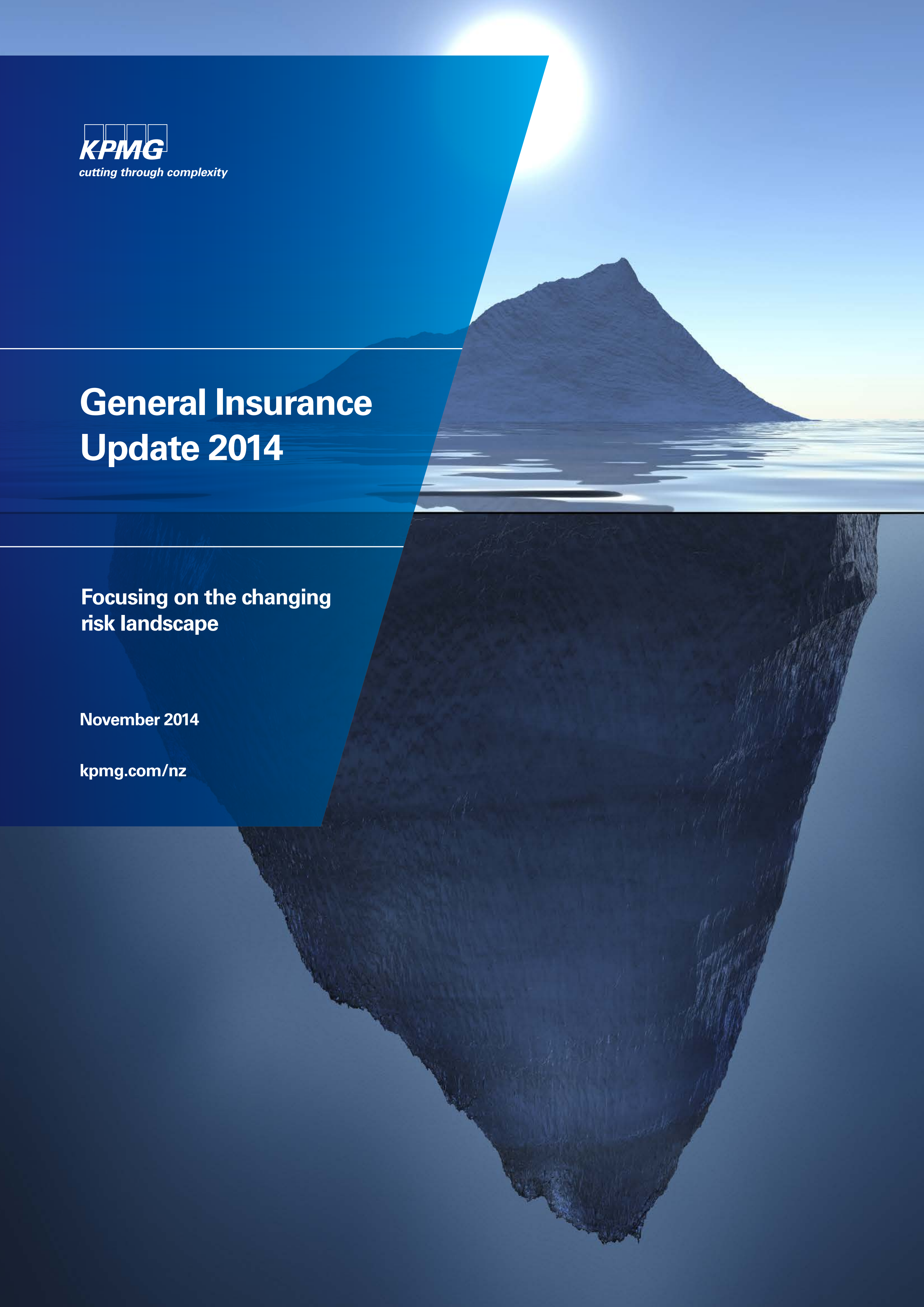
KPMG
cutting through complexity

General Insurance Update 2014

Focusing on the changing risk landscape

November 2014

kpmg.com/nz



Innovation lies at the heart of prosperity

Kay Baldock Partner – Head of Insurance

To prosper and fuel New Zealand's economy, insurers must continue to adapt business strategy to respond to changing customer and regulatory demands.

In this publication, we look to the future, focusing on the changing risk landscape and corresponding opportunities which are top of mind across the industry.

FUELLING PROSPERITY

Following the Canterbury earthquakes, insurers increased premium rates in response to rising reinsurance costs. Four years on, rates are now softening as a result of increased competition, both locally and off-shore. In the current environment, it is critical that insurers focus on maintaining good underwriting discipline in order to preserve shareholder value in the long term. With this in mind, our article on page 2 explores the pricing process and highlights the importance of regular pricing reviews and ongoing monitoring.

One of the prerequisites to obtaining an insurance license, and indeed an ongoing legislative requirement, is the need for insurers to have a risk management programme which complies with the criteria specified in the Insurance (Prudential Supervision) Act 2010. Earlier this year, the Reserve Bank of New Zealand announced that it would undertake a thematic review of risk governance across the sector. Thus it is timely to take stock and reflect on the key attributes of a robust risk management framework, as we explore in our article on page 6.

Our article on page 10 looks at how technological evolution over the last three decades has shaped the way insurers engage with policyholders, and what the future may look like as insurers embrace the digital world. According to a 2013 study by a global consulting firm, the total annual volume of general and life insurance policies sold through digital channels in Europe could more than double the 2012 total of EUR 12 billion, to reach EUR 25 billion in 2016.[1]

Increasingly we hear of organisations embarking on transformation projects, and the insurance industry is no different. Insurer transformation projects are being driven by regulatory requirements, the need to innovate to gain that competitive edge and, linked to this, the changing needs and desires of policyholders. Initial findings from a recent KPMG Global survey highlight the pivotal role technology has to play in all transformation projects. It is clear from our research that while insurers have a vast amount of personal information available to them, insurers who embrace technology and use this data to respond to changing customer needs and demands will have a competitive advantage.

Health and Safety is another risk which is gaining increased momentum on Board agendas currently, as the proposed date for legislative change draws closer. Under the new legislation, insurers will now be responsible not only for the health and safety of employees, but also contractors and subcontractors. This needs to be considered carefully, particularly in the context of the Canterbury rebuild. Directors must assume responsibility for Health and Safety and set the tone at the top. It is important that Directors plan, at Board level, how they will access the necessary information to allow them to have sufficient oversight over Health and Safety matters, and monitor ongoing compliance to satisfy the proposed new legislative requirements.

With an increasing number of cyber-attacks, we review the top five cyber myths. As with Health and Safety, we believe cyber risk should be high on Board agendas.

We are also pleased to include an article authored by Kay Baldock and KPMG International Partner Mary Trussell, canvassing the opportunities and challenges posed by changing demographics and the impact of these on the insurance industry. In this article we also explore what New Zealand's demographic make-up will look like in 2025. Mary was co-author of KPMG's *The Intelligent Insurer* and *The Valued Insurer* publications, and has just recently completed work on the third publication in the series, *Transforming Insurance*.

Finally, on behalf of KPMG New Zealand, we hope you enjoy the read.

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

[1] http://newsroom.accenture.com/news/insurance-sold-through-digital-channels-to-reach-25-billion-annually-in-europe-according-to-accenture-study.htm

Time for a shake-up in insurance pricing

Andrew Cohen Associate Director – Advisory – Actuarial | **Verne Baker** Director – Advisory – Actuarial

The Christchurch Earthquakes of September 2010 and February 2011 were the most significant insurance events in New Zealand history. In June 2014, the Insurance Council reported that private insurer payouts had reached over $12.1 billion[1]. Today, insurers remain heavily focussed on settling these claims, and while uncertainties remain (including event apportionment, who will foot the bill for land damage, building standards etc.), four years on there is now more certainty in the ultimate cost of these events.

In the current environment, we expect insurers will now start to re-examine traditional business goals. For most, this will focus on achieving profitable growth across portfolios. Achieving growth will be challenging, given the competitive and consolidated market (with the top five insurers representing approximately 80% of the market). While profitability has been strong – with the absence of natural catastrophes since 2012 and reducing reinsurance rates – competitive pressures are increasing.

There looks to be no relief in the short to medium term, with competition expected to intensify as new entrants join the market. One example is the recent announcement of South African company, Youi, entering the local market. We note that many commentators believe Chinese companies may soon also become active in both the New Zealand and Australian markets. In the case of Youi, this niche player entered the Australian market in 2008, and has performed well, to the extent that premium volume is now close to AUD$200 million[2].

One area where we believe insurers can improve their operations is in relation to their pricing processes. In our experience, many insurers have invested significantly in enhancing their pricing capabilities through the collection of highly granular customer and exposure data, employment of specialist teams, and expensive model development and software. Yet only modest attention has been paid to the overall governance of pricing processes. While audits of the financial statements are a fundamental component of business, we would argue that independent reviews of pricing and portfolio monitoring processes could also prove valuable.

In this article, we outline: how premiums are determined; how errors can occur in this process; the importance of an independent review of the pricing mechanism; and the need for ongoing monitoring.

How insurers set their prices

In the example to the right, we describe the typical pricing process used for personal lines (motor and household) and small business products (property and liability, often sold as a package).

We first discuss the components of the insurance premium, and then explain the steps to be applied in updating prices to reflect changes in underlying costs.

