Embrace change in changing times

2016 insurance CEO outlook

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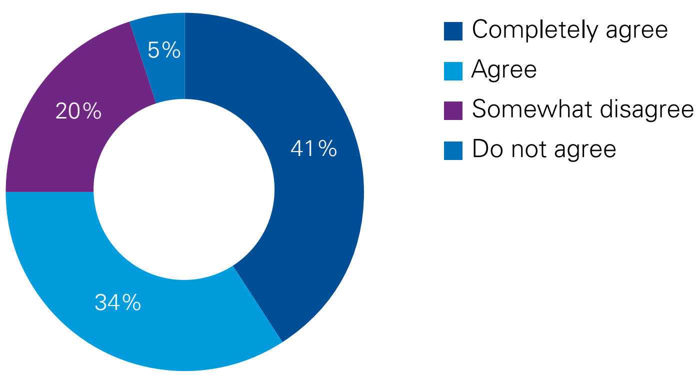
What got you here won’t get you there

That is a maxim insurance chief executive officers (CEO) should get used to as they lead their companies through an era of unprecedented change in the industry.

For **KPMG LLP’s (KPMG) 2016 CEO Outlook Survey**, we polled 41 CEOs of large U.S. insurance companies about a range of issues affecting the business landscape. What we found reflected our own conversations with the insurance clients we serve: Given the tremendous transformation underway in the sector, **three-quarters of insurance CEOs say the next 3 years will be more critical to their industry than the last 50.**

The next 3 years will be more critical for my industry than the previous 50 years.



While most CEOs (83 percent) are optimistic about the industry’s prospects for growth, they recognize that navigating the customer, technological, competitive and economic forces currently reshaping the industry will require them to rapidly reinvent core aspects of their business.

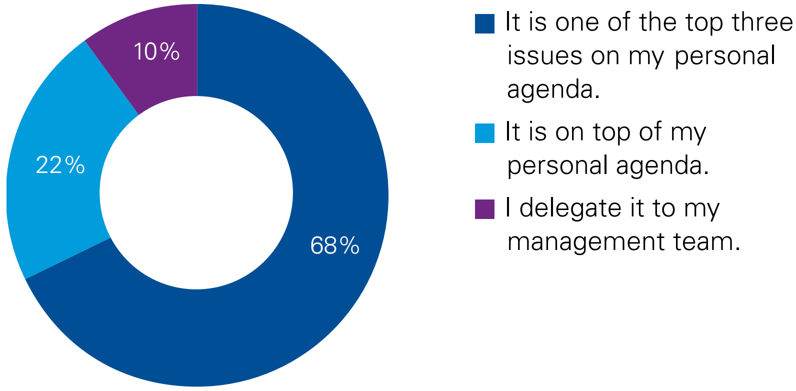
In this briefing, drill down into some of the **key findings** of the survey to uncover what leading insurance executives believe are the best ways to conduct business amid the swift and substantial transformations taking place in the industry.

Innovate or die

Rapidly evolving customer demands. Threats from agile insure-tech start-ups. Volatile economic conditions. Regulatory uncertainty. A challenging investment climate. Advancing technology.

A host of disruptive forces are making innovation an imperative for business success in the insurance industry. In fact, 90 percent of insurance CEOs have innovation on their personal agenda.

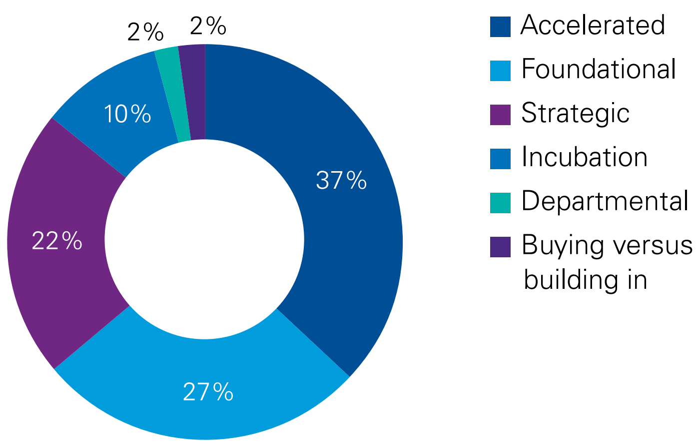
As the CEO, how do you approach innovation in your organization?



To seize opportunities to grow their business, insurers will need to innovate faster than traditional competitors as well as small, tech-based disruptors armed with the means, agility and talent to threaten the core profit centers of stalwart insurers.

To hold off their challenge, speed is of the essence, but only 37 percent of insurance CEOs describe their organization's approach to innovation as accelerated. Fostering a culture of innovation, formalizing innovation processes, accepting and learning from failure, and developing joint ventures and alliances with strategic partners are all key tactics for insurers to raise their innovation game and position their companies for growth.

Which of the following statements best characterizes your organization's approach to innovation?



