objectives for the review. The insurance industry is primarily concerned with the third objective: fire service funding – currently, more than 90 percent[1] of funding comes from levies on property-based insurance contracts. The objective of the review of fire service funding was to undertake an analysis of future funding options which would:

— provide sufficient funding

— be simple to administer, calculate and collect

— be stable and predictable

— be equitable

— minimise distortions in investment decisions, insurance price and coverage.

The current funding mechanism fails to achieve at least three of the five objectives – and so does the proposed funding mechanism under the Bill. Funding the fire service through levies on property-based insurance policies does not provide funding which is simple to administer, calculate or collect and it does not provide funding which is stable, predictable or equitable.

The Insurance Council of New Zealand (ICNZ), representing the interests of the fire and general insurance industry in New Zealand, has made three submissions on the review of New Zealand's fire services legislation – one on each of the Terms of Reference of the Fire Review Panel (2012), the Fire Service Review Discussion Document (2015) and the Bill (2016)[2].

All three submissions clearly articulate the reasons why the funding mechanism under both the existing legislation and the Bill does not provide funding which is simple to administer, calculate or collect and does not provide funding which is stable, predictable or equitable.

1 New Zealand Fire Service Annual Report for the year ended 30 June 2015. Levies account for $350,705,000 of total $372,028,000 revenue.

2 Insurance Council of New Zealand Submission on the Fire and Emergency New Zealand Bill, dated 18 August 2016.

Simple to calculate and administer

Insurance products are complex. Attaching a levy based on a general principle tied back to property is both challenging and judgemental. Some examples include:

- A commercial liability policy protects the interests of the insured in the case of a legal liability. One interpretation of this, under the Bill, is that the third party's property is insured by the insured's commercial liability policy. However, this does not make sense and it would be impossible to quantify the damage that the insured may cause to third-party property.
- Bailee's insurance covers a bailee or property during their temporary possession of another person's property. Similar to the example above, this is not property insurance – it is liability insurance. However, this type of insurance policy may be subject to a levy under the Bill.
- Travel insurance for visitors to New Zealand may attract a levy under the Bill as it insures the traveller's belongings against loss or damage. While there is certainly the potential for fire services to be required in respect of that property, it would be difficult to identify travellers to New Zealand, particularly when they are unlikely to have taken out insurance with a New Zealand-based insurer. Should travellers to New Zealand help fund the fire service?

Stable and predictable

Emerging technologies and innovative insurance products disrupting the insurance industry will impact the types of insurance cover and their premiums in the future – both impacting the stability and predictability of funding through levies. Examples include:

- Driverless car technology is expected to reduce insurable risk with a reduced risk of motor vehicle accidents. There is also an expectation that manufacturers of driverless cars may cover the costs of accidents resulting from their driverless cars.
- Real-time insurance, which enables a policyholder to switch their cover on and off, will be problematic for levy provisions which rely on property being insured for a year.
- Holistic personal risk products, which cover not only property but also liabilities, health and the life of the insured, not only will add complexity to calculating the correct levy but also may reduce the levy.

Equitable

The most simple example of why funding the fire service through insurance levies is not equitable is property owners who do not insure or who underinsure their properties. These owners have the benefit of the fire service but do not pay for it, or what they pay is not based on the value of their properties. It is not mandatory to insure property in New Zealand and it is common for property to be underinsured – whether intentionally or unintentionally.

There are many other reasons why funding the fire service through insurance levies is not the best model:

- There are difficulties implementing the collection model, which forces insurers into the role of collection agents, despite the fact that a significant percentage of insurance business is sold through brokers.
- There is the potential for 'double dipping' where more than one insurance policy covers the same property for different risks.
- There is a conflicted assurance model which enables FENZ to impose penalties on insurers for non-compliance. Insurers have no incentive to avoid the levy in the same way that taxpayers are incentivised to avoid paying tax – insurers are merely collection agents. This issue is compounded when there is complexity involved in determining whether a levy is applicable or not – such as is the case for commercial liability policies.

Given the issues above, to name but a few, it is no surprise that New Zealand's funding mechanism for the fire service is not widely used internationally. Across the Tasman, Australia is in the process of phasing out an insurance levy funding mechanism, with New South Wales (NSW) being one of the last states to introduce a new funding model. From 1 July 2017, a new Emergency Services Property Levy will be paid by all property owners in NSW alongside council rates, which will be collected by local councils. This replaces the current model which levies property-based insurance policies – in a similar way to that of the current New Zealand model.

Funding the fire service through council rates is a common funding mechanism for fire services around the world. In our view, funding through council rates, or through general taxation, would be a better funding mechanism for the New Zealand Fire Service. Such a funding model would better meet the objectives set out in the Terms of Reference for the Fire Review Panel – it would provide for funding which is simple to calculate, administer and collect, and which is stable, predictable and equitable.

The role of culture in conduct risk

Adele Wallace – Associate Director, Advisory

Culture is being viewed increasingly as one of the potential root causes of conduct risk and as a factor in the deterioration of trust in the financial services industry.

In our 2015 General Insurance publication, we focused on the increasing prominence of conduct risk across financial institutions. The current focus for business, regulators and academics is that, both locally and globally, we continue to see examples of misconduct and regulatory fines, despite extensive regulation. More and more, businesses are asking not just, "what are our conduct risks?" but also, "what are the root causes of those conduct risks?"

Culture is being viewed increasingly as one of the potential root causes of conduct risk and as a factor in the deterioration of trust in the financial services industry. The industry is considering whether or not it has a more pervasive problem in attitudes and behaviours and whether or not culture could be part of the problem as well as part of the solution. Restoring trust in the industry needs to go beyond compliance with laws and regulation. There needs to be a fundamental change in building a culture where customer outcomes pervade everything. Insurers need to take the next step in the interests of customers: avoid focusing only on customer satisfaction scores and focus more holistically on whether or not the right outcome was achieved for the customer overall. Has the right product been sold to the right customer at the right value?

What is the regulators' view?

In June 2015, the International Association of Insurance Supervisors (IAIS) released its Issues Paper on Conduct of Business Risk and its Management, which was complemented a few months later by a compilation of the comments it received. The issues paper sought to contribute to a comprehensive understanding and assessment of a sound risk culture and to raise awareness of conduct risk for insurers. The paper identified broadly three sources of conduct risk:

- The nature of insurance as a business and its inherent asymmetries and uncertainties
- External factors, which include environmental and economic factors
- Internal factors, such as business processes and governance.

Under this last source of conduct risk, business processes and governance, the paper emphasises the role of culture in driving good conduct. It highlights that, "a governance framework has culture at its heart; this influences the way in which individuals behave".

In the IAIS's view, to mitigate conduct risk, an insurer needs to focus on a culture of 'fair treatment'. It says: "where a culture of fair treatment of customers is not embedded within the business objectives and strategies, there is a higher risk that staff and management behaviour or business processes give rise to poor customer outcomes." This 'fair treatment' needs to be "sufficiently reflected in the governance framework and business objectives and strategies, with sufficient attention paid to ensuring fair customer outcomes in the corresponding policies, procedures, risk management and internal controls".

Of course, the concept of what constitutes 'fair treatment' can be much debated and, as one respondent pointed out, no amount of policies or procedures will "compel individuals to do the right thing". Overall, however, in our view, the paper makes a clear case for a link between establishing a culture of fair treatment in the governance and risk frameworks and minimising the risk of poor customer outcomes. It sets the tone for the regulators' view of the importance of culture.

Closer to home, the Financial Markets Authority (FMA) has also actively pointed towards a focus on culture in its recently released consultation, *A guide to the FMA's view of conduct*. Submissions closed in October 2016. In the paper, the FMA sets out its framework for a good conduct profile. One of the six key components it highlights is culture, which is described as leadership and behaviour. It notes that, under culture, its focus will be on two things: firstly, firms clearly being able to demonstrate what behaviour is expected from everyone at the provider, including its leaders; and, secondly, it says, more importantly, "we want to see examples of how staff (including leaders) conduct makes those expectations clear and that any breaches are identified and appropriately acted upon." This puts the emphasis on being able to provide concrete examples of communication of expectations from leaders and tangible action to redress any breaches identified.

What is the difference between conduct risk, risk culture and wider cultural change, and what contributes to the failure of each?

Both of these papers from the FMA and the IAIS focus on culture as a key driver of good conduct. As this concept becomes more familiar, the market is starting to use the terms conduct risk, cultural change and risk culture interchangeably. Not surprisingly, there is significant confusion about the difference between those concepts and a lack of clarity around where the business should focus.

Figure 1.

Conduct risk can be defined as the ability to identify and address specific risks in core product and sales processes with a focus on achieving the right customer outcomes. Risk culture addresses the articulation, communication, measurement and prioritisation of risk. Overall cultural change is the holistic view of the potential to drive a high-performance culture throughout an organisation. The diagram on page 10 (Figure 1) sets out the key features of these concepts.

When we think about risk in the insurance sector, we typically think about prudential and solvency risks, rather than conduct risks. However, regulators are starting to see that conduct risks and solvency are inextricably linked and that both need to be addressed.

Conduct risk is not just a subset of operational risk management. Operational risks are, in effect, risks which cause detriment to the business. By contrast, conduct risk is the risk of detriment to the customer or market, not just to the business. Some take this as far as placing the interests of the customer and market ahead of profit maximisation.

Isn't conduct risk just reputational risk?

Damage to a business' reputation can be a consequence or impact of a conduct risk event. However, just seeking to mitigate risks that threaten a firm's reputation doesn't necessarily go far enough in actively ensuring the right customer outcomes.

Isn't conduct risk just legal or compliance risk and don't we just need more regulation?

This view again encourages a narrow view of compliance. It encourages a focus on more perfunctory compliance with relevant regulations, rather than on the spirit of doing the right thing and driving the right customer outcomes. Of course, the firm must meet its regulatory obligations but a focus on conduct and customer outcomes encourages a more holistic approach. In fact, many players in the market, including respondents to the IAIS paper, are saying that more regulation will actually have a counterproductive effect and will hinder businesses from focusing on delivering great customer outcomes.

Actually, conduct risk drivers are usually in the decisions and judgements that are made early in the value chain: strategy setting, product design and training. All of these can subsequently have a negative impact on the customer. For example, a key insurance conduct risk is claims handling, not necessarily the customer sale or the risk of miss-sale. In the UK, two of the major insurance regulatory fines were about complaints handling: not honouring claims due to restrictive terms and conditions.

Conduct risk is all about balancing and reconciling the financial interests of the business with the needs of the customer. It's also the reconciliation of these types of dilemma that is fundamental when looking more widely at cultural change, which we will touch on shortly. First, let's have a look at how risk culture contributes to conduct risks.

So, if conduct risks are a specific set of risks which arise in the product life cycle relating to the risk of poor customer outcomes, what contributes to those risks occurring? In part, it must be attributable to how seriously risk is taken in the business. In other words, 'risk culture'.

Risk culture focuses on the core beliefs that drive implicit and explicit prioritisations and the importance of risk management. How do individuals behave towards risk and compliance?

What happens if there are incidents or breaches? How does leadership set expectations around risk appetite?

How do different business functions take ownership of risk and compliance issues?

These attitudes and prioritisations can be measured and assessed. For example, KPMG's risk attitudes assessment framework focuses on assessing the risk attitudes that are likely to lead to a strong risk culture: tone at the top, commitment, communication and responsiveness. It also focuses on the specific behaviours that make up each of these attitudes.

We've seen a real focus in this area in New Zealand. Particularly with CPS 220 and APRA's focus on risk culture across Australian groups.

