



*cutting through complexity*

FINANCIAL SERVICES

# The Valued Insurer

Leading the pursuit of  
sustainable growth

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*“Increasingly, we see successful insurers harnessing four attributes: they are focused, efficient, agile and are trusted by their customers, regulators and investors. Above all, they place their customers at the heart of their business.”*

Mary Trussell  
Partner  
KPMG in the UK

# The journey continues

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The insurance industry is moving beyond a mind-set of post-crisis retrenchment. As well as balance sheet strength, insurers are refocusing on sustainable profitable growth. However, they do so under the constraints of 'the new normal,' characterized by low interest rates and equity market volatility, which is challenging traditional business models.

In June 2012, KPMG's global insurance practice launched a provocative thought leadership publication, *The Intelligent Insurer*, which shone a spotlight on the dominant forces impacting the industry over the next 20 years – **Demographics, Environment, Technology, and Social values and ethics**. We mapped these mega-trends against the insurance business model, highlighting key opportunities and risks for insurance firms. The response to *The Intelligent Insurer* was tremendous, fueling many lively and candid conversations globally about the future of the industry.

Interestingly, we found that the firms which continue to be successful, even in a volatile, low yield environment, exhibit specific attributes that set them apart from their competition. Firms that put their **customers at the heart of their business** are able to navigate through the storm and chart a new course for growth, while fulfilling regulatory requirements on customer protection.

We continue to explore these themes and elevate the debate. Building on our discussions we have set out to identify the characteristics that distinguish the most successful insurers, now and in the future. With the customer as their focal point, these insurers are Focused, Efficient, Agile and Trusted – characteristics of *The Valued*

*Insurer* that we believe underpin its success now and into the future. Through *The Valued Insurer*, we aim to provide a pragmatic vision of the future and an actionable strategy for success.

In these chapters, you will recognize some recurring buzzwords that are often bandied around, ranging from 'customer-centricity' to 'digitization' and 'big data.' Acknowledging there is considerable noise around these hot topics, we aim to take a very practical approach. Through *The Valued Insurer*, we dig down to the crux of the issue from an insurer's perspective, providing a clear viewpoint. We then offer practical steps that firms may pursue to approach the relevant issues.

One point is clear: we do not advocate hasty, knee-jerk reactions to the issues discussed. As you will see in the subsequent chapters, many topics of the moment are not easily resolved with simple packaged solutions or advice since there are often inherent contradictions or conflicts that require careful consideration by each organization before charting its course for growth.

Our counsel is based on the principle that a measured and balanced approach will help you identify, test and evaluate the right mix of priorities to take forward, aligned with your organization's strategies.

We welcome the opportunity to continue this dialogue with you and your leadership team. We are glad to discuss how the attributes of *The Valued Insurer* align with your organization and which issues resonate most forcefully.



**Gary Reader**  
Global Head of Insurance  
KPMG in the UK



**Mary Trussell**  
Global Insurance Focused Markets Lead  
KPMG in the UK



**Frank Ellenburger**  
Global Insurance Audit Strategy  
KPMG in Germany



# Executive summary

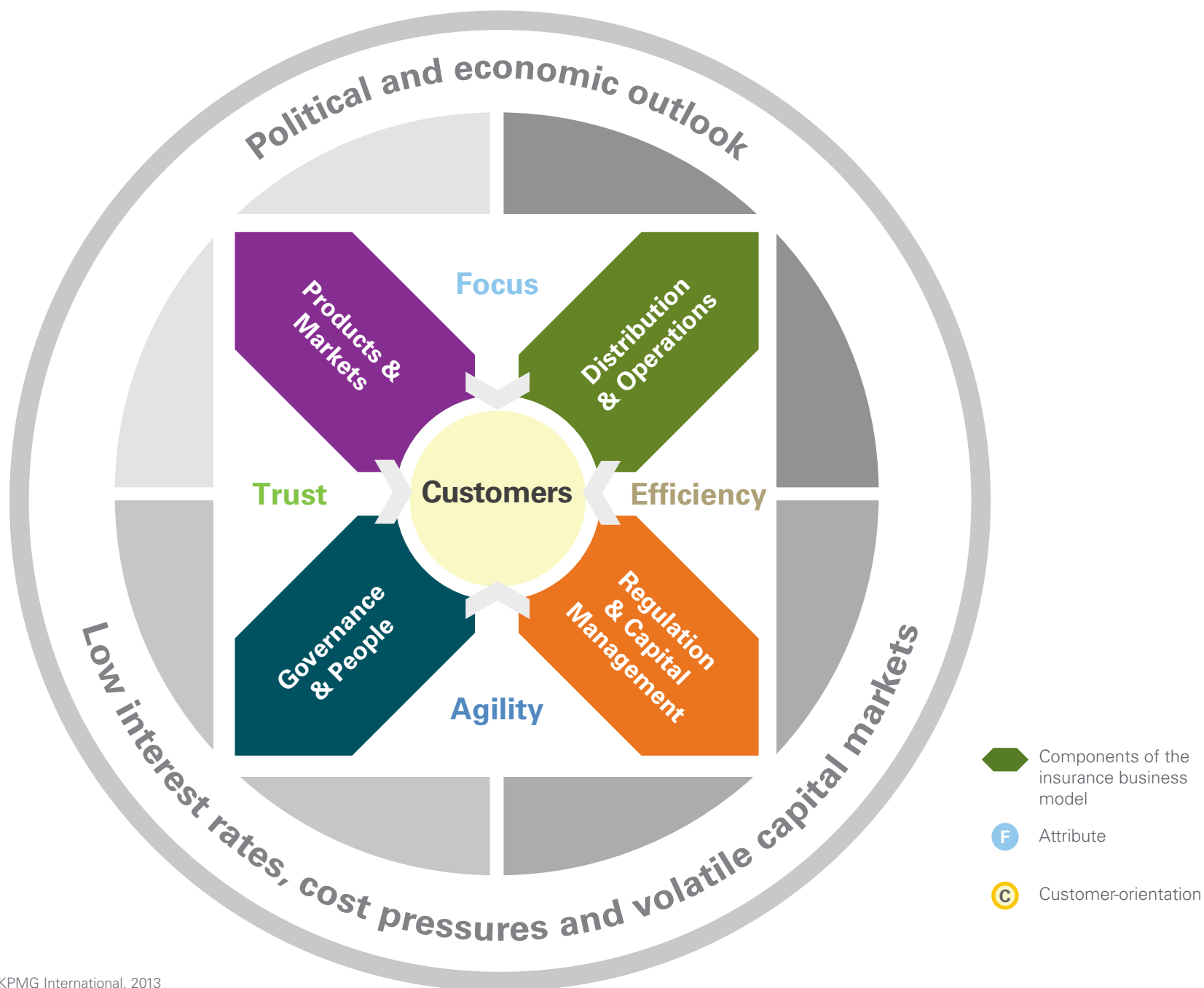
Building on the global mega-trends detailed in *The Intelligent Insurer*, we have defined four key attributes – **Focus**, **Efficiency**, **Agility** and **Trust** – that a successful and valued insurer, today and in the future, should consider embedding in its business model and integrating into its strategy.

While each attribute is applicable to today's conditions, organizations may place greater focus on one over another, depending on their particular circumstances and priorities. Some firms may have highly developed strategies relating to individual attributes, but recognize the need to fortify their other capabilities. Those insurers that do not embrace these attributes leave themselves open to disruptive challenge.

To illustrate these attributes in an operational context we have mapped them against the insurance business model and focused on timely issues that insurers face, in particular the need for greater emphasis on the customer. We discuss ways for organizations to better understand client needs, deliver on these expectations, overcome operational challenges and continuously evolve in each of these critical areas. These are all components of a strategy that first and foremost puts at its heart a belief that great customer experience will ultimately lead to greater efficiency and profitable business. We have provided some specific prompts to help you evaluate your own practices.



# Vision



Source: The Valued Insurer, KPMG International, 2013

## Creating value in uncertain times



The most frequent discussions prompted by *The Intelligent Insurer* concerned the search for sustainable, profitable growth in the face of uncertain economic outlooks in many parts of the world. Consistently in our surveys of insurance executives around the world, the majority of respondents saw historically low interest rates and equity market volatility posing the greatest threat to their profitability over the next 10 years – unsurprising given insurers of all types have historically relied on investment income to boost their performance.

Given the prominence of this issue, we examined insurers' track record of profitability in the recent past and, in particular, in the period since the global financial crisis.

We did this by reviewing the performance over time of the insurance companies making up the FT Global 500,<sup>1</sup> which ranks companies based on their market capitalization, in this case starting in 2001, shortly after 9/11, a defining moment for the world and the insurance sector. During this era, investor sentiment has generally turned away from the sector, but is starting to rebound. We analyzed companies using several measures, including growth in market capitalization (a clear measure of value creation for a sector built on financial strength), growth in net asset value per share, growth in net earned premiums and growth in net profits, which allowed us to investigate trends in margins over the period.

Results are set out in the Appendix on page 54.

Seven life companies (Figure 1) and eight non-life companies (Figure 2) showed growth in market capitalization and net asset value per share in

excess of 10% per annum over the period 2001 to 2012, exceeding the returns earned by some of the most highly performing sectors during the period (see chart on page 7). These firms showed three distinct traits:

- Insurers with significant exposure to high growth markets, in particular in South East Asia, China and Latin America
- Former mutuals, which have grown strongly in profitability following demutualization
- Specialist companies with a highly focused franchise and strong and distinctive business model, including a number of regional and national champions.

Reflecting our respondents' interest in responses to low interest rates and equity market volatility, we drilled further into results for the time span 2008 to 2012, and we identified 12 life companies (Figure 3) and 14 non-life companies (Figure 4) showing compound growth in market capitalization and net asset value per share of 10% per annum or more over this more challenging period. Again, companies fell into the same broad categories, with the addition of companies we term the 'global titans,' such as Allianz, AXA, Swiss Re and Zurich, all of which have significantly increased their orientation to high growth markets over the period.

Our analysis confirmed many patterns we expected intuitively, such as significant growth in value following demutualization, as players with a strong focus on their customers transform their operations to orientate themselves toward profitable growth. Nor was it surprising to see the strong trajectory of insurers with a focus on high growth markets.

What was less intuitive was the very strong performance by insurers with a specialized and highly focused franchise, such as AFLAC, Cigna and United Health, all focused on different facets of health markets, or QBE, Chubb and ACE. These firms are characterized by their unwavering discipline and relentless focus on financial growth, and a proven capability to undertake successful acquisition to deepen product and geographical diversification.

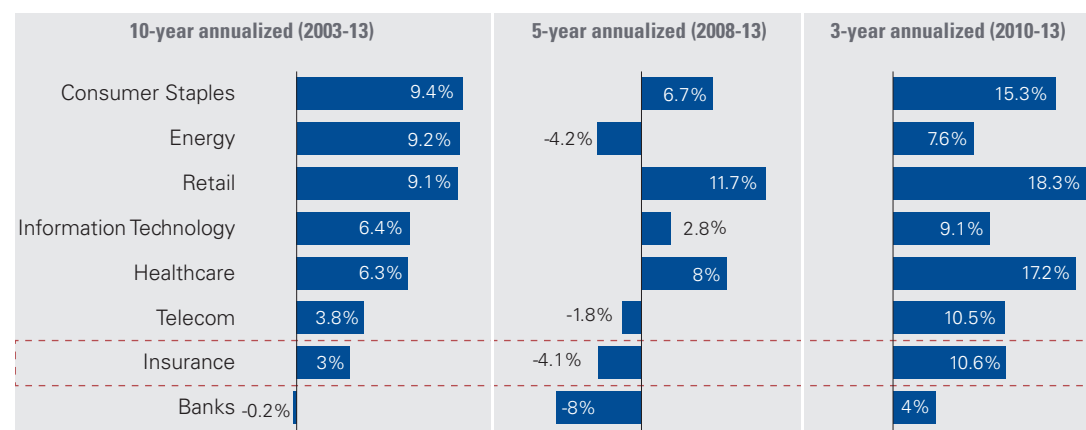
We further analyzed these results to distill the key attributes displayed by those insurers conspicuously outperforming in uncertain times

to develop our paradigm, *The Valued Insurer*. The Valued Insurer is focused, efficient, agile and trusted, and has a clear orientation around its customers, which drives all its other activities and fuels the engine of growth.

Our analysis demonstrates a universal truth – those insurers with the attributes to continue delivering successful profitable growth are those firms with the capacity to withstand a prolonged period of low interest rates and equity market volatility. The hallmarks of success in times of famine will also drive outperformance in more benevolent times.

### Three-, five- and 10-year annualized historical return – World\*

As seen in the chart below, insurers significantly outperform a broadly based index over the period, but also the returns achieved by most other sectors.



Note: 2013 is as of 14 May 2013

\*The MSCI World Index consists of the following 24 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.

