Keeping up with the Pace of Change

Demands by Customers Are Driving the Property and Casualty Agenda

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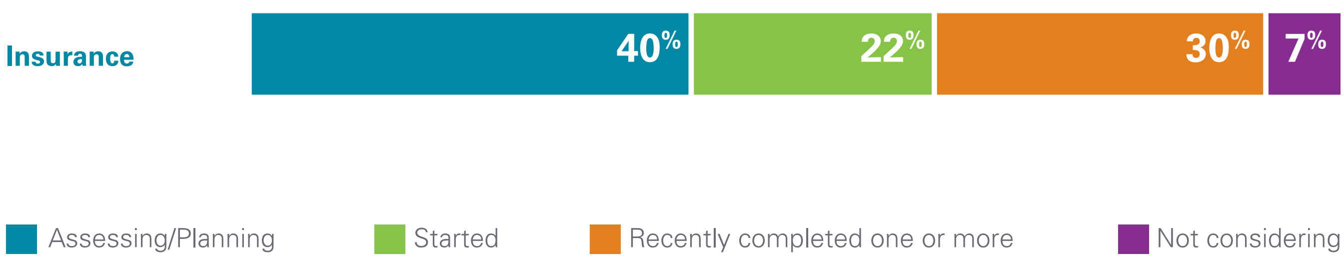
With powerful technology and customer forces continuing to rapidly reshape the property and casualty (P&C) business landscape, compelling questions are being considered with more urgency in the industry's board rooms and management suites. Customers want to know whether the industry can keep up with their demands for interaction innovation they now experience with other industries. Investors want to know if the industry is losing ground to digital innovators and whether the industry is forming stronger bonds with customers.

The answers to those questions are not very clear at the moment. Our interaction in the industry and our research indicates that some insurers are working hard to address transformation issues, although we also note that the size of the business does not necessarily correlate with whether the responses are strategic or simply one-off reactions.

Where is your organization on the transformation continuum?



Does not add up to 100% due to rounding.

Source: "From Burden to Competitive Advantage," KPMG LLP, 2014

In our view, the time has come for traditional insurers to act with more resolve and with more speed in addressing the pace of change. Further, we believe it is vital to link innovation with their long-term business strategy if they expect to successfully interact in a fundamentally changed marketplace.

By doing so, the forces that are accelerating industry transformation can be harnessed as engines of growth. Organizations that continue to study and ponder what is going on around them risk irrelevance in this swiftly transforming industry.

Here in 2015, we find ourselves presented with a set of challenges that can be turned into opportunities for sustainable and profitable growth in the property and casualty (P&C) business.

Seizing that opportunity and creating competitive advantage this year, however, unquestionably hinges on the ability to create stellar customer connectivity. But that opportunity demands that P&C insurers get out in front of what is shaping up to be one of the most turbulent and potentially transformative eras in the history of the insurance industry.

This year we expect even more rapid and more disruptive innovation in diverse areas. Those disruptions may be in areas such as driverless and driver-assisted cars, or they might take the form of using some of the huge insurance surpluses to form venture capital firms to fund or join with start-ups that create products that can protect customers' assets or offer a variety of services not now offered by insurers.

In many ways, this year also looks like a year of contradictions; a year when somewhat positive economic and financial trends stand in stark counterpoint to industry trends that may not bode well for industry participants trying to hang on to tradition. Some of the trends include a raft of new disruptors that are reshaping insurance through new tools and new approaches to meeting industry challenges. Other trends include a rapid shift in demographics in the Unites States and abroad that are expected to impact insurance sales in years ahead.

Another key trend is found in the growing willingness by industry investment professionals ready to boost their bets on ''alternative" forms of investing aimed at Improving the tight profit margins of the past several years.

In our view, the year is littered with formidable obstacles, creating profound challenges for change in how people in the business work, how they interact with customers, and how they build for the future.

Navigating the course ahead will require not only shrewd business talent, it will necessitate creativity in matching people skills with an understanding of how to unleash the power of the enormous amount of complex data, new digital analytical tools, and the ongoing advances in mobile technology that customers so rapidly embrace.

At the start of 2014, at this time last year, we saw revolution already happening. It was coming from all directions, with customers—consumers and businesses alike—driving rapid change. We noted then (and we still believe today) that just a few leading P&C companies had grasped that change already was taking hold and were moving to take advantage of change. We compared the revolution within the industry to the start of a marathon run, and suggested that there was a very long way to go meet the coming challenges.

“Connecting with customers in a faster, more-dependable, and a valued way should no longer be something P&C insurers hope they will do; they *must* do it. That means that they need to create effective digital and mobile strategies as the foundation for growth in 2015 and beyond.”

Laura Hay,
KPMG National Sector Leader, Insurance

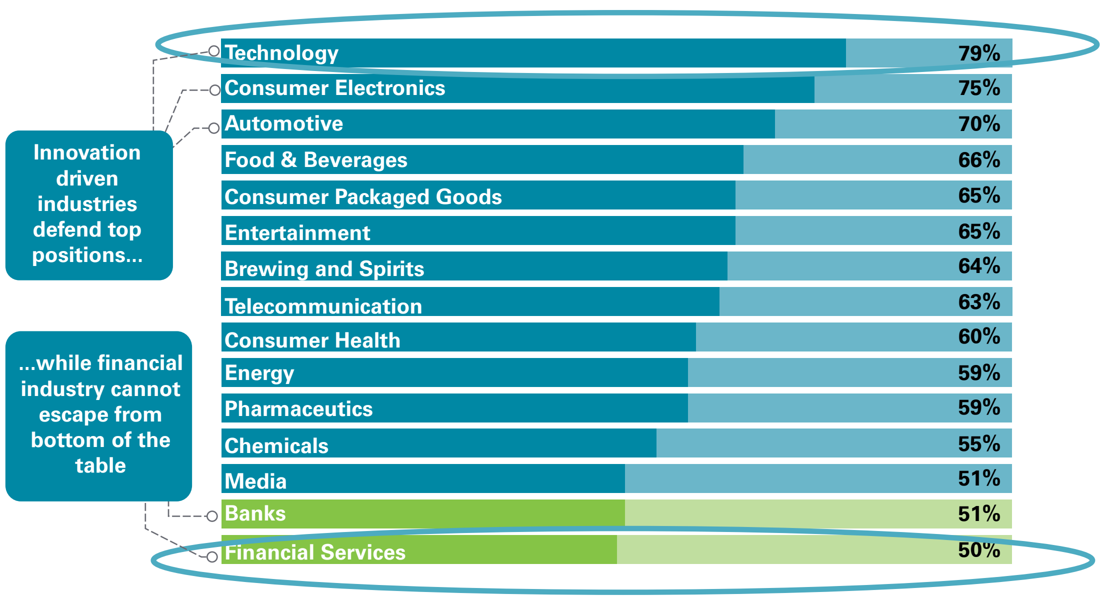
We believe that a small but growing portion of the industry has a deep appreciation that customers have *demanded* these changes, they have not *asked* for them.

We are now witnessing the “trickle up” theory in practice; the polar opposite of how businesses acted for generations: Build a product that people might want, entrust marketers to shape customers’ desires, and then try to convince customers to buy the product. It is no stretch to suggest now that such a business model in insurance is history.

KPMG VIEW

Here are few other realities to consider in your next management and strategy meeting:

- With customers now completely driving your agenda, your strategies and business model must recognize the reality that customers demand that you provide them with the level of service they have come to expect from other industries—particularly the retail industry.
- The ongoing issue of an aging agent population whose demographic profile remains at odds with the changing profile of America: Here's just one aspect to consider—Hispanics in the United States now account for close to 20 percent of the country's population[1], and their numbers are expected to explode in the years ahead. Do you have a plan to serve that emerging population, which has expressed mistrust in many in today's insurance-agent pool[2]?
- In an annual survey of the most trusted industries in the United States, financial services is dead last—and has been for about a decade. What are you doing about that?



Source: Edelmann Trust Barometer 2014

So, we hope our point is clear: Get moving on these and other critical issues. Everything around you already is changing rapidly. Because your customers insist on new ways to interact with you, we believe that, for many of you, your business processes and operations need immediate attention from cost and effectiveness perspectives. Simultaneously, there is an urgent need to adopt the technologies that can help you transform to meet the so-called disruptors who already are using them in the marketplace.

These are the organizations that have built better distribution channels, they can segment markets to produce extremely granular results, they have funding, and they are on the prowl.

Hence, our message to pick up the pace. Every organization that is chasing a piece of your business already is in the race.

[1] US Census Bureau/Life Insurance March Research Association (LIMRA), 2014

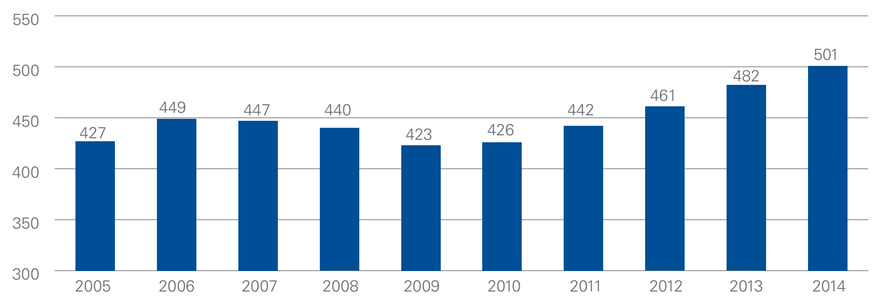
[2] "The Hispanic Market: A Huge (and Growing) Opportunity," Life health Pro.com, February, 3, 2013

Last year produced mixed results in the P&C industry in the United States. While in many ways it is a financially healthy industry, it also is facing the convergence of a number of issues that could create major challenges in the months ahead.

P&C annual net premiums written continued to track higher, a trend that began in earnest in 2011. The boost, in part, has been due to such factors as the slow but steady growth in the U.S. gross domestic product (GDP) and moderate increases in premiums written to cover the increase in the number and value of insurable interests.

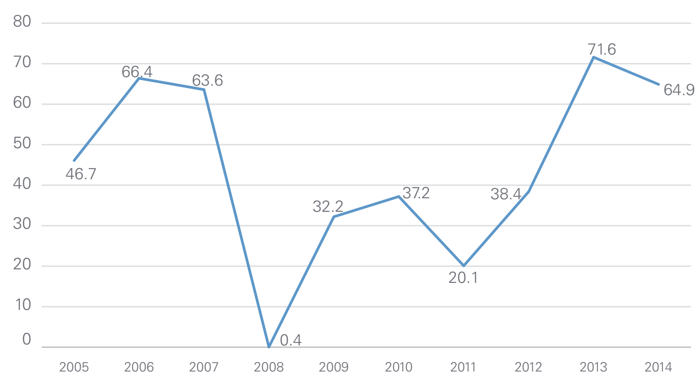
Annual P&C industry net income, which spiked in 2013 compared to previous years, dipped in 2014 compared 2013.

U.S. P&C Net Premiums Written ($B) 2005 – 2014



Source: SNL, used with permission, March 2015

U.S. P&C Net Income 2005 – 2014: $B



Source: SNL, used with permission, March 2015

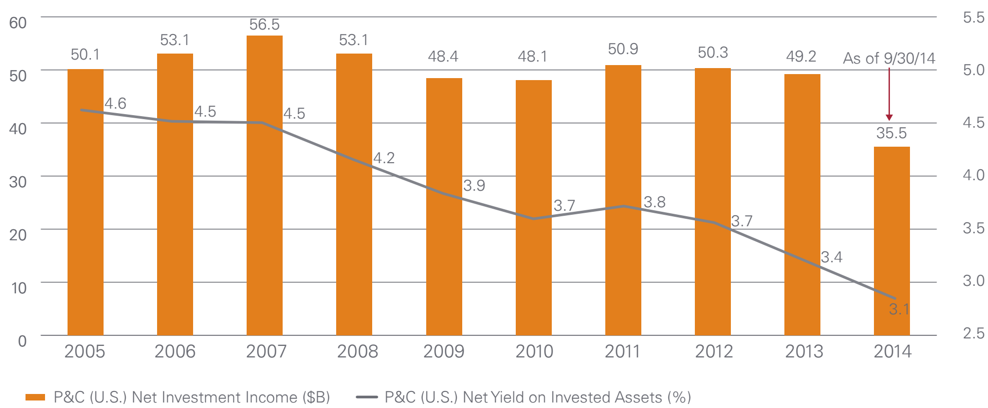
At the same time, the direction of the industry's net investment income and the yield on invested assets increased in 2014 although both remain below precrisis levels.