So what influences risk culture?

The overall culture of the business. Culture operates at different levels within the business: in its structures, processes and behaviours, and espoused beliefs and values, as well as the basic underlying assumptions within the business. Some of these are easier to change than are others; refer to Figure 2.

Culture is the accumulation of years of corporate history. It is not defined top-down and imposed on a business but, rather, it is created by the actions, beliefs and attitudes of a broad set of people. For example, a decision that may seem as though it has little to do with culture can send a strong cultural message about the basic assumptions of leaders. Overall, culture is experienced most intensely when there is a dilemma or choice to be made between conflicting objectives. This process of dilemma reconciliation is a good place to start when looking at culture overall and is the focus of Dr Fons Trompenaars who leads our Global Culture Practice out of Amsterdam. Our culture practice helps businesses realise opportunity and innovation through reconciling dilemmas: from dilemmas at the heart of a business, such as challenges between the competing interests of customer satisfaction and shareholder return, to more specialised dilemmas, such as legacy products where you need to ensure the customer always has the best product for their needs, as well as maintaining margins and deriving profits from the back book.

In summary, our view would be that you must work on all three: cultural assessment and change, if needed, risk culture and specific conduct risks. Insurers cannot solely focus on meeting regulatory obligations. Although, of course, you need to meet these obligations; they cannot just be a box-ticking exercise at the expense of driving the right customer outcomes.

In addition to focusing on flowing in as inputs good policy, charters, values, controls, etc., you need to consider whether or not those inputs are achieving the right outcomes. Good policy, controls and compliance alone won't get you there; risk culture and overall firm culture are critical drivers of success. Forming a view on your overall culture should also be a priority: to enable you to consider the influence that it is having on conduct risk management. You need to have tangible evidence and examples of how your stated rules and expectations, and the beliefs and values of individuals in your business, interact with one another to drive your business outcomes.

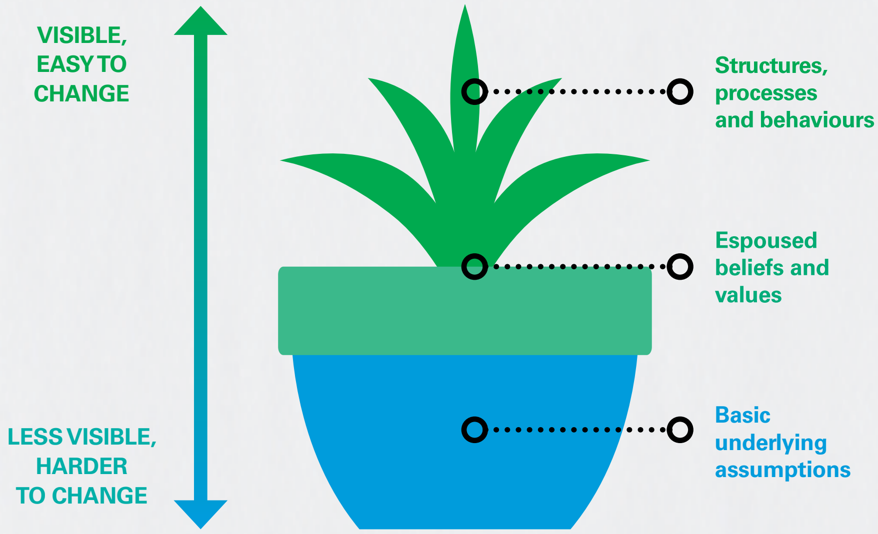
Strong business culture and values, as well as a risk culture enforcing staff attitudes and behaviours, play a large part in managing conduct risk. But it is equally important to avoid focusing only on culture but to identify and understand the specific conduct risks that arise in your business' life cycle and business model so that they are known, and you can mitigate them.

Culture could be a real differentiator for your business in an industry where products and pricing can be easily copied. A genuine relentless focus on the interests of the customer could differentiate your business and help you stand out for the right reasons.

To close, we encourage you to consider a negative example and a positive example of a customer outcome and which is more prevalent in your business.

Figure 2.

Schein's[3] definition of culture change



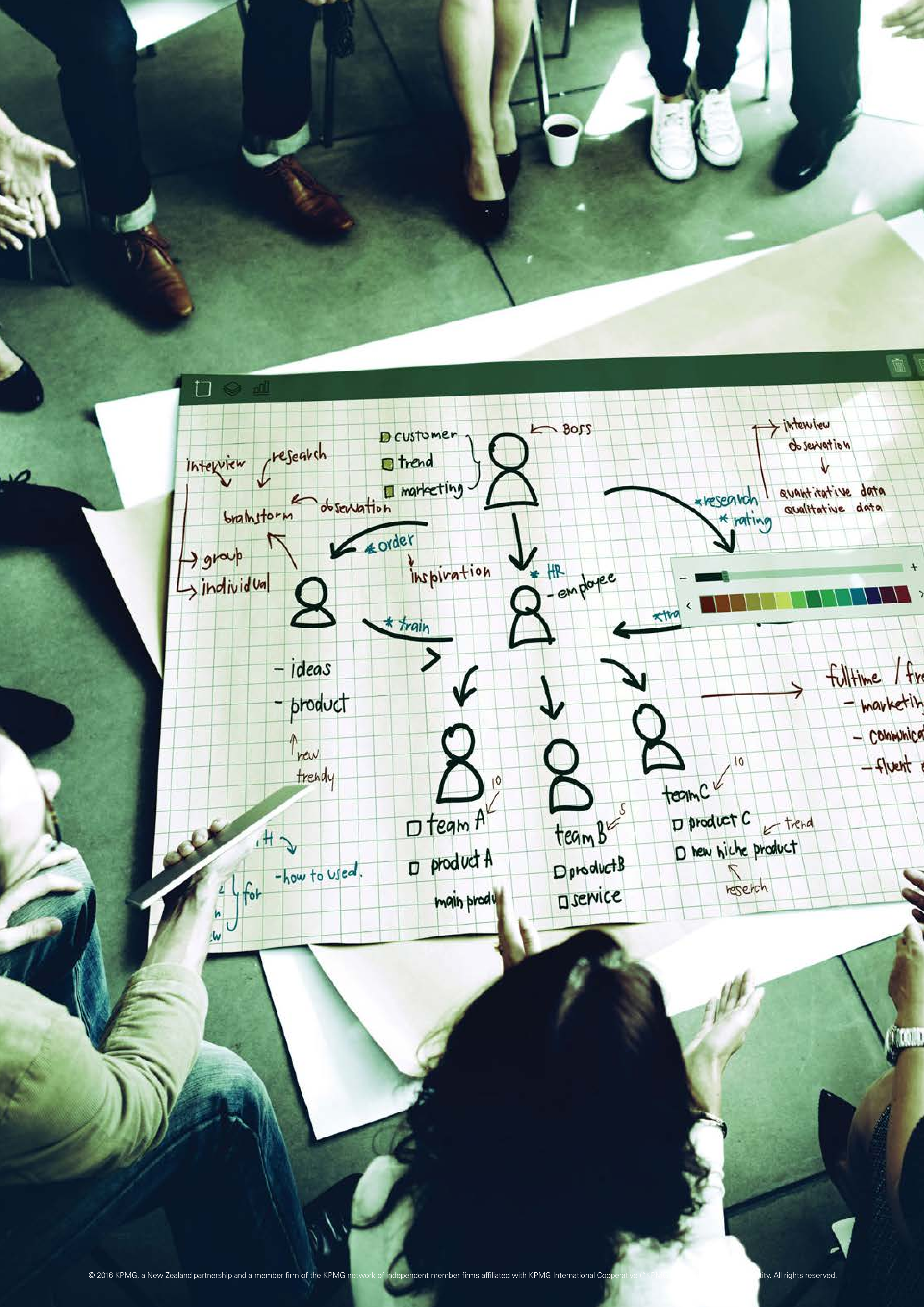
3 Edgar Schein believed there are three levels in an organisation culture.

How to get it wrong:

An insurer who sells insurance through an intermediary is fined for significant failings in the way they handled complaints. Customers lost their trust because complaints were not taken seriously and were not resolved. Customers are paying for an insurance product they potentially don't need, are feeling angry that they have not been treated fairly and are upset that their complaints were not fully investigated. They tell family and friends of their experience and vent on social media. The insurer puts enhanced mechanisms in place to monitor complaints more effectively, particularly where third parties are involved. They look at training third-party staff better to resolve complaints the right way and consider what management information and assurance they need in place to ensure customer service received from third parties is positive.

How to get it right:

An insurer sends text messages to all customers wishing them well after a recent major weather event. They provide the phone number to process claims should their customers' property have been damaged. This strategy could increase claims short term but has the upside of increasing customer loyalty and, potentially, leading to greater revenue long term. Customers say that the insurer's empathy makes them feel loyal and protected. They are more likely to recommend them to other people. They are more interested in the business' other products because they feel as though the insurer has their best interests at heart. The insurer carefully considered the dilemma around the short-term increase in claims against the longer-term retention and loyalty of those customers. They thought about the long-term needs of those customers and realised that the needs of those customers long term is a more sustainable strategy than is short-term profit. They used the right technology channels to reach out to customers in an appropriate way.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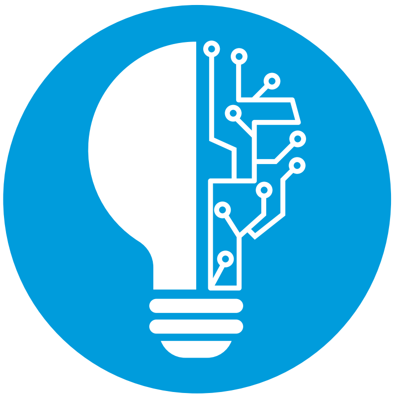
Playing in the sandpit of ideas: Adaptation and change

Tim Grafton – Chief Executive, Insurance Council of New Zealand

The way we think about climate change, though, may provide a framework for thinking about the uncertainties that rapid technological change and potential disruption present to the insurance sector.



Adaptation and mitigation measures are how we talk about the responses required to de-risk the uncertain impact of climate change.

Climate change effects are just one of many unknowns with which insurers must grapple. The way we think about climate change, though, may provide a framework for thinking about the uncertainties that rapid technological change and potential disruption present to the insurance sector.

Climate change has global, profound impacts. Because it affects the biosphere, its effects have a virtually incalculable number of interconnections playing out a challenging number of plausible scenarios. It may alter quality of life, health status, food supplies, infrastructure and where people can live, and may disrupt social, financial and political stability.

Impending change creates new opportunities, particularly where to do nothing brings dire consequences. We may become more dependent on synthetic foods for nutrition, living in more artificially controlled environments might become preferable, greater reliance on robotics could improve life quality, or 3D-printed organs may improve longevity. It may not be a romantic scenario but it could be a better, more pragmatic reality to any alternative.

Thinking of the potential cyclonic effect of the exponential increase in connectivity across the Internet of Things, the step change in the volume of data collected about individuals and the speed with which it can be intelligently processed, it's possible to describe plausible, profound impacts on insurance too.

Much has been written about potential new entrants, such as a Google or a telco, and the emergence of peer-to-peer models like Lemonade displacing traditional insurers, let alone about distribution channels.

Equally, the opportunity exists to harness the data to deliver enhanced customer experiences and products. We're already seeing the incorporation of non-insurance product offerings like home security linked to house policies, motor policies with concierge services and just-in-time insurance (for example, texts on your mobile phone offering travel cover as you take your seat on the plane).