Source: KPMG International, 2013



## From theory to practice

***“Agile, trusted, focused and efficient are not adjectives that many would apply to the insurance industry, but now is the time to change that perception – survival really does depend on it.”***

Gary Reader  
Global Head of Insurance  
Partner  
KPMG in the UK

### **In an environment where competition is becoming ever more intense, it will become increasingly important for insurers to:**

- develop differentiated propositions targeted at particular market segments
- focus on improving persistency to reduce pressure on new business volumes
- differentiate their brands through enhanced customer service
- maximize value for customers.

Changing preferences of the next generation of insurance customers demand alterations in propositions and distribution – constantly evolving new technologies will be key. Opportunities for face-to-face sales will decline, making it more challenging to know your customers. It will be crucial to leverage segmented customer data and use predictive analytics and propensity modeling to help differentiate propositions.

We have developed the paradigm of *The Valued Insurer* to help insurers explore what they need to do to position themselves for profitable future growth. Valued insurers have transformed how they do business, placing their customers at the heart of everything they do, including strategic decision-making, business and operating model design and product,

service and delivery strategies. They leverage the opportunity to win over customers at every touch point. By doing so they:

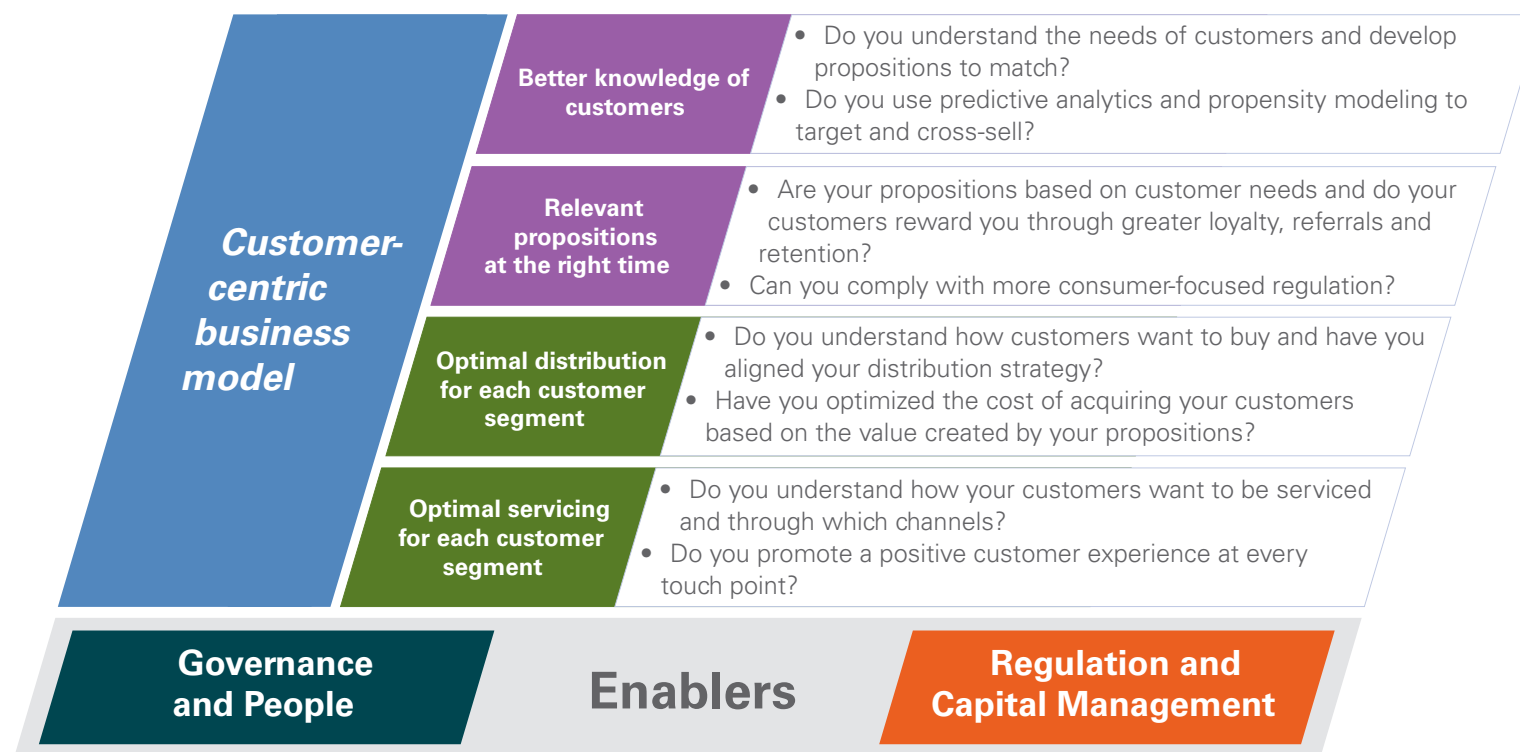
- are more innovative and productive, through greater collaboration and information-sharing within their own business and with partners;
- improve customer experience, creating greater propensity to buy additional products where these are appropriate for customers' needs;
- increase efficiency through rationalization and elimination of redundant products and processes, aligning propositions to customers' changing needs;
- enjoy greater customer loyalty, retention and increased referrals.

While the appetite to be customer-centric is compelling, it conflicts with a corporate mind-set that emphasizes near-term priorities and the delivery of short-term shareholder value. The time required to gather customer perspectives, refine propositions and take them to market spans more than a few quarters. However, we believe those insurers focused on long-term sustainable value creation for their customers will be rewarded by their investors.

To deliver a customer-centric business model, we see four strategic building blocks supported by a number of tactical enablers. We explore each of these in turn in the following pages.



## Components of a customer-centric business model



Source: The Valued Insurer, KPMG International, 2013

## Products and markets



## Customer-centricity starts with genuine insight into the true ‘voice of the customer’

Getting closer to customers enables The Valued Insurer to strengthen revenues and profitability and enhance customer loyalty. It goes without saying that the ‘voice of the customer’ and insights into customer behavior should guide proposition design<sup>2</sup> – what is less widely accepted is that it should also guide insurers’ business and operating models.

### We see:

- Insurers building customer trust by embracing a ‘customer-centric’ approach and aspiring to better meet customer needs. They seek a clear understanding of who their most valuable customers are, how they behave and how best to retain them and attract others. However, few firms have replaced their traditional focus on products to make customers the focal point of everything they do.
- Customer expectations shifting faster than many insurers can keep pace with.
- Growing recognition that customer emotions drive purchasing behavior and trust. How the customer feels can provide a better prediction of future behavior than what they say.

### For example:

- In a review of insurers’ annual reports and other communications, we find limited evidence of a significant shift towards a customer-centric approach. Among those who do, AEGON,<sup>3</sup> Standard Life<sup>4</sup> and Allianz<sup>5</sup> have highlighted it as a key focus.
- Simple self-service models have raised customers’ expectations of insurers, triggered by interactions with such companies as Amazon, Apple, Google, Facebook and Weibo.
- ING is addressing customer loyalty by using an algorithm that tracks the frequency and relevance of customer contact. Vincent van der Boogert, CMO of ING Netherlands, has said “if ING can get a better handle on how customers feel, it can provide them with better services.”<sup>6</sup>

## Are insurers starting to think more like online retailers?

### Jeffrey P. Bezos' (Founder and Chief Executive Officer of Amazon) letter to shareowners, 2012

"Our energy at Amazon comes from the desire to impress customers rather than the zeal to best competitors ... We do work to pay attention to competitors and be inspired by them, but it is a fact that the customer-centric way is at this point a defining element of our culture. We think this approach earns more trust with customers and drives rapid improvements in customer experience – importantly – even in those areas where we are already the leader ... When we're at our best, we don't wait for external pressures. We are internally driven to improve our services ... before we have to."<sup>7</sup>

### Interview with CEO Alex Wynaendts in AEGON's 2012 Annual Review

"Becoming more customer-centric is first and foremost a mind-set. Regardless of role or function, every person across our businesses must have a clear sightline to the customer. Going forward, being a customer-centric organization will mean that, in everything we do, wherever we conduct our business, the customer will be at the centre of what we do and how we do it. There are many examples across AEGON where this customer-centric approach is being integrated into everything we do."<sup>8</sup>

### Standard Life, 2012 Annual Report

"Boards and their chairmen have a special responsibility to ensure their companies conduct business ethically and responsibly. The actions of some companies have regrettably given financial services in the UK a poor reputation. Slogans of customer-centricity ring hollow if they are not borne out by customers' actual experience."<sup>9</sup>

### Result for the Customer, 2012 Allianz Deutschland

"Customer satisfaction is important to us for several reasons. Firstly, a satisfied customer has a multiplier effect because he recommends Allianz to friends and acquaintances. Secondly, he also provides business opportunities because he remains with us for a long time or becomes interested in other products. Customer satisfaction could be called the engine of our business."<sup>10</sup>





***Tesco is one of the world's largest retailers employing over 520,000 people with over 6,700 stores in 12 markets.<sup>11</sup> Its business model is centered on customer insight – “we buy, move and sell products and services to our customers and use customer insight to do this slightly better each time.” They actively seek feedback from customers, through conventional means and via social media where they are able to respond in real-time. Robust loyalty programs provide greater insight into how to best exceed customer expectations and improve the shopping experience.***

### Insights:

- Customer expectations are increasing. Insurers need to raise their game to match how consumers interact with service providers such as Amazon and Google. Although insurance propositions are diverse and highly regulated, some insurance products – for example, auto and homeowner's insurance — are increasingly becoming like consumer goods. As a result, consumers expect online purchases of insurance to provide the same high standard of experience.
- Insurers do not enjoy the same frequency of customer interaction as retailers or banks. As a result, insurers find maintaining up-to-date customer information beyond payment details difficult – understanding customer expectations can therefore be that much harder to achieve.
- Customers' desires extend beyond the products insurers provide to encompass a wider experience, involving a broader range of interactions. Inactivity is not an option in light of emerging new entrants and distributors, particularly in highly competitive product lines such as auto and homeowner's insurance. The industry is open to the threat of disruptive challenge. Ten years ago the concept of insurance aggregators was unknown. In the UK, Datamonitor reports that aggregators account for 56 percent of new business for private motor insurance in the UK, the primary market for aggregators.<sup>12</sup>

### Actions:

- Develop a single 360° view of customers. Identify customer data gaps and prioritize correction by value and importance. Monitor your customers' defining moments of truth through customer satisfaction surveys, net promoter analysis and social media, including a sentiment index.
- Position customer insight as a Center of Excellence rather than separate data collection points distributed between Marketing, IT and Finance.
- Identify and prioritize customers based on their long-term value to your organization. Capture the financial value of your 'voice of the customer' projects by measuring changes in customer loyalty and revenue.



***“Customer value has several different dimensions which extend beyond the premiums they pay and the claims they make.”***

Dave Gooding  
Director  
KPMG in Australia



## Mining data to unearth meaningful customer insights

In a digital world, the mass of information available to insurers is a valuable new asset. The Valued Insurer connects internal and external data to create value and gain competitive advantage. With greater customer insight, insurers can make more informed decisions about the design and delivery of propositions and services oriented around their customers.

### We see:

- Insurers recognizing the importance of ‘big data’ to their future strategy and competitiveness, developing their capability to analyze data to predict customer behavior.
- However, use of big data by the insurance industry lags the banking and retail sectors, which have more frequent interaction with their customers.
- Most insurers have vast in-house data. However, it is often gathered and stored on multiple systems, is difficult to extract and is not organized for analysis.
- Greater use of external data from third parties and research firms who can deliver extensive data at low cost.

### For example:

- Personal and Small Commercial Lines insurers are at the forefront of predictive analytics – developing prices to match customer segments defined in sophisticated ways.
- Insurers tend to be organized in functional silos (‘new business,’ ‘renewals,’ ‘claims’) and have a compartmentalized approach to information management. Data-privacy issues act as a disincentive to breaking down silos.
- Insurers are starting to address the challenge of legacy data issues by creating common ‘data and capability’ groups that cut across silos, brands, businesses and functions, to create a single ‘horizontal’ data layer across their business.
- Social media and internet tools can supplement in-house data to predict customer behavior, with individual-specific or demographic lifestyle data.



## Insights:

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- Successful insurers extend their analytical capability beyond pricing and claims into customer behavior analysis. Game-changing results can be achieved by linking this analysis with the ‘voice of the customer’.
- The potential of ‘big data’ is yet to be fully realized. More agile organizations combine multiple data sets, but for most insurers this is uncharted territory. Don’t underestimate the data available particularly to providers of homeowner’s insurance – make the most of what you’ve got and supplement it with external sources, such as credit reference agencies and mapping software.
- Developing analytics against a backdrop of product-centric legacy systems is complex. Delivering a ‘single view of the customer’ is often talked about, yet rarely achieved. Significant investment in systems and capabilities may be necessary, despite strong competition for funding.
- Data and analytical capability must be balanced with deep business understanding to ensure the analysis is appropriately directed.