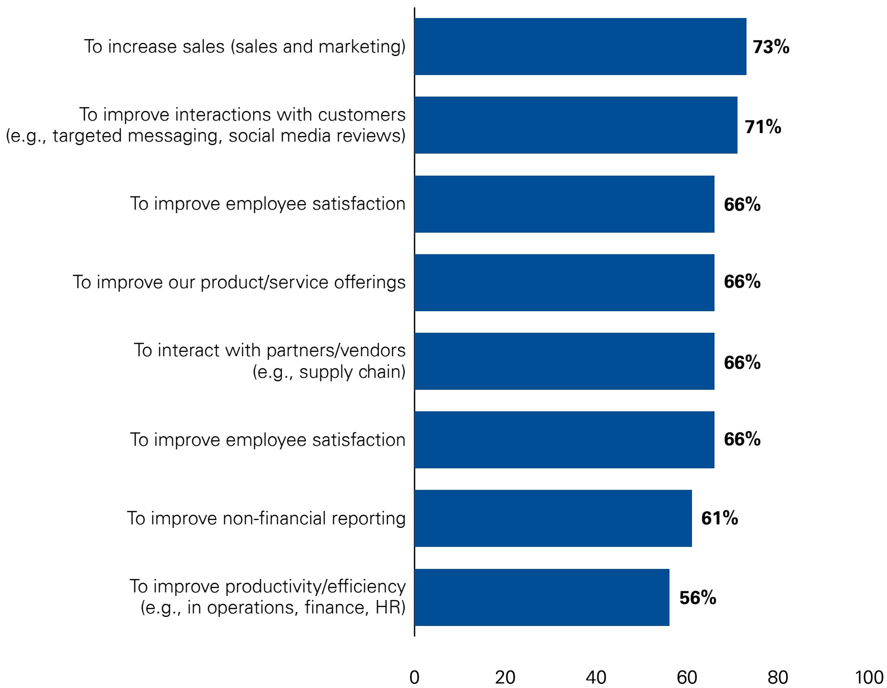
Technology to the rescue

One of the few ways any company can keep up with the exponential pace of change across industries is by embracing emerging technologies strategically and cost-effectively. Our survey shows that the insurance industry is no outlier.

In the next three years, insurers will make customer connectivity a key part of their strategy, and technology will be a huge part of it. Success tomorrow means embracing new technologies to reach new customers—and keep old ones coming back.

Indeed, 93 percent of insurance CEOs say they are concerned about the loyalty of their customers. As such, the vast majority of insurance CEOs say they will leverage disruptive technologies to unlock opportunities to improve customer relationships (71 percent), increase sales (73 percent), and enhance product and service offerings (66 percent).

How does your organization currently make use of disruptive technologies?



Consider the potential of connected devices like home sensors that deter thefts or deliver predictive data. These technologies can help insurers more accurately price risk and offer more affordable and attractive products to consumers. They can also save insurers money in the long run by reducing the number of claims.

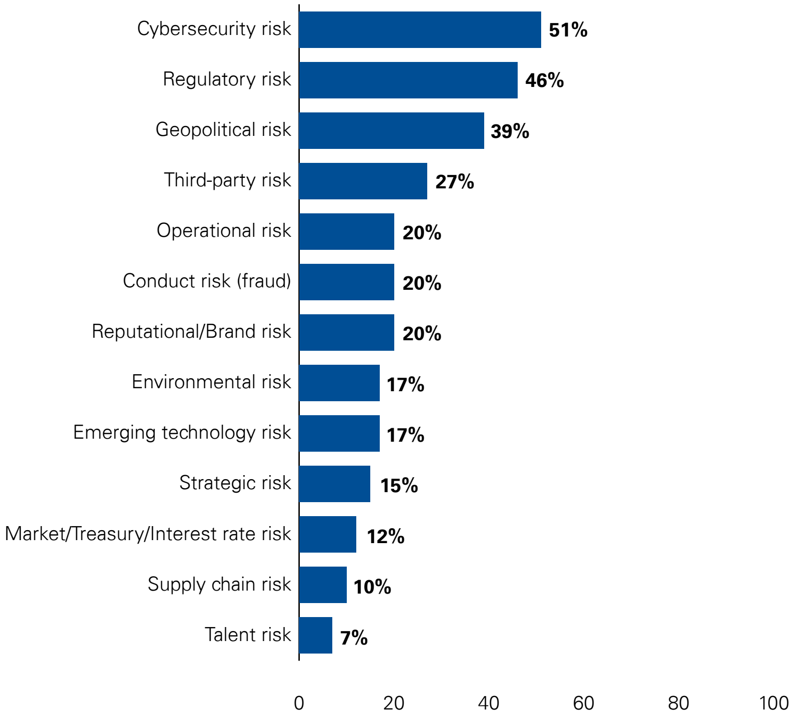
At the same time, incorporating digital and mobile into the business, such as user-friendly apps or social media channels, can enhance customer experiences and interactions and drive greater loyalty.

Finally, leveraging data and analytics is critical to understanding trends and identifying and capturing customers in the face of terrific competition.

The cybersecurity priority

As insurance CEOs transform their businesses to enhance their competitive edge, they see a number of obstacles ahead. At 51 percent, the risk that concerns the largest portion of CEOs is the cyber threat.