In a world awash with cheap capital, the opportunities for strategic mergers and acquisitions are boundless. The scope for change, either due to climate or technology, is profound so, perhaps, the most significant difference between the two is the pace of change. Even then, the response framework to the risks each pose is not essentially different, though the speed of response will be.

An insurer's risk analysis for climate change events starts by asking what it is we wish to avoid – loss of life, property damage or business interruption. It should identify the biggest risks so there would be a worst-case scenario (high impact, low probability) in terms of long-term change as well as attention to short-term events. The full range of probabilities would be considered, bearing in mind that a very low probability may correspond to a very high risk if the result is catastrophic. To do that analysis, proven science would be drawn on along with expert judgement, and even a best guess would be considered as that would be better than it would be to make no estimate of what might happen.

And while this information may enable a model of potential loss to be built, it would still be only a model. So, to supplement that, plausible scenario planning would be employed to create a more holistic view of risk, while being mindful that human behaviour and interactions within a system can produce different possible outcomes.

Value judgements would inevitably be made, and these would need to be explicit and open to debate.

Then, having identified the likelihood of occurrence and the impact of what could happen, it would be the turn of adaptation and mitigation.

In the case of climate change, this means doing new things to strengthen resilience and preparedness to minimise disruption and risk (adaptation), as well as avoiding doing more of the same (mitigation) that only increases exposure. But, equally, in the face of technological disruption, the response is surely no different?

The similarities go further. Consider the comments made a year or so ago by the insurance regulator in the UK, Bank of England Governor Mark Carney, with respect to the risks to insurers from climate change.

He identified three categories of risk to the solvency of insurers. The first was physical risk. That is, the risk to underwriters that arises from increased losses resulting from property damage, supply chain disruption and business interruption (think of the global shortages of electronic and motor components brought about by the 2011 flooding in Thailand, because of international interdependencies).

The second was liability risk, which arises from those who have suffered loss from the effects of climate change seeking compensation from those who knew the risks and failed to do anything about them. So, for instance, that could mean local authorities might be liable with the flow-on implications for their insurers.

The third risk was transitional. This arises from the investment exposure insurers may have in assets with heavy fossil fuel dependence should there be a swift repricing of those assets. This could stem from either a significant change in regulatory requirements in a large economy or a technological breakthrough in alternative energy sources.

Some commentators have suggested that the under and non-insurance of assets that would be impacted by climate change and the reduced ability for insurers to cover risks affordably could lead banks and other lenders to be exposed in a way that could trigger a future financial crisis.

These risks appear to have their parallels in the context of disruptive forces that could impact the insurance sector's own business. There is clearly the threat of new entrants with a game-changing, low-cost insurance offering, and more detailed underwriting knowledge of individuals' risk to traditional underwriters. The transitional risks of stranded assets in the form of legacy systems are certainly there. And, for the boards of insurance companies, there is the risk that shareholders will take their investments elsewhere.

Emerging risks arising from cyber threats and high levels of interconnectivity also raise questions about the extent to which the risks are being appropriately priced or covered. If the transfer of those risks is not well managed, then is that another source of potential financial market failure? Just as the insurance regulator in the UK has started to ask some probing questions of the industry, it is interesting to think about the broader regulatory environment and the extent to which it hinders or enables insurers to seize the opportunities available to it so it can adapt and become more resilient.

Certainly, with respect to climate change, the legislative and regulatory machinery is increasingly intervening to enable or require adaptation and mitigation. So, we have seen carbon trading schemes, 30-year infrastructure planning requirements to address flood risks, plans to include natural hazards in Resource Management Act requirements and other initiatives. While these are steps in the right direction, other decisions like applying an insurance tax to fund fire and emergency services, and attempts to extend the tax from property to forms of liability policies, are backward steps that make risk transfers less affordable and accessible to people.

More broadly, regulators have not kept up with change with respect to the emergence of services like those offered by Uber or ride-sharing arrangements, and tend to seek a one-size-fits-all regulatory framework. It seems ill-advised for regulators not to recognise a sharing economy as it is data rich, will grow exponentially and will attract many casual users.

We live in a world where initial screening by regulators of ride-hailing/ride-sharing companies is being displaced by continuous quality control via rating and feedback from registered customers and real-time GPS tracking.

Regulators exist to protect the public from harm but must also remain attuned to the benefits of competition, choice and innovation, which the public increasingly demands from digital platforms.

It is perhaps inevitable that regulators will be reactive and, thereby, behind the eight-ball. It makes it more challenging, when change is rapid, for them to be enablers rather than to add dead-weight costs to adaptation. So, there is a challenge for them, too, to be supportive of a competitive and sound industry.

For insurers faced with the risks and opportunities of rapid technological change, there needs to be an opportunity to divert time and resource from the every day, to devote it to playing in the sandpit of ideas and imagine what is possible. By moving closer to see what is happening in other industries, we can gain insights into what, by application, could be ways in which we can adapt and keep ahead of the curve.

ICAAP - creating a better risk culture

Augustine Sidik – Manager Advisory, KPMG Sydney

> While the ICAAP requirements do not mandate a risk culture, they certainly invite focus on how an ICAAP can contribute to a better risk culture and save the next business collapse in New Zealand.

HIH, Barclays, Lehman Brothers, JP Morgan Chase, CommInsure and Youi have one thing in common – a cultural failure resulting in enormous reputational damage and/or serious loss of capital – in some cases leading to a business collapse. Independent Capital Adequacy Assessment Process (ICAAP) is not currently a requirement for insurers in New Zealand. While the ICAAP requirements do not mandate a risk culture, they certainly invite focus on how an ICAAP can contribute to a better risk culture and save the next business collapse in New Zealand.

Australian general insurers have embraced the ICAAP since the requirement was first introduced by the Australian Prudential Regulation Authority (APRA) for life and general insurers in January 2013. ICAAP is one of the key elements of enterprise risk management and numerous insurance regulators around the world are adopting similar requirements. The concept of the ICAAP in insurance companies is equivalent to the Own Risk and Solvency Assessment (ORSA) in Europe (under Solvency II), the US and Canada. It also aligns with Pillar 2 of the Basel II requirements for banks, which APRA introduced to the Australian Authorised Deposit-taking Institutions (ADIs) in 2008 and the RBNZ to the New Zealand banks in 2007.

Central to the ICAAP requirements for insurers in Australia is a board's approved framework, which links a number of important elements of an insurer's operations – risk management, capital management and business planning/business strategy. For many insurers, the ICAAP formalises and integrates many existing processes, and raises the bar in a number of areas – in particular: (1) the step-up in board responsibilities; and (2) the more detailed assessment of risk and the requirement to link this explicitly to an insurer's capital framework.

The first requires the board to be in charge of the ICAAP. While boards have always had overall accountability, APRA expects boards to have deep understanding of the capital framework of their businesses; the board should be actively engaged in the development of the insurer's ICAAP and its implementation, and must, ultimately, approve the ICAAP. The introduction of the ICAAP is changing the passive role often assumed previously by some boards. Making the board accountable for the insurer's ICAAP is a positive development, in our view, as it helps the insurer set the 'right tone from the top' and lay a solid foundation for a stronger risk culture within an organisation, regardless of the size, nature and complexity of an insurer.

The second requires a clear link between the risk management framework and the capital management framework. This means that there needs to be a clear path from the risk appetite statement to the target capital levels, and from this to the level of capital held. The path is not one-directional and there needs to be a feedback loop, which should be achieved through the use of scenario and stress testing (including reverse stress testing). In addition, capital and risk must be key considerations of the decision-making framework for an organisation, such that every decision which alters the risk profile of an organisation must be considered through a capital and risk lens. Most insurers have some part of that series of steps but only a few can show the full end-to-end path.

For most companies, there is a desire to improve on risk and capital management. Extracting value from the risk function, rather than it being perceived as a compliance cost, is driving further development in the ICAAP.

Insurers who embrace the ICAAP requirements and take advantage of them, rather than treating them as another compliance burden, will benefit and have benefited most from the change. In our view, an insurer that is able to do this can successfully:

- have a good understanding of the capital intensity of their products.
- act nimbly and gain competitive advantage in a stressed scenario.
- have a good organisational risk culture that starts from the top (i.e., the board).
- know exactly what to do when capital constraints are identified.
- use its superior understanding of risk and return to find the gaps in the market where it can achieve extra returns.
- source capital in advance of likely need by developing a good early-warning system and stress and scenario-testing framework.
- make more informed business decisions.
- use the opportunity to incentivise the business for good risk behaviours.
- incorporate risk and capital as part of its day-to-day business operations and business decisions framework.

We are already seeing these happen in practice.

Most insurers in Australia recently completed their first independent ICAAP reviews as part of an ongoing three-year review cycle required by APRA. Overall, most insurers have responded positively to the ICAAP requirements; instead of approaching them as a pure compliance review, many looked for insights into evolving best practice. It is not uncommon to target different levels of maturity across each dimension of the ICAAP. The perceived value to an insurer relative to the effort required in implementing further enhancements from the current state depends on the target level of maturity, which varies according to the nature, scale and complexity of each insurer. However, as APRA expects the ICAAP to be embedded in the business, even the simplest ICAAP needs to be thought through to reflect an insurer's approach to risk and capital management.

More recently, APRA has been emphasising that risk appetite and culture underpin risk management, and that strong risk management and governance are crucial for the prudent management of an institution. A series of issues related to risk culture has also been in the spotlight this year, triggering regulatory scrutiny on conduct and culture. Policy setters and regulators in Australia have promised thorough investigations into many of the issues brought to light. Australian banks have been affected with reported conduct and culture breaches, including allegations that CommInsure avoided paying life insurance claims to customers. ASIC has sued two of the four major banks over alleged interest rate manipulation, and several banks have been involved in scandals involving poor financial advice. Closer to home, Youi has been sued by New Zealand's Commerce Commission for "misleading sales techniques",[4] and various claims have been made regarding the culture and conduct of the insurer in both New Zealand and Australia.

Conduct risk is often linked to the risk culture of an organisation, and risk culture is an important element of risk management and, therefore, of ICAAP. The starting point of having a good risk culture is a good board culture as this sets the tone for the overall organisation. How well the board is engaged in the ICAAP process is a good indication of whether or not the organisation has a sound risk culture. For example, boards that rely heavily on management and largely 'rubber stamp' ICAAP policies and documents prepared by management are unlikely to contribute significantly to the way in which ICAAP has been developed and embedded in their businesses. Such a board is also less likely to be aware of business actions or misactions that are not aligned with the insurer's risk appetite or ICAAP until such problems become 'serious'.

It is important that boards promote the ICAAP concept and ensure that sufficient weight is placed on the process and results. It is the board's responsibility to make sure that the ICAAP is used in business planning and to make decisions. Aspects contributing to this that we have seen in practice include board leadership and communication, risk and capital-based performance measurement, including remuneration, staff and management training, and risk culture surveys.