[1] http://www.interest.co.nz/news/71304/private-insurers-reach-halfway-mark-fully-settling-11392-over-cap-dwelling-claims-includi

[2] http://insurancenews.com.au/corporate/youi-gwp-soars-ahead-of-expansion-bid

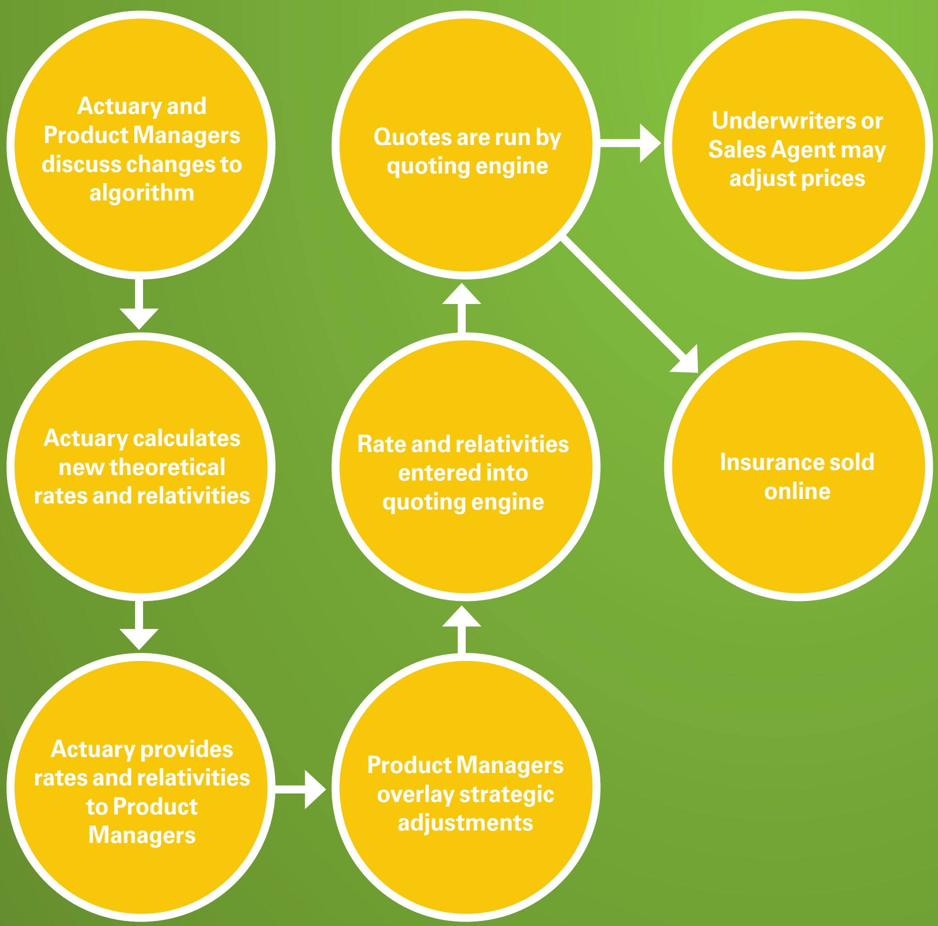
Typical insurance pricing process

The price is derived as follows:

- The Technical Price for each risk comprises: the expected cost of claims, a share of expenses including reinsurance costs, a deduction for expected investment income, plus a profit margin. The expected cost of claims is determined from an algorithm which has a set of rates and relativities to reflect the key characteristics of the particular risk, such as the location, sum insured and other factors.
- Product managers then adjust the Technical Price with a strategic loading or discount factor in order to capitalise on market opportunities (such as a lack of competition in certain segments), or to promote growth in certain segments.
- An underwriter or sales agent may then load/discount the price further, within a set of parameters. This adjustment is more common for small business products than personal lines products.
- Finally, commission is determined based on the total price including any underwriter adjustments.

The expected cost of claims is determined from an algorithm which has a set of rates and relativities to reflect the key characteristics of the particular risk.

Updating insurance prices



As the above diagram illustrates, the typical process used to update prices for personal lines and small business products is as follows:

- The pricing actuaries and product managers discuss any structural changes to the pricing algorithm that should be considered (for example, how to allow for changes in policy terms and conditions).
- The actuaries extract the claims and policy data, and determine the new technical rates and relativities that form part of the algorithm. As part of the analysis, the actuaries may recommend further changes to the structure of the algorithm.
- The actuaries advise the product managers of the new rates and relativities, who then overlay any market adjustments in order to achieve a particular strategy.
- The algorithm structure and the rates and relativities are then implemented into a quoting engine, typically by the IT department.
- Rates are either quoted online directly from the quoting engine, or may be further loaded or discounted by underwriters/sales agents.

For personal lines products, the actuaries typically update the entire set of rates and relativities within the year following a major pricing update. For small business products, major pricing updates typically occur less frequently, perhaps every two to three years. The quoting engine should allow the product manager to make further strategic adjustments on a quarterly (or monthly) basis as necessary.

This process involves many complex tasks which have the potential for error or misinterpretation. Some of these are discussed in more detail in the following section. If there are significant errors present, however, the implication for the business is clearly adverse. There will be a greater tendency for customers to purchase insurance that has been under-priced relative to the expected costs of the risk, and less insurance will be purchased for risks that have been over-priced. This will lead to the insurance process of "anti-selection", and over time the profitability of the book of business will deteriorate.

Pricing errors

Errors can arise as part of the actuarial analysis, the implementation of the rates into the quoting engine, or due to a lack of controls. Specifically:

- The actuaries may not deal with data complexity adequately, or may over-rely on the use of complex statistical models without applying adequate reasonableness checking.
- The implementation of rates and relativities into the quoting engine may not be satisfactorily checked, leading to rates being charged that are inconsistent with what the actuaries and product managers intended.
- Inadequate controls and documentation may also lead to errors. As an example, a junior product manager may change technical rates in a quoting engine based on his own agenda without approval from a more senior business owner or the pricing actuary.
- A lack of adequate portfolio mix and claims monitoring may lead to out-of-date prices being charged.

Adequate monitoring systems allow the product manager and actuary to update the algorithm and business adjustments in a timely manner to reflect changes in claims trends, or to capitalise on market opportunities. In addition, various metrics such as strike rates will inform the product manager of the competition's view of the expected cost of claims for market segments.

The benefits of an independent review

An independent review of the pricing framework and monitoring systems can lead to a reduction in the level of mispricing that occurs. In addition, an independent review will provide an insurer with recommendations for improvements; including:

- advice on market best practice with regard to actuarial pricing techniques;
- enhancements to the pricing algorithm;
- efficiencies can be brought into the pricing process, to allow for rates to be updated more frequently in the future;
- financial statement audit benefits; and
- advice on improvements to portfolio mix and claims monitoring systems.

As with any process, ongoing and comprehensive monitoring is critical in order to ensure that decisions are based on accurate and reliable data, and that underlying assumptions are updated to reflect experience.

Conclusion

Major catastrophes will create some volatility in insurer results, depending on the extent of reinsurance arrangements in place. However, long-term profitability and growth ultimately depend on market-leading operating practices. As insurers look to the future, and focus on maximising returns on risk-based capital, it is important to review and monitor pricing discipline. While policyholders accepted rate increases post-Canterbury Earthquakes, the market and competitive landscape has changed. Four years on, this presents an opportune time for insurers to review their pricing and monitoring practices, and put them under the microscope.

What does a good risk management framework look like?

Ceri Horwill Partner – Advisory

Licensed insurers have had risk management programmes in place for over a year now. But how well-embedded are those frameworks, and do they really work?

Risk management should evolve over time, in response to changing business needs and changing market environments. The *Risk Management Programme Guidelines* from the Reserve Bank of New Zealand ("RBNZ") require that there be a process in place for reviewing risk management systems, policies and procedures on an ongoing basis.

Risk management frameworks can have different origins, depending on the organisation. Some insurers may have had a comprehensive risk management framework in place for years. Others may be operating under a risk management framework that was developed in response to the need to obtain a license; while some may be operating a framework set up by a parent.

No matter where you are in the scale of sophistication of risk frameworks, implementing your framework is not a one-off thing. It is critically important to refresh your risk management framework and use it actively. In fact, the RBNZ Guidelines require insurers to review *"regularly and whenever there is significant change"* in the business.

Specifically, the *Guidelines* require the review to include the following:

(a) a review of the assumptions underlying the risk management programme to ensure that they remain appropriate; and

(b) an assessment of the rigour and robustness of:

  (i) the risk management programme's methodologies for measuring risk; and

  (ii) the effectiveness of the risk management programme's internal controls.

We would suggest that insurers should be moving towards continual monitoring of risk management frameworks. Focusing on the four areas outlined on the following pages will help ensure risk management is embedded throughout the business. It will also help ensure that risk management is an active process that happens throughout the year, rather than a passive process resulting in a review once a year.

So what should you be doing on an ongoing basis to make sure that your risk management programme is still current?


RISK?
YES
NO
START

1

Know what's going on in the risk world globally / locally

Post the Global Financial Crisis, risk has become an incredibly hot topic with regulators and businesses alike. The profile of risk has increased – and it has evolved from a static framework to a framework that is used as a decision-making tool on which to base day-to-day business decisions. This means there is now a vast amount of literature available on risk management and risk categories. These can be hard to navigate, but are actually very useful for New Zealand insurers even if they do not directly apply to you. (For example, the Australian Prudential Regulatory Authority's recent prudential standard on risk management CPS 220, and several of the papers published by the Financial Stability Board on risk). The following are some areas which should be on your risk radar, if they are not already.

Risk ownership

It is often hard to tell who owns risk in a business, and globally this is becoming an increasingly important area of focus. Many entities have put in place a 'three lines of defence' risk structure. Under this structure, day-to-day business operators have the primary responsibility for risk (line 1). They take advice from and are monitored by the risk and compliance teams (line 2). They are independently challenged by internal audit (line 3), who take responsibility for identifying strategic impacts and encouraging continuous improvement. This structure means that risk is no longer just the domain of the Chief Risk Officer and the Compliance Team, but rather is everyone's responsibility. However this shared responsibility comes with commensurate challenges. These can include weak ownership of risk in the business, uncertainty about roles and responsibilities, challenges in instilling and demonstrating a strong risk culture, and the need to set an appropriate risk tone from the top.

Conduct risk – what is it, and should you be worried about it?

Conduct risk is about the way business is conducted behaviourally, and the consequences this can have on customers. Regulators are actively trying to avoid defining "conduct risk", as in reality, it is about a set of behaviours and culture and treating customers fairly. The mere existence of a regulator named after that risk (the Financial Conduct Authority in the UK) should be enough to make sure it is on your radar.

Conduct is also here to stay in New Zealand, with guidance coming through in a number of pieces of legislation. These include the Financial Markets Conduct Act, Consumer Law reform, and changes to the Credit Contracts and Consumer Finance Act. In his speech to the Trans-Tasman Business Circle, the Chief Executive of the Financial Markets Authority highlighted their expectations of conduct in the financial markets. According to Rob Everett:

"Notwithstanding what I have said about our willingness to be facilitative, we do have high expectations of conduct by professionals and firms. We will take action over wrong-doing and sloppiness. We will act against misconduct. We will act where people try to find cute ways that are designed to get around the law."