## Actions:

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- Focus on setting a clear direction — develop a blueprint that supports long-term business objectives that can be delivered through short-term goals. Decide on your road map, and either:
  - Start a controlled clean-up effort to solve data quality issues, reviewing the need for a single data warehouse. Integrate external data as you improve internal data. Break down silos between current data collection groups and create central data functions to enhance coordination and insight sharing; or
  - Supplement your data as it stands and consolidate it later. This strategy is appropriate if you believe additional data sources will deliver greater value than improving internal data.
- Consider running pilot projects to ‘test and learn’ and achieve stakeholder buy-in, with more measured expansion following initial successes. Use this more agile approach to continuously develop in-house capability and drive cultural change.
- Consider a ‘test lab’ approach to analytics – develop hypotheses from mining data that you market test to refine customer understanding.

***“The critical issue is not the availability of data, but how to analyze it effectively and apply the results to the business.”***

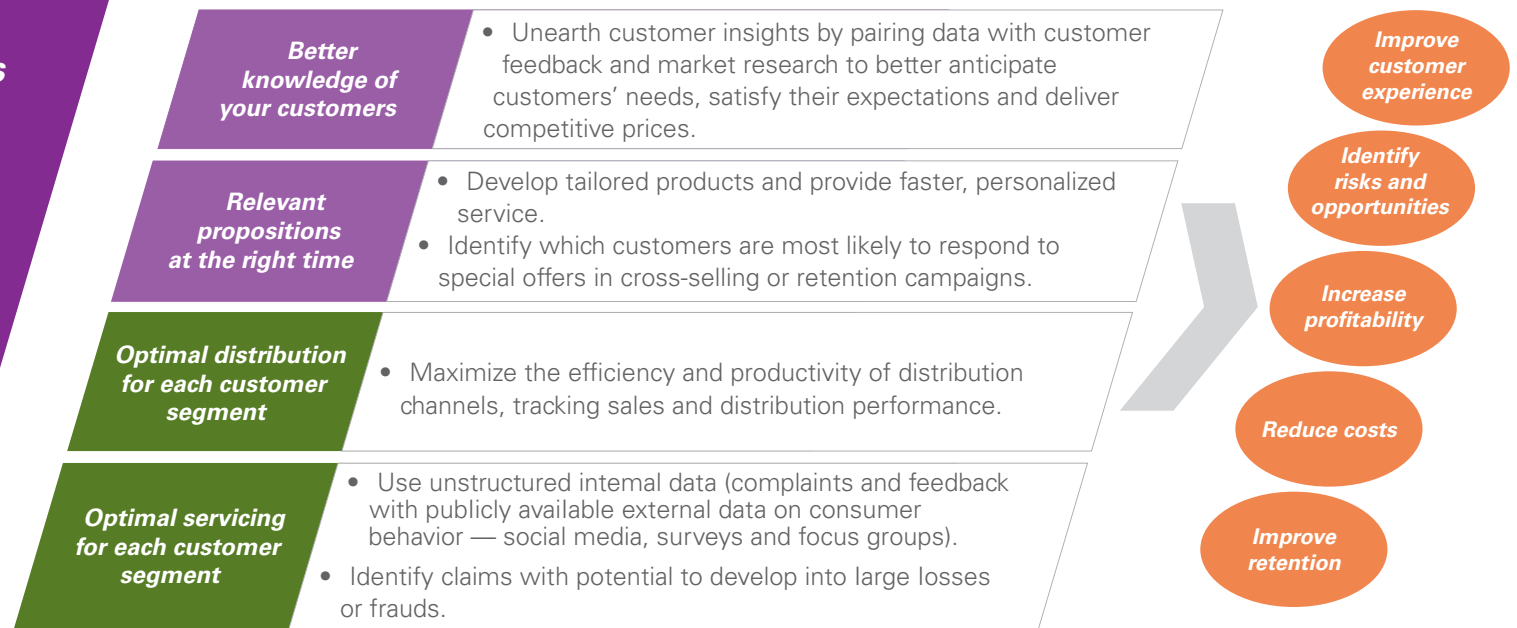
Scott Shapiro  
Partner  
KPMG in the US

## What do we mean by 'big data'?

*It's often said that 90% of the data in the world today has been created in the last two years and every day we are estimated to create 2.5 quintillion bytes of data.<sup>13</sup> This data is all around us: tweets, posts to social media sites, digital pictures and videos, purchase transaction records and cell phone GPS signals to name a few. By accessing big data insurers can help identify trends in sentiments about their products and changes in customer behavior. The goal is to harness this for sustainable, profitable growth.*

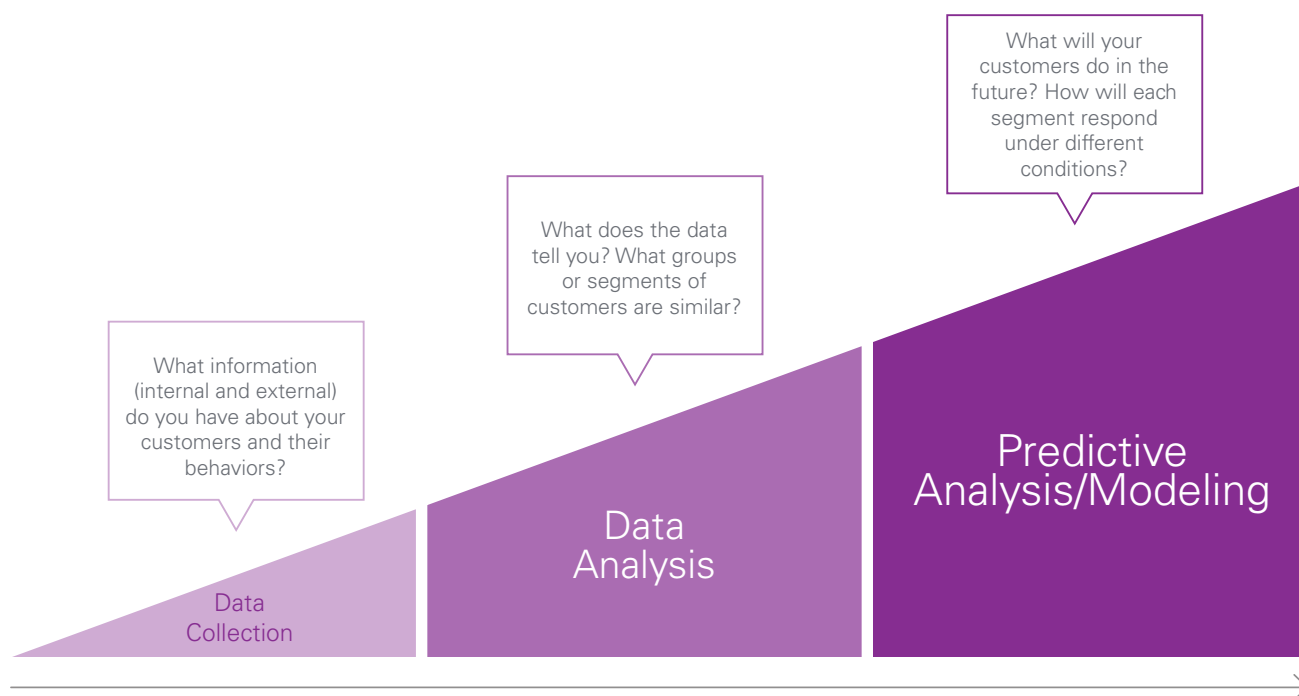
## What is predictive analytics?

Predictive analytics applies techniques from statistics, modeling and data mining to extract information from data, using it to analyze current and historical facts, and predict trends and behavior patterns.



Source: The Valued Insurer, KPMG International, 2013

## The difference between traditional Data Analysis (what you know based on the past) and Predictive Analysis (what might customers do in the future and what outcome might you expect?)



Source: The Valued Insurer, KPMG International, 2013





## Building propositions with customer experience at the core

Insurance needs are evolving but have not changed fundamentally – customers want to protect what they value. They want to do this through simple products which they can understand or complex products explained simply, with sufficient transparency to compare different offerings. In many cases, service is the primary differentiator. Understanding buying behaviors and emotional triggers are key to tying these concepts together into building propositions based on a 360° view of the customer.

### We see:

- Insurers empowering their customers to select options to custom fit cover to their needs and budget.
- Insurers starting to deliver propositions broader than traditional functional components of sales, servicing and claims, to help customers navigate key life events rather than processing transactions.
- Existing insurers developing new brands to emphasize and differentiate propositions, sometimes testing these through single-product initiatives or sub-brands.

### For example:

- Use of telematics by companies such as Insure the Box's mileage-based policies,<sup>14</sup> Progressive Insurance's 'Snapshot'.<sup>15</sup> Progressive also offers a 'Name Your Price®' tool<sup>16</sup>, quoting a car insurance package closest to the customer's budget, and GMAC offers a 'Low Mileage Discount'.<sup>17</sup>
- Companies such as Achmea in the Netherlands and PruHealth in the UK<sup>18</sup> are helping customers lead healthier lifestyles, with advice, guidance and benefits in the form of lower premiums. In the US, USAA offers a car buying service to help customers save money through Certified Dealers.<sup>19</sup>
- In the Netherlands, AEGON has established a new direct insurer based on Facebook called Kroodle,<sup>20</sup> initially offering mass market P&C products.

## Insights:

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- Customer insight should drive propositions based on ‘moments of truth’ that yield the greatest influence on customers, particularly when they make a claim. This should lead to ‘unique buying reasons’ replacing ‘unique selling propositions.’
- Price-sensitive customers, who see insurance as a commodity or ‘grudge purchase,’ will only pay for components that deliver incremental value. Greater price transparency will drive premiums down, if customers do not see a link between price and value. This increases the need to control operating costs.
- Many customers find insurance products difficult to understand and generally indistinguishable. Genuine differentiation is an opportunity.
- The tide of public opinion is moving against the use of sophisticated tax planning techniques. Insurers need to consider whether providing such products to shelter personal wealth from tax remains compatible with positioning their brands as trusted financial service providers.
- Shifts in lifestyle, business, regulatory and environmental challenges spur product development, increasing the pool of redundant products. Insurers need to consider carefully how they manage legacy obligations efficiently.

## Actions:

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- Move from product development based on competitive positioning or distributors’ demands to a customer needs basis.
- Apply customer insights to rationalize your existing product portfolio and match product segments to identify gaps in the product matrix. Clarify the attributes that your customers value: is it an outstanding proposition, ease of access, your ability to price risk or your scale – and focus investment accordingly. Can you fill the gaps or would you do better to partner with a specialist?
- For commoditized products, especially homeowner’s and auto, consider what further steps could give customers greater control of pricing, e.g. telematics, ‘pick and mix’ product features.
- Stay agile and re-assess customer needs frequently – include behavior and needs questions in selling and servicing. Use social media and surveys to capture change. Get product, marketing and sales teams to work across distribution channels.
- Create simple and easy to understand policy terms. Keep it short and concrete.



## Industry perspectives

### AMP leads with customer innovations

As the leading independent wealth management company in Australia and New Zealand, AMP helps people and organizations build financial security. They serve over 5 million retail customers and 400 institutional clients and maintain the largest advice network in Australia and New Zealand. AMP has distinguished itself for financial advice and by delivering Superannuation products, tax-effective funds that help employee members save and invest for retirement.

**Craig Meller, Managing Director, Australian Financial Services, AMP, discusses how his firm has evolved with shifting conditions:**

“We’re adapting our business to capitalize on opportunities that arise from changing consumer behavior, digitalization and regulatory change. We’ve innovated within the financial advice and distribution space by improving our customer experience. For example, we successfully

piloted advice delivery via phone or web and we’ve launched new digital supports for our advisors, including a fully integrated iPad app. Through investments in business process management and customer relationship management systems we’ve also lifted service quality and efficiency.

By adopting a greater customer focus, we have also revitalized our corporate superannuation product. We strengthened our market leadership in this sphere by using customer insights to differentiate our super solutions for specific market segments. We also developed value-adding digital services for employers and members, which increased member engagement and customer retention. By sharpening our customer focus, and staying ahead of the regulatory change curve, we are well equipped to take advantage of the change around us.”

“By sharpening our customer focus, we can take advantage of the change around us.”

### Specialist provider, Just Retirement, honors its values

Being a specialist in retirement is very important to Just Retirement Ltd., now the UK’s largest provider of enhanced annuities, and one of the UK’s leading providers of equity release lifetime mortgages. The company invigorated the enhanced annuity market when they launched in 2004, offering products that enable clients to select a higher income in retirement based on information about their health and lifestyle. Just Retirement has maintained its pioneering approach by choosing to specialize solely in the retirement market.

**Simon Thomas, CFO, Just Retirement, explains what makes them different:**

“We pride ourselves on our customer focus and our key values, which are being Agile, Specialist, Trusted, Supportive and Rigorous. These words are often spoken in the industry, but we take them to heart. For

example, in terms of Specialist, we have two primary products and we keep working on them until we get them just right. In regards to Agile, we have one system and no legacy issues, so we can change prices daily if yields move.

To be truly Supportive, our team thinks both about servicing our independent financial advisors and treating our end customers with respect. For example, our IT platform enables annuity cases to be completed in just 21 days, rather than the typical 30-40 days, so the advisor gets their commission and the annuitant gets their income faster. We put great emphasis on ensuring we are seen as Trusted, because we are dealing with peoples’ life savings – and with their comfort and security in retirement. We aim to be Rigorous in everything we do, from actuarial calculations to exercising professional judgment. This is how we bring our values to life, and our challenge is to keep doing so as we grow.”

