



cutting through complexity

Driving Insurance Forward: Opportunity through Innovation

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On the face of it, the insurance industry has already travelled some distance in embracing technology-led innovation. Certainly, customer demand for self-service and online account management is catered for, particularly in the consumer-facing market.

But today's innovation culture goes beyond just digital. Disruptors with nimble, cost effective business models and customer centric offerings are snapping at the heels of the big players. Their innovations are customer focused and technology led.

Consumer expectations have never been higher. Across all industrial and commercial sectors, retail and business customers see digital technology as a catalyst for a better and more personalized service, providing access to a greater range of providers and products. In the insurance industry, the imperative is to deliver better and faster decision making and products tailored and priced for individuals.

This presents a real challenge for the industry, not least because a burgeoning worldwide fin-tech industry is throwing up new players, bringing fresh-thinking and cutting-edge technologies to the marketplace. Without a commitment to innovation, the incumbent insurers may likely sacrifice market share to more agile competitors.

AWARENESS INTO ACTION

Research by KPMG International indicates that insurance industry leaders are acutely aware of the need to innovate. Earlier this year we polled senior executives from 280 insurance companies worldwide for the upcoming insurance report, 'A New World of Opportunity: The Insurance Innovation Imperative'. Perhaps unsurprisingly a significant majority (83%) agreed that the future success of their businesses was tied to their ability to innovate.

It was a viewpoint driven, at least in part, by growing evidence of fundamental change within the industry. Almost half (48%) said their own business models were already being disrupted by more nimble competitors, and 46% expected further disruption over the next five years.

But as the report found, a broad awareness of disruption within the industry – and the associated risks – has not necessarily been matched by positive action. Fewer than half of companies questioned had an overarching strategy for innovation and most watched (and ultimately followed) what others were doing, rather than aiming for first-mover advantage.

THE ROAD AHEAD

But to dwell on the negatives is to ignore the opportunities. The growing sophistication of big data coupled with analytics, dovetails neatly with customer demand for more personalized and faster, better-informed decision making. To take an example, a combination of customer and market data drawn from a broad range of sources can allow much more effective pricing of risk. The technology is available. For instance, McLaren Applied Technologies in an alliance with KPMG in the UK has taken data management and electronics expertise gleaned from years of experience in Formula One and applied it to helping organizations improve their processes and services.

INNOVATION INHIBITORS

There are understandable reasons why major insurance groups should adopt a cautious, or measured, approach to innovation rather than pressing ahead with new innovative business models or technology powered operations. Perhaps the biggest factor is regulation, but businesses also face issues such as a lack of core skills and (as things stand) insufficient funds for innovation projects with only 39% of respondents having a dedicated innovation budget. There are also structural problems. Big insurers tend to work in silos dividing up not only functions – marketing, accounts management, etc – but also classes of work. For example, effective use of big data and analytics almost by definition means taking a holistic, group-wide approach. Equally important, organizations must create future-ready services and business models while managing their businesses in the present.

WHAT NEXT?

Good work is already being done. Our survey found that insurers are already setting up cross-cultural teams and partnering with third parties to develop new products and models. Nearly half are using technologies to improve pricing and decision making and of those who said they have a dedicated innovation budget, 93% expect it to increase over the next 2 years. However, in a traditionally risk-averse industry, real change can be slow, not least because the lack of a clear strategy can hamper progress by focusing on incremental changes to certain aspects of the business, rather than taking a more strategic view. The incremental approach may seem safe but in the longer term it creates a risk that market share will be lost.

There is no single, generalized route map for business redefining innovation. Each company must make its own way, depending on its objectives, business model, market positioning and customer base. But all insurers should focus on innovation in the here and now. The market is moving too quickly for any business to do otherwise.

INNOVATION FROM THE TRACK



Innovation doesn't always come naturally to long-established organizations but as Caroline Hargrove, Technical Director of McLaren Applied Technologies, explains, businesses can learn from other industries.



From new products and services based on a better understanding of the customer through to improved internal processes, businesses in all sectors are under pressure to innovate.

But innovation isn't always easy. By definition, to 'innovate' is to do something that hasn't been done before. It's something that comes naturally to some early stage companies that are not only working from a blank canvas but also seeking to 'disrupt' their chosen markets. In contrast, a large organization with a trading history stretching back decades faces real challenges. With well-established processes and practices, it may struggle to understand how new technologies can be applied to its existing business model.

And that can lead to stasis. Businesses understand the need to innovate – and that's certainly true of the insurance industry – but they may not have the internal resources, knowledge and expertise to effect the radical change that will drive improvement.

One way forward is to learn from other – perhaps completely unrelated – industries while also using the expertise of third-party partners as a catalyst for change.