There are many approaches to conduct risk in the risk framework. These include treating it as a new risk category in its own right, treating it as part of every risk, or treating it as a subset of operational risk. Either way, New Zealand insurers need to think about conduct and how it relates to their business. As well as keeping abreast of the global insurance conduct enforcement cases, insurers need to understand where those risks might arise and focus on driving change through a defined set of conduct outcomes.

Risk appetite

Risk appetite is the starting point for risk management. It is the amount of risk a business is prepared to accept in pursuing its financial and strategic objectives. Business plans and strategy should be driven off the business' risk appetite. Therefore the inability to articulate the appetite for risk, and how that translates into day-to-day operations, can lead to difficulties. Examples may include tensions between business units in planning, poor communication of the Board's strategic objectives, misaligned incentives, and ultimately more risk. It is particularly important to understand and be able to articulate risk appetite in a changing risk environment. That is why this has become a particular area of focus for financial services businesses globally. The objective is to drive better communication with stakeholders, both internally and externally, on risk and reward.

2

Hindsight analysis

Management needs to consider what actually happened in the business in the year to date, and relate this back to risk. They should understand the major challenges/issues the business is facing, and analyse the root risk cause of those challenges. Did they arise because a risk was not managed in some way? Or there was a breakdown in the identification or mitigation of risk? Even if those issues/risks were expected and managed, management and the Board must understand the risk profile going forward, and ensure appropriate actions are being taken. Management should look at whether the risk consequences of issues are being reported and considered by the Board. In addition, they should consider whether those risks are properly being related back to capital consequences or are ultimately material enough to hold capital against.

One of the best ways to approach this is to trace a particular issue through the risk framework and perform a hindsight analysis. For example, consider the circumstances where the market risk policy refers to zero tolerance for market risk, yet the business reported a large foreign exchange gain in the financial statements. Was the market risk policy used? Was the risk correctly defined, and was that risk appropriately considered and measured (qualitatively or quantitatively)? Maybe there was an active decision not to manage that risk, but the consequences of not mitigating that risk were not accurately predicted. Management should consider overall whether the risk policy worked, how well it worked, and whether the resulting outcomes were as expected.

3

Know what the regulators' expectations are

Many insurers are already starting to receive Section 121 notices from the RBNZ. Under these notices, insurers are required to provide risk management information to the RBNZ, and senior risk representatives will be interviewed to provide feedback on specific areas of risk governance in the business. The basic requirements go without saying – namely that the documents exist, are up to date, and have been reviewed. Of critical importance is that the framework is being used and demonstrating that you are actually doing what you say you are doing. Risk management frameworks need to be embedded in the business, and be actively used, to drive appropriate business decisions. The qualitative side of risk management is particularly important. Regulators understand that risk in itself is sometimes very difficult to articulate and can often be challenging to measure. But they expect you to have understood the risks in your business, for your senior management to be able to articulate them, and describe how you are responding to them.

4

Have a plan for risk evolution

Risk changes and evolves as the business changes and evolves. A good example is where the business makes an acquisition or disposal. Businesses are often very adept at identifying and reporting the financial consequences, and identifying synergies or reshaping the business structure afterwards. Yet they often fail to adequately articulate the risk consequences, either to the risk profile or to the risk management framework itself. Management should consider on an annual basis whether the risk management framework remains appropriate for the business. It is useful to develop a list of indicators to help identify when changes may need to be made.

It is also important that risk management frameworks are properly tailored to the business. It should not be a generic document that fails to represent the real risks and approaches to risk in your business. Risk management frameworks should improve over time. Using your risk management framework in your business over the last couple of years will have given your management team a good sense of what works, and what does not. Any areas for improvement should be taken into account when making risk decisions. Management should have a plan in place and a timeline for remediating any serious weaknesses.

Even where the framework functions well, the level of the sophistication of the framework should grow with time. This will allow the risk management framework to move up the sophistication curve to become less of a regulatory compliance exercise, and more of a tool to drive good decision-making.

Changing technology – the digital age

Philip Whitmore Partner – Advisory

Technology is undoubtedly changing the way insurers do business, and how they interact with policyholders.

We only have to look at the way private motor insurance distribution has moved from a largely broker-driven model in the 1980s, to a more direct model in the 1990s, and now to one that is dominated by Internet distribution.

Over the past 30 or so years, insurers have been able to harness increased computing power and richer data-sets to successfully build underwriting models and create value. These developments have helped facilitate better pricing decisions for those able to take advantage of the increasing wealth of available information.

The continuing advances in technology provide opportunity for insurers to gain better insights into their policyholders; thus allowing risks to be better understood, and products to be better priced. Premiums are no longer based simply on demographics and average claims data.

Telematics

These days, it is becoming increasingly popular for insurers to gather detailed information about policyholders' driving behaviour to assess risk. While it is still a relatively new concept to some insurers, the UK has been using telematics for over a decade, with the use of specialised 'black boxes' to capture driving data.

To date, the cost-benefit of telematics has been hard to justify. The use of telematics has not been commonplace, due to the cost of installing telematic devices in cars. However the reducing production costs – and the greater level of telematic-type technology being built-in to cars by manufacturers – is now seeing it become a realistic option.

The rapid uptake of smartphones has also provided the opportunity for insurers to utilise telematics without significant investment. For example, TOWER's SmartDriver application was launched in New Zealand in April of this year.

By utilising telematics, insurers can empower policyholders and reward good drivers with cheaper premiums. It may also mean, in the future, a greater use of personalised policies. For example, potentially higher-risk drivers being forced to have their driving habits tracked via telematics, while lower-risk drivers remain in a traditional insurance model where it is viable for risks to be pooled.

As the industry's use of telematics continues to develop, the need for strong data analytics capability becomes much more prevalent. In order to make sense out of the millions of data points sourced from telematics, insurers will need robust models with predictive capabilities that consider many variables (such as frequency of driving, speed, hard braking, sharp turns, etc.) to determine optimal premiums for individual policyholders.

From motor to health, property and beyond

While the use of telematics-style technology has to date focused on motor products, the opportunity also exists to expand the concept to other products. Individuals are collecting a growing amount of data about themselves and their environments. This may allow insurance products to be developed which utilise this information to the benefit of both insurers and policyholders.

Wearable technology recording health-related information is becoming increasingly common. While athletes have used data-logging technology for a number of years, you only need to look at the wrists of people around the office to observe the growing trend for wearing devices to track activity and other health information.

Smartphones and smart watches are also transforming the potential for the gathering of health-based data on a larger scale. The release of the Apple Watch in September 2014, along with the Health Kit functionality of the iOS 8 iPhone operating system, reminds us of the ability for smartphones and smart watches to act as personal health data collection devices. The information recorded could be a goldmine for life and health insurers.

We can see similar trends emerging in property. As home automation technology becomes more commonplace, insurers have the opportunity to gain insights from the data being gathered. No longer is home automation limited to the wealthy, and those with newly-built homes. In the last two years, advances in this field have seen the technology dramatically reducing in price and becoming more widely available. If insurers have the ability to monitor environmental conditions such as temperature and moisture level, they can capture valuable information about how a house is being maintained, with risks priced accordingly.

Risk versus reward

Utilising data produced by the policyholder also comes with risks. The standard security frameworks offered by smartphones cannot be solely relied upon to protect the data collected. Depending upon how security has been designed into the smartphone application, the potential exists for a tech-savvy policyholder to manipulate the data collected. Insurers should therefore ensure that any applications used are subject to a detailed security assessment to ensure the reliability of the data.

Likewise, privacy risks associated with the data collected cannot be underestimated. As more data is collected, there is a greater potential for it to be misused, or for a breach to occur. It is now more important than ever to ensure that privacy practices are robust, and in line with Privacy Act requirements. While brand value takes years to develop, it can be destroyed in nanoseconds.

Conclusion

The use of policyholder-collected data by insurers is still in its infancy. Time will tell whether large numbers of policyholders are willing to share increasing volumes of personal data with their insurers. What is clear, however, is that changes in technology will continue to impact insurers, and that this is likely to occur at a rapidly increasing rate. To take advantage of the benefits that technology brings, and to continue to be relevant to policyholders, insurers need to ensure they fully understand and embrace the changes in technology as they develop.

Health & Safety Bill increases risk for insurers

Erica Miles Consultant – Advisory – Health and Safety

New Zealand has the fourth worst record on Health and Safety (H&S) performance amongst Organisation for Economic Co-operation and Development countries. The Government, as well as many organisations, are now acknowledging that existing approaches to H&S management are not always working effectively.

As evidenced by the Tamahere coolstore explosion in 2008, and the Pike River Coal Mine tragedy in 2010, the effects of systematic management and technological failures are significant. In addition to the loss of life, such catastrophic disasters have the potential to materially impact enterprise value and company reputation; and cost directors and executives their reputation and jobs.

Although those incidents may be considered worst case scenarios, tragedies are occurring frequently in New Zealand; with an average of one to two people dying every week due to poor H&S practices. These events confirm that insurers must take H&S seriously, and that directors need to personally work harder and smarter to demonstrate their H&S risk management is fit-for-purpose.

In New Zealand, legislative changes are underway which aim to improve New Zealand's H&S statistics. The Health and Safety Reform Bill ("the Bill") includes tougher, more inclusive and collective requirements; with duties being placed directly onto directors. There are two key changes applicable to the insurance sector: 1) Contractor Management and 2) Governance Due Diligence.

The proposed implementation date for the new legislation is 1 April 2015, although this has yet to be confirmed.

Broader definitions emphasise collective responsibility

The Bill proposes to expand shared duties for companies to include contractors and subcontractors into the H&S responsibilities of a Person Conducting a Business or Undertaking (PCBU). The aim is to create a positive and collective culture around H&S management at a workplace.

Specifically, a PCBU will be responsible for all 'workers' at their workplace(s). Unlike existing legislation, workers will include employees, contractors, subcontractors, outworkers, and employees of a labour hire company. As such, a contractor is deemed to be a worker, and the PCBU will owe them the same duties as any other worker as if they are carrying out work directly for the PCBU. The definition of 'workplace' has also expanded. It now includes a place where work is carried out and includes any place where a worker goes whilst at work.