“We pride ourselves on bringing our key values to life for our customers.”



## Data enables Allstate to predict customer needs

The Allstate Corporation is the largest publicly held personal lines property and casualty insurer in America. It is also a major provider of business property and equipment, liability, interruption and auto coverage. Widely known for its 'You're in Good Hands With Allstate®' slogan, which captures its Shared Vision and Purpose, Allstate had \$126.9 billion in total assets as of year-end 2012 and in 2013 was ranked number 92 on the Fortune 500 list of the largest companies in America.

**Wes Sprinkle, Senior Vice President, Allstate Business Insurance, notes the rising importance of developing predictive analytics strategies:**

"Understanding the needs of our customers, including the business owner, is a critical strategic priority. Analytics allows us to develop more innovative solutions, provide better coverage and superior service to our customers and agents."





## Distribution and operations



## Optimize channels to reflect customer demands and maximize efficiency

Optimizing distribution is one of the most effective ways to improve profitability. As customer preferences for self-serve and advisory channels change along with new regulations and technologies, opportunities arise for insurers to differentiate themselves. The Valued Insurer seeks to optimize its distribution channels, achieving the right mix for different customer segments, while at the same time improving customer experience.

### We see:

- Fundamental changes which have taken place in the UK distribution landscape due to changing technology, regulations and customer expectations will play out in other markets. While the UK is distinctive because of the preponderance of independent financial advisors and the limited role of tied agents, we see many of these trends starting to play out in other markets. People are becoming more globally mobile and will choose who delivers what to them, when and where.

- A rise in the influence of intermediaries, partnerships, affinity groups and aggregators has pushed insurers to offer white label solutions and alternative fee structures.

- Insurance databases typically contain limited, out-of-date customer data, making segmentation difficult.

### For example:

- The UK Retail Distribution Review implemented at the start of 2013 introduced greater transparency of advice costs (fees rather than commissions for investment products). We already see similar influences in the Netherlands and Australia.

UK banks have reduced their focus on bancassurance following losses from mis-selling. A similar loss of trust could be repeated elsewhere.

The rise of agile aggregators in the UK and parts of Europe — a force we believe will be difficult to resist in US and ASPAC.

- UK retailers such as John Lewis and Marks and Spencer feature highly on Moneywise's Most Trusted Home Insurer awards.<sup>16</sup> We see this trend increasing in Europe, for instance, ING Insurance Belgium is planning to drive growth by offering white-label solutions to other bank distribution partners.

- Insurers' lack of adequate customer segmentation and limited use of predictive analytics and propensity modeling results in sub-optimal sales conversion from lead generation.

## Insights:

- The distinction between 'buying' insurance (when self-directed) and 'selling' it (when prompted) is increasingly less clear. Insurance advisors are no longer the sole authorities on financial matters, particularly reflecting the impact of changing technology and regulation. Insurers are therefore re-evaluating the fundamental belief that insurance is 'sold' and not 'bought'. However, we believe that while customers are motivated to self-serve for short-term insurance purchases, they generally require prompting to save for the long-term and old age.
- There is no one single effective strategy for channel optimization. We see customers becoming increasingly globally mobile and country-specific ties and preferences breaking down. Routine practice in some markets can provide important learning for other geographies.
- Insurers need to offer a consistent high-quality customer experience across all sales channels and build trust both digitally and face-to-face. Firms are currently struggling to make the business case to build viable digital infrastructures but we expect use of digital channels to increase significantly, by all ages.
- Segmentation strategies and greater use of predictive analytics and propensity modeling improve the quality of lead generation, which in turn significantly raises sales conversion rates and sales-resource productivity. Investment in point of sales tools offers the prospect of dramatically improving sales conversion rates, reducing mis-selling risk and new business acquisition costs by focusing on identified customer needs, improving customer and sales-resource retention.

## Actions:

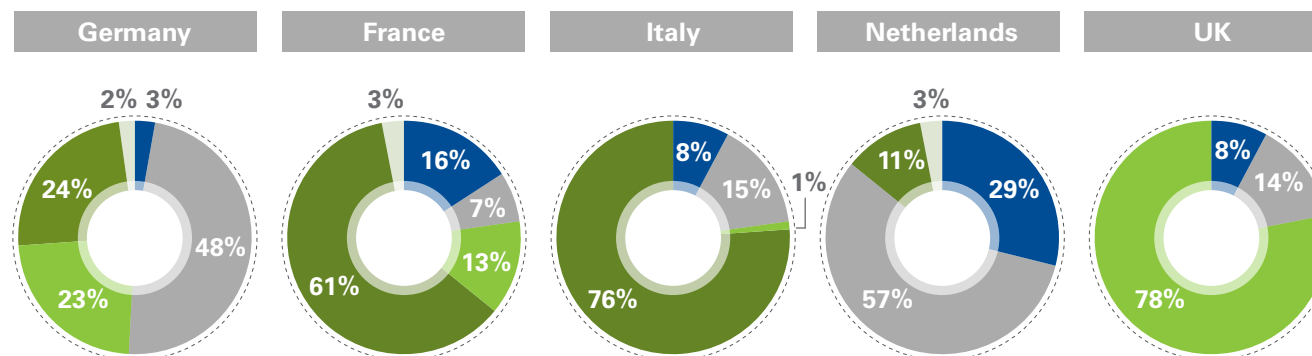
- Define channel preferences by segment and custom-fit products to customer preferences, with particular focus on cost-to-serve to optimize acquisition costs.
- Make multi-channel sales and services consistent, fully integrating traditional channels with newer digital capabilities.
- Use analytical techniques and big data to focus marketing expenditure on the most receptive client segments and channels offering the greatest return and improve lead generation for your sales resources. Enhance search engine optimization to better track the results of online marketing activities.
- Invest in point of sales tools to improve the ability of sales people to convert leads into sales, while minimizing mis-selling risk.



**Distribution channels vary widely from country to country, even within the European Union.**

**There is no one single effective strategy for channel optimization. We see customers becoming increasingly globally mobile and country-specific ties and preferences breaking down. Routine practice in some markets can provide important learning for other geographies.**

### Analysis of life insurance premiums by distribution channel – 2010



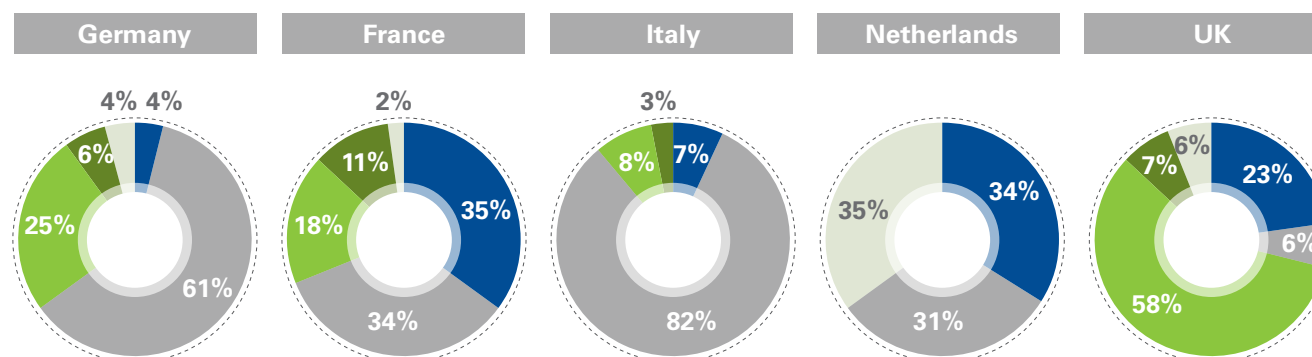
Notes:

\*\* Data for Germany and the UK refers to new business only

\*\* For the UK, bancassurance is included in all other channels

\*\* For Netherlands, agents are included with brokers

### Analysis of non-life insurance premiums by distribution channel – 2010



Notes:

\*\* For Netherlands, agents are included with brokers

Source: Statistics N° 46 European Insurance in Figures, 2013

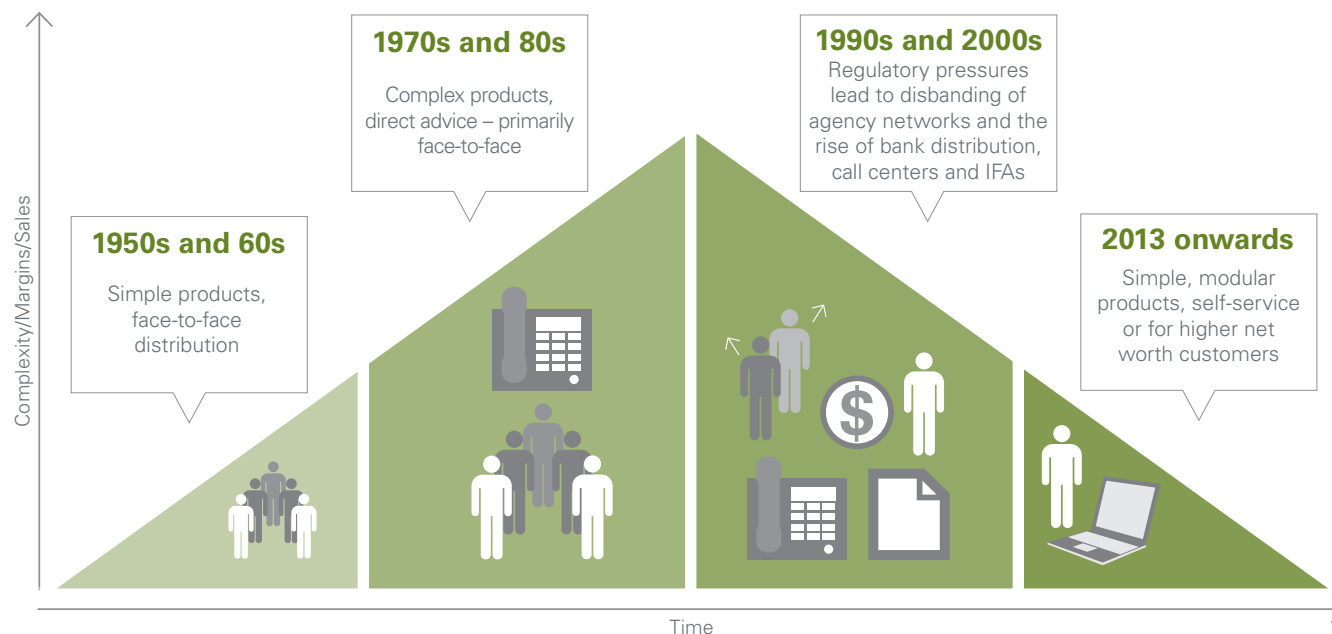
■ Direct Writing

■ Agents

■ Brokers

■ Bancassurance

■ Other



Source: The Valued Insurer, KPMG International, 2013

The UK is a highly mature market and, in some regards, has come almost full circle with greater preference for simple, modular products.

In time we expect to see some of these trends replicated more widely around the world, reflecting changing customer preferences and regulatory pressures, although the pressure on agency distribution may be less acute than it has been in the UK and independent financial advisors (IFAs) may play a less prominent role. These trends are already playing out in Australia and the Netherlands.

***“Investing in the optimization of sales channels will have a far greater impact on profitability than cost reduction initiatives.”***

Mark Bain  
Head Insurance Consulting  
KPMG in China



## Operationalizing a positive end-to-end customer experience

After the initial sale has been made, turning customers' expectations into reality requires efficient and effective operations organized around customers rather than products. The Valued Insurer delivers the right customer experience across the entire value chain, whether executing it itself or through partners.

### We see:

- Mass-market property and casualty insurers enabling customers to self-serve, online and through smart phones and tablets.
- Customers are looking for consistent error-free processing regardless of service channel, working online one day, using the phone the next and increasingly using smart phones and tablets.
- Many insurers are operating multiple, inefficient legacy platforms, with separate operating models by line of business, lacking a central view of their customers.
- Tax authorities around the world increasingly require financial institutions to act as their information and tax collection agents as they seek to combat tax avoidance, e.g. the US Foreign Account Tax Collection Act (FATCA).

### For example:

- Established insurers launching digital ventures using separate, more agile brands to avoid disrupting existing agency networks, e.g. Achmea brand – InShared<sup>21</sup> or AXA's UK Swiftcover<sup>22</sup> brand.
- Retail banks tend to be more advanced at building customer-centric, engaging online solutions. Examples include PNC Bank in the US, Citibank in South East Asia, Commonwealth Bank in Australia – all have shown innovation in responding to changing customer behaviors and expectations.
- Online retailers have proven the benefits of a single view of the customer as has the banking sector. Insurers often cannot provide a real-time holistic view to their customers because of the difficulty of valuing certain life insurance products, making delivering a consistent customer experience that much more difficult.
- Insurers undertaking ground-up re-design of 'know your customer' and anti-money laundering procedures to ensure they, their agents and brokers gather the information needed to avoid punitive sanctions.