While declining investment returns helped pushed return on equity (ROE) lower in 2014 compared to the strong results in 2013, the industry reached a record level of surplus capital, which may add to pricing pressures into 2015 but also provide an impetus for deal-making or making venture capital investments in much-need digital technologies to help lower costs and make better connections with customers.

The record surplus, however, prompted an industry analyst in December, 2014 to suggest that "P&C pricing could turn negative in early 2015 for the first time in 13 quarters, and the pace of decline could reach down high-single digits in perhaps 1-2 years[3]… This is because the P&C industry's excess capital continues to grow following several years of low catastrophe losses." The analyst said the U.S. industry is "overcapitalized by nearly $200 billion."

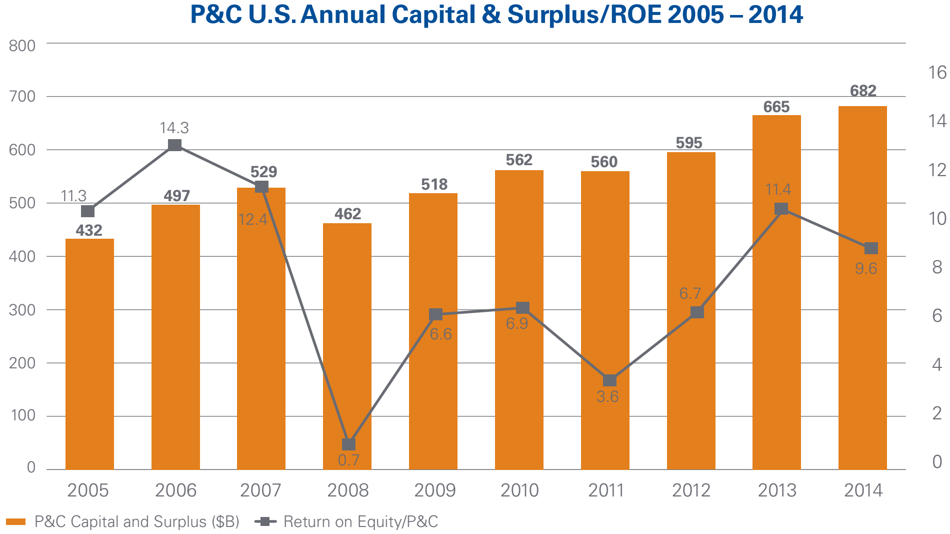
A review of the ROE among the top 50 P&C insurers (by assets) in the United States is not much different than the entire industry; the big players averaged 6.3 percent through the first half of 2014; only five in that large group reached a ROE of better than 13 percent. In fact, 21 did not crack the 6 percent level and 8 were in negative numbers. The chart below represents the entire U.S. P&C industry.

P&C Net Investment Income ($B) and Yield on Invested Assets (%) U.S. 2005 – 2014



Source: SNL, used with permission, December 2014

P&C U.S. Annual Capital & Surplus/ROE 2005 – 2014



Source: SNL, used with permission, March 2015

[3] J.P. Morgan Initiates Coverage of P&C Sector Companies With Negative Outlook," SNL.com, December 9, 2014

Few might argue that the P&C insurance business is not in the throes of change. The debate centers on how along the industry is in its transformation from a staid, tradition-bound industry to one that is more connected through digitization and mobility and is meeting customer desires and demands.

The reasons for the slower-than-required pace of transformation are as varied as they are confounding. Regulatory demands are broad, sometimes at odds with each other—particularly for insurers that have a multinational footprint and must deal with a number of cross-border regulators. And, what may be most perplexing is that some of the barriers to change are self-created and are not being aggressively deconstructed. There are a number of hurdles:

- An industry known more for an aversion to quick change
- A culture known for internal turf wars
- A compensation-incentive structure that builds silos that work against today's necessity for overall internal collaboration to help accelerate the acceptance of change.

One of the most telling example of a disconnection in the path forward was found during our research, surveys, and discussions with industry leaders in 2014: Relatively few insurers actually are leveraging digital and mobile technologies as a means to spark the transformation are aligning those efforts with their stated business strategies.

In ***Transforming Insurance***, a recently published report by KPMG International, one statistic jumped out in a global poll of insurance executives: Only a third of the respondents said their digital initiatives are fully aligned with their company's overall strategic objectives.[4]

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/preference)

30% **Coping with change in technology**

29% **Domestic competitors**

Source: "Business Transformation and the Corporate Agenda," KPMG LLP, 2014

Though many traditionalists in this business may not want to hear it, we believe the insurance business (like many other businesses today) has to view itself as a technology business that is used as a delivery system for insurance products and services. That statement is not meant to suggest insurance specialists have no role in this technology business. Conversely, it means that those specialists must first rapidly educate themselves in the technology, and then create and deliver the message across market segments about the value and innovation.

[4] "Transforming Insurance: Securing Competitive Advantage," KPMG International Cooperative, 2014

> “Having the ability to quickly, accurately, and strategically leverage the enormous amount of data in our industry will provide an insurer with a powerful competitive advantage”
>
> *Gordon Lunsford, KPMG National Management Consulting Leader, Insurance*

With those findings and thoughts as a foundation, this report examines a number of associated ideas and possible opportunities to exploit the power of transformation, and rev up the engine of growth through agile, coordinated deployment of new ways of working and thinking. Agile organizations anticipate critical industry changes and respond based on a strategic vision that recognizes their next-generation customer profile. That idea is succinctly captured later in this report by one of KPMG’s Advisory leaders who suggests that successful transformation in part hinges on customer connectivity, which requires asking, “What is my customer going to look like in the next five years?”

Progress also must be propelled by the understanding, trust, and leverage of the explosion of technologies that at the moment appear to be deployed in this industry in a fragmented, one-off manner.

KPMG VIEW

- Marry customer-centricity efforts with a strategically coordinated, agile, digital transformation program to create exceptional customer experiences.
- Pick up the pace of digitization – particularly as it relates to exploiting the power of predictive modeling and data analytics to drive smarter business decisions throughout the organization and create new products and services demanded in underserved market segments.
- Maintain vigilance surrounding ongoing uncertainty in the state, federal, and global regulatory environments, and develop contingency plans to meet new demands that may be in the offing relating to “modernization.”
- Increase focus on cyber security, which represents both an enormous challenge and an opportunity.
- Be open to partnering with technology firms that have created new solutions that can be applied to the insurance industry. These avenues may prove instrumental as a means to plug gaps in knowledge, technology, and skills—and embolden strategies to create new products while instituting innovation in organizational and operational processes.
- Step up efforts to attract data-science talent as part of an overall focus on enhancing data and analytics and predictive modeling for better decision making.
- Focus on distribution improvements as a means to meet threats created by new, nontraditional entrants.

ALIGNING WITH OVERALL STRATEGY

After decades of securing business by leveraging scale and institutional underwriting expertise, P&C businesses are coming to grips with the knowledge that such a model is quickly risking irrelevance. It is rooted in an outdated customer profile, and it fosters growth via product and channel silos.

Forward-thinking corporate leaders are recognizing that customer segmentation and focused outreach—tied to an overall growth strategy that incorporates a heavy reliance on new-age technological advances—inevitably will play a large role in determining future success. A KPMG survey[5], conducted in 2014, reported that a clear majority (52 percent) of industry executives said customer preferences, buying patterns and needs would mostly drive sector transformation. Coping with changes in industry-relevant technology was second (45 percent).

Industry participants must now distinguish themselves from key competitors by having to impress customers to retain current business and gain a foothold in new target markets. Price always matters to customers, but it is dangerous to underestimate the degree to which customers are looking for the right value proposition.

P&C carriers stand to benefit greatly from loyal customers who enthusiastically recommend their insurers to coworkers, family and friends. Innovation should focus on key functions, chief among them being claims handling. While it has always been a key factor, today's customers equate it more with whether they are a partner in the process. Whether it is auto insurers allowing customers to upload photos of minor accident damage via their smartphones, or expediting payments via direct deposit, the customer simply expects more.

A customer-centric business digs out actionable, value-based, and segment-led insights from data using powerful analytical and predictive tools. It uses technology-driven knowledge to build multichannel delivery methods. Its core mission is to relentlessly seek customer inputs to drive innovation through a flexible technology infrastructure (replacing disparate legacy systems), and it heavily relies on actionable information in order to be viewed by its customers as a valued, trusted, agile, and responsive partner.

We are seeing movement in that direction, and are encouraged that evidence is mounting that momentum can be gained in 2015. Through multichannel experiences, customers expect that they can interact via a mobile app or more functional Web site that offers video chat or instant messaging, and reduces the hassle of booking face-to-face meetings. Cross-functional collaboration at most insurers, given the mix of business and varying functions, integrates matters more quickly, without destabilizing operations.

Carriers have to decide what is best about their marketing and how they can refine it to target the most viable growth segments. More nimble, tech-savvy, and smaller-sized insurers have been smart about using newer analytics to mine behavioral and demographic data and improve modeling. Many have studied the successes of other industries that instituted nimble tech solutions.

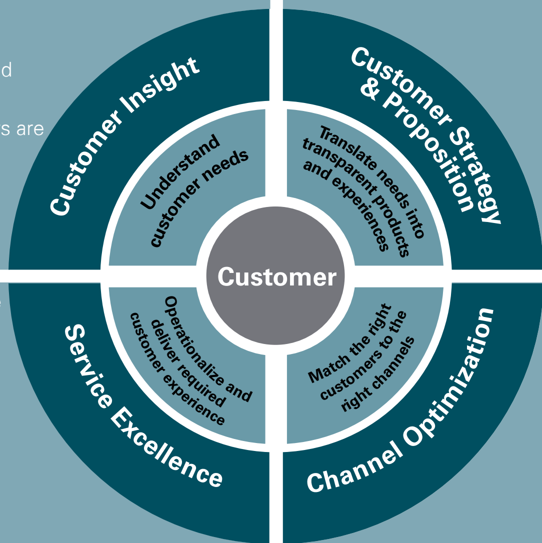
> “What's becoming clear at traditional insurers is the recognition that for growth to take root there has to be a real understanding of a few key elements: What is my customer going to look like in the next few years? What customer segments am I missing, and how can I use data analytics to understand and exploit opportunities in those segments? How can my business stand out among newer entrants with newer platforms? What do customers want from me that they aren't getting now? And, how can customers be served very quickly? It's all about using technology and bold, new thinking in order to connect a customer-centric view with the means to deliver relevant products and services.”
>
> *Matthew McCorry,*
> *KPMG National Advisory Industry Leader, Insurance*

[5] "2014 Insurance Industry Outlook Survey," KPMG LLP

KPMG VIEW *Attributes of a Customer-centric Insurance Organization*

- Understanding how customers see your business and what they value
- Clear insight into customer, segmentation, profitability, and service performance
- Understanding how customers are navigating through channels

- Better allocation of resources against the right opportunities
- Customer-directed, predictive and interactive product development process
- Integrated multichannel strategy directed towards similar customer experiences across touch points
- Right propositions/products for the right customers through the right channels