This expanded definition, which now includes contractors and subcontractors, needs to be considered carefully by insurers. For example, in respect of the Canterbury rebuild, the Earthquake Commission has outsourced "The Canterbury Home Repair Programme" to Fletcher EQR, a division of Fletcher Construction; IAG New Zealand Limited has partnered with Christchurch-based construction firm Hawkins; and AA Insurance Limited and Vero Insurance New Zealand Limited has partnered with MWH Recovery. Insurers need to examine all such relationships to determine where the boundary of responsibilities lie.

Furthermore, there is a duty (so far as is reasonably practicable) to ensure the H&S of other persons (e.g. tenants, visitors, the public) is not put at risk from work carried out as part of the conduct of the business or undertaking.

A PCBU must, so far as is reasonably practicable, provide and maintain a work environment that is without risks to H&S. This includes: safe plant and structures; safe systems of works; and safe storage and handling of plant and structures. A PCBU must also provide adequate welfare facilities and training for workers, as well as health monitoring. A PCBU also has a duty (as far as is reasonably practicable) to consult, co-operate and co-ordinate activities with all workers (i.e. worker participation schemes will now need to include contractors and subcontractors).

Practically, these changes will impact insurance companies insofar as they will need to actively manage the H&S of all workers performing work on behalf of the PCBU, including contractors and subcontractors. Training programs, welfare facilities, and worker participation schemes will now need to include contractors and subcontractors.

Directors' due diligence duties become mandatory

The new legislation stipulates a due diligence duty for directors over H&S systems and performance. It will require directors to take responsibility for the proactive and positive management of H&S risks to ensure compliance with regulatory requirements. These legislative changes will also see H&S become fully integrated into everyday business, with directors accountable for H&S performance. As has been the case under existing legislation, it will no longer be possible to contract out of H&S responsibilities.

Under the reforms, 'officers' (the definition includes directors, a body corporate, partnerships, and executive management) will be accountable for H&S performance and have a due diligence obligation. Unlike current legislation, directors need to personally assure themselves that i) they are aware of and understand their business' H&S risks; and ii) that these risks are controlled and managed appropriately.

Specifically, Clause 39 of the Bill imposes a duty on officers of a PCBU to exercise due diligence to ensure that the PCBU complies with any duty or obligation under the Bill. Clause 39(2) defines the term due diligence and includes:

- Acquiring and keeping up-to-date knowledge of work H&S matters;
- Understanding the nature of operations and its associated hazards and risks; ensuring appropriate resources and processes are available and are used;
- Ensuring officers are made aware of incidents, hazards and risks;
- Ensuring the PCBU has, and implements, processes for complying with any duty or obligation the PCBU has under the Bill; and,
- Verifying the provision and use of responses and processes used to achieve compliance.

It is important for officers to note that:

- Accreditation to the ACC Workplace Safety Management Program (WSMP) does not discharge an officer of these responsibilities;
- Officers are unable to contract out and/or transfer/delegate these responsibilities (refer Clause 29 of the Bill). The duty is personal to a director; and
- Officers are unable to obtain insurance to cover the fines which may be imposed (refer Clause 178 of the Bill).

Practicalities for directors

H&S will need to become an integral part of leadership and governance, and a key priority focus for company Boards. Furthermore, H&S will now be included in risk management frameworks. In our work with clients at KPMG, we are already seeing a substantial shift in this space.

Strong safety leadership will be required in order to comply with the due diligence duty. Directors will need to have a personal passion for H&S, and take a proactive stance in leading a positive safety culture in their organisation.

Directors will need to personally assure themselves that their due diligence obligations have been met. While H&S duties and responsibilities cannot be delegated, it is anticipated directors will choose to undertake independent and external H&S performance assurance audits and reviews.

Drivers and penalties

There are significant penalties for failure to conduct positive director due diligence, or to implement a fit-for-purpose and robust H&S system. These include:

- Director imprisonment of up to 5 years;
- Substantial fines – ranging from $100,000 to $600,000 for directors and up to $3,000,000 for other persons (e.g. a corporation);
- Reputational damage;
- Decreased shareholder value;
- Increased monitoring by client and regulators; and
- Non-qualification for commercial contracts.

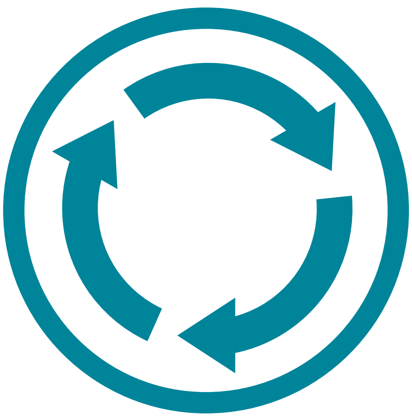
Conclusion

Significant reforms are underway to improve New Zealand's H&S culture. These changes are real, and will impact every insurer in New Zealand in some way. While operational changes will be required, it is at the director level where the most significant shift will be required. It will be up to insurer Boards to set the tone at the top, demonstrate true safety leadership and bring H&S to the forefront of their business.

Transforming Insurance

Chris Dew Partner – Advisory

In this article, we discuss what transformation actually means; the key drivers of transformation; provide a sneak peek of findings from a recent KPMG International survey on the effect of digital technology on the insurance sector; and highlight key considerations for insurers as they embark on a digital transformation journey. This article draws on a number of recent KPMG International thought leadership and research publications.



We often hear the expression that change is the new normal these days. We also hear that various organisations, or in fact entire sectors, are undergoing a transformation.

Business transformation has taken hold due to the confluence of several important triggers. These include digital advances, mobilisation, globalisation, a major slowdown in Western economies, and the rise of social media.

Current transformation drivers in the insurance sector are being driven by the still relatively new Prudential Supervision regime; the current competitive market; the changing needs and desires of policyholders and key stakeholders; and the lasting impacts arising from the Canterbury earthquakes.

Prior to embarking on a transformation journey, it is critical that everyone is on the same page in terms of how the organisation defines transformation.

KPMG and Forbes Insight recently surveyed[1] more than 900 senior executives from U.S.-based multinationals, including insurance companies, on the topic of transformation.

The largest group of respondents (51%) defined transformation as a continuous process, aligning the business model to support strategy (Fig. 1). A further 31% defined transformation as narrower efforts limited to specific functions, processes or areas, continuous or finite; with 18% believing that transformation results in a new business model.

Top three triggers for transformation

Customer demand was perceived as the primary trigger for transformation by 33% of the survey respondents. Although this was the largest group, it is just a third of all the respondents, which underscores the diversity of triggers coming from the marketplace and the relative importance of each of them (Fig 2).

What does it take to accomplish a successful transformation?

KPMG research and interviews point to the following four key lessons:

- **Getting the right strategic vision is critical.** This means being able to anticipate what your customer is going to want and how best to achieve it. It also includes defining the depth and scope of the changes and the redesign of internal processes and structures. Is a major transformation necessary; or will a surgical, limited repositioning be enough? Is the current state of your organisation optimal for this type of transformation?
- **Execution is the hardest part of transformation.** In the current complex and fast paced world of business, organisations often underestimate the significance of operating model changes necessary to effect transformation across people, process, technology, data management and risk management components. Our own KPMG New Zealand Project Management Survey[2] consistently finds that more than 50% of projects failed to achieve the intended results.
- **The biggest challenge to transformation may be a leader wedded to a past or current success.** Executives cannot lull themselves into complacency based on a present revenue stream, but must keep transforming for the future. The transformation needs to be truly continuous, and thus never complete.
- **Take a broad view of customer demand when embarking on business transformation.** Customers need solutions, not specific products or services. Business transformation needs to be aligned with customers' needs – in fact, it needs to anticipate them.

Why is insurance transformation necessary?

Demographics are changing and consumer behaviour is shifting rapidly; with Generation Y valuing price and convenience more than face-to-face service.

Insurers are privy to lots of personal information regarding policyholders, and are well placed to respond to changing customer behaviour and enhance customer-centricity. The key for insurers is in "mining" existing data to unlock value. In the following section, we look at the impact of digital transformation on the industry.

The insurance industry embraces digital technologies

At KPMG, we have been exploring what the future might look like as the insurance industry embraces digital technology and starts to harness the full value of the vast amounts of data now available. In May 2014, KPMG International launched a survey to look at the impact of digital technology on the industry. On the next two pages are some of the initial findings, with KPMG International due to release the full report in the coming months.

> We are living in interesting times, with multiple transformation triggers all presenting at the same time, all equally intense.[1]

Robert T. Vanderwef
KPMG Strategic Service Group

FIGURE 1.

How does your organisation define transformation?

51%	Continuous process of aligning business model to support business strategy
18%	Enterprise transformation projects that involve an evolution of a cross-section of markets, products, organisations and/or processes that result in a new business model
17%	Localised projects within functions and processes
14%	Continuously evolving specific organisational areas or processes

FIGURE 2.