## Insights:

- An agile digital strategy is central to meeting customer expectations and controlling costs; however, digitization is a strategic issue not yet fully understood in boardrooms, making it difficult for firms to rationalize the investment required to do it well.
- To become truly customer-centric, organizational product silos need to be broken down, with sales and servicing spanning all business lines.
- Front-end and customer-related channels need to be fully integrated with the back-office, using straight-through processing to avoid manual re-work. Insurers should not allow inefficient multiple customer systems to constrain their ambition to realign their operations. Investment will be required and, in the meantime, workarounds may be needed.
- Insurers deal with this in different ways, some finding greater flexibility through handling current go-to-market products on newer, more responsive systems, choosing to handle legacy portfolios on older systems until they run off rather than investing in a costly 'big bang' change.
- 'Rapid-fire' cost reduction programs can quickly damage service levels and erode value.

## Actions:

- Benchmark customer service levels and 'cost-to-serve' against competitors. Establish your aspirations and build your strategy around them.
- Develop a focused strategy and a target operating model based on customer-centric objectives, defining your service proposition by segment. Incorporate a clear strategy to address legacy systems.
- Prioritize which processes require re-engineering. Focus on the 80 percent of transactions that generate the greatest value. The processes completed by customers online should be consistent across all channels.
- Use investment in digital platforms to align internal processes. Operate stringent system selection processes, incorporating emerging technologies such as cloud computing.
- Keeping the current cost base under control needs continued vigilance, particularly when commencing new initiatives, such as responding to regulatory change. Focus incremental investment in those areas customers value – and those areas alone.

***“Customers expect service standards to be consistent with expectations set by the product provider regardless of entry point. Above all, customers want insurers to be easy to deal with and adaptable to their changing needs.”***

Dina Aleman  
Partner  
KPMG in the Netherlands

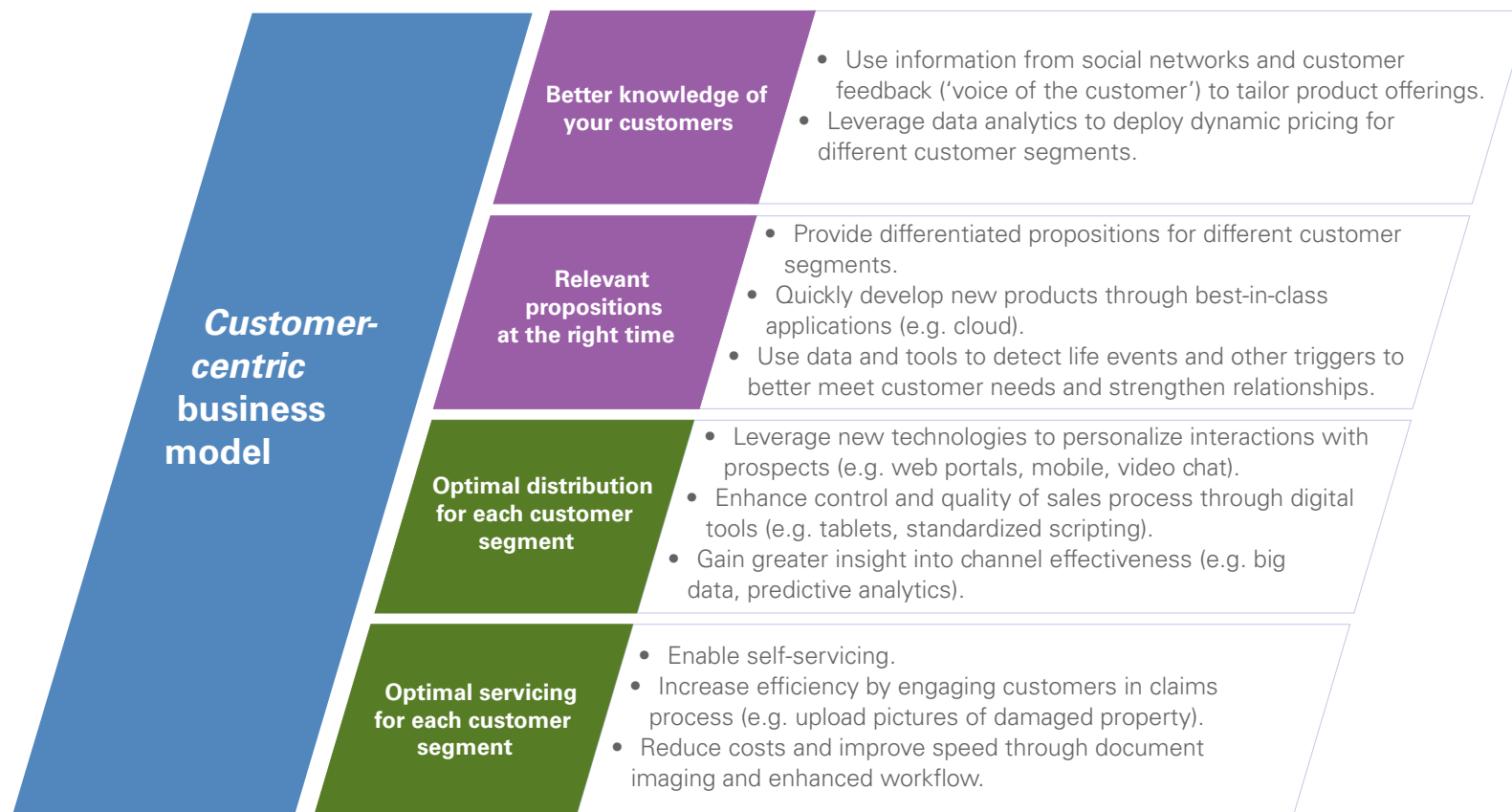


**Digitization is not just about distribution through electronic channels; it has the potential to transform the way insurers operate, interact with customers and use information to be more relevant and personal. Key considerations include:**

- understanding how customers want to interact digitally over sales, servicing and claims cycles
- leveraging new technology, consumer behavior and buying trends to drive value for the insurer and the customer
- customer convenience – is service relevant, personal, simple, intuitive and available when and where customers want?
- ensuring your customer information strategy addresses what information you capture, when, where and how, how to enrich information, analyze it and use it to drive value.

The multiple possibilities of digitization require a clear, coherent and business-driven strategy to capture quick wins, establish momentum, drive sustainable value creation, reduce costs and maximize synergies while minimizing the risks of change.

## What does it mean to be digital?



Source: The Valued Insurer, KPMG International, 2013



## Industry perspectives

“Our culture is pivotal to achieving our goals, and the tone at the top has been very important.”

### Old Mutual PLC focuses on helping its customers meet their lifetime goals

Old Mutual plc is an international long-term savings, protection, banking and investment group with over 14 million customers and £262.2bn funds under management. Founded in South Africa as the Mutual Life Assurance Society of the Cape of Good Hope in 1845, it demutualized and listed its shares in 1999, moving its headquarters to London.

**Iain Pearce, Group Chief Accountant, Old Mutual Group, describes the organization's efforts to deepen its customer focus:**

“Our vision is to become our customers' most trusted partner and we're passionate about helping them achieve their lifetime financial goals.

Building a sustainable business that's there for the long term is a key part of this philosophy, and being increasingly aligned with our customer's needs is central to achieving this. Having the right organizational culture is pivotal to this goal and we have focused on this for a number of years, getting the right tone at the top has been important, and I think we have an increasingly aligned senior management team.

You have to understand and connect with your organizational culture if you are to improve it. We conduct a global cultural survey to assist with this, the survey is open to all employees, and in 2013, 72% of the group's 54,000 employees participated.

The survey gives us valuable data which informs our actions and highlights whether the actions we are taking have put us on the right track. It also provides hard measures, such as Cultural Entropy, which gauges levels of potentially limiting behavior within the organization. We're showing some results that compare very favorably with accepted benchmarks, and positive trends which indicate that customer focus, integrity and accountability are coming to the fore.

Delivering on our digital strategy will be another important aspect of future success. Our customers increasingly want to be able to do business and interact seamlessly through a variety of new and existing media.

Customer-centricity sustainability and investment in digital will present interesting challenges for our finance function. We are already seeing an increase in the amount and prominence of non-financial data utilized by the business. Understanding net promoter scores, customer satisfaction and retention metrics is essential to getting a sense of what will drive future profits, and finance must become better at identifying the linkages. Traditional skills such as investment appraisal will also be critical, and finance will have a key role to play in ensuring that business cases are robust as the business seeks new digital solutions.”

## St. James's Place delivers growth by engaging its staff, partners and clients

Founded by industry veterans in 1991, St James's Place (SJP) is a UK-listed wealth management group with a market capitalization of c. £3 billion. SJP has a distinctive distribution model through the SJP Partnership of around 1,800 self-employed financial advisors who advise on SJP products, offering a range of funds that are managed on a segregated basis by carefully selected fund managers who are monitored and, if necessary, changed. The company maintains a low cost base by outsourcing much of its back office administration. Typically, partners have between 15-20 years of experience in the financial services sector, which is critical in providing high-quality wealth management services to businesses and individuals across the UK.

### **Andrew Croft, CFO, St. James's Place, talks about the firm's critical challenges:**

"The SJP model is simple to explain but hard to execute particularly as it is in a people business, from staff to partners and clients.

It is fundamental to the model that all stakeholders are treated with respect. We aim to grow partner numbers by between 5 to 7 percent per annum and support our partners in increasing their productivity each year.

The population of UK advisors is shrinking, so a key challenge for us is demographics and sourcing new partners. Hence, our 'next generation' academy – the partnership now contains 50 sons and daughters, nephews and nieces of existing partners.

A major challenge for the management team is keeping up with the growth in the partnership. We do this through our 'tent pegs' – regional offices that support partners in each region — and we keep in regular dialogue with our partners and their clients. Continuity over 20 years has been vital – recruiting partners who are attracted to the SJP culture, and embracing them within it to deliver profitable growth."

“Our model is based on treating staff, partners and clients with respect.”

## Regulation and capital management



## Re-engineering compliance to place customer protection at the heart of your business model

The Valued Insurer uses customer insights and management information to drive its strategy, sales and product design. It regularly reviews the quality and suitability of existing products and distribution channels to stay ahead of the curve of regulatory change which is increasingly focused on the OECD concepts of Treating Customers Fairly<sup>23</sup> and proper treatment of customers, policyholders and beneficiaries.<sup>24</sup>

### We see:

- Consumer feedback loops accelerating with unhappy customers adopting widely accessible public campaigns to broadcast their views if they feel unfairly treated.
- Regulators stepping into the insurer/customer relationship to protect consumers from a lack of transparency and the risk that sales are primarily motivated to profit the insurer or agent rather than benefit consumers.

### For example:

- In 2009, musician Dave Carroll attracted 13 million hits to his YouTube protest video 'United Breaks Guitars.' Carroll later publishes a guide to social media activism.
- The global regulatory agenda is increasingly focused on conduct of business issues such as how insurance is designed, sold and delivered. Many supervisors are now intervening earlier, shifting their focus from scrutiny at the point of sale to focus on preventing poor product design.

## Insights:

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- Insurers need to develop a conduct risk framework overarching their entire interaction with customers, and incorporate it into their overall enterprise risk management framework.
- Business processes and compliance frameworks require re-modeling to reflect the changing environment and to ensure a consistent focus on the customer across the entire organization. Remuneration and reward schemes need to change behaviors to focus on quality and attention to customers — the tension between focusing on customer needs versus a short-term focus on the top and bottom line needs to be addressed and overcome.
- Insurers should have a robust new product design process, be able to evidence how it is used and demonstrate appropriate governance and oversight as well as periodically field testing the suitability of existing products to meet evolving needs and market conditions. Insurers need to fully understand who is buying their products and who should be buying them. A plan is required to deal with changing customer circumstances and market conditions.
- Insurers need customer relevant management information to drive strategy, sales and product design, linked to customer outcomes and demonstrably used to steer the business and drive key decisions by the board and its delegates.

## Actions:

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- How often does your board discuss customers, their needs and experiences? Greater board level sponsorship helps change business practices to benefit customers and, ultimately, the bottom line.
- Review the effectiveness of product governance processes to assess the value and benefit of products, test regularly whether advice is demonstrably suitable and customers consistently obtain a fair outcome. Embed the management of product and conduct risk in the business, establishing a conduct risk appetite which is aligned to the business strategy through the ORSA process.
- Undertake a review of legacy products determining whether products have changed since inception, whether products actually operate as they have been explained to customers and whether legacy customers are receiving an appropriate level of service and are appropriately rewarded as compared with new customers.
- Consider whether further use of outsourcing might provide better service and outcomes for customers of legacy products.
- Undertake an audit of the steps to demonstrate that customer outcomes are at the heart of the governance and decision-making process.



***“Insurance executives increasingly need to be responsive to customers while balancing cost reduction and regulatory compliance. To be successful, insurers need to craft business strategies that address all three.”***

Laura Hay  
Partner  
KPMG in the US



## Adapting to regulatory change without stifling innovation

Greater focus on consumer issues and the conduct agenda is only one dimension of the current round of regulatory reform. As the landscape is reshaped, The Valued Insurer manages regulatory obligations efficiently at both a local and group level. Regulatory change need not stifle innovation. Instead, The Valued Insurer has a simple operating model and decision-making processes, so that those charged with governance have a clear line of sight over its compliance with local laws and regulations and the application of consistent minimum standards across its worldwide operations.