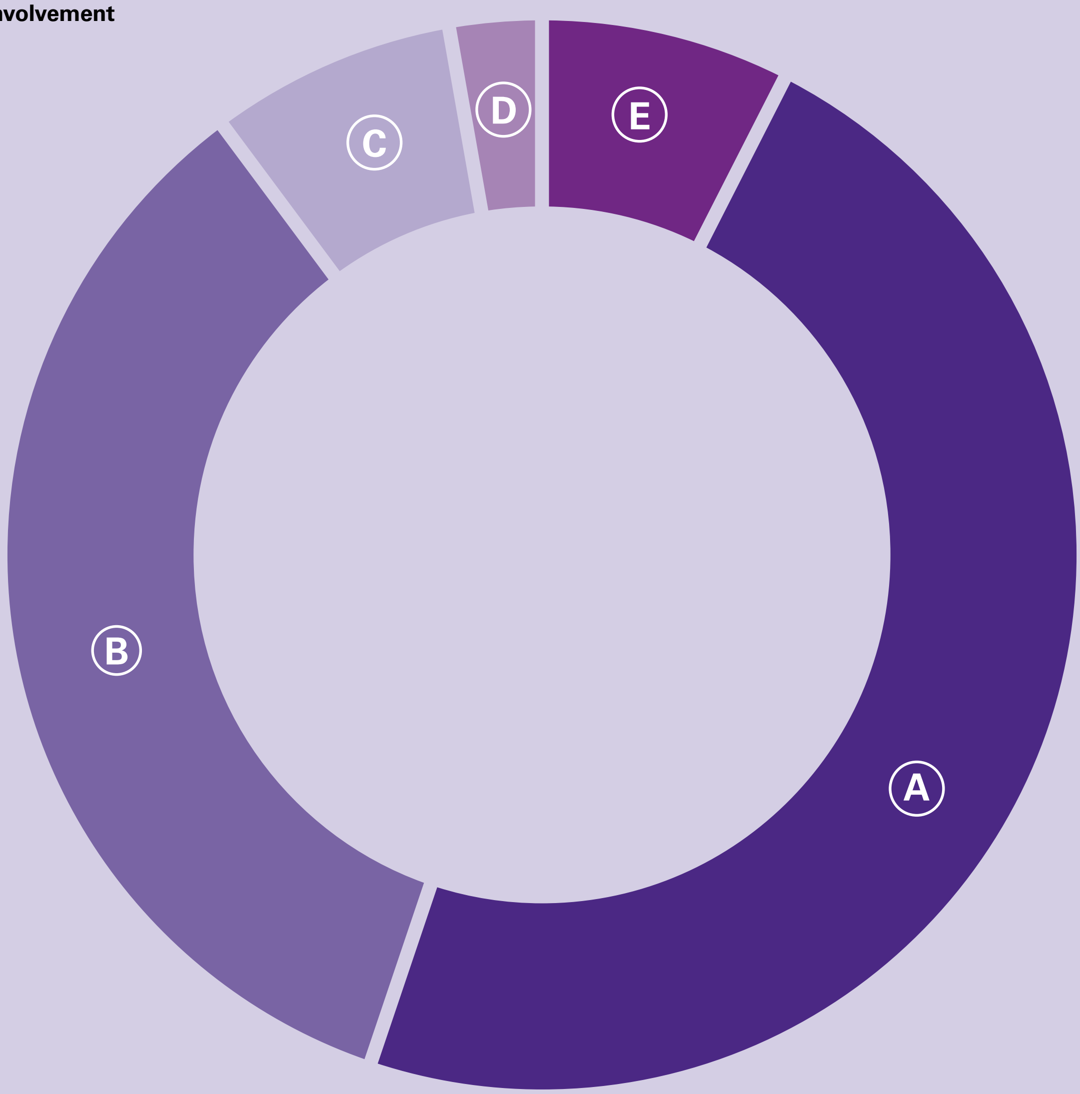
KPMG's recent ICAAP survey for general insurers in Australia covered 80 percent of the market. This provides good insight into current practice and the stage of ICAAP development. It suggests that many boards continue to rely heavily on management, and boards are perhaps not as active in challenging their ICAAP as APRA might desire them to be.

The KPMG survey also suggests that general insurers in Australia still have a lot of work to do in embedding ICAAP in their businesses, with only about 60 percent of insurers linking business processes to ICAAP and a smaller percentage of respondents performing staff and management training or workshops on ICAAP.

4 http://www.comcom.govt.nz/the-commission/media-centre/media-releases/detail/2016/commission-files-charges-against-youi-insurance

Figure 3.

Board's involvement



A

Board is well informed of key ICAAP components – e.g., through a variety of presentations, information sessions, board papers, etc. – and may from time to time ask questions or request further explanations of the material presented by management.

B

Board is well informed of key ICAAP components and actively challenges key ICAAP assumptions.

C

Board is well informed of key ICAAP components, actively challenges assumptions and proposes alternative assumptions and approaches for management to consider and/or implement.

D

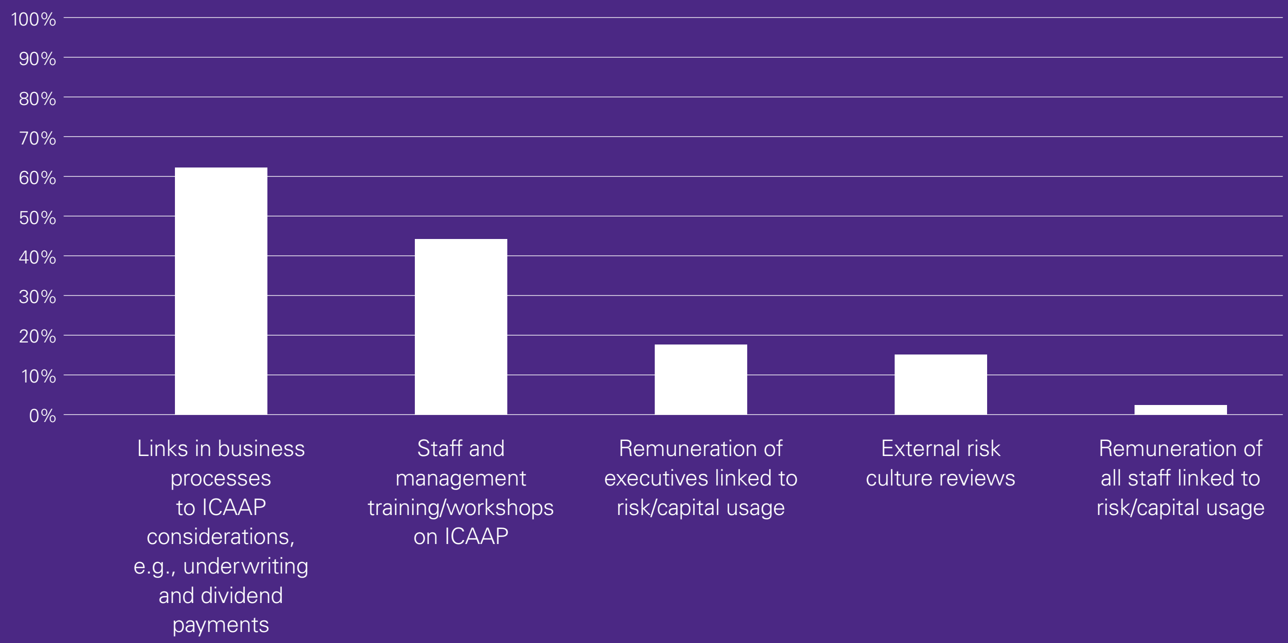
Board is heavily involved in developing the ICAAP, dictating the approach and key assumptions to be adopted.

E

Board relies heavily on management and largely rubber stamps the policies, procedures and documents prepared by management.

Figure 4.

Strategies adopted to embed ICAAP in business



APRA has acknowledged that ICAAP will continue to develop and best practice will evolve over time. This will occur through a combination of internal process improvements, benchmarking, external reviews and both industry-wide and company-specific feedback from APRA. Some key areas that we believe will see future development include:

- examination of dependencies and contagion risks
- consideration of whether planned actions are realisable in a severely stressed scenario
- better capital allocation – half the survey respondents do not allocate capital between different product lines or risks
- consideration of wider reverse stress-testing scenarios
- greater embedding of ICAAP throughout the business, with stronger links to business processes, more staff training, direct linkage between executive remuneration and risk, and, perhaps the most difficult, developing the risk culture.

While ICAAP is not currently a requirement for insurers in New Zealand, it is not an exercise that should be performed for the benefit of the regulator. Rather, it is a continuous process to assist insurers in ensuring that risk and capital are key considerations in their decision-making. Despite the challenges of implementing ICAAP, the benefits that insurers are seeing seem to outweigh the cost.

The various issues that have arisen in 2016 relating to conduct risk could, potentially, have been avoided if ICAAP was fully embedded in the business concerned. A large proportion of the general insurance market in New Zealand is operated by foreign insurance groups and the concepts underpinning the ICAAP are generally already well understood within those groups, even if they are not, as yet, fully embedded.

Is it time for the RBNZ to introduce ICAAP for insurers locally, increasing the focus on risk and capital management in New Zealand?

Evolving insurance risk and regulation: Insights from insurance global risk and regulatory survey

Rob Curtis – KPMG Global Insurance Regulatory and ASPAC Risk Lead

This year's 2016 *Evolving insurance risk and regulation* publication contained our first global risk and regulatory survey to gain insight into the insurance industry's views in relation to risk and capital management.

The survey focused on four major areas and themes:

Governance

Capital/Internal capital adequacy assessment process (ICAAP)

Risk management

Regulatory developments

Our survey contained client responses from the following five key markets:

Australia (including Hong Kong participants)

Europe

Japan

US

Rest of World (including New Zealand)

Seventy-four percent of survey respondents noted that boards and senior management are spending more time discussing risk-related issues when compared with 12 months prior.

In this article, we summarise the key risk-related matters arising from the KPMG survey.

Governance

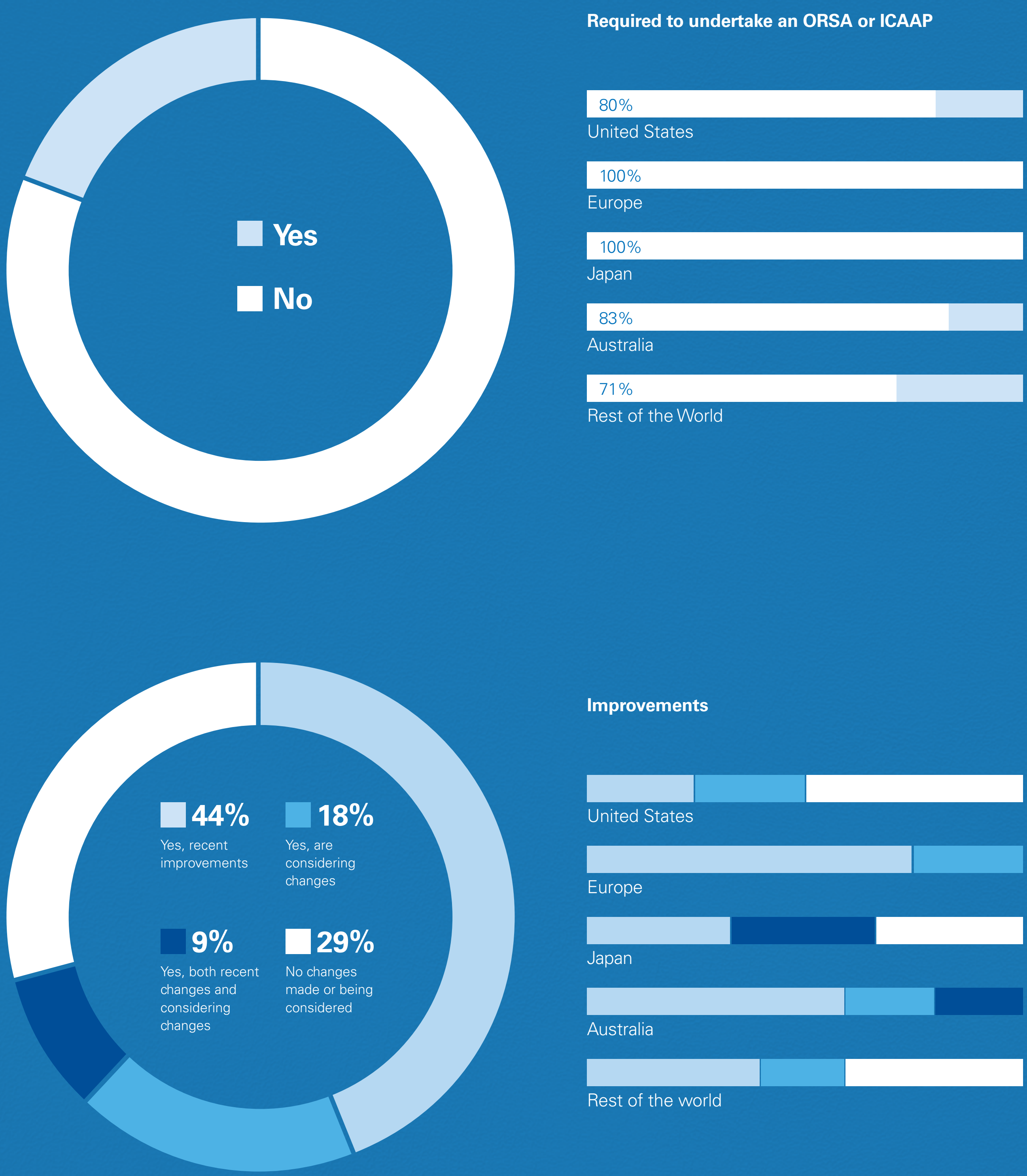
Insurers are still in need of solutions for operating in a low-yield environment and to identify, assess and mitigate emerging risks properly.