Top three triggers for transformation (across all industries)

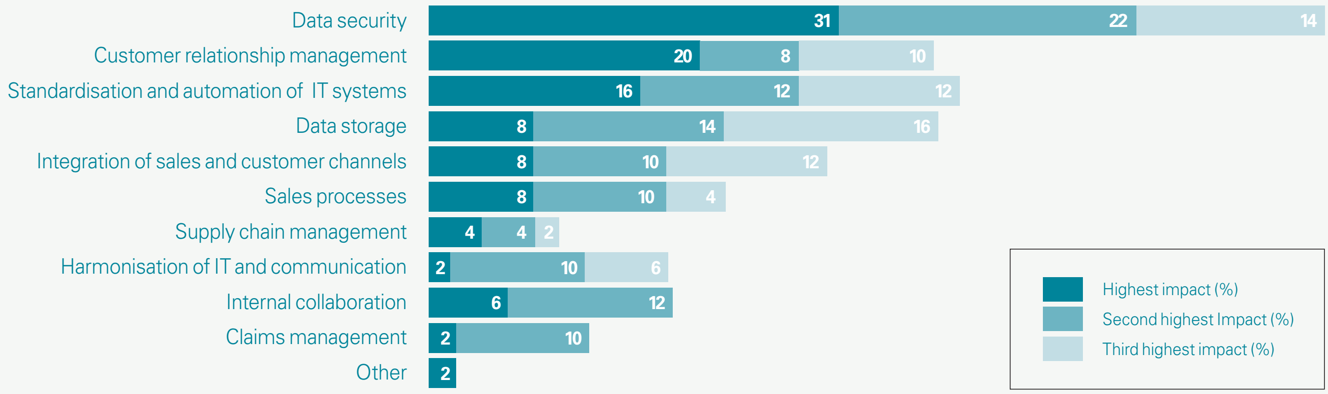
Transformation is triggered by many diverse causes, with none being considered a primary trigger by more than a third of overall respondents

33%	Customer demand (changes in customer focus, buying patterns/preferences)
30%	Coping with change in technology
29%	Domestic competitors

[1] KPMG / Forbes Insights Transformation Survey 2013
[2] KPMG Project Management Survey 2013
http://kpmg.com/NZ/en/IssuesAndInsights/ArticlesPublications/Pages/project-management-survey-2013.aspx

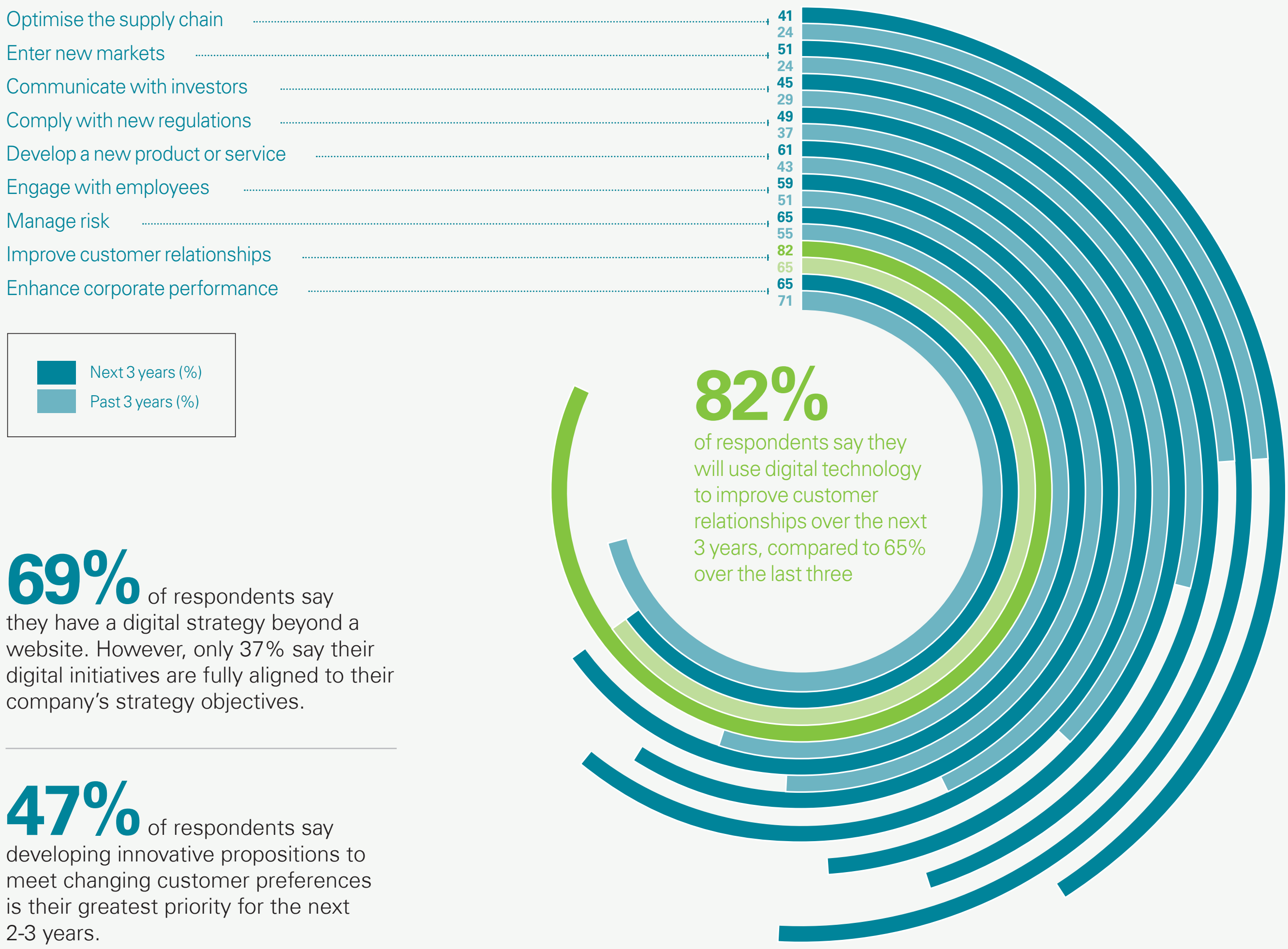
Insurers expect data security to be most impacted by digital technology.

Business areas impacted by digital



Digital technologies will touch the whole business... The insurers we surveyed plan to use digital technologies to:

Enhance their entire business



69% of respondents say they have a digital strategy beyond a website. However, only 37% say their digital initiatives are fully aligned to their company's strategy objectives.

47% of respondents say developing innovative propositions to meet changing customer preferences is their greatest priority for the next 2-3 years.

It is clear from the initial findings that technology has a pivotal role to play and must lie at the heart of all insurer transformation projects. Our article on page 10, *Changing technology – the digital age*, explores the increasing use of digital technology in the sector.

It is important that digital technology is not viewed in isolation but rather considered in the context of insurers' overall business model and strategy.

In summary, here are KPMG's three key recommendations for insurers to remember when embarking on their digital transformation journey:

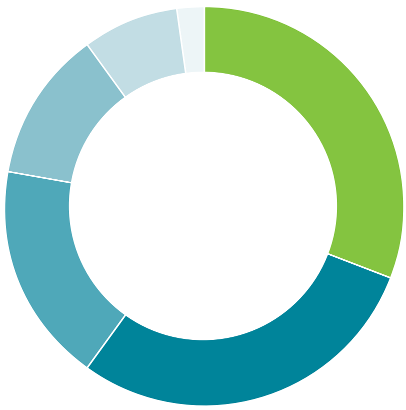
- **Technology must not be the tail that wags the dog.** Strategy must be business led, technology enabled.
- **Big Data is not the only story here.** What matters most is the veracity of information when analysed and the value that vast amounts of data can bring, overcoming the challenges of integrating internal and external information.
- **Prepare for a world driven by data and informed by analytics.** Investment in digital transformation has already begun for many insurers and intermediaries. They are exploring how new technologies and sources of data can enable them to transform customer experience and innovate to differentiate themselves from their competitors.

Whether your business is just starting out or well advanced in the transformation journey, KPMG can help you manage business and technology related risks to meet strategic and financial goals.

Challenges faced by a company in capturing data

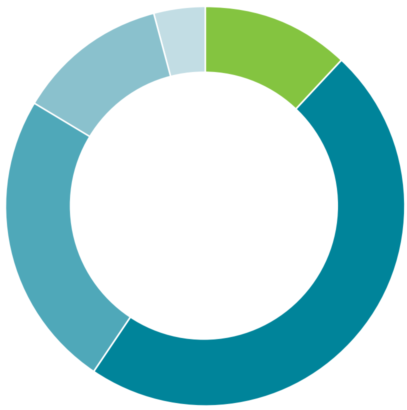
35%	Integrating data technology into existing systems and operating models
18%	The capacity to capture and integrate data from all areas of your business
16%	Data is incomplete and unreliable
12%	The ability to analyse the data once collected
10%	The ability to capture external data
9%	Identifying what data to collect

Challenges faced by a company using data analytics



31%	Capturing reliable data
29%	Implementing the right solutions to anaylse and interpret the data
18%	Balancing human judgement and data-driven decision making
12%	Identifying the right indicators/ parameters
8%	Reacting in a timely fashion as insights are identified
2%	Keeping data secure

Expected time needed for digital distribution and servicing channels to have same coverage as the traditional channels



12%	2 years
47%	5 years
24%	6 years
12%	10 years
5%	Never

Source: Digital Technology's Effect on Insurance Survey, KPMG International, May 2014

The five most common cyber security mistakes

Philip Whitmore Partner – Advisory

Cyber security is an important concern for all insurers. Daily occurrences demonstrate the risk posed by cyber attackers – from individual opportunistic hackers, to professionally-organised groups of cyber criminals with strategies for systematically stealing intellectual property and disrupting business.

The management team of every insurer is tasked with ensuring that the organisation understands the risks, sets the right priorities, and seeks advice where needed. This is no easy task, given the technical jargon involved and the pace of change.

To many people, cyber security remains a bit of a mystery. This lack of understanding has created many misconceptions at management level about how to best approach it. From our years of experience, we have seen the following five cyber security mistakes repeated over and over – often with drastic results.

Mistake 1

"We have to achieve 100 percent security."

Reality: 100 percent security is neither feasible nor the appropriate goal.

Almost every airline company claims that flight safety is its highest priority – while recognising that there is an inherent risk in flying. The same applies to cyber security. Whether it remains private or is made public, almost every insurer will unfortunately experience information theft.

Developing an understanding that 100 percent protection against cybercrime is neither a feasible nor an appropriate goal is already an important step towards a more effective strategy. It allows you to make choices about your defensive posture. A good defensive posture is based on: understanding the threat (i.e. the criminal) relative to organisational vulnerability (prevention); establishing mechanisms to detect an imminent or actual breach (detection); and establishing a capability that immediately deals with incidents (response) to minimise loss.

The emphasis of most organisations is often skewed towards prevention – the equivalent to building impenetrable walls to keep intruders out. Once you understand that perfect security is an illusion and that cyber security is "business as usual," you also understand that just as much emphasis needs to be placed on detection and response. After a cybercrime incident – which may vary from theft of information to a disruptive attack on core systems – an organisation must be able to minimise losses and resolve vulnerabilities.

Mistake 2

"We invest in best-of-class technical tools, so we are safe."

Reality: Effective cyber security is less dependent on technology than you think.