### We see:

- The introduction of proposals for globally systemically important insurers (G-SIIs) is requiring greater cross-border coordination between insurance supervisors than ever before.<sup>25</sup>
- The scale and pace of regulatory reform accelerating with consistent global themes uniting distinctive national and regional nuances as regulators adopt IAIS Insurance Core Principles (ICPs).

### For example:

- Twelve out of 16 major and emerging insurance markets in Asia are currently in the process of introducing or upgrading their systems of risk-based capital management.<sup>26</sup>
- Global insurers face the challenge of ensuring compliance with local laws and regulations while ensuring worldwide consistency with groupwide standards and avoiding the costs of duplication.

## Insights:

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- The complexity of regulatory change means regulation can no longer be managed solely by the compliance function: the entire business must be involved. The regulatory implications of strategic decisions need to be addressed in the boardroom, not after the fact.
- Regulators are becoming more assertive. Increased information sharing between regulators means that local difficulties no longer stay local and may be used to challenge the effectiveness of groupwide oversight. Insurers must be mindful that modern regulations typically give supervisors the flexibility to increase supervisory intensity if they consider it appropriate.
- Boards and management need a clear line of sight over compliance with local standards. Insurers must adopt a regulatory operating model that has the appropriate infrastructure to meet local regulatory requirements, clearly identifying accountabilities and responsibilities.
- Dedicated, local compliance teams are critical to providing timely, in-depth understanding of country-specific regulations, through collaboration with group level oversight functions. Two-way communication between these two groups is critical.

## Actions:

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- Assess whether systems are adequate to ensure regulatory compliance across your entire group.
- Invest to get ahead of the curve of regulatory development and assess the impact for your business model. Lobbying activity may need to be vigorous but is likely to be more effective if coupled with high standards of compliance with current standards.
- Productive, proactive dialogue with regulators reduces adversarial dynamics and helps firms better identify, analyze and comply with new regulations.
- Ensure regulation is aired in the boardroom as well as the backroom, focusing on strategic rather than operational issues. Embed regulatory considerations into strategic decision-making at group and local boards to achieve the right structure, operating model, products and distribution strategies.

***“The reality is regulatory concerns need to be on the Board agenda in order to evaluate their potential impact and inform strategic decision-making.”***

Jane Portas  
Partner  
KPMG in the UK



## Linking the management of risk to the creation of value

Faced with a challenging operating environment, and intensified scrutiny of its risk and capital management practices, The Valued Insurer looks to enterprise risk management (ERM) to enhance business value, both through operating cost reductions and in support of profitable growth.

### We see:

- Over the past 10 years, the risk management functions within insurance firms have changed dramatically, with risk becoming a separate function, the CRO assuming a board level role and new approaches to capital and risk modeling.
- Many insurers building ERM capabilities in response to regulatory requirements rather than to enhance their business.
- Historically, insurers have not focused on the relationship between risk, capital and performance, in a forward-looking, predictive manner.
- Insurers revisiting their legal structure to make capital more flexible and use it more efficiently.

### For example:

- The rush to comply with regulatory deadlines means that new systems and processes may not fit current business models or organization structures.
- Many insurers lack clear ownership and management of risk in front line business units and by second line risk functions themselves.
- Few insurers measure the cost of managing risk, the cost of losses arising from operational failures and the benefits lost by failing to identify opportunities to enhance business performance.
- Tax transparency is one of the key tools to unlock more efficient capital deployment, building a structure which avoids undue complexity and is sufficiently robust to withstand inevitable changes in tax law and practice.

## Insights:

- Insurers' risk functions require a culture shift, to align commercial and compliance perspectives, and support business growth in a way that justifies the cost by delivering value to the organization.
- Failure to embed ERM leads to incremental costs and a box-checking mind-set adds limited value to the business. Legacy systems may not support decision-making within risk appetite.
- Best-practice ERM achieves efficiency by reducing complexity. Many insurers can improve performance by reviewing the efficiency of their target operating model and risk framework, defining a clear model that unifies and supports their entire activities.
- Capital management processes must evolve to reflect growing sophistication in the measurement of capital, from managing regulatory capital and rating agency capital to managing economic capital, allowing insurers to assess the capital implications of the opportunities they pursue.

## Actions:

- Step back and reassess how your ERM framework adds value to your business. By embedding ERM into core processes, insurers can improve the commercial management of risk and capital.
- Assess how your risk management framework can improve your business through:
  - cost savings from a more effective second line risk function that monitors and challenges the risk management functions in the business without duplicating or substituting for front line risk management activities
  - cost savings from risk mitigation by reducing losses and enhancing revenues using insights that help optimize business operations
  - reduced cost of risk capital, by deploying capital to more highly revenue-generating activities.
- Assess whether customers would be better served and capital used more effectively if legacy portfolios are transferred to specialist providers who may service customers more efficiently. Developments in the run-off market can help the Valued Insurer provide the most appropriate service to all its customers — past, present and future — offering better risk and capital management through a more sustainable and efficient business model.

***“As insurers look beyond risk, to preferences, attitudes and behaviors, the notion of segmentation has taken on a whole new meaning. Successful insurance firms think of providing a broader customer proposition, moving away from commodity thinking, creating value for their customers beyond a price.”***

Louis Régimbal  
Partner  
KPMG in Canada



***“Simplification is the key to cost-effective risk management.”***

Paul Bishop  
Global Head of Insurance Finance  
and Risk Transformation  
Partner  
KPMG in the UK

## A simple equation: a revealing insight

To add value, risk must make a positive contribution to Risk-Adjusted Return On Capital (RAROC)



\*Risk Target Operating Model  
Source: Evolving Insurance Regulation: A new dawn, KPMG International, 2013

## Industry perspectives

### Building productive supervisory relations

The European Insurance and Occupational Pensions Authority (EIOPA) is part of the European System of Financial Supervision, consisting of three European Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Parliament and the Council of the European Union. EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.

**Gabriel Bernadino, Chairman of the European Insurance and Occupational Pensions Authority (EIOPA), shares insights on opportunities to strengthen insurer/regulator relations:**

"The goals of satisfying both customer and regulatory expectations are not at cross-purposes, but are actually complementary. Regulation need not stifle innovation, if insurers

make the needs of clients paramount. Innovation may mean getting back to basics, and more deeply understanding customer needs. While complex products remain appropriate for complex client needs, insurers should also provide simpler products that satisfy simpler needs, encompassing straight-forward product design, selling and intermediary structures and claims processes.

Translating this into good regulatory relations means being proactive and undertaking a change culture that makes the customer focus fundamental to the business. That involves creating Board-level awareness and buy-in to effect behavior change across the organization. By setting a strategic direction with a longer-term scale, insurers can take a more holistic approach that balances issues like sales culture, sustainability and solvency, and develop strategies that can really add value."

**“ Good regulatory relations means being proactive and making the customer fundamental to the business. ”**

## Winning investor trust by clearly communicating value creation for stakeholders

As the insurance industry grapples with costly regulatory and capital requirements and challenging market conditions, insurers must chart ways to achieve sustainable profitable growth and communicate how they add value for their customers and also their investors. The Valued Insurer employs strategic decision-making that balances near- and long-term priorities, while establishing meaningful goals and metrics that clearly connect strategy and performance for shareholders and communicate the volatility inherent in its results.

### We see:

- Since the global financial crisis, investors increasingly demand balance sheet strength and profitable growth. Increasingly, insurers focus on new metrics such as liquidity, capital management and customer outcomes as well as profitability.
- While stock prices continue to be depressed, cost-efficiency remains a primary focus, sometimes limiting investment in upgrading technology that could drive greater efficiency.
- The value of capital and how it gets measured varies widely across countries and regions. Many life insurers struggle to tell a clear and compelling story for investors that links what they do with how much money they will make and when.

### For example:

- Internal and external reporting are often poorly aligned, impacting the efficiencies of controls, financial metrics and capital management.
- Growing margins and profitability is now more important than growing the top line. The quality of new business is more closely scrutinized in an effort to mitigate risk and ensure a solid book of business.
- Planning and forecasting well helps market communication, particularly linking how leading indicators such as growth in new business link to growth in profits and cash generation.

## Insights:

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- Despite the fact that most insurers state they are working with a three- to five-year business plan, their actions highlight a short-term mind-set.
- The costs of servicing legacy portfolios are exposed by sustained low interest rates.
- The challenge is to become lean and efficient. We see further industry consolidation, resulting from changes in regulation and customer expectations.
- Insurers need to develop a clearer and more compelling linkage between what they do, the benefits for their customers and the returns for their investors.

## Actions:

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- Develop a more compelling narrative of what you do and how creating value for customers creates value for shareholders. Too often this step in the story is overlooked in investor communications.
- Sourcing strategies, such as developing shared services functions to support both transaction-based and value-based functions, need to be periodically revisited as the business evolves.
- Take a 360° perspective, bringing together finance and customer metrics. Customer experience is now a critical element of business metrics. Develop common cross-business metrics, reducing costs by eliminating redundant processes.
- Assess whether the choice of financial and non-financial KPIs reported externally remains up-to-date and best reflects performance against your strategic objectives.

***“People are hungry for an answer on what to measure and how to measure it. Until there is some consistency, we will continue to go in circles.”***

**Gordon Lunsford**  
Partner  
KPMG in the US



## Governance and people



F A C

## Profitable growth needs a clearly articulated strategy and focused franchise

Those insurers that can add value for their customers and shareholders in uncertain times are those who will flourish when the environment is more positive. Focus and specialization help create barriers to entry and provide the building blocks for profitable growth by extending the franchise. We believe specialization helps drive efficiency.

### We see:

- Further exposure to historical low interest rates are challenging insurers' business models and pressuring margins. Slower GDP growth in North America and the Eurozone directly affects insurers by slowing the wealth accumulation and spending power of customers and reducing spread-based earnings.

### For example:

- Some insurers shifting focus to less capital-intensive products, terminating sales of products subject to interest rate and equity market risk, while others are adopting a strategy of focusing on protection products, where returns are less correlated to financial markets. Yet others are seeking to diversify into alternative investment classes such as infrastructure to mitigate the impact of low interest rates and match long duration liabilities.
- Growth-oriented firms are pursuing demographic-driven opportunities, related to evolving customer needs, including ageing populations, low savings rates and consumers' unmet protection needs.
- The mega-trends highlighted in *The Intelligent Insurer 2012* are today's reality. They include: demographics, technology, social values and ethics, and the environment.<sup>27</sup>

## Insights:

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- Today, there are few genuinely global insurers. Complex and fragmented regulation and the legacy of inadequately integrated M&A means cross-border synergies are difficult to deliver. Value chains are becoming increasingly fragmented. Many of the world's most successful insurers combine one or more of the following characteristics:
  - national or regional champions
  - focus on high growth markets where growing middle class populations fuel demand for savings and protection;
  - focus on the needs of an ageing population and more limited state provision, such as healthcare and retirement income
  - highly specialized, acting as a barrier to entry.
- While some players are exiting capital-intensive businesses, others are honing their risk and pricing capabilities. If risks are clearly signaled and managed, these strategies should be rewarded with superior returns.
- We believe the greatest innovation is emanating from highly focused insurers with more nimble, leaner structures.
- Successful insurers are highly disciplined in terms of what they do, as well as what they don't do. Clear lines of sight into their business and short feedback loops allow them to adjust as their business evolves, deploying capital where it adds the most value.

## Actions:

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- Balance bottom-line growth between revenue generation, innovation and expansion, and focus on productivity, efficiency and cash generation.
- Insurers with a buyer mind-set may consider selling non-core operations or lines of business to focus capital on areas of excellence.
- Changes in focus need to be clearly managed and signaled, in order for successful strategies to be rewarded with superior returns.

***“With greater strategic focus and specialization, successful insurers will increasingly match legacy needs with legacy expertise, freeing resources to serve new needs.”***

Mike Walker  
Partner  
KPMG in the UK

## Exploring opportunities in non-traditional markets

With mature markets offering limited opportunities for expansionary growth, The Valued Insurer recognizes the possibility of growth in non-traditional markets. The development of micro-insurance solutions offers opportunities for firms prepared to change their mind-set, carefully understand each market they enter and adapt their products, distribution channels and processes and invest for long-term growth.

### We see:

- Developing countries with young populations and rising household incomes offer opportunities for insurers prepared to innovate to match local needs.

### For example:

- Needs vary greatly, reflecting cultural, social and economic nuances. In India and Africa, micro-insurance is often government-driven to achieve developmental goals, whereas in Latin America micro-insurance and mass retail insurance are often spurred by commercial response to rising consumer demand. In both cases, micro-insurance solutions have adapted to solve fundamental customer needs. Like conventional insurance, one size doesn't fit all.
- Developing 'simple but smart' products requires critical trust-building between seller and buyer. Building trust requires micro-insurers to deliver on their promises at critical times, providing fast and problem-free claim and payment processing.
- Successful players engineer simplicity in product design and process. In non-traditional markets, insurers often build trust by collaborating with local partners and distributors such as governments, NGOs, retailers and cooperatives who know the market well.