Firms continue to seek support concerning capital implications, particularly related to product design and innovation.

- Global insurers continue to devote increasing amounts of time to the discussion of risk and risk management, with discussion focused mainly on issues such as:
  - stress and scenario testing
  - environment risks such as the low-yield environment
  - emerging risks such as cyber risks.
- Boards and senior management are particularly alert to risk culture as a dominant regulatory theme, with European respondents particularly proactive in the management of such risks.
- When making strategic decisions, respondents are most often concerned with how the decision will impact risk appetite and regulatory capital.
- Capital considerations extend only moderately to product design and/or other aspects of innovation across most markets.

Figure 5.

A significant majority of insurers are required to undertake an ORSA or ICAAP and have made – or are considering making – improvements.



Capital/Internal Capital Adequacy Assessment Process (ICAAP)

Many markets now require an ORSA/ICAAP analysis and many small to medium-sized insurers are likely to need assistance, particularly with stress and scenario analysis and the broader suite of risk management tools.

— 81 percent of respondents are required to undertake an Own Risk and Solvency Assessment (ORSA) or Internal Capital Adequacy Assessment Process (ICAAP), reflecting the converged nature of global regulation.

— As expected, most insurers stress test and undertake both analysis of balance sheet changes and reverse stress testing, with more than four scenarios typically used.

— European respondents use internal models primarily to calculate economic capital whereas, in markets such as Australia and New Zealand, the focus remains predominantly on determining regulatory capital.

Risk management

Many insurers continue to require effective conduct risk frameworks to be developed. Conduct risk remains the least analysed set of risks for insurers.

Regulators are now pushing for equivalent Enterprise Risk Management (ERM) frameworks to be put in place and either insurers have no framework or it is being performed in silos and not integrated.

— Nearly all respondents (88 percent) take a group-wide approach to risk management and this is achieved by:

  » internal models being used consistently with the parent company

  » having centralised ERM teams

  » defining a local risk management strategy.

— Less than half of respondents look to global players as peers when thinking about the assessment and management of current risks but this situation is reversed when considering emerging risks.

— The most difficult area in which to assess the level of maturity relative to peers is in relation to risk governance and risk policies, with risk tools being perceived as the highest level of perceived immaturity.

— Conduct risk frameworks remain relatively immature when compared against traditional ERM frameworks, especially concerning risk appetite.

Regulatory developments

Insurers still perceive regulation as something that has a substantial impact on their operations.

Most Internationally Active Insurance Groups (IAIGs) are subject to a College of Supervisors, but these are in their infancy so a degree of uncertainty remains regarding outcomes and effectiveness.

— Only one-third of respondents support a global regulatory framework being developed for insurers.

— Most respondents from the majority of markets believe there will be an additional impact on operations – with 80 percent of Japanese respondents considering the impact could be moderate to significant.

— 49 percent of respondents were unable to provide an estimate of the total cost of regulation.

— For those respondents who form part of a global group, 69 percent are subject to a College of Supervisors, with the majority of respondents stating that they had not evidenced a change in supervisory approach.

— Of those respondents who are subject to a College of Supervisors, a third stated that they had seen additional requests for information in relation to:

  » risk appetite and risk culture

  » management of overseas risks

  » licensing requirements

  » capital requirements.

We have provided a snapshot of the key themes and messages arising from our recent global risk and regulatory survey. To access the full survey results, please go to www.kpmg.com.

Getting strategic about inorganic growth: Insurance CEOs speak

Ram Menon and **Thomas Nodine** – KPMG US

Insurance CEOs are becoming much more strategic about their inorganic investments.

While the pace of deal-making in the insurance sector may have slowed relatively, compared to the prior year, our survey of more than 100 insurance CEOs indicates that appetite for inorganic growth continues to remain high.

Almost half of all CEOs – 45 percent – say they expect to undertake a merger with another firm in the next three years. Around four-in-ten say they will either buy or sell a business, asset or capability set from (or to) another firm. Half of the CEOs we surveyed believe that inorganic growth will be key to achieving their growth strategies.

A refocused view of mergers and acquisitions

Why, then, has this appetite not translated into a flurry of deal-making and consolidation across the sector? In large part, it is because insurance CEOs have become much more strategic about their investments.

Yes – although many insurers expect to conduct traditional mergers and acquisitions (M&A) over the next three years – our data demonstrates that they are equally (if not slightly more) keen to create partnerships and joint ventures with other firms to innovate and achieve their strategic objectives. Insurance CEOs increasingly expect to collaborate and partner with/invest in other firms (including technology firms outside the industry) in order to remain competitive and innovative. CEOs are also very clear that these collaborative efforts could potentially drive the majority of shareholder value over the next three years.

Executives are also becoming much more focused on creating stronger alignment between their M&A activities and their business strategies. They are thinking carefully about how their businesses will win in their markets and they are looking for acquisitions and partnerships that could help them enhance their competitive advantages. They are reshaping their portfolios of businesses and assets, centres of operational excellence and markets to meet future growth opportunities. And they are thinking carefully about which capabilities and skills they will need in order to innovate and win in the future.

Strategy-driven transactions

The fact that insurance CEOs are now starting to refocus their M&A initiatives through a more strategic lens is clearly good news for the industry and for stakeholders and investors. But we believe this is only the beginning of a much more focused shift towards strategy-driven transactions within the insurance sector that will ultimately define the competitive landscape going forward.

Indeed, leading insurance companies are already taking purposeful and fundamental steps to improve the alignment between their M&A activities and their business strategies. This starts with formulating a very clear understanding of what makes your business unique and competitive in the market and then using that information to start to assess the real value and strategic fit of potential acquisition targets.

Say, for example, your business is a market leader for superior customer service. Target assets or businesses that could help brandish those credentials or improve those capabilities should, therefore, be of higher value to you than they would be to a competitor who competes based solely on low prices. With this information in hand, insurers should be able to make more value-based investment decisions that ultimately lead to achieving their long-term strategic growth objectives.

Applying the strategic lens

Leading insurers are also starting to take a much more holistic approach to evaluating potential acquisition and partnership opportunities. They now look beyond the traditional financial due diligence aspects of evaluating the deal to consider also the strategic fit of the target's business model and the potential risks associated with integrating the target's operating model.

In most cases, this means extending and expanding the due diligence process at both ends: at the top end by including a more strategic analysis of the target's medium-term strategy; and at the back end where insurers are starting to conduct more strategic integration risk assessments of the target's businesses, its people, its processes and its systems, which they are hoping to acquire and integrate into their operating models.

Creating alignment

In many cases, this may require closer alignment of the existing M&A function with the strategy function and corporate development function to enable strategy-driven transaction identification and evaluation for long-term growth. It will certainly require tighter screening and more frequent communication among the functions for better coordinated planning and execution of transactions.

It may also require a reassessment of the objectives and priorities of the M&A function to focus more on the expected and actual value that transactions deliver rather than simply on the successful execution and closing of transactions.

When we work with insurers to improve the value of their inorganic growth strategies, we focus on what we call the 'Nine Levers of Value', refer to Figure 6, page 27. The process allows executives not only to drive improved alignment between strategy and capability, but also to achieve a more holistic view of the relationships between each 'lever'. By focusing on the levers of value to evaluate a potential target's business model and creating improved alignment with the potential target's operating model, insurers could have a much clearer view of how value is created for their businesses by adopting strategy-driven transactions perspectives.

Seeking long-term growth

Every insurer is looking for the 'next' big growth opportunity. And in today's slow-economic-growth and low-interest-rate environment, it is clear that inorganic growth (via mergers, acquisitions, partnerships and alliance transactions) will continue to be a critical component of any insurer's long-term growth strategy.

We believe that, as the insurance sector increasingly plans and executes its deal activity using a strategy-driven-transactions lens that focuses on the 'Nine Levers of Value' for identifying, evaluating and integrating potential acquisition targets, and innovative partnerships and alliances, the insurance industry could only emerge much stronger as a result.

Nine levers of value framework and questions to consider

1. **Financial outcomes, structuring, investment and capital allocation:** What are the three-to-five-year financial and strategic objectives?

2. **Markets:** Does the current portfolio of businesses support the financial and strategic objectives?

3. **Propositions and brands:** How should the portfolio of propositions and brands be managed over time to deliver our financial and strategic objectives?

4. **Clients and channels:** What changes to the operating model can enable customer/channel performance?

5. **Core business processes:** What are our priority business processes to delivering the financial outcomes and a winning business model?

6. **Operational and technology infrastructure:** What are the priority infrastructure and technology elements that will be required to enable the strategy?