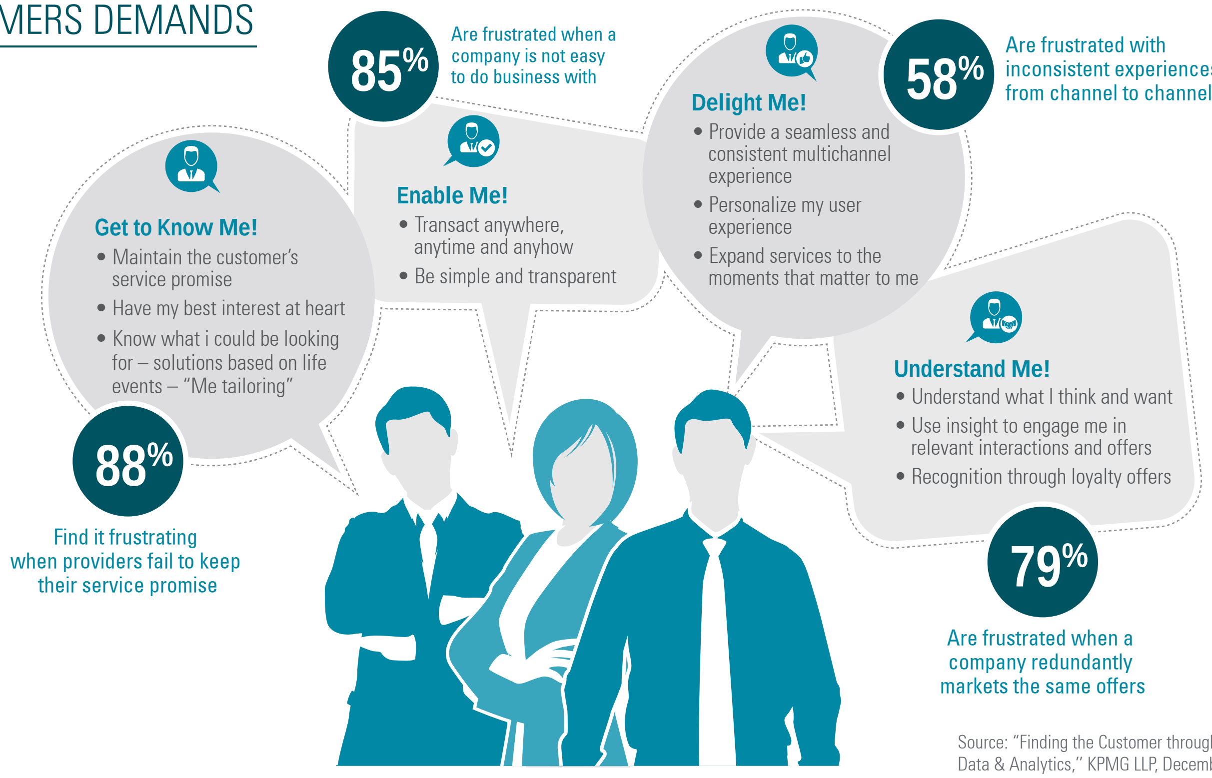
- Improve customer experience and advocacy/lower levels of complaints and increased customer referrals
- Improved propensity to buy additional products
- Improved customer touch points that strengthen brand recognition and loyalty
- Customer recognize the value they get from you

- Easier customer access
- Improved customer perception/better data collection.
- Higher ROI of channels.
- Customer access to 'best of breed' products at fair costs.
- More productive sales – increased revenue and a reduced risk profile
- Understanding the cost to serve

Source: "Client Experience for Insurers," October, 2014: KPMG LLP

Outreach also depends greatly on the degree to which insurers make good on product innovation after they have gained the necessary customer intelligence. Industry leaders will have to refashion products accordingly and accelerate the rollout of new offerings. Telematics poses a big decision, for example, for auto insurers, because of potential to reach more price-conscious customers.

UNDERSTAND
CUSTOMERS DEMANDS



Source: "Finding the Customer through Data & Analytics," KPMG LLP, December 2014

Connectivity Comments

- Client for life is a major focus as cross-selling and customer retention start to gain momentum
- Understanding of customer needs and adjusting operational excellence are critical to meeting those needs
- Developing the right digital interfaces to improve the customer experience in alignment with cost optimization across channels cannot be delayed – Get Going!
- Continue your drive for more advanced techniques in product development and pricing
- Relentlessly focus on enhancing your data analytic capabilities to improve customer loyalty/retention and reach the much-desired and (the eventually lucrative) younger population
- Strive to improve distribution strategies, while educating career agents on the impact and advantages of the power of technology.

Today's P&C insurance companies have access to more data than ever before, which is good news for industry leaders looking to enhance business results through robust data analysis. Yet transforming data into value at the pace required to stay competitive is no small feat.

The reality is that P&C insurers are scrambling to gain an accurate, enterprise-wide view of their tsunami of information in an attempt to extract precise (even real-time) knowledge. In fact, the struggle centers on the ability to see the true value of their data so the organizations can personalize customer experiences, implement more informed decisions, introduce new products, improve operations, and drive business results.

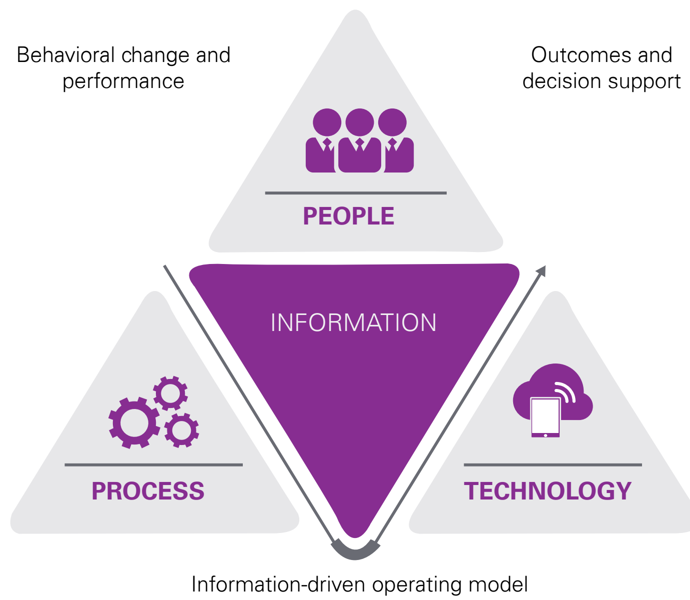
The critical issue, therefore, is not the availability of data, but identifying what data to gather, how to analyze it effectively, and how to apply the results to the business. When polled as part of KPMG's 2015 transformation survey, only 20 percent of insurance executives said their organizations do "extremely well" in implementing business transformation initiatives related to data and information.

What has become very clear in the past several years in insurance (and in other industries) is that capabilities relating to data and analytics (D&A) and predictive modeling will go a long way in determining the growth rate of industry participants.

Our experience in the field suggests that many insurance organizations are currently only focused on just a fraction of the benefits that superior D&A and predictive modeling can offer. It is not for a lack of effort, however. In KPMG's 2014 report, "***Going Beyond the Data: Achieving Actionable Insights With Data and Analytics***," businesses from a wide swath of industries suggested that their "greatest challenge was in integrating data technology into their existing systems and business models."

Big data enables:

- New opportunity
- Advanced analytics
- Real-time decisions/monitoring
- Competitive intelligence
- Competitive advantage



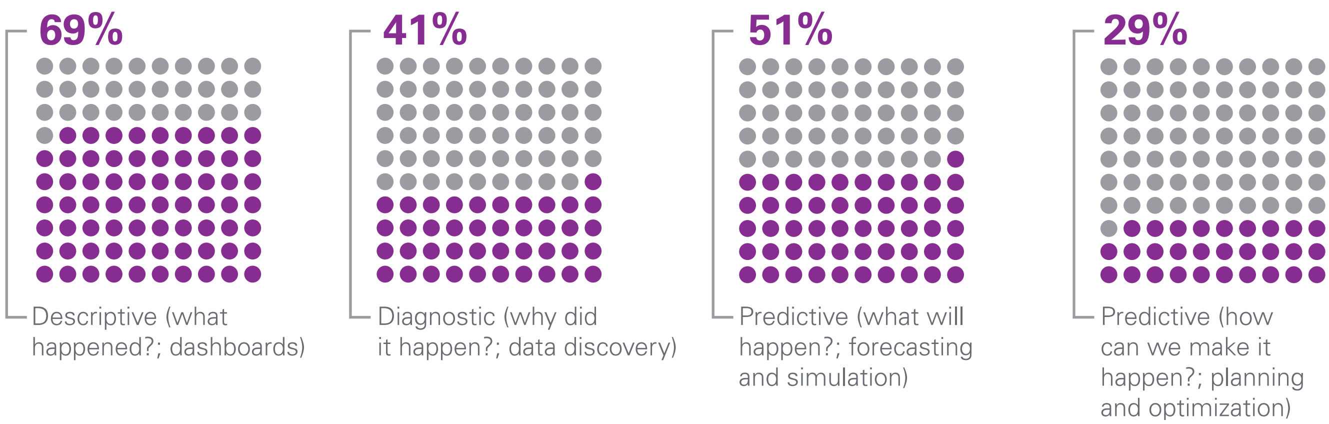
*Moving beyond a traditional "process" focus and **How** things work to an "Information" focus and **Why** things work in **What** situations*

Source: "Data, Data, Everywhere!", KPMG LLP, September 2014

> "Only 20 percent of insurance executives said their organizations do 'extremely well' in implementing business transformation initiatives related to data and information."
>
> *KPMG Transformation Survey, 2015*

Despite understanding the need to double-down on their D&A investments, we have found that the majority of insurers globally are still focused on the past, either focused on applying data analytics to work out what happened or why it happened. Less than a third of executives who participated in a KPMG International survey in 2014 said their company uses prescriptive data analytics capabilities.

What type of data analytics capabilities do you currently use?



Source: "Transforming Insurance: Securing Competitive Advantage," KPMG International, 2014

In our view, by using prescriptive analytical capabilities, insurers can go beyond predicting future outcomes. Insurers can use predictive models to drive action and capture observations resulting from the actions to fine-tune their predictive models.

In the world of data, we have seen that it is not about "big data." Instead, it is about enabling better analytics to solve real business challenges while focusing on a customer-centric lens.

Cloud Computing

It is unclear the degree to which major U.S. insurers will switch to cloud computing on an enterprise-wide level. Roughly half the executives that KPMG surveyed last year said they were moderately embracing the cloud, but only 10 percent reported adopting the technology aggressively.

Yet it is clear that an increasingly large number of U.S. companies are headed in the direction of cloud computing because the inherent value of the technology has been clearly established. The benefits of the cloud in many ways make it a viable way for large, complex organizations to become more agile and technologically competitive. In our view, it is imperative that senior management and company boards make a decision in the very near future about the degree to which they want to leverage the cloud. We do recognize, however, that insurers have shied away from the cloud for fear it will make them more vulnerable to data security breaches, a legitimate concern.

Discussion about the cloud this year, in our view, should be predicated on the degree to which current rivals and emerging competitors have adopted the technology, and to what degree it can be used to keep up with them, or put a firm ahead of its competition and position it aggressively to capture future growth in the market. Lastly, the board and management should commit to an implementation time line based on the degree to which (and the value that) the cloud can bring to its key business units and core processes.

In the world of data, we have seen that it is not about "big data." Instead, it is about enabling better analytics to solve real business challenges while focusing on a customer-centric lens.

Big Data Perceptions

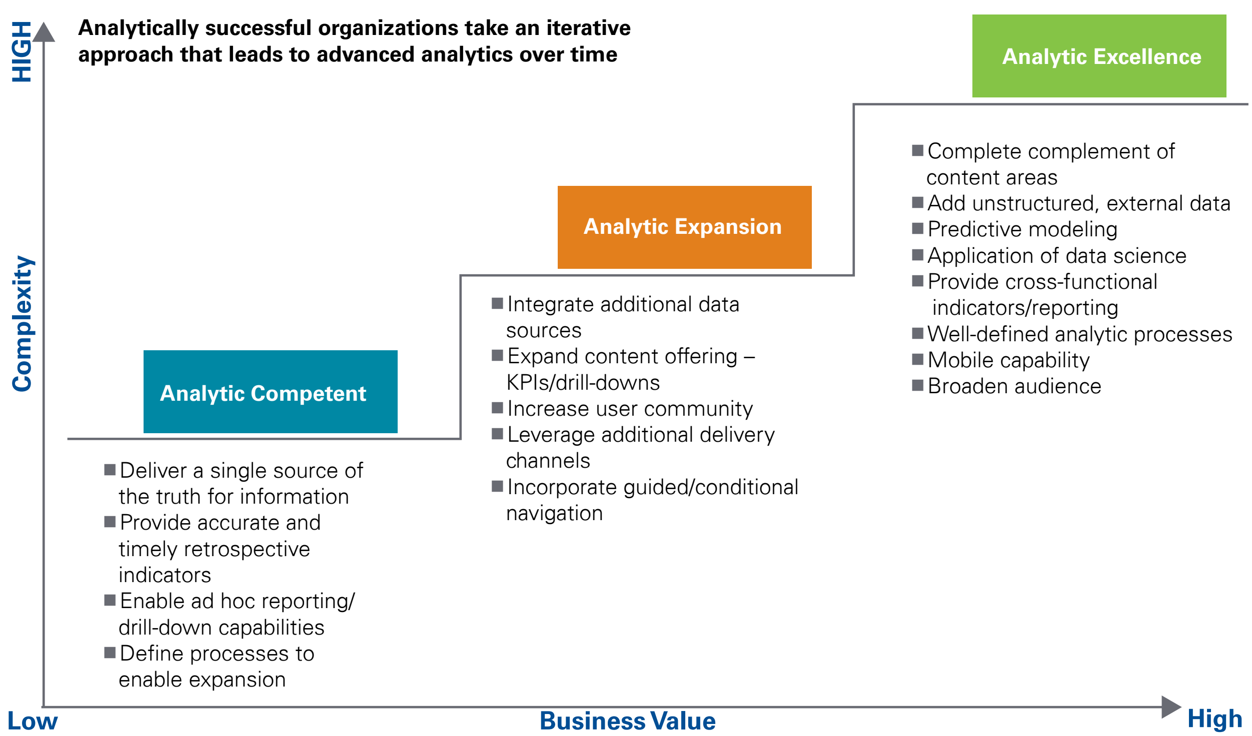
Perception: Big data is only about massive data volume REALITY: It is variety, velocity, validity and volume	Perception: Big data is for social media sentiment analysis REALITY: It is about viewing data sources broadly	Perception: Big data is a technology issue REALITY: It is a business issue	Perception: The more data you have, the better the insights REALITY: Having the right data is more important than the most data