**Insights:**

- Listening to customers to identify their needs is at least as important in developing economies as it is in mature markets. Success demands listening to customer needs and developing new solutions and delivery models.
- There is a balance between customized local product offerings and streamlined, replicable systems and processes to minimize operating costs. Indexed products, for example, can save the cost of adjusting claims.
- Respecting the complexity of partners within the corporate sector, government and NGOs helps build trust and a long-term relationship.

**Actions:**

- Work on building solid, effective alliances with local partners. We see strong relationships are based on:
  - a clear understanding of each partner's intent
  - identifying complementary skills and roles
  - establishing mutual respect and trust
  - cooperation between the two shareholder boards, potentially through a common board
  - putting aside pre-conceptions.
- Consider whether market entry is more correctly regarded as market building or market creation. Focus on identifying peoples' needs and developing insurance solutions rather than targeting customers and products.

**What is micro-insurance?**

***Increasingly popular in emerging markets, micro-insurance involves the provision of basic, low-premium protection products to lower-income customers. Catering to customer segments that are underserved by mainstream insurance providers, micro-insurance protects lower value assets or compensates against illness, injury or death. Primary distribution channels are microfinance firms with established networks, as well as NGOs, retailers, unions and utility companies. Swiss Re estimates total potential revenue for micro-insurance to be some US\$40 billion per year but also estimates that current penetration of micro-insurance is only 2-3 percent of the potential market.***

Source: Swiss Re Sigma 2010



## Adapting organizational structure to stay close to customers and other stakeholders

Faced with significant structural change and historically low interest rates, insurers are responding by cutting head count and outsourcing functions and processes outside their core competencies. Relatively few are reviewing their organizational structure and de-layering to achieve clearer lines of sight between the business and customers, the board, investors and regulators. The Valued Insurer is streamlining to reduce costs, and re-wiring its business to get closer to its customers.

### We see:

- Many insurers cutting aggressively and repeatedly, without necessarily addressing whether they have the appropriate functions and the most efficient structure to service customers.
- Insurers are questioning whether they should adopt a federal or a centralized organizational structure as they plan for the future.
- Governments, fiscal authorities and the media are becoming increasingly vocal about the need for multi-national groups to pay a 'fair' amount of tax. Use of hub and spoke models and centers of excellence mean that significant parts of the value chain are located in a different country from the end consumer.

### For example:

- Nearly one one-quarter (23 percent) of US insurance executives surveyed by KPMG predict their US head count will not return to pre-recession levels until 2015 or later, and even more (27 percent) believe that they will never return to those levels.<sup>28</sup>
- Insurers rarely join the dots between the management of regulatory change and greater focus on cost-efficiency, resulting in increased checks and balances that conflict with efforts to streamline and gain efficiency savings. We believe simplicity is compatible with sound risk management, governance and oversight and delivers greater efficiency.
- Multi-national groups need to balance maximizing shareholder value through a low effective tax rate with the need to satisfy governments and the public about their fiscal contribution in each country they operate in.

## Insights:

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- In cutting costs after the global financial crisis, in our experience, relatively few firms addressed the balance between greater focus on the bottom line and the need to deliver a positive customer experience, which is needed to keep the business alive 10 years from now.
- Organization structures, processes and controls suffer from entropy and need to be periodically refreshed if they are to stay effective and avoid stagnation.
- In a world where customers have constant access to social media and news, corporate reaction times need to be compressed. Shorter decision trees make for better and faster decisions and are more efficient.
- Forward-looking leaders (navigating through the windscreen and not the rearview mirror) are often better placed to clearly articulate a vision, and get employees excited about where the company is going. This often requires new skills and greater accountability.

## Actions:

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- Look for opportunities to increase transparency and simplify end-to-end processes to achieve greater efficiency – this is a constant endeavor.
- Evaluate corporate reaction times to ensure that they are aligned with the current fast-changing environment.
- Assess whether the current organizational design meets the present and future aspirations of the business, and offers opportunities for cost reduction through simplification using principles-based rather than rules-based decision-making.



***“There is no universal model when it comes to the creation, deployment and storage of agility. It is both an art and a science.”***

Martin Blake  
Partner  
KPMG in Australia



## The Valued Insurer is agile, empowering its people to respond to unfolding opportunities and threats

Regardless of industry, successful organizations are those with the agility to strategically and tactically outmaneuver competitors. Agile organizations are best placed to respond to and capitalize on opportunities and react to threats. Employees are the primary touch points to achieve this. The Valued Insurer gives its employees the right tools and mind-set to place customer needs at the heart of all business interactions.

### We see:

- Insurers seeking to shorten development cycles, allowing for real-time innovation, feedback and change as needed. Technology companies have embraced this approach developing, testing and rolling out initiatives in a short time span.
- Organizational agility is a vital attribute equipping insurers for challenges enabling them to change direction quickly and effectively in response to, or in anticipation of, opportunities and threats.
- Cultural change that fosters organizational agility must be driven from the top.

### For example:

- However, insurers struggle to create an environment that permits experimentation and calculated risk-taking to innovate effectively, a particularly steep challenge in a highly regulated industry.
- Agility requires the right people and culture, core business processes, operational infrastructure and technology, organizational structures, governance and risk management, and measurement of performance and incentives. There is no one optimal solution for every organization. Each element of agility will be implemented at varying levels and degrees within every organization.
- Leaders must be critical thinkers who know themselves and their organizations, are able to deal with the discomfort of change, establish and encourage culture and values needed for agile behavior to flourish.

**Insights:**

- Agility creates a competitive edge by consistently capturing fast and first mover advantages. For insurers, this entails putting customer needs at the center of business processes, operationalizing a customer-centric view.
- Change is particularly hard for insurers as the industry is steeped in tradition, and current profitability is largely driven by the back book. A major shift in mind-set is needed.
- Collaboration across all areas of an organization is important for cross-fertilizing innovation. As well as developing a 360° picture of a customer's multiple interactions with the insurer, this provides opportunities to develop and embed a cross-functional corporate mind-set.
- Trust is a large part of organizational agility. Leaders need to trust their employees and provide the tools and skills for them to do their jobs and take appropriately managed risks. Employees must learn to trust that if appropriately managed risks do not succeed they will not suffer negative repercussions. Taken together this is how organizations learn.

**Actions:**

- Balance incubating new products and services and maintaining existing products and services to reduce the risk of exposure to changes in customer sentiment.
- Introduce employee engagement programs founded on an authentic employee value proposition to create brand ambassadors across the firm.
- Cross-train employees in different areas of the business to mitigate risk and enable employees to gain a businesswide understanding of the organization, thus fostering a collaborative working environment that promotes idea sharing.
- Create an end-to-end view of how work flows through functions, geographies and divisions and how these activities create value for your customers. Achieving this understanding will enhance organizational agility.

***“Making customer-centricity a strategic focus allows employees to feel that they are making a difference as they are the embodiment of that strategy.”***

Anne Sophie Lendrevie  
Director  
KPMG in France



## Industry perspectives

“We can help reduce protection gaps through patient, long-term relationship building.”

### Swiss Re adds value by creating new markets

The Swiss Re Group is a leading wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Dealing direct and working through brokers, their global client base consists of insurance companies, mid- to large-sized corporations and public sector clients. From standard products to tailor-made coverage across all lines of business, they deploy their capital strength, expertise and innovation power to enable the risk-taking upon which enterprise and progress in society depend.

**Martyn Parker, Chairman of Global Partnerships, Swiss Re, contemplates strategic opportunities in markets that have not been well served:**

“The Swiss Re Global Partnerships team recognizes severe protection gaps at the bottom of the pyramid. Our stance is that micro-insurance can help people escape the poverty trap caused by, for example, floods and droughts, by helping to forgive their loans or provide a safety net after a loss event.

At macro level we see rapid increases in economic losses following catastrophic events, reflecting rapid urbanization in low-elevation

coastal areas and earthquake zones. Insurance penetration remains very low in many markets. A protection gap exists that could be met by the insurance and reinsurance sectors and the capital markets.

Part of our thesis is that countries should have Chief Risk Officers to ask what risks countries face and how these should be mitigated and financed. Swiss Re is developing risk transfer mechanisms. We can help plan for the residual risk through financial risk transfer (insurance/reinsurance) or capital markets, e.g. catastrophe bonds. This won't solve all the problems, but it's a start.

We are very conscious that we are working with very different constituencies, where strict controls and conduct guidelines are required. It takes patience to build relationships, and with fragmentation of responsibilities within governments and NGOs, you must determine who are the risk holders and who are the budget holders. Finding decision-makers is often a challenge and we recognize we need to build relationships for the long-term.”

## Populations are ageing around the world

Help Age International operates in over 65 countries with more than 100 affiliates and 180 partners to help older people claim their rights, challenge discrimination and overcome poverty, so that they can lead dignified, secure, active and healthy lives. Help Age helps older persons access basic healthcare and social care and receive social pensions. Help Age has advised insurers and wealth managers on strategies relating to later life issues, micro-insurance and micro-enterprises.

**Silvia Stefani, CEO of Help Age International, and Mark Gorman, Director of Strategic Development talk about opportunities for insurers, such as the provision of top-up coverage to basic protection provided by governments in developing nations:**

“There is now greater awareness of demographic change, particularly the impact of ageing on development. The increasing number of older persons in families means that governments such as Brazil, India and Indonesia are putting ageing and later life issues on the agenda. But

there is still more to do. The long-awaited report by the UN High-level Panel on the post-2015 development process beyond the Millennium Development Goals, which expire in 2015, fails to adequately address rapid population ageing.

We are developing policy and technical program support around social protection, including the provision of a basic social pension. While for many these social pensions will be their only income, others will be able to build savings and investment around this. There is a joint interest here and a joint responsibility for looking at securing an income in old age. A number of instruments must be put in place to underpin social pensions, including basic financial literacy and access to bank accounts. An example is a program now under discussion with Allianz and AEGON on financial literacy in cooperation with the World Bank. Overall, this is an area that could be significantly improved for a segment of the population that is growing very fast.”

“**Demographic change is a fact of life – but there is still more to be done to raise awareness.**”

## Partners help Swiss Re identify emerging customer needs

Swiss Re, a leading and diversified global reinsurer, is a Founding Sponsor of the R4 initiative, developed by Oxfam America and the World Food Programme to help poor rural communities protect their crops and livelihoods from the impact of climate change. Focused on managing community risk reduction, productive risk taking, risk transfer and risk reserves, Swiss Re is the only commercial reinsurance company on the R4 Strategic Advisory Board, and leads the design and implementation of innovative risk transfer solutions.

**Nicholas Colloff, Director of Innovation, Oxfam GB, discusses how insurers engage in civil society:**

“Insurers, and corporates in general, need to develop a realistic expectation of how partnerships work. Swiss Re gets this right — they have a healthy appreciation of Oxfam’s complexity, the complexity of their own organization, and that people have complex needs.

Insurers are often not good at taking the time to understand the specific challenge to be overcome – they immediately go to product. What is needed is partners and stakeholders who will take time to determine what issues they can help to solve, what the solution might look like and from that build a product.

People living in poverty are complex and their needs vary. There is a really powerful opportunity for insurers to find this out and identify the interactions and interventions people need to help people work their way out of poverty. A common desire is to save over the long-term, particularly to help their children’s interests. But this needs a secure and trusted mechanism. We often forget that if poor people join together effectively they have significant funds to invest. But saving requires prompting, as well as access to a secure mechanism to do so.”

“**Partners and stakeholders can help insurers identify solutions to meet customers’ needs rather than replicate traditional insurance products.**”

## Vision to action

## Leading the pursuit of sustainable growth

At KPMG, we believe that deep knowledge and understanding of your customers, products and services is crucial to delivering profitable growth. Relationships and customer loyalty will be strengthened. Customers will become your advocates. New technology and media present opportunities not threats to a positive customer outcome. We are convinced that delivering great customer experience maximizes corporate profitability.

This requires a focused strategy, an actionable plan and rigorous execution.

**Once a customer vision is agreed upon, clear processes must be put into place along every avenue of customer interaction, against the backdrop of a customer-focused operating model. This requires real customer insight to develop relevant propositions distributed and delivered through multiple channels. These drivers are at the core of KPMG's Customer Action Plan.**

Moving from vision to action requires continual fine-tuning. Technology is changing at a fast pace, and customer demands are evolving. Niche players may leapfrog traditional insurance sector incumbents and gain significant market share. A carefully built brand is under pressure from adverse opinions on social media and from advances by new entrants. At KPMG, we believe that the end-to-end execution of a clear customer strategy in the insurance industry has yet to fulfill its potential.

It is therefore time for action.

In the graphic on page 53, we have linked Customer Vision to Customer Action. These are inter-related and, depending on where you are starting from, you can find your own unique path to guide you further along your customer journey.

At KPMG we are here to guide and challenge you.