The world of cyber security is dominated by IT companies that sell technical products. These tools are essential for basic security, and must be integrated into the technology architecture; but they are not the basis of a holistic and robust cyber security strategy. The investment in technical tools should be the output (not the driver) of cyber security strategy. Good security starts with developing a robust cyber defence capability. Although this is generally led by the IT department, the knowledge and awareness of the end user is critical. For both IT professionals and the end user, the human factor is the weakest link in relation to security. Investment in the best tools will only deliver the return when people understand their responsibilities to keep the systems safe. Social engineering, in which hackers manipulate employees to gain access to systems, is still one of the main risks that insurers face.

Technology cannot help in this regard, and it is essential that management take ownership of dealing with this challenge. They have to show genuine interest, and be willing to engage with the workforce to educate staff and build awareness of the threat from cyber-attack. This is often about changing the culture to ensure that employees are alert to the risks and are proactive in raising concerns.

Mistake 3

"Our weapons have to be better than those of the hackers."

Reality: Your security strategy should primarily be determined by your goals, not those of your attackers.

The fight against cybercrime is essentially an unwinnable race. The attackers keep developing new methods and technology, and the defence is always one step behind. So is it useful to keep investing in increasingly sophisticated tools to prevent attack?

While it is important to keep up-to-date and to obtain insights into the intention of attackers and their methods, it is critical for management to adopt a flexible, proactive and strategic approach to cyber security. This is about recognising the immeasurable value of an insurer's information assets, and the severe implication of any loss on the core business. Given this, cyber security strategy needs to prioritise investment into critical asset protection, rather the latest technology or system to detect every niche threat.

First and foremost, management need to understand what kinds of attackers their business attracts, and why. An organisation may perceive the value of its assets differently than a criminal. How willing are you to accept risks to certain assets over others? Which systems and people store your key assets, keeping in mind that business and technology have developed together and are therefore co-dependent on each other's security?

Mistake 4

"Cyber security compliance is all about effective monitoring."

Reality: The ability to learn is just as important as the ability to monitor.

Reality shows that cyber security is very much driven by compliance. This is understandable, because insurers have to accommodate a growing range of laws and regulation. However, it is counterproductive to view compliance as the ultimate goal of cyber security policy.

Only an insurer that is capable of understanding external developments and incident trends – and uses this insight to inform policy and strategy – will be successful in combating cybercrime in the long-term. This means effective cyber security strategy should be based on continuous learning and improvement.

Insurers need to understand how threats evolve and how to anticipate them. This approach is ultimately more cost-effective in the long-term than developing ever-higher security "walls". This goes beyond the monitoring of infrastructure. It is about smart analysis of external and internal patterns in order to understand the reality of the threat; and the short, medium and long-term risk implications. This insight should enable insurers to make sensible security investment choices. Unfortunately, most organisations do not take a strategic approach, and do not collect and use the internal data available to them.

Insurers need to ensure that incidents are evaluated in such a way that lessons can be learned. In practice, however, actions are driven by real-time incidents and often are not recorded or evaluated. This destroys the ability of the organisation to learn and put better security arrangements in place in the future.

The same applies to monitoring attacks. In many cases, insurers have certain monitoring capabilities, but the findings are not shared with the wider organisation. No lessons, or insufficient lessons, are learned from the information received. Furthermore, monitoring needs to be underpinned by an intelligence requirement. In other words, monitoring only becomes an effective tool to detect attacks if you understand what you want to monitor.

Insurers also need to develop an enterprise-wide method for assessing and reporting cyber security risks. This requires protocols to determine risk levels and escalations, and methods for equipping the Board with insight into strategic cyber risks and the impacts to core business.

Mistake 5

"We need to recruit the best professionals to defend ourselves from cybercrime."

Reality: Cyber security is not a department, but an attitude.

Cyber security is often seen as the responsibility of a team of specialists in the IT department. This mindset may result in a false sense of security and lead to the wider organisation not taking responsibility.

The real challenge is to make cyber security a mainstream approach. This means, for example, that cyber security should become part of the boardroom agenda. It also means that cyber security should have a central place when developing new IT systems, and not, as is often the case with some organisations, be given attention only at the end of such projects.

Conclusion

Cyber security should be on all insurers' risk radars and must be considered in the context of an insurer's risk appetite statement. Our Security Advisory Services practice has experience in assisting high profile organisations navigate the cyber universe and helping organisations avoid these common pitfalls.

Older and hopefully wiser:

Opportunities and challenges of demographic change for insurers

Mary Trussell Partner – Global Insurance Leadership Team | **Kay Baldock** Partner – Head of Insurance

In this article Mary Trussell and Kay Baldock review developing demographic trends around the world and consider what they mean for insurers in New Zealand.

Growing populations and longer life expectancy create opportunities for insurers, but also pose important questions about how insurance products are best structured and delivered. The reality that global populations are generally becoming wealthier and living longer means increased demand for insurance, as people have more assets to protect. Yet with generational attitudes toward insurance changing, insurers need to attract consumers whose previous experience may have made them suspicious of insurance products and the way they are sold[1].

The Baby Boomer effect

The phenomenon of the baby boomer generation has been most closely studied in the U.S. The progressive growth of the elderly (age 65 and over) population and the future influence of the baby boomer generation (those born between 1946 and 1964) can be seen by examining population pyramids for 1960 to 2025 on page 22. The 1960 pyramid shows a distinct pinch for ages 20-29 years, a result of the exceptionally low birth rates during the years of the American depression. The bulge of the post-war baby boomers first appears in the 1960 pyramid at ages 0 to 14. Following periods of fluctuating births and improving longevity (or survivorship), the elderly grew from 5 percent of the U.S. population in 1930, to 9 per cent in 1960, to nearly 13 percent by 2010. In the 1990s[2], baby boomers were in their peak in years of economic productivity, representing nearly one-third of the U.S. population. Since the baby boomer generation started turning 65 in 2011, there has been a rapid growth in the number of people 65 and over, with some 10,000 retiring every day – and every day for the next 19 years[3]. Just as this generation had a significant impact on the educational system and the labour market, this large cohort will strain services required by an elderly population which will need to be paid for. By 2020, the baby boomers will be pre- and early-retirement ages (55 to 64 years) and the young old ages (65 to 74 years).

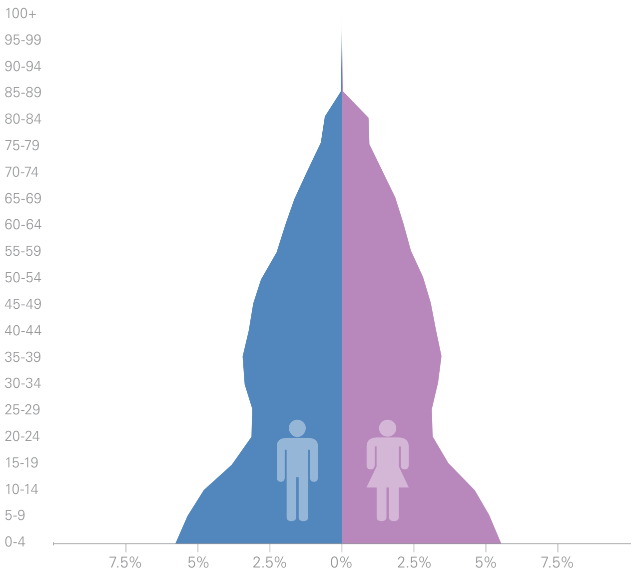
And the trends that are apparent in the U.S. are even more pronounced in New Zealand, as shown by our graphs on page 23.

Consistent with both the U.S. trend and that of other Organisation for Economic Co-operation and Development countries, New Zealand has an ageing population[4]. This is evident from the population pyramids which show that in 1960, approximately 40% of the population was 35 years+, increasing to 52% in 2010 and projected to rise to 55% in 2025. Over time there has been an increase in the median age as a result of lower fertility and mortality rates.

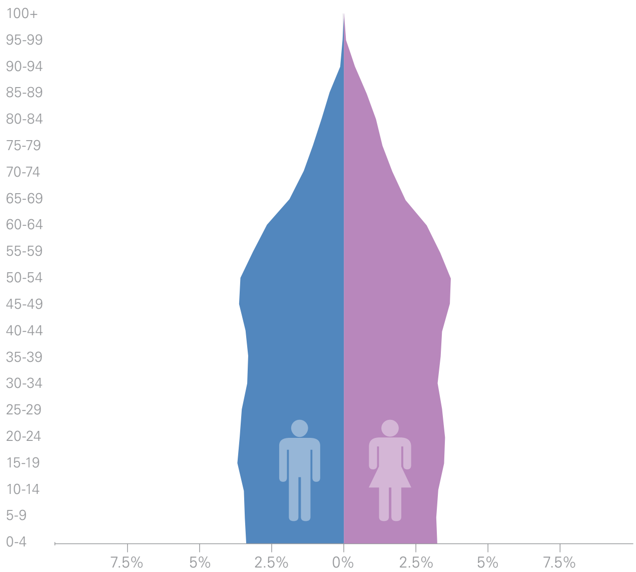
[1] *The Intelligent Insurer: Creating value from opportunities in a changing world – kpmg.com*
[2] *Aging in the United States – Past, Present and Future* US Department of Commerce, Economics and Statistics Administration, Bureau of the Census
[3] Pew Research Center, 29 December 2010
[4] Statistics New Zealand: Demographic Trends 2012