Analytic Perceptions

Perception: Analytics is about software and tools REALITY: It is about making better decisions by asking better questions	Perception: Analytics is the newest business trend REALITY: It is a permanent change in the business landscape	Perception: Analytics is what data scientists do REALITY: It is about enabling employees across the organization, not a silo of specialists	Perception: Predictive analytics is the answer REALITY: The adoption rates for predictive analytics is still relatively low, leaving room for advancement

Source: "Finding the Customer Through Data & Analytics," Anand Shah, KPMG, December, 2014

Analytics doesn't happen overnight – it is an iterative process. The journey up the maturity curve continues to provide business value. Insurers that have not already begun on this journey must take action now.



Source: "Finding the Customer Through Data & Analytics," Anand Shah, KPMG, December, 2014

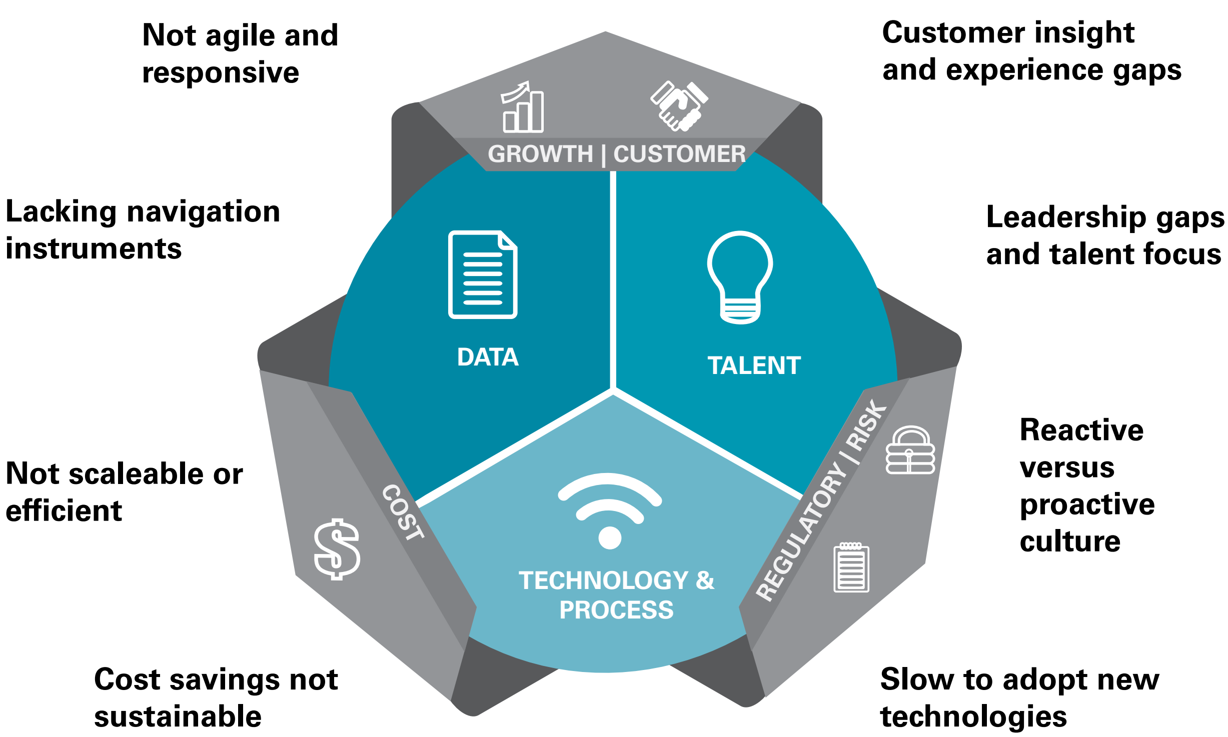
KPMG VIEW

- Integrating the value of new computational and analytical tools and expanding the universe of industry-relevant data sources should be at the top of the list on the change agenda.
- In the past, change management in information technology areas was defined and run by the IT team. It is time to elevate the issue to a higher level of decision makers and, ultimately, into the board room.
- There needs to be a cross-functional strategy to secure the buy-in of functional heads, sales leaders and line managers, before modeling specialists design new applications. Otherwise, it is unlikely that teams engaged in these activities will integrate them into long-standing business practices and work habits, whether it be in underwriting, claims adjustment, or product pricing.

Key C-Level Questions for Consideration When Evaluating Analytical Capabilities

- Why can't we launch or integrate new products and businesses quicker?
- Who are our most profitable customers and how can we realign our services to attract/retain more of them?
- What does it cost to service a customer, and how do we reduce cost while improving customer experience?
- How can we unleash the latent capacity in our workforce to generate more business?
- How can we exploit data and technology to grow our business and improve our results?
- How do we build a culture that achieves continuous and sustained operational improvement?

Innovation Gaps



The conversion to autonomous vehicles will bring about the most significant change to the automotive insurance industry since its inception. The rapid convergence of consumer and automotive technologies, together with the rise of mobility services, will transform the way we drive and commute—and in turn will change the amount, type, and purchase of automobile insurance. The disruption to insurers will produce a set of winners and a swath of potential losers.

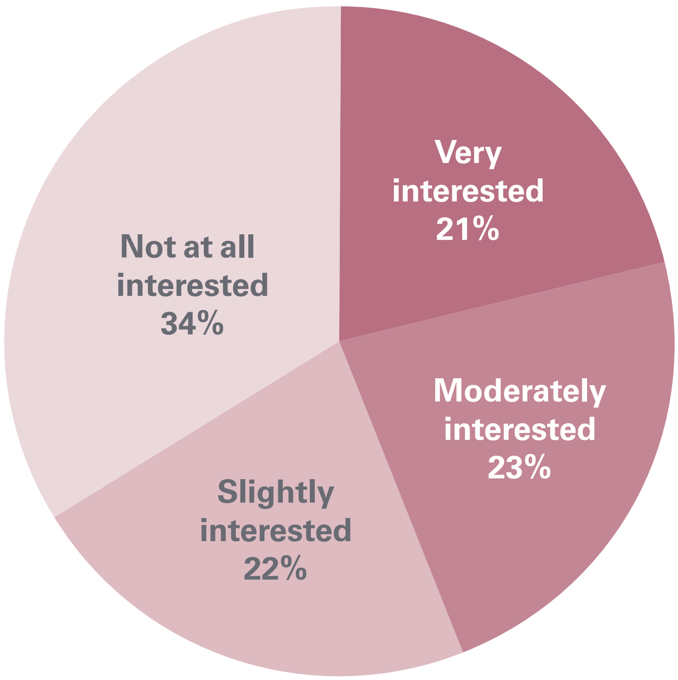
With more than $200 billion in annual premiums, automobile coverage represents an enormous segment of the U.S. non-life insurance business. Quite a bit is at stake. Now is the time to rethink the future and start to act.

With autonomous vehicles already upon us, no longer are the people in the transportation industries discussing whether the change will occur; instead bets are being placed on when and how. Traditional automobile manufacturers have committed pipelines of new vehicles—with each subsequent release making accessible increasingly more sophisticated capabilities. Already, commercials are touting accident avoidance, self-parking, and stop-and-go traffic piloting. Google and other high-technology companies are accelerating the pace of change, and are attempting to leap-frog incremental changes to produce a fully self-driving vehicle soon. The president of Ford Motor Co. recently predicted fully autonomous cars on the road within five years[6].

The more we researched and learned, the more we became convinced that the change is real and it is happening now. We envision four incremental phases of the transformation, moving from the current "training wheels" stage of curiosity and introduction into "full speed" as the car stock starts to widely convert a decade from now.

[6] "Ford CEO Fields Predicts Driverless Cars On the Roads in Five Years," Bloomberg.com, January 6, 2015

Consumer interest in having a completely self-driving vehicle



Source: The University of Michigan's A Survey of Public Opinion About Autonomous and Self-Driving Vehicles in the U.S., the U.K., and Australia (July 2014)

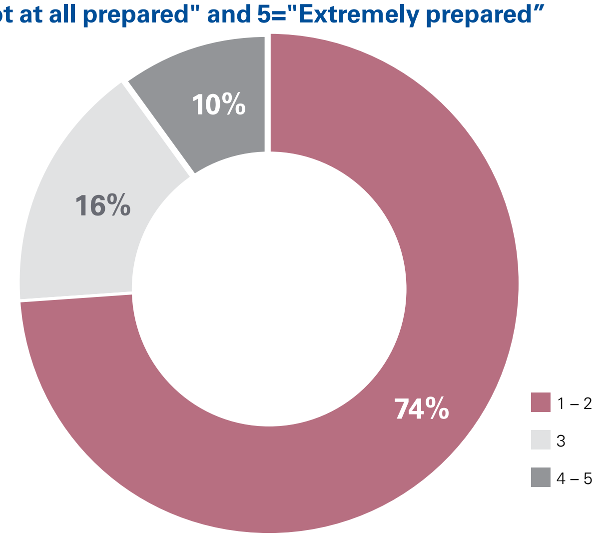
	Today – Stage 1 – 2017	2017 – Stage 2 – 2020	2020 – Stage 3 – 2025	2025 – Stage 4 – 2040
	"Training Wheels"	"First Gear"	"Acceleration"	"Full Speed"
Technology	**Preliminary Passive**	**Partial Driver Substitution**	**Fully Autonomous**	**Global V2V Network**
Consumer Adoption	**Buzz-Curiosity/ Education**	**Broad Consumer Knowledge/Initial Adoption**	**Mainstream Adoption**	**Market Mandate**
Vechicle Attainability	**Selective Safety and Infotainment Options**	**Full Product Suite/ Dropping Price**	**Affordable Technology Embedded**	**Full Car Stock Conversion**
Regulatory Permission	**Leader State Adoption**	**Full State Adoption**	**Rule Harmonization**	**New Vehicle/Retro Fit Mandate**
Infrastructure	**Existing Roads**	**Experimental Vehicle-to-Infrastructure (V2I)**	**High Occupancy Vehicle Lane (HOV)/ Broader V2I**	**Integrated Driving**

Change is coming—faster than most in the insurance industry expect. We know there is strong skepticism across the automotive insurance marketplace about this potential transformation. KPMG recently conducted a survey of insurance executives, and found that most thought that the effects of autonomous vehicles will be felt at least a decade away. As a result of this distant time horizon, most carriers "have done very little or nothing about preparing for the impact of the driverless car as far as (their) strategy is concerned," Jerome Albright, Principal, KPMG, Advisory Practice, said at KPMG's 2014 Insurance Industry Conference. Our survey confirmed this "wait-and-see" approach given that almost 75 percent of respondents believed that their organizations were not proactively implementing change in order to anticipate the impact of driverless vehicles.

> "(... most carriers) have done very little or nothing about preparing for the impact of the driverless car as far as (their) strategy is concerned."