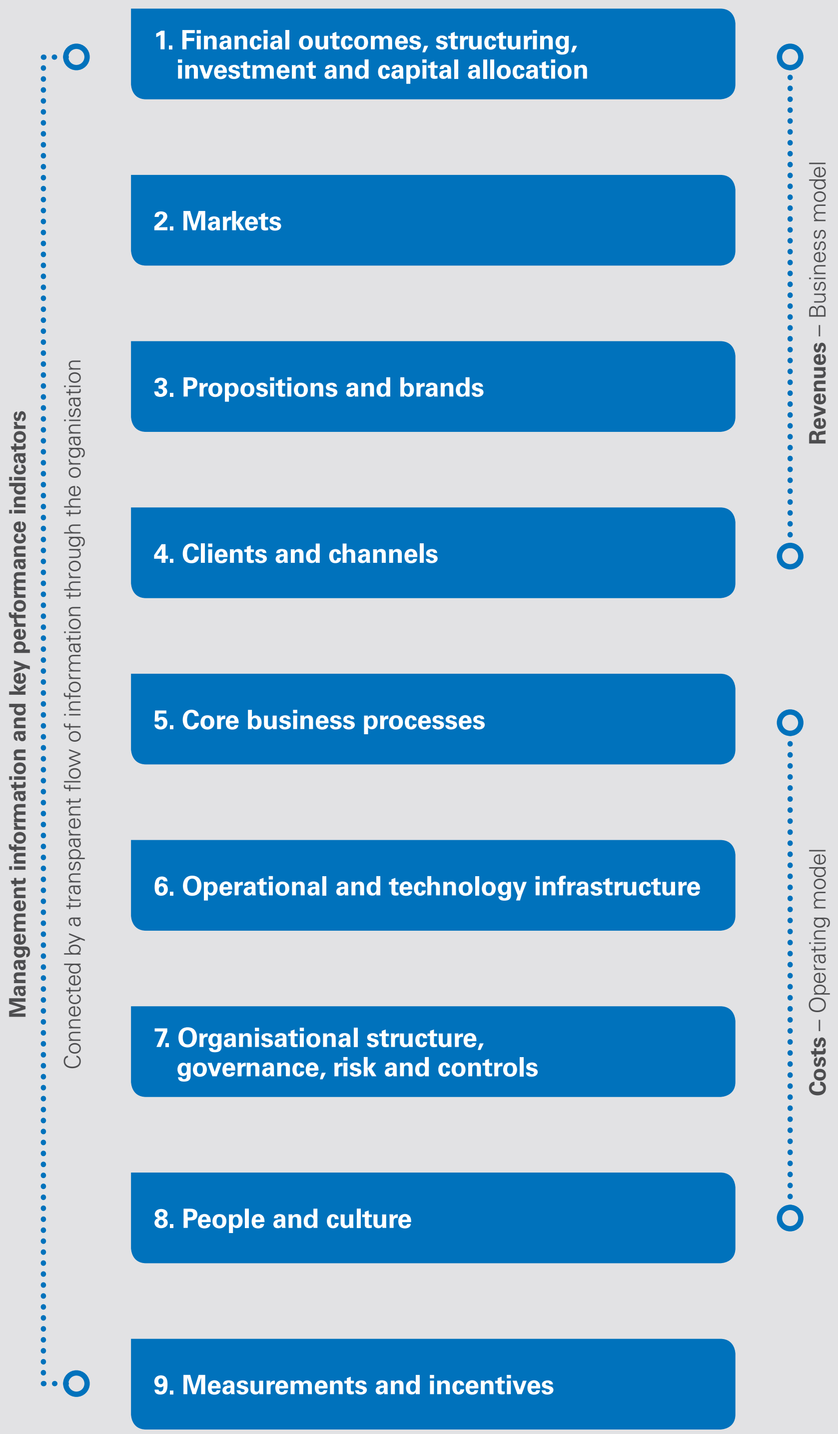
7. **Organisational structure, governance, risk and controls:** What does the organisational structure need to be to enable the strategy?

8. **People and culture:** What leadership is required to drive the transformational change and what culture and behaviours are required as enablers?

9. **Measures and incentives:** What will you measure to monitor progress on strategy, identify issues and enable action where required?

Figure 6.

The nine levers of value framework



Source: KPMG International, 2016.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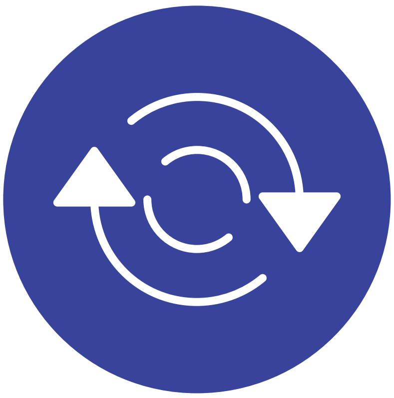
Considerable accounting changes on the way for insurers

Ann Au – Senior Manager, Audit

With a final standard now not expected until Q1 2017, the earliest probable effective date is 1 January 2020. The long implementation period reflects the expected significance of effort required to implement this standard.



Change is coming

A new International Financial Reporting Standard (IFRS) for insurance contract accounting (IFRS 4 Phase II or Phase II), under development for almost two decades, is close to finalisation.

The insurance contracts project, led by the International Accounting Standards Board (IASB), aims to increase transparency and to reduce diversity in the accounting for insurance contracts.

With a final standard now not expected until Q1 2017, the earliest probable effective date is 1 January 2020. The long implementation period reflects the expected significance of effort required to implement this standard.

The magnitude of evolving insurance accounting change should not be underestimated, particularly when considering the impact of the new financial instruments and revenue standards. If insurers start planning now, the wave of change could open up opportunities for synergies.

Both the new financial instruments standard and the upcoming insurance standard will improve the quality and comparability of financial reporting.

Hans Hoogervorst
IASB Chairman

Implementing the new requirements will be very complex, so – now that the IASB has concluded its substantive discussions – it's time to engage. Accounting and financial reporting for insurers will be substantially transformed but the challenges involved reach beyond accounting and will require significant changes to:

- measurement and reporting of performance
- asset-liability and capital management
- the broad business decisions you make
- systems and processes
- your people and skills.

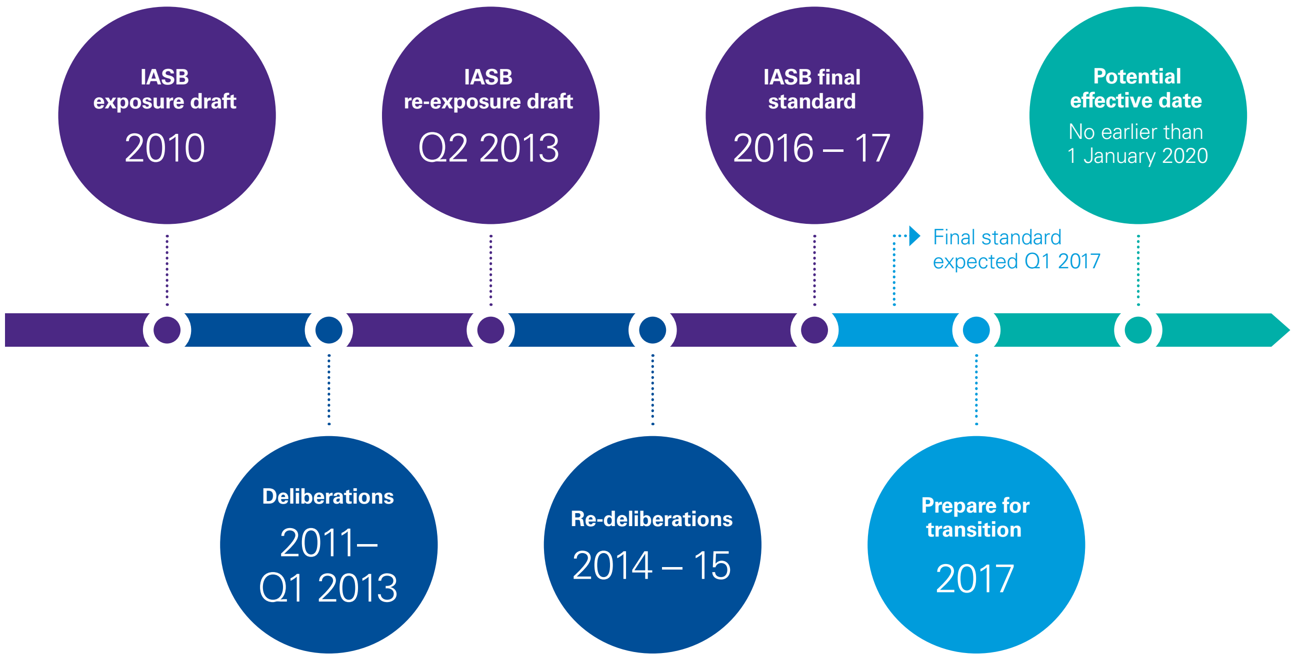
The insurance contracts project has been a long time in the making. With the first exposure draft released back in 2010 and the re-exposure draft in Q2 2013, the release of the long-awaited new standard is now only just around the corner: expected to be Q1 2017. Figure 7 illustrates key recent project milestones.

The effective date might appear a long way from now but, with business and capital planning cycles extending out three to five years for most insurers, it is time to prepare for the transition. Three years might seem generous but is it really? Are you underestimating the scale of this change? To answer these questions, we summarise below some of the expected key impacts of the new accounting standard.

A new measurement model

The new insurance contracts standard introduces a new measurement model for insurance liabilities. It is based on a current measurement approach, rather than a cost measurement approach. The model is intended to reduce accounting mismatches. However, they may still arise due to the different accounting bases of the assets and liabilities. The new standard will affect many other aspects of insurers' day-to-day activities and will change the way investors evaluate their performance.

Figure 7.



The standard permits the use of one of two approaches:

- The Building Blocks Approach (the BBA), a general measurement model consisting of four building blocks: estimates of future cash flows, discounting to reflect the time value of money, a risk adjustment and a contractual service margin, with profit recognised over the life of the insurance contract
- The Premium Allocation Approach (the PAA), a simplified model that acts as a proxy for the BBA and is similar to the current practice for non-life insurance contracts.

At first glance, insurers might consider that current practice will comply with the proposed standard under the simplified PAA. As always, the devil is in the detail. The PAA is permitted only if the insurance contracts are of short duration, i.e., for one year or less, and if its use results in a measurement that is a reasonable approximation of the building blocks approach, i.e., if, at inception, the insurer expects no significant variability in the fulfilment cash flows.

While the PAA is similar to the unearned premium method used by many insurers currently, there are important differences relating to recognising policy acquisition costs, and discounting, when required.

Acquisition costs

Under the proposed standard, only acquisition costs which are directly attributable to the acquisition of a portfolio of contracts are deferrable as part of the new measurement model. This is different from current practice where, for example, costs relating to recruitment and training of agent and sales staff, equipment maintenance and depreciation, and other general overheads may be considered as deferrable costs. Acquisition costs, under the proposed standard, which are not considered directly attributable to a portfolio of contracts, will be expensed when they are incurred in profit or loss. In addition, to further simplify the accounting of acquisition costs under the PAA, insurers may elect to recognise directly attributable costs as an expense when incurred, provided that the coverage period at initial recognition is one year or less.

So what then happens to existing deferred acquisition costs (DAC)? Upon transition, at the beginning of the earliest period presented, any existing DAC balance is derecognised with a corresponding adjustment to retained earnings.

Aggregation

In addition to the change in the definition of acquisition costs, the new measurement model also has a different definition of aggregation for the purpose of measuring insurance contracts. Under the proposed standard, the level of measurement for an onerous contract liability is calculated on a 'portfolio of insurance contracts' basis, with aggregation defined as a group of contracts which, at inception: (1) have similar expected profitability; and (2) have cash flows that the insurer expects will respond in similar ways to those of the key drivers of risk in terms of amount and timing. This change will impact the level at which most general insurers currently perform the liability adequacy test, i.e., the level of grouping insurance contracts into a portfolio may be likely to change under the new definition, particularly when the profitability definition is considered.

In addition, the level of aggregation is likely to be a complex judgemental area, which may impact comparability with peers.

Volatility in profit or loss and equity

The proposed measurement model is based on a current measurement approach, rather than a cost measurement approach. As a result, profit or loss and equity may become more volatile.

Volatility is also another potential impact resulting from the new requirement to use market discount rates that are not linked to an insurer's investment portfolio. The proposed standard requires the discount rates to be consistent with the characteristics (e.g., timing, currency and liquidity) of the insurance liability (not the investment portfolio). The current practice of using risk-free rates will, therefore, need to change as these will need to be adjusted to include factors that are relevant to the insurance contract liability, such as liquidity adjustments.

Another change is that the proposed standard provides insurers with an accounting policy choice for changes in locked-in discount rates versus year-end discount rate – recognised either through profit or loss or through other comprehensive income (OCI). Notwithstanding, the unwinding of locked-in discount rates still goes through profit or loss.