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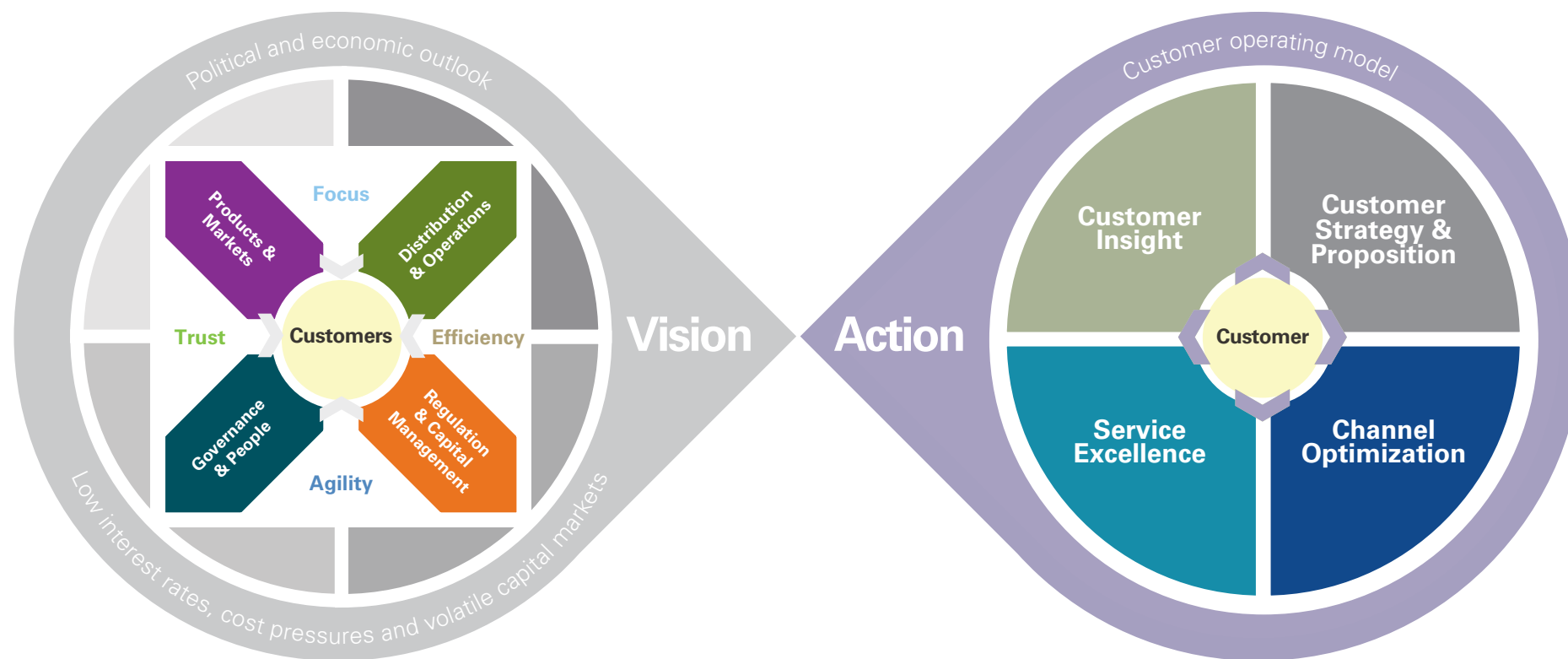
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## Vision to action



Source: The Valued Insurer, KPMG International, 2013

***“Understanding your customers is a key driver for sustainable growth and requires a focused strategy, an actionable plan and rigorous execution.”***

Mark Straub  
Director  
KPMG in the Netherlands



# Appendix

**Figure 1: Life market capitalization vs. NAV/share – CAGR (2001–12)**

Measured over the long term, growth in market capitalization for life companies correlates well with growth in net asset value per share.



■ Significant orientation to high growth markets

■ Former mutuals

■ Highly focused business model

\*Power Financial is the holding company for Great West Life Co.

Source: The Valued Insurer, KPMG International, 2013, using Capital IQ data

**Figure 2: Non-life market capitalization vs. NAV/share – CAGR (2001–12)**

Measured over the long term, growth in net asset value per share has generally exceeded growth in market capitalization, as strong performance is not consistently reflected in investor sentiment. A number of these companies, notably QBE and ACE, have demonstrated a track record of successful growth through acquisition.



- Global titans
- Highly focused business model
- Other

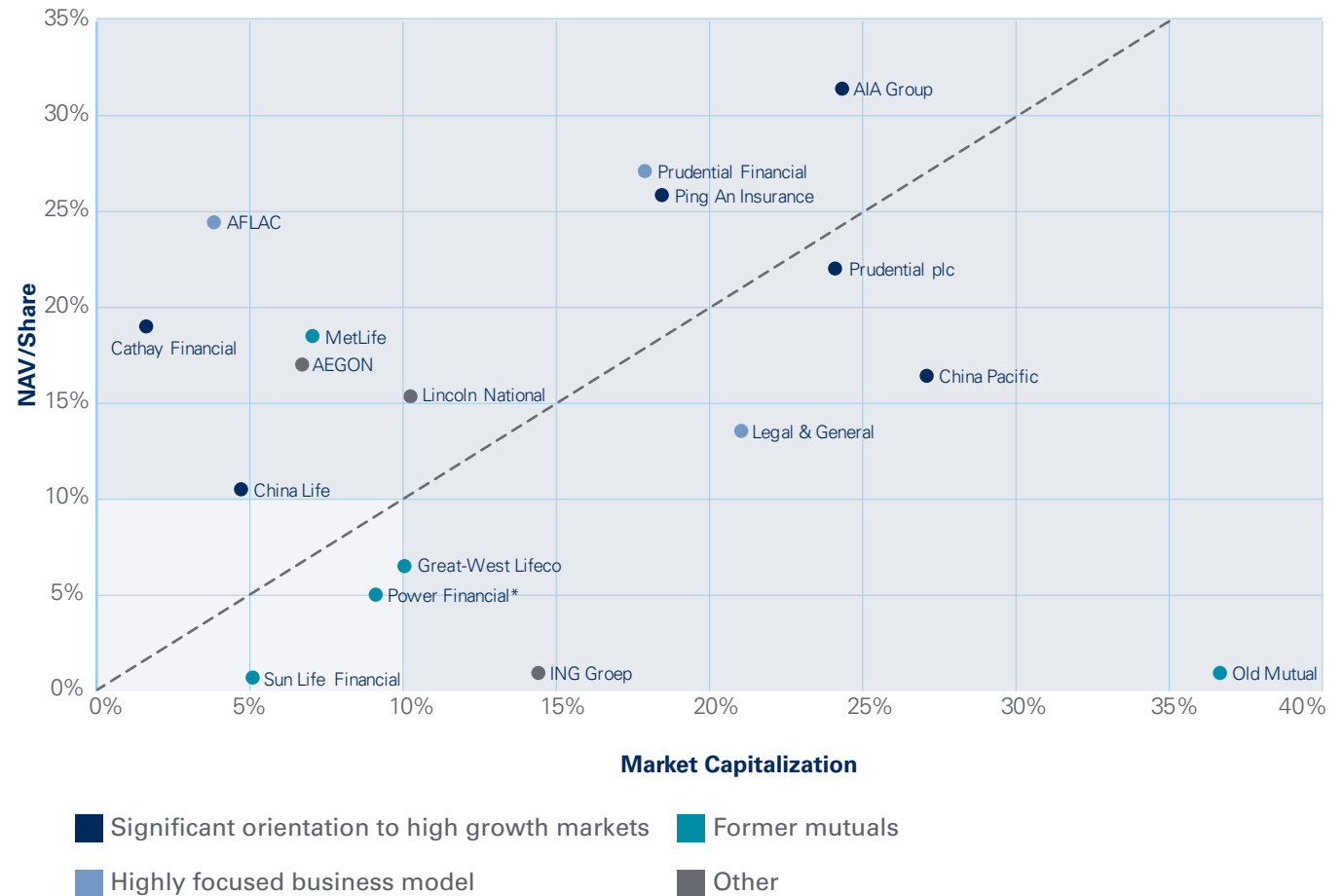
Source: The Valued Insurer, KPMG International, 2013, using Capital IQ data

***“Insurance companies have shifted their thinking and vocabulary in recent years when answering an apparently very simple question: who are their customers? Is it the sponsor of a group employee benefit plan, the employee benefit consultant that arranges the plan or the employees it protects? This shift will have a profound effect on the insurance sector.”***

Tracey Ah Hee  
Managing Director  
KPMG in the US

**Figure 3: Life market capitalization vs. NAV/share – CAGR (2008–12)**

The companies that outperformed over the long term also performed strongly in the period since the global financial crisis. A new addition in this period is AIA Group which listed in 2010 and has performed strongly reflecting its orientation to the high growth markets of South East Asia. A number of companies show a strong rebound since the depths of the global financial crisis in 2008.

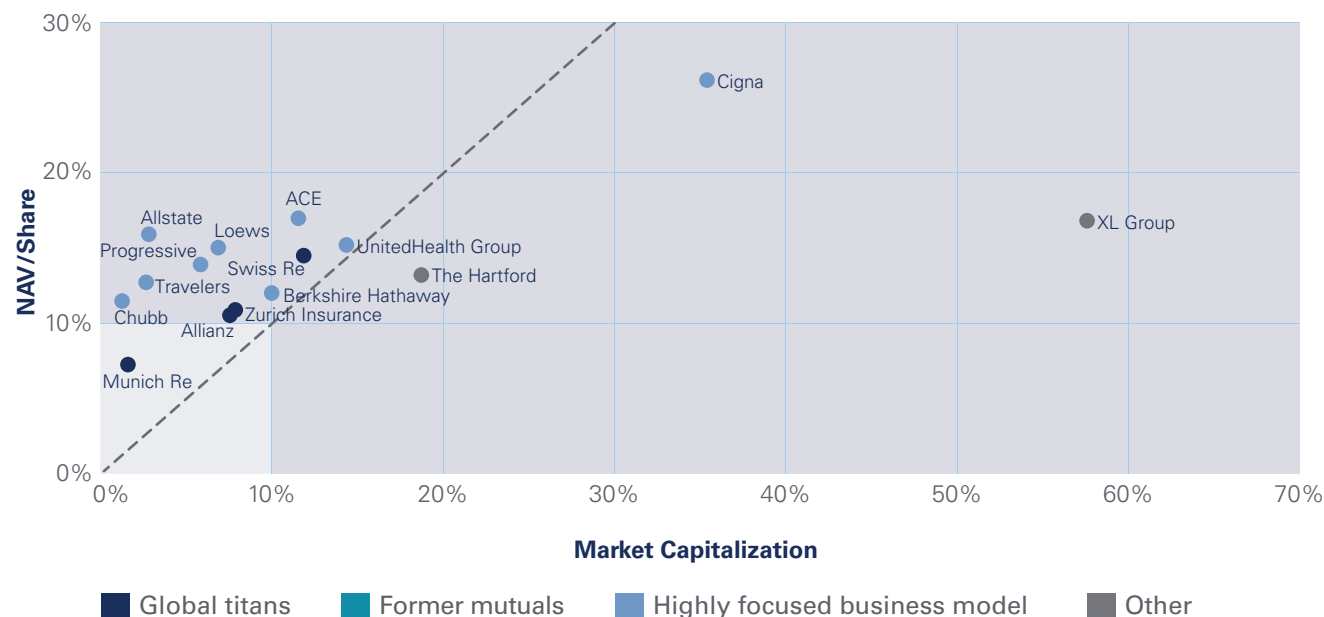


\*Power Financial is the holding company for Great West Life Co.

Source: The Valued Insurer, KPMG International, 2013, using Capital IQ data

**Figure 4: Non-life market capitalization vs. NAV/share – CAGR (2008–12)**

A number of companies show a strong rebound since the depths of the global financial crisis in 2008. As with the life companies, non-life companies performing strongly over the long term have also performed strongly since the global financial crisis.



Source: The Valued Insurer, KPMG International, 2013, using Capital IQ data

***“Insurers need to develop a proactive and principles based mindset that looks after the needs of their customers, and measure their performance against the objectives they set themselves.”***

Thomas Kagermeier  
Partner  
KPMG in Germany



# Join the debate

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We sincerely believe that insurance is a vital social and economic lubricant – and its role is becoming increasingly important, more valuable.

As insurers continue to seek long-term profitable growth, a laser-like focus on customers will be required. Making the most of new technology and the wealth of information that is now available becomes paramount for insurers to remain relevant to customers, investors and key stakeholders. Anticipating regulatory challenges, globally and nationally, along with organizational structure, remain key factors for success. Unless it evolves, sections of the industry are ripe for disruptive challenge.

Your views on these and other issues shaping the insurance industry now and into the future would be welcome. Join the conversation at:



@kpmg



kpmg.com/socialmedia

**Web: [kpmg.com/valuedinsurer](http://kpmg.com/valuedinsurer)**

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***“Customer service should be meaningful, consistent, value for money and convenient; free from unintended errors and wasted effort. Customers want insurers to be easy to deal with and adaptable to their changing needs.”***

**Andy Masters**  
Associate Partner  
KPMG in the UK

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