Jerome Albright,
Principal, KPMG, Advisory Practice

How prepared do you believe your organization is for driverless vehicles?
Please rate on a 1-5 scale where 1="Not at all prepared" and 5="Extremely prepared"

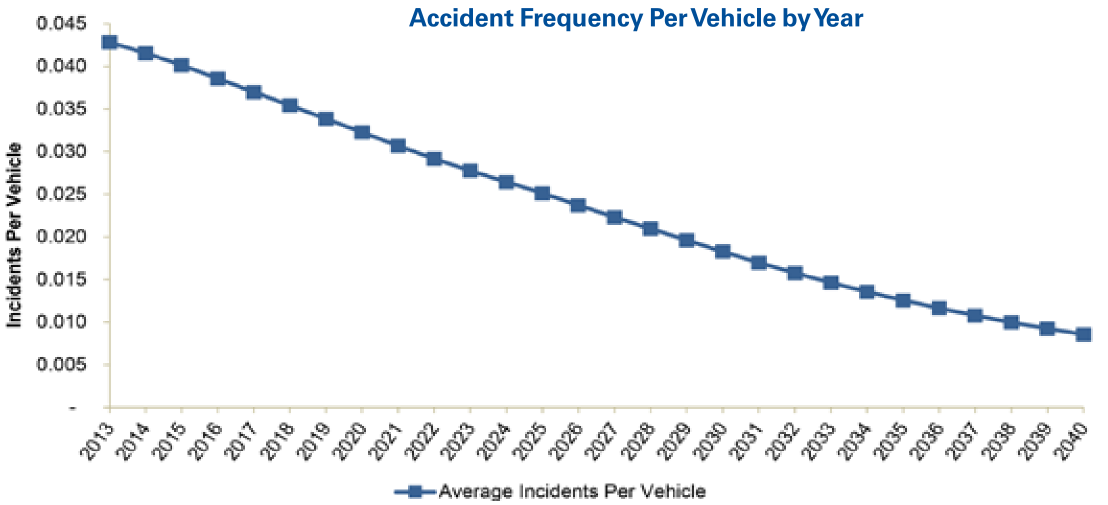


74% of respondents indicated a significant lack of preparation (Rating of 1 or 2)

Source: 2014 KPMG Insurance Industry Driverless Vehicles Survey

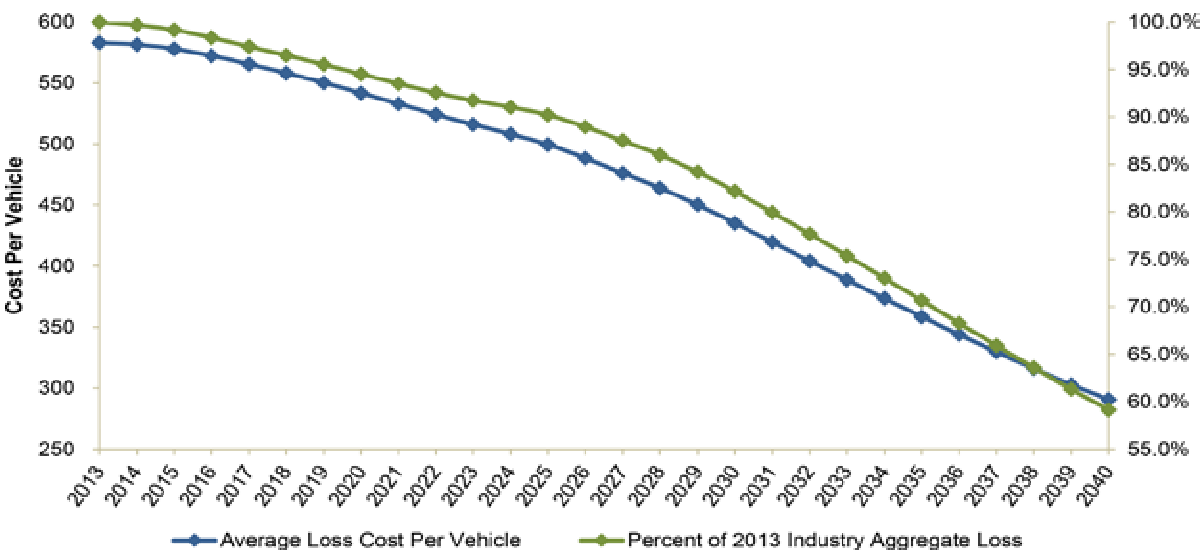
We believe that the ramifications of this shift towards autonomous capabilities will be realized soon (if they are not already being realized) across the automobile insurance sector. Each new wave of technology promises to improve safety and avoid more accidents. Our models indicate that the frequency of accidents could fall by 80 percent by 2040. This fall in accident frequency could slice away billions in claim damage, cut the number of personal injury claims, and save hundreds, if not thousands of lives.

Accident Frequency Per Vehicle Declines as New Technology is Introduced: Possible 80 percent reduction by 2014



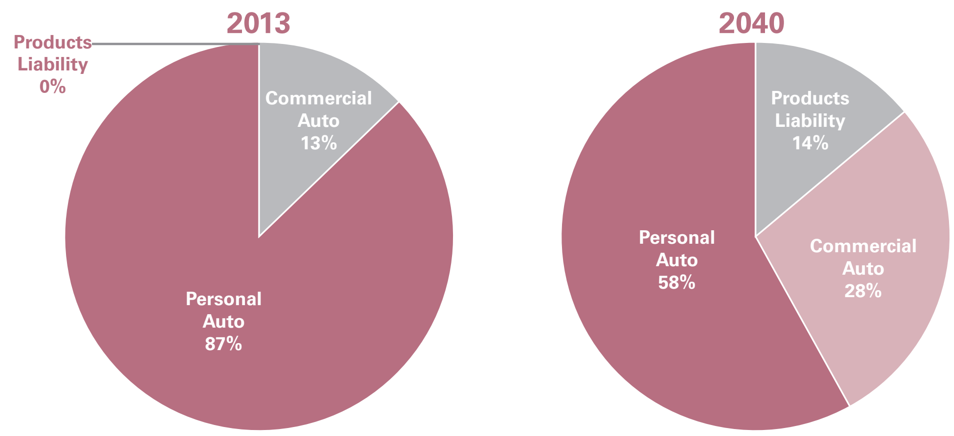
Source: KPMG LLP, 2015

This continual and significant decline in the frequency of accidents—with a small offset by more expensive claims associated with these more complex vehicles—will drive a precipitous drop in industry loss costs. Over the same 25-year horizon, our models suggest that the industry aggregate loss could fall by more than 40 percent.



The mix of insurance will also likely change, as commercial and product liability lines expand. Within 25 years, our models suggest a scenario where the personal auto insurance sector could shrink to roughly 40 percent of its current size. The elimination of excess capacity could bring severe market issues, with changing business models and new competitors only adding to the turbulence and speed of change.

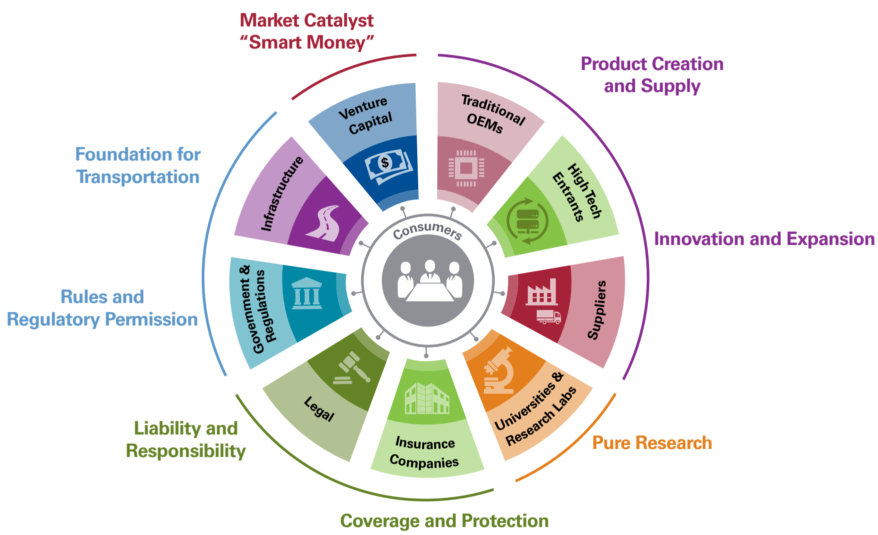
Loss Splits between Products Liability, Personal Auto and Commercial Auto



No one has a crystal ball to predict with certainty the future. It is therefore natural for insurers to ask: "How do you manage a business—or even an industry—in a time of great uncertainty?" Albright said. "Our answer has been to suggest that insurers right now work on quickly developing three or four different scenarios of how this could play out." he added. We encourage you to take some precautionary responses, with deeper actions taken later based on movement in lead indicators that suggest a certain scenario is being realized. The tactical responses – like changes in policy forms, pricing and rating updates, and employee education – will take considerable time and resources. Strategic moves will require significantly more.

KPMG has been at the forefront of the autonomous vehicle conversation. Our automotive team did a deep dive into the underlying technologies in 2012, and issued a white paper, *Self Driving Cars: The Next Revolution*. Subsequently, that team issued follow-on papers on the economics of new mobility and on consumer adoption (yes, our colleagues concluded, the marketplace will buy safe and affordable self-driving cars). Our research was convincingly clear that the automobile landscape was poised for disruptive change.

Driverless Vehicle Ecosystem



In the graphic above, we articulate the intersection of the various players in the wider driverless vehicle landscape. It summarizes the output of extensive research and discussions from both the KPMG auto and insurance practices during the past several years.

KPMG VIEW

- As transportation rapidly changes, one way for insurers to gain an appreciation for the future of insuring cars and other related insurance impacts is to consider what we see as the evolution of the automotive ecosystem—the future of the players in the vehicle game.
- The center of the model is focused on the consumer—if there is no demand for the product, it doesn't matter how advanced driverless vehicles are or what they can do. Our research shows that the more people know about driverless vehicles, the greater their interest in using or buying one.
- There is a major battle for the future of the car between traditional original equipment manufacturers (OEM) and nontraditional upstarts. These upstarts, which are mostly companies with strong Silicon Valley roots such as Google, Tesla, Apple and other emerging startups, increasingly see the car as software-driven machinery and apply the standards and expectations of the software industry. They expect to bring increasingly sophisticated technology to new vehicles on an accelerated time line and tend to place a premium on environmental sustainability. They are open to the idea of cars without the need for steering wheels, gas pedals and brakes and may be more aggressive in deploying advanced safety features. This contrasts with OEMs, who see this evolution taking place on a more incremental basis and will continue to emphasize the importance of the driver experience and vehicle performance.
- Other powerful forces in the ecosystem include universities, venture capitalists, established mobility and technology companies, and regulators. Among these new players, communication and collaboration will likely be direct, peer-to-peer, as opposed to hierarchical as in the traditional automotive supply chain. Furthermore, the interplay of ideas and innovations will likely no longer be controlled by the OEMs.
- This is the moment of greatest risk and greatest opportunity. Bets placed within this environment will have profound ramifications for the auto industry and for the shape of vehicles to come for the auto industry.
- The same can be said for insurers. How forward-thinking insurers act now and plan ahead could have significant implications for a generation—or longer.

With demand for cyber-security insurance coverage expected to continue rising this year due to hackings by organized crime, nation-states, cyber espionage, hactivism, and insider threats, it is essential that the industry enhance its credentials, commitment, and credibility in cyber technology. At the same time, insurers must look inward and determine their own vulnerabilities and plans to protect their and their customers' information.

Source: "KPMG: Cyber Insurance," 2014

The cyber liability market has grown at an annual pace of 20 percent or more since 2011,[7] yet there are growing concerns that, for their own protection, carriers need more experience and depth to accurately assess customers' risk profiles. Failure to address those worries could result in raising the risk of underpricing coverage and leaving some insurers financially vulnerable.