The accounting policy choice will be dependent on how you manage volatility in profit or loss versus equity, as well as how you manage your asset and liability positions. The impact of implementing IFRS 9 Financial Instruments will also need to be considered in making this decision.

It is important to note that, under IFRS 4, eligible entities (insurance companies which have not early-adopted IFRS 9) are permitted to apply the temporary exemption from IFRS 9 for annual reporting periods beginning on or after 1 January 2021. This will help entities manage the accounting change from both IFRS 9 and the insurance contracts standard. Applying the temporary exemption for entities with group structures, particularly insurance companies with banks as their parent companies, could result in preparing financial information under both IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 9. Management will have to consider the costs and complexities of this in preparing both group and stand-alone subsidiary financial statements. If deferral is not a viable solution for insurance companies under a group structure, another option is to consider the overlay approach to presentation in order to alleviate the volatility that may arise when applying IFRS 9 before the effective date of the new insurance contracts standard.

Systems and processes

Under the proposed standard, if insurers choose to present the changes in discount rates in OCI, then the discount rate used should be locked in at the date when the liability for incurred claims is recognised. Depending on the volume of outstanding claims, the availability of historical data and the capacity of policy administration/claims systems, historical locked-in discount rates may be a challenge to determine upon transition and to track post-implementation.

Actuarial models may need to be updated to consider the aggregation requirements under the proposed standard. Policy administration systems may also need to be upgraded to ensure they can handle the data needed to be maintained under the new measurement model.

Projects including gap analysis, system and actuarial model reviews, and parallel runs will be likely to require additional resources during the transition phase.

Capital management

Potential for increased volatility and the change in the definition of acquisition costs may impact capital positions. Insurance companies need to understand the impact and assess possible ways to align reporting under the new insurance contracts standard with solvency and regulatory reporting requirements.

Reinsurance

Reinsurance contracts will also need to be measured using either the BBA or the PAA. There is a chance of mismatch in the measurement model between reinsurance contracts and insurance contracts, in instances where reinsurance contracts have characteristics that may not qualify for the simplified premium-allocation approach (e.g., cover more than one year) even though the underlying insurance contracts do; i.e., reinsurance contracts follow BBA but the insurance contracts are under PAA. This mismatch may impact the overall net underwriting result as presented in the Income Statement, but may not be likely to impact the actual net risk retained by the insurance company. It is important to understand the distinction to ensure financial results are not misstated or misinterpreted.

Financial presentation and performance measurement

The new requirements under the exposure draft will reshape the presentation of the primary financial statements and will result in additional disclosures in the notes to the financial statements. As a result, changes will be needed in the way data is gathered and maintained. This may be a complex exercise if there are limitations in your administration systems or actuarial models.

The proposed new reporting framework completely revamps the way profit and loss line items are presented in the Income Statement. For example, the gross premiums written line – that's gone, under the new presentation. In exchange, users of your financial statements will see 'insurance contract revenue'. This revenue line does not equate to premiums written; it is actually the revenue earned by the entity in fulfilling the services on insurance contracts; i.e., it is the revenue recognised as you satisfy the insurance contract obligation.

Under the proposed standard, the financial impact from the change in discount rates will no longer form part of the net underwriting result but, rather, will form part of 'insurance investment expense'. This differs from current practice where the net underwriting result gives you the full picture of the financial performance of the whole book of insurance contracts.

These changes will inevitably lead to a change in performance measurement. Given that premiums provide readers of the financial statements, such as regulators, analysts, etc., with volume information, this change in presentation, together with the change in composition of net underwriting result, will prove to be challenging in the future years as users of the financial statements will need to reorient themselves to the new presentation in order to analyse the financial performance of insurers properly.

What should you be doing now?

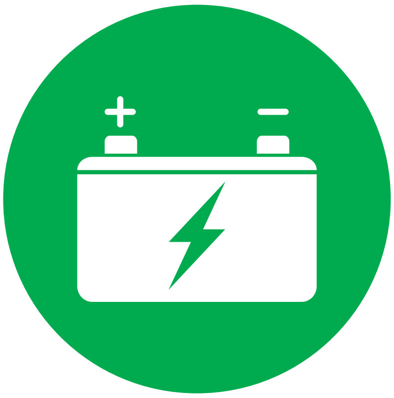
Now is the time to begin assessing how the new accounting requirements will affect your business, including setting aside a 2017 budget to perform a gap analysis on release of the final standard. You will also need to consider how the new insurance contracts standard will interact with other accounting standards – in particular, the new financial instruments standard, IFRS 9.

A robust assessment phase is critical to laying the foundation for a successful implementation project and will help build in flexibility. KPMG can help accelerate the assessment and design phases using our purpose-built tools.

From cyber-weary to cyber-energised

Philip Whitmore – Partner, Cyber Security

There's a rising chorus of 'cyber fatigue' permeating insurers, as cyber security is starting to become understandably tiresome. This phenomenon arises at a time when avoiding negative PR is paramount to success. As IT professionals concede that a breach is no longer a matter of 'if' but 'when', it's a given that some decision-makers are exhausted as they revisit the same discussion over and over again.



Over the past several years, some of the world's largest firms and brands incurred cyber breaches that compromised data from hundreds of millions of consumers. It's an endlessly expanding roster of high-profile security failures: a cascade of vulnerabilities, which have heightened the insecurities of IT professionals, who, in turn, have bombarded the sensibilities of boardroom executives.

The increasing cyber security headlines bring to bear an onslaught of corporate introspection and second-guessing. Boardroom executives across the country start to wonder what the use is. It is a common reaction: not in reference to the devastating impact but as a result of media saturation. On any given day, the headlines are replete with stories about companies, irrespective of size or technological capability, that have suffered security breaches. The cumulative effect has begun eroding boardroom vigilance despite the potential effect on brand confidence and income.

To combat cyber fatigue requires a systematic, risk-based approach. Such an emphasis steers attention from the never-ending appeal for resources and redirects it to an objective assessment that reflects an insurer's business strategies and innovation, risk tolerance and unique cyber security costs. The five-pronged approach to combat cyber fatigue includes the following:

1

Make measured investments in cyber capabilities based on risk

As a first step in the process, we must quantify the risks. These risks must be viewed through the lens of a cyber threat to business objectives: How does a cyber threat actor interrupt or prevent the achievement of core business goals? Simultaneously, consider which assets are the most critical to enabling these business objectives and evaluate the cyber threat landscape for risks to these key, crown-jewel assets.

The inverse relationship bears close scrutiny as it illuminates both common, expected risks (those that are observable and manageable) as well as those that occur less frequently (high-impact events with growing uncertainty that test an insurer's resilience).

Once the risk is quantified, link decision-making to the amount of risk that the business is willing to assume. For those whose brand reputation is fragile and unable to sustain a sizeable interruption, decisions will reflect a risk view that places value firmly in a manageable zone of routine, where losses are minimal and predictable. Some may be able to assume more elevated risk profiles, while others may be able to withstand disasters – extreme events that, though rare, inflict maximum loss.

Finally, once the organisation quantifies risk and makes decisions about its risk tolerance, it should pursue programmes that accommodate those perspectives, modifying existing initiatives while undertaking new ones in an ongoing effort to mitigate vulnerabilities.

For example, an insurer seeking to expand via acquisition may need to focus on building quickly extensible IT services, including security capabilities designed to be consumed across a number of different platforms, mitigating the risk incurred by a new division's people and technology. Conversely, an insurer planning a series of divestitures should be focusing security efforts on identifying sensitive data assets and the capability to restrict access quickly following the separation.

2

Regularly measure the effectiveness of your security investments

Most insurers do not completely understand the full amount that they spend on cyber security. It's not that they are unwilling to determine that cost; rather, the process is fraught with complexities, making it impractical for many to complete the process with sufficient precision. As a result, they are unable to produce operating models that mitigate risk while optimising cost.

The true and total security cost includes those elements that are easy to tally, such as hardware and software components, as well as less tangible elements, such as those tied to one's third-party contracts (IT hosting, supply chain services), labour, regulatory compliance, vendor and supplier management, among others. The latter are far more difficult to uncover and tally, particularly in complex sourcing arrangements. For instance, is a patching service-level agreement with an outsourcer a component of the security programme? What about the cost incurred by vendors in complying with controls required in third-party risk programmes?

A complete and detailed capabilities model is required at this stage in the process, defining what will count as a comprehensive analysis across every phase of operations, delivering complete transparency into a firm's current allocation of resources and a plan of action tied directly to risk tolerance. These capabilities, when tied to the risks they mitigate, enable a comparison of dollar value at risk with the cost of protection. These analyses often depend on the use of unbiased and independent third parties, as the results may point towards a drop in spend with some suppliers or even a refocused or reduced headcount.

Finally, the assessment is more than a one-and-done proposition and must be conducted regularly in order to provide accurate insights.

3

Develop/Align the right cyber risk management model

Once you understand your cyber assets and how they are managed, begin structuring an effective cyber risk management model, one that incorporates fundamental cyber security practices as well as your risk tolerance, all in an effort to maximise your investment. It would make sense to align this to your larger enterprise risk management framework to help ensure consistency in measuring and reporting risks. At this stage, ensure that all stakeholders understand that risks exist – and will exist. As an organisation, what is needed is a process to manage the risks and clearly understand the residual risks.

This process really helps ensure that all the security investments are tightly coupled with risk mitigation and there is a way to manage or recalibrate them on an ongoing basis.

4

Continually update your model to reflect emerging threats

Cyber security is an elusive target: an ongoing challenge that mandates continual vigilance. At the same time, rest assured that, like fraud, cyber security is addressable and manageable. To address and manage it requires modifying your corporate mind-set away from 'fix, fix, fix' – an entirely reactive process that will never adequately protect your assets. Instead, accept that it is a systematic business issue that will need ongoing funding to address, adding new capabilities as the need arises. Such an approach shifts the focus from a technology spend and, instead, repositions it to an innovation spend: a more practical characterisation that facilitates corporate growth and the ability for it to evolve fluidly as business models dictate.

Also, consider your assets in the broader context of your business and the true cost of security services to protect them, allocating resources intelligently and efficiently, while keeping in mind that the allocation will change as your business evolves and grows.

5

Build/Promote a risk-aligned security organisation

In addition to the systemic changes around identifying, measuring and managing cyber risks, one of the important but often overlooked aspects is building and continually developing a risk-aligned culture. This often entails a transformation that would shift the focus from security projects and activities to risk mitigation initiatives.

These transformations are successful only if cyber security is elevated as a strategic priority and a top-down focus is established on managing cyber risks through the security programme. Any initiative undertaken in the security area needs to be aligned with a risk which is tied to a threat and crown-jewel/business driver.

Many organisations take this as an opportunity to undertake a skill analysis of their security teams in order to evaluate readiness to adopt and align with this model.

So you're tired of hearing the same old requests from IT, only to learn that your efforts, no matter how well intentioned, may be futile. A breach – breaches – will occur. So how much is enough? What is the best remedy?

We believe what you actually need is a more intelligent way to address cyber security while reversing your restless devolution into cyber fatigue. Rather than resolving just to adopt the mantras of 'fix, fix, fix' and 'spend, spend, spend', the prudent insurer will implement a new model that helps maximise the value of security investments – balancing risk acceptance, mitigation and transfer with the protection of an organisation's assets. It's the difference made by transforming your business strategy from one that's draining and reactive to one that's energised and proactive.

Figure 8.

What does good look like?

Cyber security requires ongoing vigilance and a continual refinement of business operations.