United States of America

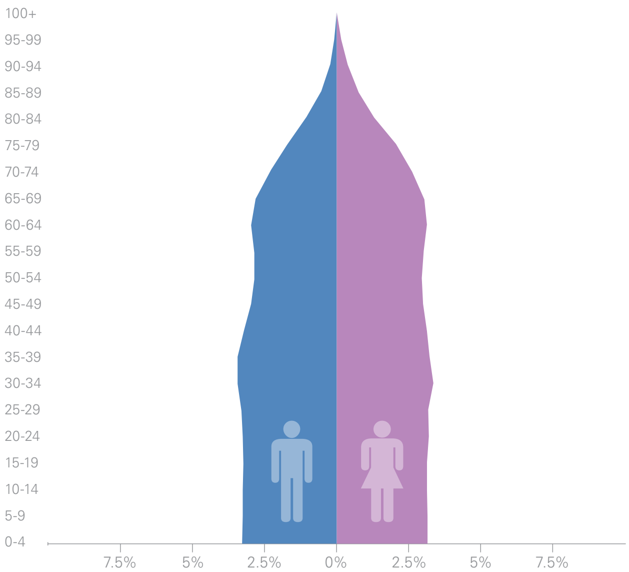
1960 | Population 186,361,000



2010 | Population 312,247,000

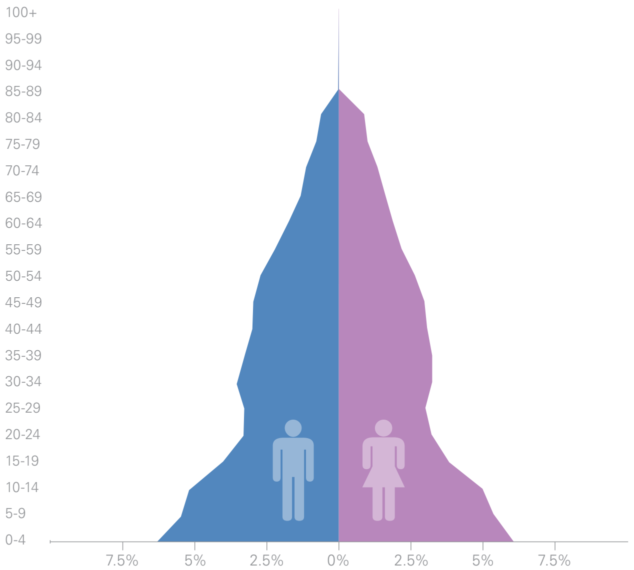


2025 | Population 350,625,000

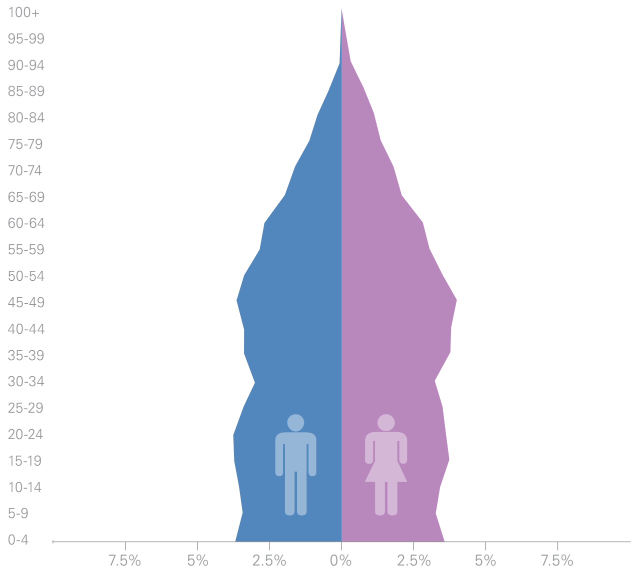


New Zealand

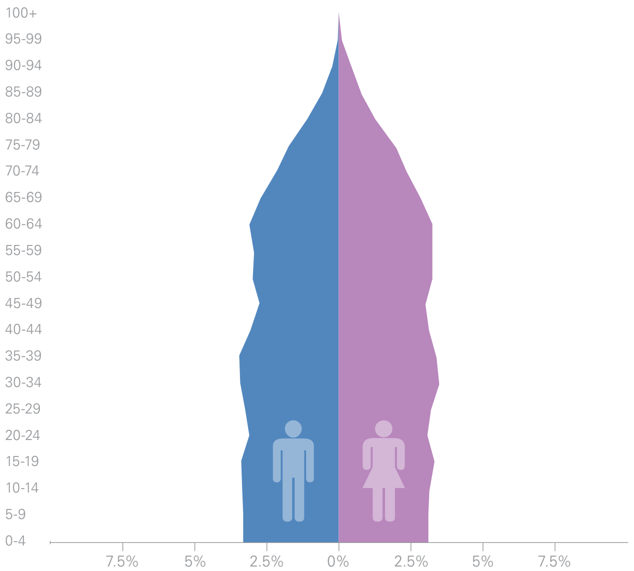
1960 | Population 2,372,000



2010 | Population 4,368,000



2025 | Population 5,021,000



A population pyramid is a graphical illustration that shows the distribution of various age groups in a population (typically that of a country or region of the world.) It usually consists of two back-to-back bar graphs, with the population plotted on the X-axis and age on the Y-axis. It shows the number of males and females in a particular population in five-year age groups (also called cohorts). These charts form the shape of a pyramid when the population is growing and a rectangle when it is static; providing a vivid way to depict the age and sex distribution of a population.

Source: http://www.populationpyramid.net

Mind the gap

In mature markets, the issues of demographic change are encapsulated in the retirement savings gap. That is, far too few people are saving anywhere near enough to enable them to live comfortably in retirement. This problem is being exacerbated by longer average life expectancy, the greater health and welfare needs of an ageing population, rising costs of living, and rising expectations.

The UK is facing a savings time bomb, with many Britons failing to prepare for retirement or to invest in a way that adds value to their money. HSBC's *The Future of Retirement: a new reality* study found that the average Briton is expected to spend 19 years in retirement, but that average retirement savings will be used up after a third of that time (37%) – leaving people entering a period of significantly reduced living standards.

This 12 year shortfall in Britain is the worst identified by the international study, which covers over 15,000 people in 15 countries around the world.

The number of financial advisers has also fallen from 40,000 at the end of 2011 to 31,000 by the start of 2013, leaving an 'advice gap' and lack of money management advice for the UK population. This follows the introduction of the Retail Distribution Review (RDR), well-intentioned regulation aimed at increasing the transparency of charging for financial advice; but with the unintended consequence that fewer and fewer Britons can either afford to pay or are willing to pay for financial advice.

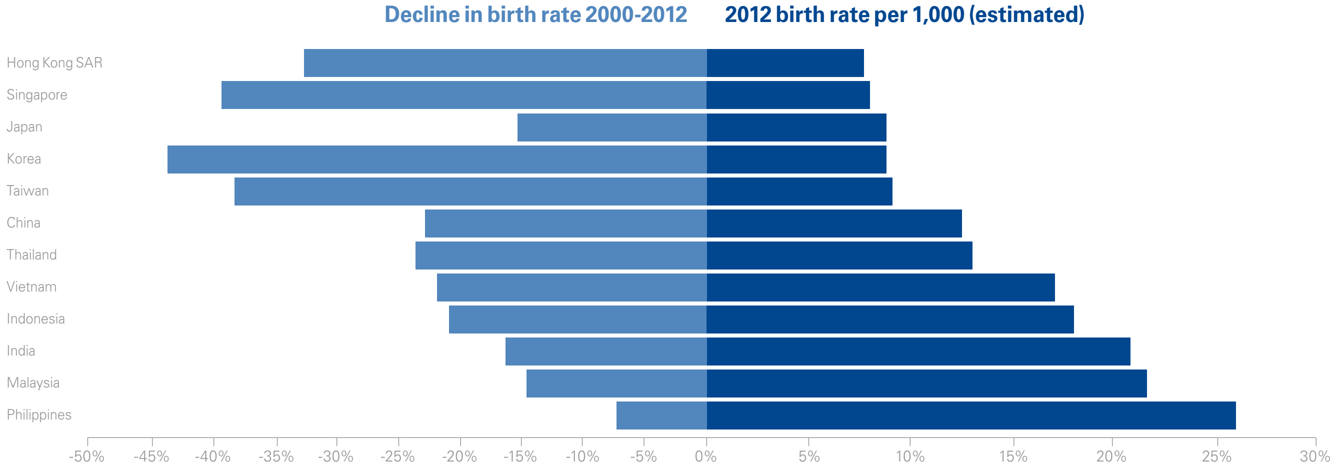
Figures from the Office for National Statistics highlighted dramatic differences in the retirement prospects of Britons; finding that between 2010 and 2012 a quarter had no pension savings at all, while two-thirds weren't actively saving into a pension. But it also casts a harsh light on the massive inequality that exists among the UK's pension savers. Almost half of pension savings in the UK is held by just 10 per cent of savers. In the UK it is hoped that automatic enrolment into retirement savings plans will be the holy grail to help to close some of the gaps in pension saving and encourage more people to put money away for retirement.

To address similar saving for retirement concerns and close the savings gap in New Zealand, in 2007 the Government introduced KiwiSaver. Whilst a voluntary initiative, under the KiwiSaver regime, participation is encouraged with employers required to make compulsory contributions to their employees' private investment plans.

West to East

These trends are manifesting themselves around the world, not just in mature economies. Middle-class consumers in the U.S. and other G7 powers have been a key source of demand in the global economy for the last 50 years, but we are close to an inflexion point. Over the next several years, the global middle-class will expand dramatically, with a significant shift from West to East. The Brookings Institution forecasts that by 2030 the Asia Pacific region will account for 59% of middle-class consumption, up from 42% in 2020 and 23% in 2009[5]. We see this as one of the most important features of today's global economic landscape. It is already attracting

Powerful demographic and cultural changes underway



Source: *KPMG The Intelligent Insurer*, 2012, based on CIA World Fact book

[5] *The Emerging Middle Class in Developing Countries*, Homi Kharas, Brookings Institution, June 2011

many insurers and wealth managers who see investment into the fast growing economies of the Asia Pacific region as an opportunity for long term sustainable growth. These influences vary significantly by country – in 2020 China is forecast to account for the largest proportion of middle-class consumption by country, but by 2030 this is forecast to be India, the legacy of its growing but relatively youthful population.

But notwithstanding this growth, many of these populations are ageing too, as the graph on page 24 illustrates.

The opportunities for insurers

Given these significant demographic changes, what are some of the opportunities for insurers?

Demographic transformation – combined with technological advancement and social shifts – will significantly change the profile, needs and requirements of customers. Clients will be considerably more diverse in terms of who they are; where they are located; and what they need, want and expect from the insurance industry.