Part of the challenge facing insurers regarding the risk of underpricing cyber policies is that traditional pricing methods used for other products may be insufficient when it comes to cyber insurance because there is little "statistically significant actuarial data available" to price cyber products.[8]

Separately, and perhaps as significant, according to a recent AM Best study, major insurers themselves may be ill-prepared for data security breaches of their own businesses and they, too, may be underinsured in the event of a major loss. In its Fall 2014 Insurance Industry Survey, AM Best found that "53 percent of insurer respondents (many of them P&C insurers) said they currently do not purchase cyber insurance for their own companies."[9]

[7] "Why Cyber Insurance Will be the Next Big Thing," CNBC.com, July 1, 2014

[8] "Insurers Struggle to Get Grip on Burgeoning Cyber Risk Market," Reuters, July 14, 2014

[9] "No Safety in These Numbers," Property Casualty 360–National Underwriter, January 1, 2015

Pick up in Sales

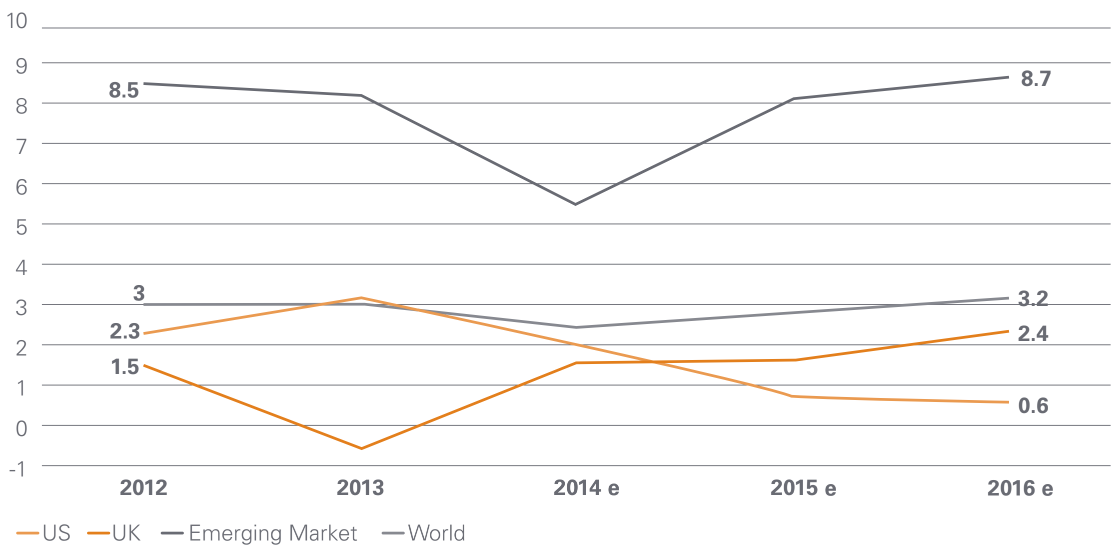
Aside from purchasing more coverage to protect their own business, we expect that this year P&C insurers will reach many more risk managers across business and industry lines. We believe those risk managers will come to the understanding that cyber insurance will move from something that would be nice to have for their businesses to coverage that is an absolute necessity.

Cyber insurance sales, therefore, could provide a boost to premium sales and profitability globally at a time when there are predictions of a slowdown in the recent growth rate in non-life sales. Swiss Re recently estimated that the growth rate in non-life in the U.S. will slow into 2016.[10]

But Marsh & McLennan Cos. estimated the U.S. cyber-insurance market was worth $2 billion in 2014, double that of 2013, and predicts a high growth rate in 2015.[11]

Cyber could help with overall growth rates

Non-Life Premiums Growth Rate/Global Regions Estimates 2014-2016



Source: "Swiss Re's Insurance Outlook for 2015 Sees Growth Opportunities for Insurers in a Difficult Environment," November 25, 2014

Until recently, many cyber-insurance buyers relied on their general commercial liability policies for coverage, but we see the real push in 2015 in the direction of stand-alone cyber contracts. Much of the reason for stand-alone products may be the direct result of a 2014 state court ruling in New York that denied an appeal from an international business that its insurance coverage through general commercial liability policies covered losses incurred as a result of class action lawsuits following a cyber attack. Since then there has been an uptick in the sale of stand-alone cyber policy coverage, and it is has prompted many organizations—including insurers—to focus heavily on security assessment programs.[12]

With low interest rates limiting revenues from insurers' vast bond portfolios, the extra underwriting income from the fast-growing new market may prove financially beneficial for the P&C industry.

But there may be reason to temper any optimism. Some insurers already have made public statements in a variety of published reports that there is a real shortage of qualified cyber-professional talent. As such, the ability to write more and better-priced coverage may suffer in 2015.

> "The Center for Strategic and International Studies, a Washington think tank, estimates the annual cost of cybercrime and economic espionage to the world economy at more than $445 billion—or almost 1 percent of global income.
>
> This is a global problem and we aren't doing enough to manage risk."
>
> *– James A. Lewis, CSIS senior fellow*
>
> *Source: "Report: Cybercrime and Espionage Costs $45 Billion Annually," Washington Post, June 9, 2014*

[10] "Swiss Re's Insurance Outlook for 2015 Sees Growth Opportunities for Insurers in a Difficult Environment," SwissRe, November 24, 2014

[11] "P&C Insurers Rush to Meet the Rising Demand for Cyber Insurance," Insurance Journal, October 9, 2014

[12] "Insurers Struggle to Get Grip on Burgeoning Cyber Risk Market," Reuters, July, 14, 2014

KPMG VIEW

Cyber Audit: An Essential First Step

In order to simultaneously protect businesses from financial loss due to cyber losses, boost industry sales, and lower the risk of insurers underpricing the product, we suggest insurers enhance training of their current cyber staff and also recruit outsiders with long experience in cyber security.

Further, insurers should focus on working with customers to conduct thorough security audits. Though cyber audits will vary widely by industry and by business, there are certain fundamentals that may be considered prudent in order to assess vulnerability and help with pricing decisions:

- Begin with a detailed plan and objective of the assessment
- Boards and management should insist on regular inspections looking for information-technology (IT)-system vulnerabilities
- Be certain that those who conduct the vulnerability review have strong credentials in cyber-security work
- Involve people at the business-unit level in the assessment
- After delivery of the risk-assessment report, act immediately to address the vulnerabilities
- Build a formal security and procedure policy and establish education programs that involve all employees.

Finally, a major impetus for more focus all around with respect to cyber protection will inevitably come from the array of regulators whose work and demands have escalated exponentially since 2008. Whether the Federal Trade Commission, the Securities and Exchange Commission, the U.S. Department of Health and Human Services or the many other regulatory bodies, each will be looking at cyber security from a number of perspectives, which will offer challenges and opportunities in the P&C arena in 2015.

P&C carriers can proactively take advantage by arranging high-level meetings with CEOs, chief legal counsel, board members and high-ranking IT professionals with the message that it is critical to begin deep dives into methods to identify cyber exposures, and then plan – and price – accordingly. The meetings may need to initially focus on where (and how safely) the organization's customer/client data, and the business's own financial information and other sensitive intellectually property, is stored.

Areas of considerations of risk include a solid understanding about the extent and usage of employee mobile devices that store and transport company information. Questions should be posed regarding whether coverage would protect the business if it used cloud-storage strategies and whether that site is successfully attacked.

Greg Bell, leader for cyber services and information protection at KPMG, recently suggested that the focus of attacks was on theft of credit card numbers that were later sold. But KPMG has been tracking more cases involving destruction or modification of data as a means to simply disrupt and harm business activity.

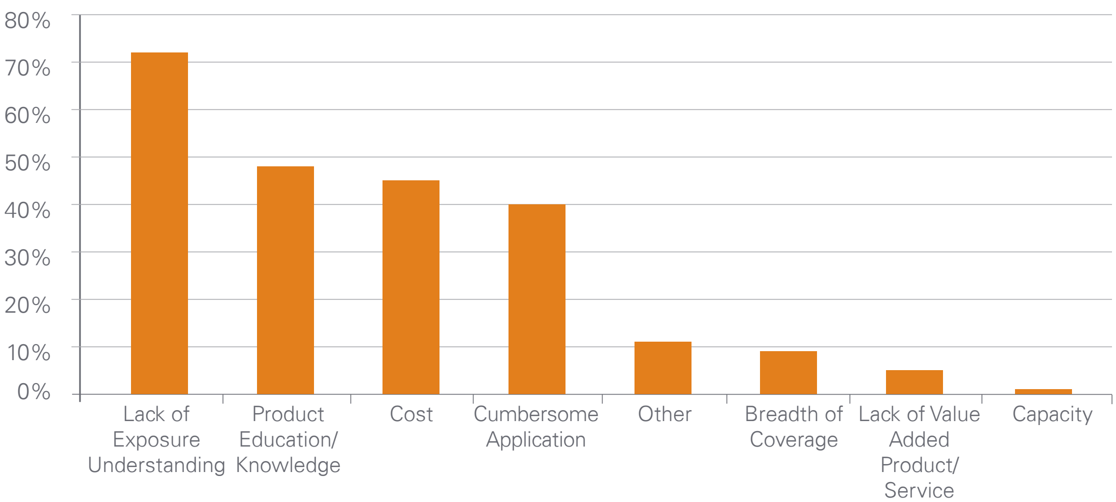
The fallout of that kind of activity adds pressure to make significant changes to the security culture at companies, enhance training and education programs, clearly articulated response plans, and increase threat intelligence capabilities and buy-in from the board of directors. "As opposed to saying just deploy this new technology or new process, we really will have to think more broadly about whether we have the right strategy or approach," Bell said.[13]

[13] "CIOs and CISOs Can Learn From the Massive Sony Breach," The Wall Street Journal, December 5, 2014

Obstacles to Selling Coverage

A recent survey by PartnerRe of 500 underwriters, brokers, and risk managers and buyers found that carriers and brokers require a high level of specialized skill to grow the cyber line of business. The majority (65 percent) of brokers considered themselves "moderately knowledgeable" on the subject. The biggest obstacles to selling the coverage: Seventy-three percent of respondents felt that the insured's lack of understanding of the exposure was the main obstacle. Closely related, a lack of insurance product information and knowledge on behalf of the brokers (48 percent) was another major factor. One broker commented: "I believe agents don't sell more or approach customers enough because they lack confidence in talking about the coverage and exposures with the client."

Obstacles to Selling Cyber Coverage



Source: "Cyber Liability Insurance Market Trends," PartnerRe," October 24, 2014, Used with permission

Through the remainder of 2015, as in the previous few years, there will be new and complex demands and uncertainties related to regulation. Such a landscape will require deft navigation for both compliance and for turning the new rules into opportunities that can transform business models, improve the organization's people, its technology, operations, and processes.

In a year when a number of P&C insurers will face increased domestic supervision and enhanced prudential standards from the Federal Reserve Board (the Fed), compliance with the National Association of Insurance Commissioners' Own Risk and Solvency Assessment (ORSA), and certain reporting information from the U.S. Department of the Treasury's Federal Insurance Office (FIO), a premium will be placed on stepping up transformation efforts.

While these reporting demands will require investments in digitization, such as in data aggregation tools, data and analytics capabilities, and better enterprise risk management programs (ERM), it also will mean that insurance boards and management teams will need to confront cultural issues regarding resistance to change and the recruitment of new talent that can help streamline overall transformation efforts relating to regulation.