Start with what matters to the business

Ensure traceability, at all stages, back to the business drivers

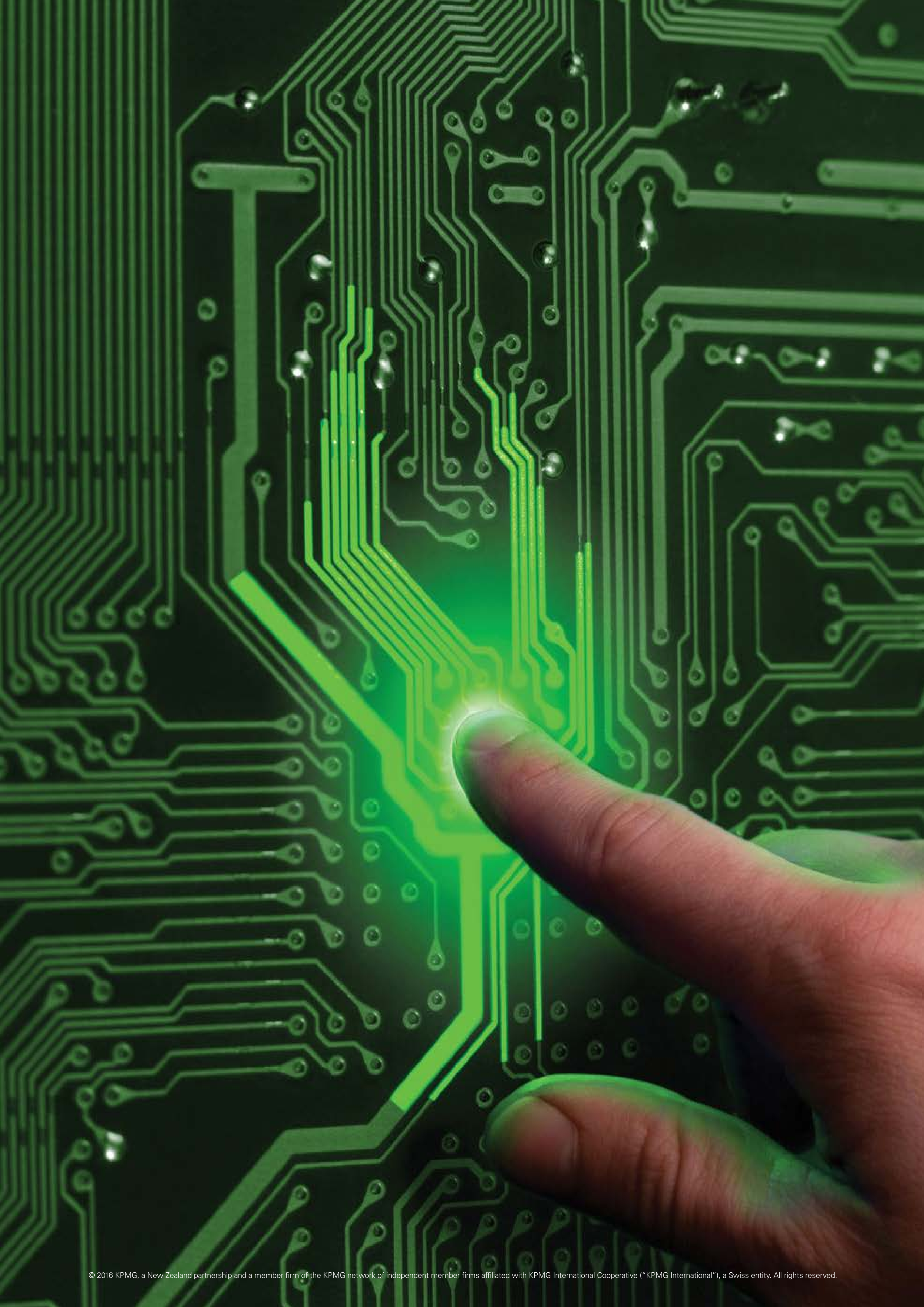
Fully integrate strategy, execution and operations

Perform intelligent risk management, ensuring decisions are made consciously

Employ a disciplined change management process to ensure all aspects of capability are defined

Develop a comprehensive model that supports all aspects of cyber security capabilities

Feedback loop: adapt as circumstances change



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Kay is a Financial Services Audit Partner and Head of our Insurance Practice. Prior to joining KPMG New Zealand in 2006, Kay worked for KPMG in Bermuda where she gained insights into the Global Reinsurance market. For the last 17 years, she has focused primarily on the insurance industry. She is also an Associate in Reinsurance of the American Institute for Chartered Property Casualty Underwriters. In addition to her client responsibilities, Kay is a passionate advocate for Inclusion and Diversity and leads the KPMG pride@kpmgnz network.

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He provides strategic foresight and works with clients to develop future state frameworks and design outcomes based on stakeholder insights. Steve is also passionate about organisational change and the approach to systemic innovation adoption.

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Adele is an Associate Director in KPMG's Auckland practice specialising in conduct risk. Adele brings valuable insight and a rich range of experience in approaches to conduct risk across banking and general insurance through her extensive work in the regulatory practice at KPMG UK and her previous roles in the industry.

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Jamie is a financial services partner with KPMG in Auckland. A graduate of The University of Auckland, Jamie has been working in audit and financial reporting roles for more than 14 years. Jamie has worked with a wide range of financial services organisations in New Zealand and the UK, with a specialist focus on the insurance and banking sectors. Jamie also leads KPMG New Zealand's Citizenship programme, responsible for the work KPMG does in the community, including community partnerships, pro-bono work and team volunteering.

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Nick is a senior manager in our Financial Services Audit team. He has worked in the insurance industry for more than 10 years. In addition to working with a wide range of both general and life insurers in New Zealand, he has also worked on Solvency II implementation projects in Ireland and has worked with the industry in Mongolia to help develop insurance knowledge – primarily around the accounting for insurance contracts.

Tim Grafton
Chief Executive, Insurance Council of New Zealand

Tim was appointed Chief Executive of the Insurance Council of New Zealand (ICNZ) in November 2012. Over the past 30 years, he has had extensive experience in the media, government, public relations and market research sectors.

Prior to his appointment at ICNZ, Tim was Executive Director at leading market research company UMR Research where he led a number of key research projects. He has been a senior adviser to former Prime Minister Rt Hon Dame Jenny Shipley, the current Finance Minister Hon Bill English and former Finance Minister Rt Hon Sir William Birch.

Tim is a Chartered Member of the Institute of Directors and was awarded the Insurance Leader of the Year Award in 2015 by the Australia New Zealand Institute of Insurance and Finance.

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Augustine is a manager within our Actuarial, Insurance and Superannuation team in Sydney. She is a qualified actuary with more than eight years of experience in the general insurance industry. Augustine drove an industry-wide ICAAP survey during 2014 and 2015, capturing insights and best practices of Australian capital management frameworks, with 80 percent of Australian general insurers participating.

She has been significantly involved in actuarial reviews and advice on ICAAP and regulatory capital since the Life and General Insurance Capital (LAGIC) was first introduced in 2013.

She has worked on a variety of actuarial engagements during her time at KPMG and provided actuarial advice to more than 15 general insurers across Australia, New Zealand and Asia, including three of Australia's largest general insurers.

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Ram is a Senior Deal Advisory Partner working in the KPMG New York office. Ram has, over two decades of global experience with KPMG, provided assurance and advisory services to a broad range of life and non-life insurance, asset and wealth management, and diversified financial institutional clients across the Americas, Europe, Asia-Pacific and the Middle East. Ram also serves as a lead partner in KPMG's High Growth Market practice, focusing on providing advisory services to high-growth, market-based companies in connection with cross-border investments and growth opportunities.

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Philip leads KPMG's Cyber Security and Technology Risk practices in New Zealand. He has more than 20 years' practical experience in the provision of information security, information systems controls assurance, IT risk management, data analytics and privacy risk management, and has worked extensively with insurers to help them manage their IT-related risks.

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Rob joined KPMG Australia in April 2014 to lead the ASPAC Insurance Risk and Regulatory practice and continues to be KPMG's Global Regulatory Lead for Insurance. During his time in the UK, Rob developed the ICAS regime and led the Financial Services Authority's (FSA) Solvency II programme. Rob was also the architect of the IAIS proposals to create a common framework for the supervision of internationally active insurance groups, known as ComFrame, where the IAIS is now developing the international capital standards.

Rob is currently leading the Hong Kong RBC reforms and leads a number of ICAAP and risk engagements in Australia and Hong Kong.

Rob is an Honorary Fellow of the Institute and Faculty of Actuaries in the UK.

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Ann is a senior manager in the Financial Services Audit team. She is experienced in the audits of life and non-life insurers and reinsurers, having extensive knowledge of life insurance and reinsurance companies with products ranging from term products, whole life, unit-linked investment to variable annuity products, as well as knowledge of accounting and auditing of life settlements, longevity risk reassurance policies, and mortality risks co-insurance policies. Her non-life reinsurance knowledge includes property-catastrophe reinsurance and captive reinsurance. Ann is also experienced in auditing securitised reinsurance vehicles covering property-catastrophe reinsurance risks and mortality risks. Ann has 13 years' cumulative experience in the fields of International Financial Reporting Standards (IFRS), New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and US GAAP.

Our thought leadership

General Insurance Industry Review 2016

In the report, we focus on the key drivers, events, trends and factors that influenced the performance of the General Insurance sector in Australia throughout 2016. The top 10 emerging trends impacting the sector are highlighted and advice is given on how best to deal with these current and emerging themes.

Amendments to IFRS 4 – applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The IASB's amendments to IFRS 4 reduce the impact of the differing effective dates of the forthcoming insurance contracts standard and IFRS 9. The amendments provide two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring the application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

Empowered for the future – insurance reinvented

To succeed in enterprise-wide transformation initiatives, insurers will need to anticipate their clients' needs, harness technology to enable innovative opportunities and change their operating models to give their clients the products and superior service experience that they now expect.

Creating and protecting value in the age of disruption

Our global network of insurance professionals focus on responding to the unique needs of our member firms' clients through consistently deploying cross-functional and multi-disciplinary teams that draw from a variety of related service areas.

Feel free – a new approach to cyber security (KPMG Cyber Security)

This offers a positive approach to managing cyber risk to set organisations free.

CEO Outlook

This study provides a vivid image of global CEOs' expectations for business growth, the challenges they face and their strategies to chart organisational success. This annual study by KPMG International captures the perspectives and insights of nearly 1,300 CEOs from companies across 11 industries in 10 countries.

To view the full report, please click on the thought leadership images.

The impact of accounting changes on regulation – Preparing for the Future – Evolving insurance risk and regulation – chapter 4

The impact of accounting changes is the fourth chapter of *Evolving insurance risk and regulation*. In this chapter we provide a general overview of the forthcoming IFRS for insurance contracts, outlining the key aspects of the standard.

Set the pace or risk falling behind: Insurance CEOs speak

In KPMG's *Set the pace or risk falling behind* online article series, we take a deeper dive into the big themes that insurance CEOs have said are most important to them – automation, D&A, cyber, growth, strategy and more.

Emerging Risks in the Global Insurance Industry – Evolving insurance risk and regulation – Preparing for the future – chapter 5

In this chapter of the *Evolving insurance risk and regulation* series, we explore the changing risk landscape including new environmental, technological, geo-political, economic and legal developments, as well as the growing interdependencies among them.

Conduct Risk – Increasing regulatory focus to align product, customer and value – Preparing for the future – chapter 2

The second chapter of *Conduct Risk: Increasing regulatory focus to align product, customer and value*, offers insights on industry developments by region with commentary on how regulators are driving change to align products and customers.

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