Transferable Knowledge

In my own field of simulation and data analytics it has become apparent that technologies and strategies developed for one industry can be leveraged elsewhere.

To take an example, McLaren Applied Technologies was born out of the Formula One and automotive business of the same name. What we have established is that data tools developed to understand and improve the performance of high-performance cars are transferable to other industries. We have applied our technology to industries as diverse as pharmaceuticals, oil and gas and latterly (working with KPMG in the UK) auditing and finance. In all cases the key to success is selecting, managing and analysing relevant data streams in pursuit of actionable information that provides real insight as to how performance can be improved.

By bringing in a third party, an organization is not only leveraging technical expertise but also a different vision. Or to put it another way, fresh thinking about existing problems and challenges.

This approach is relevant for the insurance industry. As KPMG's survey indicates, more than 80% of industry leaders say future success for their companies depends on innovation and yet progress across the industry is currently limited. Working with partners brings in the knowledge and vision that drives change.

ANSWERING THE INNOVATION IMPERATIVE

The industry is at an inflexion point. Bold action is needed to seize opportunities and answer the innovation imperative.

Based on the findings of KPMG's upcoming report, we believe there are ten key catalysts of innovation that management can use in order to thrive in a changing world

01 /

APPLY AGILE AND DEDICATED LEADERSHIP

Strong, agile and dedicated executive leadership and accountability for innovation is a defining factor for success – innovation must be on the leadership agenda. Leadership training, development and incentivization will be key.

02 /

ENCOURAGE CHANGE THROUGH CULTURAL TRANSFORMATION

For many insurers cultivating innovation will require cultural change. Breaking down internal silos is a key success factor to create a more agile, collaborative and flexible organization. Incentivizing employees and creating structures that prioritise the success of customers – not products – will help drive cultural change and new ways of thinking.

03 /

CULTIVATE HIGH-PERFORMING HUMAN TALENT

The people dimension is the most important part of making innovation happen and there's a lot to balance and optimise. Identify and develop individuals within your current talent pool with the reputation for shaping new ideas, simplifying processes, driving change and looking to the future. When hiring be clear on the new skills and capabilities required and create a more diverse workforce that reflects the culture you hope to achieve. Focus on encouraging different ways of working, through reward, the culture of the organization and through performance management.

04 /

UNDERSTAND WHY YOU ARE INVESTING

Innovation requires discipline and governance, with portfolios risk and time balanced. Money flows and metrics matter – with teams rewarded for their input. Winning organizations budget for innovation and own it as a business.

05 /

DECIDE HOW YOUR ORGANIZATION WILL THRIVE AS THE INSURANCE INDUSTRY TRANSFORMS

Once the need to act is clearly understood, companies must decide what to do. This commonly involves updating competitive strategies and realigning models. A refreshed understanding of where your company stands versus competitors informs how it must compete and win in future.

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LEARN FROM OTHERS

Disintermediation in the insurance industry means partnerships will be key to future success but need the right structures, models and infrastructure in order to create value. Large organizations need to learn to partner, and all organizations need to learn to partner effectively. Consider alliances with partners outside of insurance to accelerate customer benefits and expand the value chain.

DEVELOP YOUR OWN VIEW OF WHEN AND HOW ADVANCES IN TECHNOLOGY WILL IMPACT YOUR ORGANIZATION

The immensity of the current changes, together with pride in past success and lack of confidence about the ability to adapt have caused many insurers to resist change. This is a potentially fatal mistake. Avoid it and keep refreshing your views.

LEVERAGE NEW TECHNOLOGIES INTO YOUR CURRENT BUSINESS

While upgrading core technology infrastructure such as policy administration and claims systems to support new "customer centric" business models and address cyber-risks is important, doing so assuming the status quo is a missed opportunity to pivot to meet new challenges.

MITIGATE RISK BY INVESTING AND EXPERIMENTING

The best companies have discovered ways to link their investments to the expected frequency and severity of risks to ensure they are appropriately matching investment to risk. Experiment with new business models. Depending on your team's assessment of the viability of your current business model and the role of technology in your competitive strategy, you might also explore new business models and businesses as the profile of risk changes.

BE WILLING TO DISRUPT EXISTING BUSINESS MODELS

Decide what role your company will play in industry consolidation and change. Scale is no defense to 'bystanders' that find themselves out-competed by organizations that are able to innovate smarter. We believe the greatest returns will accrue to those organizations that are able to 'join the dots' and actively participate in the change, consolidation and disruption that is to come.

THE FULL REPORT, '**A NEW WORLD OF OPPORTUNITY: THE INSURANCE INNOVATION IMPERATIVE**', WILL BE AVAILABLE ON 17 SEPTEMBER 2015 AT WWW.KPMG.COM/INSURANCEINNOVATES



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