> “A successful transformation ‘involves aligning new business models with a risk strategy that complies with the volatile regulatory environment...' In other words, (insurers) that align their strategies and operating models with the regulatory framework will gain a competitive advantage. Product lines and geographies can be designed to maximize capital and optimize efficiencies.”
>
> *John Ivanoski,*
> *KPMG. National Leader for U.S. Financial Services Regulatory Practice*

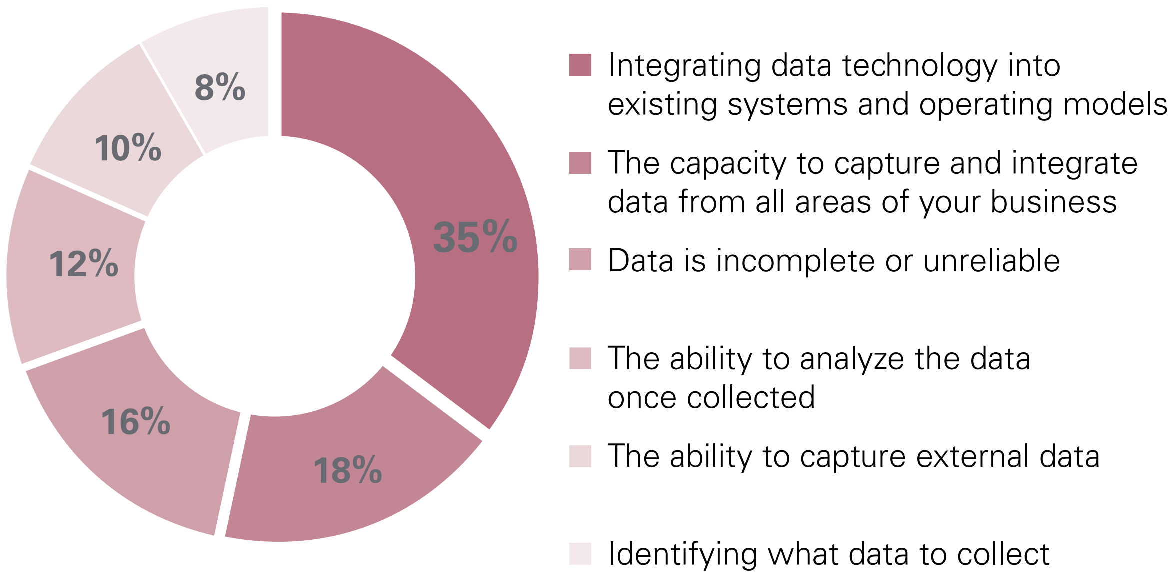
A Link to Strategy Is Imperative

A successful transformation "involves aligning new business models with a risk strategy that complies with the volatile regulatory environment," says John Ivanoski, partner and national leader for the U.S. Financial Services Regulatory practice at KPMG. "In other words, (insurers) that align their strategies and operating models with the regulatory framework will gain a competitive advantage. Product lines and geographies can be designed to help maximize capital and optimize efficiencies."

A major concern going forward will be whether the increase in regulatory demands will throttle growth, due to the organizations having to spend so many costly resources (people, time, and funds) on the existing and pending rules.

Because regulators are going to place significant emphasis on governance, "one of the first areas they will want to understand is how the institution is managed, what the governance structure looks like, the documentation process, and the internal control structure," Ken Albertazzi, a KPMG partner in the Financial Services Regulatory Risk practice, and a former Fed Supervisory Examiner, said during an insurance regulation panel discussion at KPMG's Insurance Conference in September 2014. "They want to understand where the risk is in the organization, and the extent that there is a robust ERM (enterprise risk management) program in place."

Such demands will inevitably place enormous demands on the organization's data quality and data aggregation capabilities, which has been a struggle for many insurers, as noted in the following graphic – which comes from a recent KPMG survey of insurer that included the question: "What is the biggest challenge your company has faced in capturing data?"



Source: Digital Technology's Effect on Insurance survey KPMG International, May 2014 (Also source for chart below with circle

Regulatory Compliance Through Strategic Coordination
Because programs to comply with regulations are expensive to put in place, and they can limit revenue growth and profitability, we suggest that, in order to gain competitive advantage through a transformation, insurers need to design strategy and an operating model based on a regulatory framework by:

Recognizing that the regulatory framework is not only a trigger for regulatory transformation, but also underlies transformations that can increase efficiency and profitability.

Embedding the regulatory framework in the operating model early on, when possible, at the beginning stages of transformation. For best results, the regulatory framework should be considered while assessing the need for transformation or planning it.

Empowering compliance and risk executives in the process of transformation, and securing companywide sponsorship for consideration of regulatory issues. The tone from the top should guide every single person in the organization to be conscious of risk management for both compliance and business purposes.

Establishing a system to track applicable regulations and gather data for compliance, and gaining an understanding of how to turn regulations into a competitive advantage.

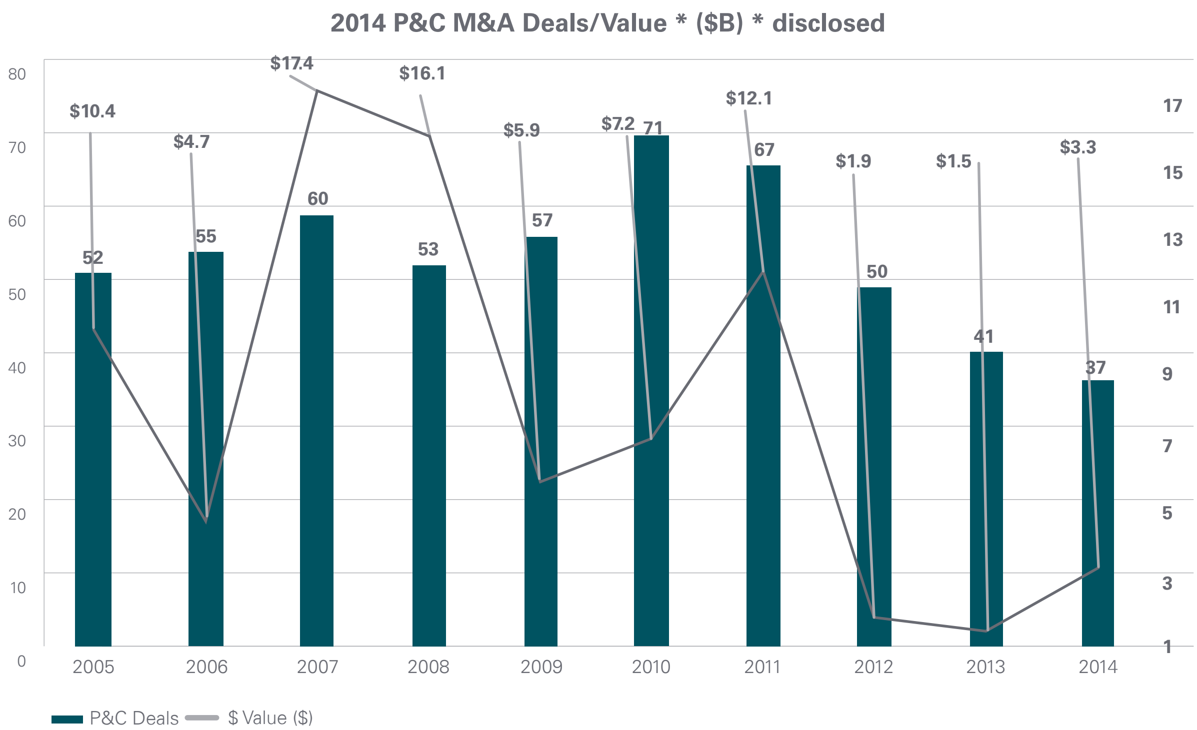
Source: "From Burden to Competitive Advantage: Regulatory Change and Transformation in Financial Services," KPMG LLP, 2014

Senior insurance executives and their boards will undoubtedly look closely at potential strategic M&A deals in 2015, given so many insurers have been hard pressed to sizably expand their core businesses, and the possible softening of pricing going forward.

In our view, the industry's very large levels of capital and surplus, in addition to ongoing shareholder pressure, could put more pressure this year on large and midsized carriers to make strategic deals—many of which will be focused on taking advantage of alliances that will strengthen their technology transformation strategies.

In 2014, higher premium rates improved performance and, in turn, buoyed the prices of potential acquisition targets, but a slowdown in premium increases could reverse that trend this year.

Mergers and acquisition directly involving P&C carriers in 2014 declined in the number although the dollar value climbed somewhat.



Source: SNL Financial; KPMG Research

The chairman of a U.S.-based publicly traded specialty insurer recently predicted that "a few years from now, there are bound to be fewer companies because there is just too much capital. How it will take place and the pace of that integration remains uncertain."[14] Capital and surplus levels in the P&C industry, which bordered on nearly $700 billion at the end of 2014, provide a powerful stimulus to put at least some of that to work to merge tech-savvy organizations, which might be able to provide scalability and agility, with some of the larger P&C insurers that already are struggling with tech upgrades.

[14] "P&C industry Overcapitalization Seen Driving Consolidation, Pricing Pressure," SNL Financial, October 23, 2014

KPMG VIEW

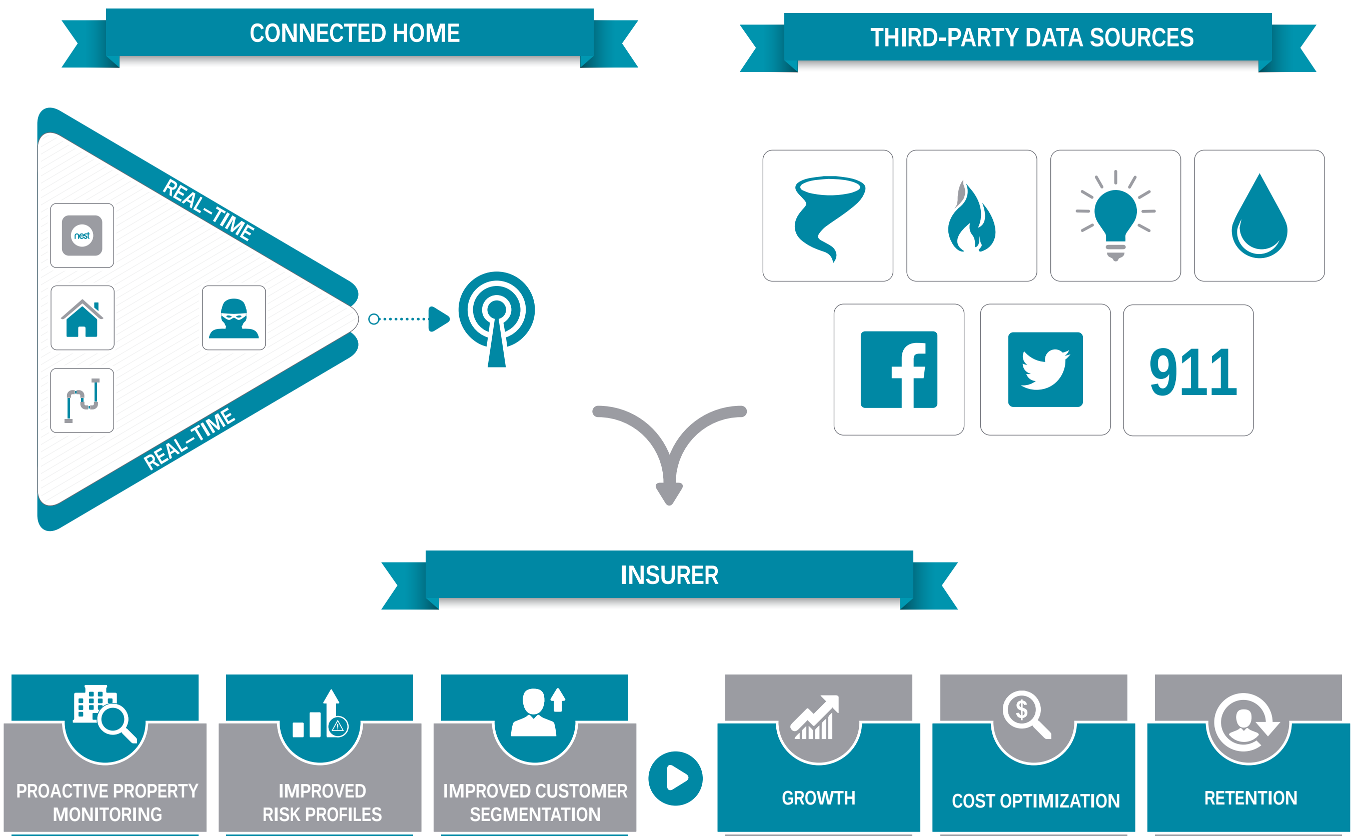
The M&A lever may be pulled to help enhance much-needed tech applications in such critical areas as the claims supply chain and data and analytics.[15] By joining with more nimble organizations with new-age technologies, more traditional P&C insurers may also address another area of need: an upgrade in technology talent that can provide fresh thinking and ideas in a tradition-bound industry.

[15] "M&A Surges in P&C Claims, Technology," Stone Ridge Advisors/Insurance Thought Leadership.com, August 19, 2014

A closely related strategy to the M&A plays that we expect in the months ahead is the consideration of using venture capital (VC) strategies by insurers and leveraging their large surpluses and capital. Already, during the past several years, some of the largest insurers established VC units as a way to kick-start the need for their more traditional market by embracing new technology to reach more customers that have eluded them and to find technology solutions that can help create greater efficiencies in their own businesses.

To be sure, creating VC teams is mostly aimed at assimilating new-wave technology in the core business of the parent. However, it also about acquiring talent that, before being approached by an insurance-company-backed VC firm, might never have considered the insurance industry as a place to launch a career.