- Are insurers ready for shifts in generational preferences? Have they thought about how to appeal to both baby boomers focused on drawing down on their asset base and Generation Y's preferences for immediate response? Today's customers are switched-on, always connected and use their smart phones and tablets round the clock and insurers need to respond to those preferences.
- Are insurers equipped to respond to the greater use of mobile technology? Rapid growth in the use of smartphones, tablets and GPS has led to new customer expectations. Convenience, facilities, speed of service and ability to compare products are increasingly highly valued.
- Are there opportunities to develop more flexible retirement solutions? These can cater to a range of evolving needs: from new retirees, and for retirees returning to work on a part-time or full-time basis, to the needs of the oldest old.
- Are insurers too focused on their products rather than their customers? Have they got to grips with retirees' fluctuating needs throughout the various phases of their retirement? Boomers and the generations coming after them are increasingly concerned with quality of life rather than wealth accumulation. Maybe they need to think in terms of insurance in kind – perhaps a combination of housing, health provision and pension rather than traditional insurance services?

The insurance world is changing – not just incrementally, but fundamentally. At the same time, the digital revolution is transforming the way we interact and do business. The entire insurance value chain is impacted – from distribution to intermediation, risk carriers and service providers; as other industries from e-retailers to automotive set foot in insurance markets, and pension funds and hedge funds finance capital market solutions. At the centre of this transformation into a more connected world are customers, who expect to be able to select from the products of a vibrant market place defined and driven by their needs, preferences and convenience. In order to effectively target and service this increasingly diverse client base, we believe the use of customer sentiment analysis and data analytics will play increasingly important roles.

In our 2012 edition of *New Zealand Insurance Update*, we profiled, KPMG's publication *The Intelligent Insurer*, which described the dominant megatrends, the economic, business and social challenges and opportunities facing insurance markets. In our 2013 report, we profiled the sequel, KPMG's *The Valued Insurer,* which defined the essential traits that tomorrow's insurer will need to succeed. Later this year, we will launch the successor to our 2013 publication, *Transforming Insurance*, in which we hone the discussion on ways technology can help players in insurance markets meet the above challenges and transform their capacity to identify trends, plan, collaborate, and rapidly respond, adapt and thrive.

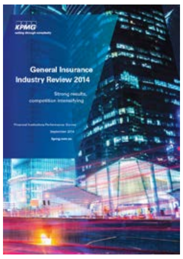
Conclusion

In the words of John F. Kennedy, *"Change is the law of life. And those who look only to the past or present are certain to miss the future."* Looking ahead to the next decade, we can predict those insurers that will thrive. They will be those who know and understand the impact of changing demographics on their product offering, and who embrace the new digital era and use technology to their advantage.

Old age is like everything else. To make a success of it, you've got to start young.

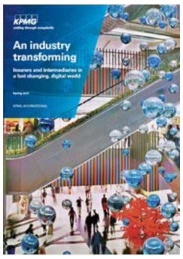
Theodore Roosevelt

Our thought leadership



General Insurance Industry Review 2014: Strong results, competition intensifying

The latest annual Australian survey includes the financial results of general insurers that represent a significant part of the Australian market. It also examines the market conditions of the last year.



An industry transforming: Insurers and intermediaries in a fast changing, digital world

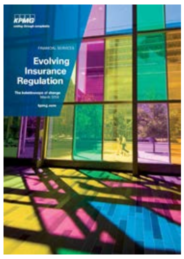
Included within this report are four articles from KPMG's online series, Leading Insights. The series offers unique insight and opinion on emerging customer trends and channel developments in the insurance sector, including the impacts of digital technologies, data and analytics. The articles explore building a data culture, leveraging retailer data, capturing and analysing data cost effectively, and augmenting data through telematics and machine to machine (M2M) technology. Also included, are preliminary findings from our research on this topic.

Insurers face shared risk of escalating natural disasters

This article looks at the developing role of the insurer as the destructive outcomes of climate change on both human and economic tolls continue to increase. By collaborating with public, private and NGO partners to reduce disaster risk and increase resilience, the insurance industry can get involved in an issue that is relevant to all communities as well as industry sustainability.

Customer Experience Barometer: It's time to talk

In this report, KPMG looks at the key findings from our 'customer experience barometer'. After comparing data across various markets and sectors, we have identified a number of key findings that will guide and influence the development of customer-facing strategies for service-based organisations.



Evolving insurance regulation: The kaleidoscope of change

In this publication, KPMG shares its findings from its first global survey of Internationally Active Insurance Groups regarding their concerns about new international regulatory requirements. It looks at the significant developments occurring at the global level and the many changes now underway regionally that will have a substantial impact on the prudential and consumer protection requirements of insurers.

Ten Predictions for Growth: Trends shaping the future insurance M&A landscape

In this publication, KPMG offers predictions for the future of M&A activity for insurers, together with some reminders from the past and advice on how to maximise the chances of success.

Higher FDI in Indian Insurance sector: A buzz for the industry

In this article, KPMG's Transaction & Restructuring team look at the possible effect on the Indian economy following the decision of the Indian Government to increase the cap on Foreign Direct Investment in the insurance sector. Highlighted are the opportunities for foreign investors and arguments for and against the proposed regulation.

Brisbane G20 Summit: A new agenda for financial services

In this paper, KPMG's Regulatory Centre of Excellence fosters debate on the financial services sector among policymakers and proposes brave and bold action for the G20 and regulators to take.

Being the best: Inside the intelligent finance function

This publication presents a comprehensive overview of the current state of the finance function, going beyond the obvious to describe how organisations can drive tangible improvements in their quest to derive more efficiency, effectiveness and value from their finance functions. Insights from our latest global CFO research.

Achieving successful IT transformation: 11 lessons from the field

In this article, KPMG provides an overview of the do's and don'ts associated with IT transformation. Our in-the-field practitioners have identified a number of recurring themes that drive IT transformation success or underlie its failure.

If you'd like to receive a copy of any of these publications, please email kbaldock@kpmg.co.nz. Alternatively, you can download these and many more publications from kpmg.com/nz

Our authors

Kay Baldock

Partner – Head of Insurance

Kay is a Financial Services Audit Partner and head of our insurance practice. Kay is passionate about insurance and enjoys assisting insurers in navigating the changing regulatory and financial reporting landscape. Kay has been in public practice for over 18 years, and for the last 15 years has focussed primarily on the insurance industry both here in New Zealand and off-shore.

Verne Baker

Director – Advisory – Actuarial

Verne has 23 years of experience in the general insurance industry. He has worked on a broad range of projects ranging from traditional actuarial engagements through to strategic business advisory assignments. He has worked in many countries including Australia, the UK, Singapore, China and Hong Kong for a wide spectrum of clients including insurance and reinsurance companies, statutory bodies and others.

Philip Whitmore

Partner – Advisory

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

Andrew Cohen

Associate Director – Advisory – Actuarial

Andrew is a qualified actuary who joined the Actuarial Services team at KPMG in late 2013. He has a decade's experience in general insurance including reserving, claims monitoring, pricing and reinsurance broking. Andrew leads KPMG's pricing solutions team and is expanding our processes that examine and comment on pricing review controls and procedures applying KPMG's global model review methodology.

Ceri Horwill

Partner – Advisory

Ceri leads KPMG's Financial and Regulatory Risk Management practice, specialising in banking advisory, financial instrument accounting, financial services regulation, financial risk and capital management. She provides regulatory, risk, accounting and compliance advice for a wide range of financial services clients which has given her an excellent understanding of financial products and insights into financial services businesses. Ceri joined KPMG in 1998.

Erica Miles

Consultant – Advisory – Health and Safety

Erica is an experienced risk management consultant, specialising in environment, health and safety (EHS) risk management. Erica has assisted a wide range of companies in identifying, managing and reducing their EHS risks. She has extensive experience in the field, including improving businesses' EHS performance, transaction services (due diligence), performance assurance programs, and the review and implementation of quality, health, safety and environment management systems.

Chris Dew

Partner – Advisory

Chris is a Financial Services Advisory Partner in our Auckland practice, with over 20 years' experience in the financial services sector both locally and in the UK. Chris firmly believes that a strong financial services sector is one of the keys to the prosperity of New Zealand and is proud that we're doing our bit for the country's top financial organisations. Some recent engagements have included business model change, regulatory change and strategic tender response.

Mary Trussell

Partner – Global Insurance Leadership Team

A deep insurance industry specialist, Mary's 30 years of experience cover the entire range of insurance markets, from life and health and personal lines to commercial lines and reinsurance, across Asia Pacific, Europe and North America. A member of KPMG's Global Insurance Leadership team with particular responsibility for Innovation and High Growth Markets, Mary leads the development of KPMG's thought leadership focused on those with an interest in the insurance sector.

Contact us

John Kensington
Partner – Head of Financial Services
T +64 (09) 367 5866
E jkensington@kpmg.co.nz

Kay Baldock
Partner – Head of Insurance
T +64 (09) 367 5316
E kbaldock@kpmg.co.nz

Matt Prichard
National Managing Partner – Strategy & Markets
T +64 (09) 367 5846
E matthewprichard@kpmg.co.nz

Jamie Munro
Partner – Financial Services Audit
T +64 (09) 367 5829
E jamiemunro@kpmg.co.nz

Hudson Lopez
Partner – Financial Services Audit
T +64 (09) 367 5918
E hudsonlopez@kpmg.co.nz

Graeme Edwards
National Managing Partner – Audit
T +64 (04) 816 4522
E gdedwards@kpmg.co.nz

Paul Dunne
National Managing Partner – Tax
T +64 (09) 367 5991
E pfdunne@kpmg.co.nz

Peter Scott
Partner – Tax
T +64 (09) 367 5852
E pcscott@kpmg.co.nz

John Cantin
Partner – Tax
T +64 (04) 816 4518
E jfcantin@kpmg.co.nz

Godfrey Boyce
National Managing Partner – Advisory
T +64 (04) 816 4514
E gboyce@kpmg.co.nz

Ceri Horwill
Partner – Advisory
T +64 (09) 367 5348
E cerihorwill@kpmg.co.nz

Chris Dew
Partner – Advisory
T +64 (09) 363 3230
E cdew@kpmg.co.nz

Philip Whitmore
Partner – Advisory
T +64 (09) 367 5931
E pwhitmore@kpmg.co.nz

Erica Miles
Consultant – Advisory – Health and Safety
T +64 (09) 363 3664
E emiles@kpmg.co.nz

This publication has been printed on Knight paper which is FSC certified. The pulp from this paper has been sourced from a well managed forest.