These talented individuals and their ideas are needed for the industry to make great leaps in such diverse areas as building much more sophisticated underwriting models, creating services that increase touch points for home and vehicle (personal and fleet) customers, and even in the industrial world—such as sensors that detect break-ins, water leaks, or electrical malfunctions in businesses.



Source: "Data, Data, Everywhere!" KPMG LLP, September, 2014

During an October 2014 Webcast,[16] Ellen Carney, a Forrester Research Inc. principal analyst serving the insurance industry, reminded the audience that, with "their regular stream of premiums and irregular claims," the insurance industry is in an ideal position to fund new ventures. The demands by customers and shareholder to push insurers into more digital solutions ''are moving insurance venture funding from the shadows to the spotlight."[17] In a follow-up report, Carney wrote that "growing numbers of insurers are seeking to fund interesting start-ups … that promise to provide benefits to members and policyholders, transform the business of their parents, and keep their firms from stagnating."[18]

It is difficult to argue with that type of logic in this rapidly changing economic ecosystem. Indeed, businesses across the financial services spectrum are following suit: The Tabb Group, a financial markets research organization, reported a significant pick-up in deals where traditional businesses were involved in "an inordinate number of billion-dollar venture backed deals."[19]

Such activity in the tradition-bound (and regulated) insurance industry, though, will require not only intense due diligence on the part of management and boards, but also will mean that they will need superb risk-management skills.

At the same time, digital disruptors, especially from giants such as Google, which is expected to wade into insurance in a big way, may provide the impetus for insurers to use the venture capital lever to a much more significant degree in 2015.

[16] "Predictions in 2015: Trends in Digital Insurance Experience," October 21, 2014 – Forrester Research, https://webinar.insurancetech.com/17657

[17] Ibid

[18] "Predictions 2015: Venture Investments Will Spur Digital Insurance Innovation; Digital Disruption Promises New Threats and Opportunities in 2015." Forrester Research, October 2014

[19] "2015: The Year of the Boutique Acquisition," The Tabb Forum.com, January 15, 2015

After a decade where 12 of the most catastrophic storm events in U.S. history occurred, 2013 and 2014 thankfully were comparatively benign from a death, injury, and an insured loss perspective. But climate risk has not gone away, and in 2015 will represent a challenge and opportunity for P&C insurers.

With roughly 40 percent of the U.S. population living in a county on U.S. shorelines,[20] and the value of the property at about $10 trillion, insurers will need to act as a partner with the federal government, particularly with the Federal Emergency Management Administration (FEMA), to help maintain the Flood Insurance Rate Maps (FIRMs) and risk assessments. FIRMs include data for river flow, storm tides, hydrologic/hydraulic analyses, and rainfall and topographic surveys. Improvements to these maps are under way.

An advisory council is also authorized to develop recommendations for FEMA for future conditions mapping, including the best available methodology to consider the impact of the rise in the sea level and future development on flood risk. We believe the industry, along with government specialists, has an opportunity to enhance data risk models, which could provide a way to price coverage risk more accurately.

As has been the case for years now, populations continue to increase in coastal zones and in densely populated cities along our coasts. Some cities, such as San Francisco, are ordering contingency plans be created for private and public works for vital services, such as improved drainage, better storm water systems, and elevated construction plans to adapt to rising sea levels and flood due to more extreme weather.[21]

Regardless of whether there are believers in climate change, officials in states such as New York, New Jersey, Florida, Texas, and California with densely populated coastlines and with counties in watershed areas affected by flooding due to intense weather events, are considering how to leverage data analytical tools in their quest to manage climate risk.

For decades, homeowners and commercial business owners were attracted to move to the watershed regions, in part, because the U.S. government offered generous subsidies through its National Flood Insurance Program (NFIP) – so generous, in fact, that the program has now paid out $24 billion more in claims than it has collected in premiums.

At the end of 2014, the NFIP owed that amount to the U.S. Treasury, primarily because it needed to borrow it due to losses caused by Hurricane Karina and "Super Storm" Sandy. Although the money has not been repaid (taxpayers are on the hook for it), the NFIP continues to offer rock-bottom, subsidized premiums for coverage to the millions who live in the flood-prone regions.

Under the NFIP, the federal government assumes liability for coverage and sets rates and coverage limitations. Private insurers act as servicers, selling the policies and administering the claims for a fee. The NFIP covers up to $250,000 of building coverage for a residential dwelling and $500,000 of building coverage for a nonresidential building.

An opportunity in the residential market

One important principle when buying insurance is to cover large losses. Yet this maxim is conspicuously absent in the federal flood program. Its coverage appears designed to cover a tidal wave of low-level losses resulting from singular events. Approximately 12 companies provide excess flood coverage. Many homeowners with jumbo mortgages appear unaware of this coverage and are unable to find a provider. We sense a real opportunity in this segment of the market.

Private market flood insurance had been limited in the past by an inability to effectively underwrite and the potential for incurring large losses, particularly for the threats posed by hurricanes. With the advent of advanced underwriting and improved modeling, such risks are more predictable and lend themselves to accurate premium pricing.

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[20] National Oceanic and Atmospheric Administration: http://oceanservice.noaa.gov/facts/population.html

[21] "U.S. States, Cities Brace for Global Warming Fallout," Stateline, Pew Charitable Trust, December 23, 2014

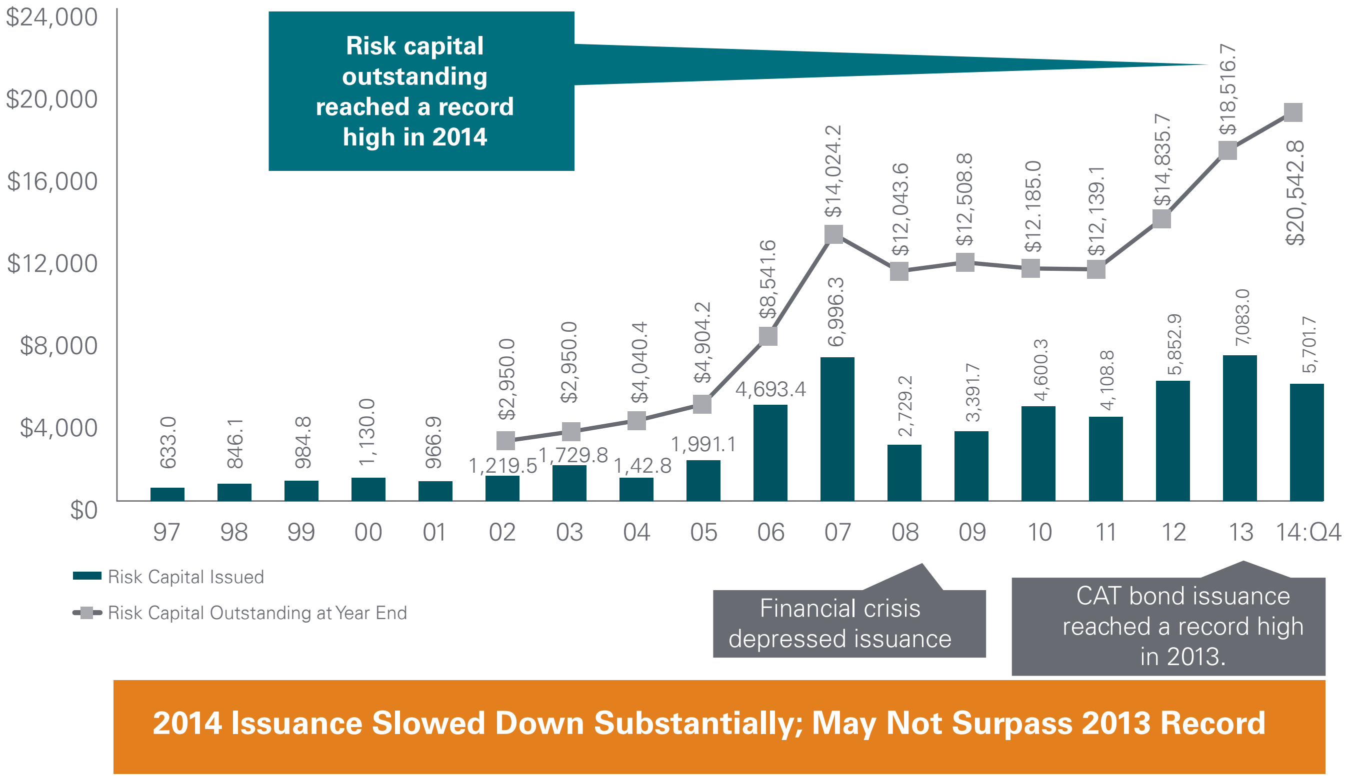
There is also greater potential for risk transfer to the capital markets. To the extent that such risk transfer aligns with the wealth management side of a full-service bank, insurers may be able to fashion joint business arrangements that target a bank's high-net-worth clients.

Since 2005, insurers and reinsurers (cedants) have sought to reduce catastrophic exposure by transferring a greater portion of their retained financial risk to third parties and the capital markets. We believe this alternative risk transfer market has reached maturity and may be ready to absorb the added exposure of a private flood insurance market.

Catastrophe bonds (" cat" bonds) represent popular capital markets solution. These insurance-linked securities (structured as floating-rate corporate bonds) transfer a segment of a specified risk for a specific time from a cedant to investors. Property cat bond issuance for the fourth quarter 2014 reached $2.1 billion, hitting a record annual level of $8.0 billion, according to a report published by Aon Benfield Securities, the investment banking division of Aon Benfield.[22]

Cat bonds, typically rated BB, or "non-investment grade" by credit rating agencies, offer yields several percentage points more than comparable Treasuries. These bonds are finding their way into more fixed-income portfolios.

Risk Capital Amount ($ Millions)



Sources: Guy Carpenter; Insurance Information Institute, Insurance Journal – January 16, 2014

[22] "Catastrophe Bond Issuance Reaches Record Level: Benfield Report," Insurance Journal, January 16, 2015

Our message to the industry is a straightforward one: Insurers that expect to thrive in the short and longer term in this highly competitive environment must pick up the pace of transformation.

With digitization, connectivity, customer expectations rapidly changing, we suggest abandoning any "wait-and-see" attitude about change.

Insurers, which have long enabled the risk-taking culture of American commerce and have protected American household wealth, cannot dawdle in this period of transformation that hinges on rapid digitization. Those that are not prepared for this transformation risk disintermediation and irrelevance.

In our face-to-face discussions with board member and top executives in the insurance industry, there almost always seems to come a point in the discussion when the topic turns to both the pace of transformation and the idea of linking the transformation to the organization's overall strategy.

While most of the industry leaders rightfully point out that their organizations have made great strides in the digitization of processes, operations, and even customer-outreach programs, we find that it is not uncommon for those executives to concede that their businesses need a more structured, strategically aligned plan for transformation.

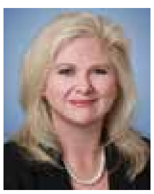
A major challenge is managing the broad scope and complexity of the transformation. That challenge is made even more difficult by the introduction of many new regulations, adding complexity and cost to the management of the business. Nevertheless, the only option we see is a commitment to moving forward with dispatch.

There is no question in our mind that secure, long-term and sustainable competitive advantage demands a greater reliance on leveraging of new digital technologies to enhance the experience of existing customers and reach new customers. However, that leverage cannot be conducted in a vacuum. It must be done together with detailed, strategic thinking about the future needs of the customer and the future of the industry.

Silos that separate an organization's efforts to create and deliver products and services cannot be allowed to remain in place, and therefore must be knocked down through a transformative effort that is shared throughout each organization. There unquestionably will be winners and losers in this time of transformation: The question each insurer must confront is how well—and how quickly—they will carry out this critical change.

KPMG's Insurance practice is part of KPMG's Financial Services practice, which is the largest provider of professional services to financial services businesses globally. With our one firm approach, KPMG insurance professionals bring the best of the firm to help you meet your challenges. Our insurance professionals have deep knowledge about the issues affecting insurers today—from global regulatory reform to legacy platforms to customer-centric strategies. KPMG's insurance practice is comprised of more than 1,400 Audit, Tax, and Advisory professionals in 87 offices across the U.S. Partners and experienced professionals in our network understand the critical business issues that will drive your future growth.

Contact us:



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