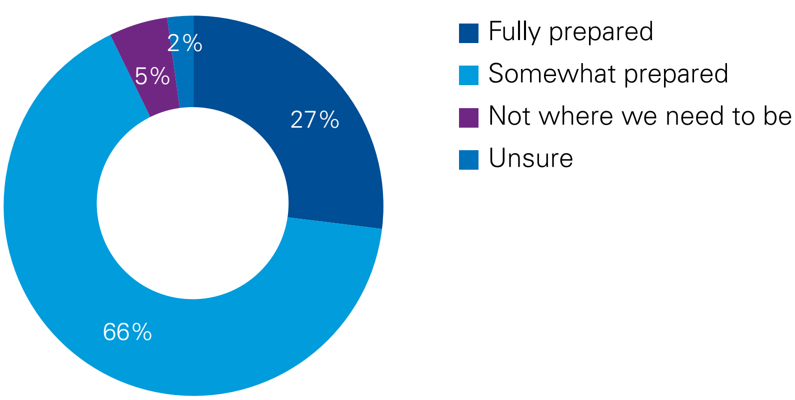
Which of the following risks are you most concerned about?



Insurance companies own a treasure trove of customer data, from home addresses to social security numbers to bank account information. That makes them a prime target for cyber attackers looking to steal private information for their own personal gain.

When a cyber breach can practically destroy a brand overnight—and only 27 percent of insurers feel fully prepared for one today—it is no wonder minimizing cyber risk will be the top strategic priority for insurance CEOs in the next 3 years.

How prepared is your company for a cyber event?



Interestingly, insurers are also looking to capitalize on the cyber threat in other industries by launching products to protect businesses impacted by a breach from financial and reputational ruin. As we noted in our recent paper, *Cyber insurance: Are insurers finding growth or looking for trouble?*, businesses across the spectrum are planning to increase spending on cyber insurance, and it could present an enormous market opportunity for insurers. However, cyber insurance remains an area full of uncertainty, as insurers grapple with questions about how to gather loss data, calculate cyber exposure, structure coverage, price products, and ensure proper loss-reserve amounts.

We believe cyber insurance has a future for insurers, but they must carefully evaluate both the opportunities and the risks. Consider questions such as: Does cyber risk coverage align to our overall business strategy? How will we assess customers' risk profile and control environment? How will we get the data we need to appropriately price coverage?

Responding to regulatory risk

At 46 percent, regulatory risk is the second highest risk concerning insurers—a higher percentage than other industries. In addition, 93 percent of insurers say they worry that regulations will inhibit their growth.

I am concerned...

The domestic regulatory environment continues to shift, with a primary focus on enhancing consumer and data protection. In addition, U.S. financial regulations seek to reduce industry risk by requiring insurers to keep more capital on hand to conduct businesses. At the same time, insurers are also looking to adapt to international regulatory developments.

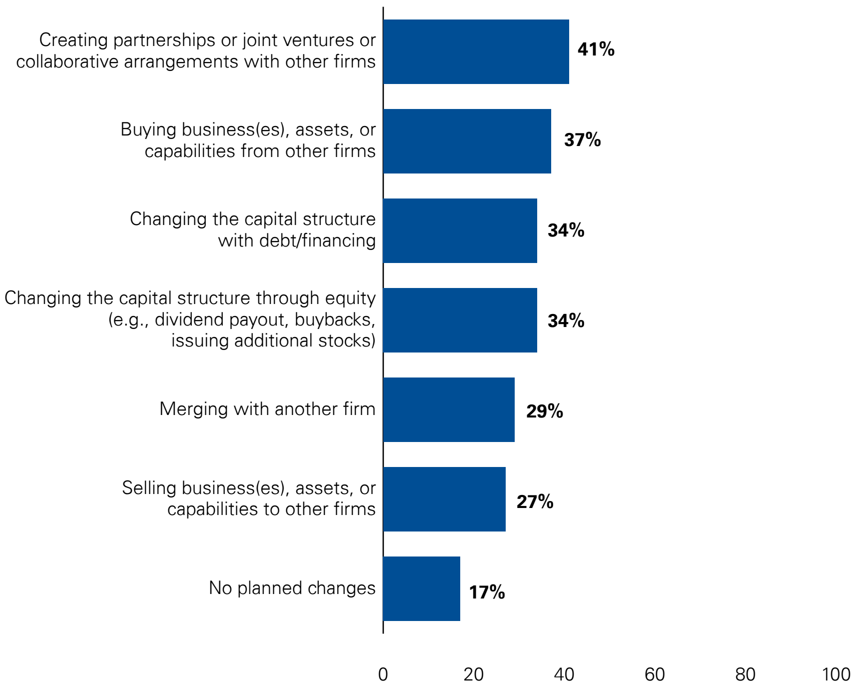
The significant pace and scope of regulatory change are having an impact on risk disciplines within insurance companies, urging insurers to build deeper risk cultures to drive the right risk behaviors.

People plus partners equals progress

To accelerate the execution of their growth strategies, insurance companies are targeting two primary areas: hiring and realigning talent and forming partnerships and alliances.

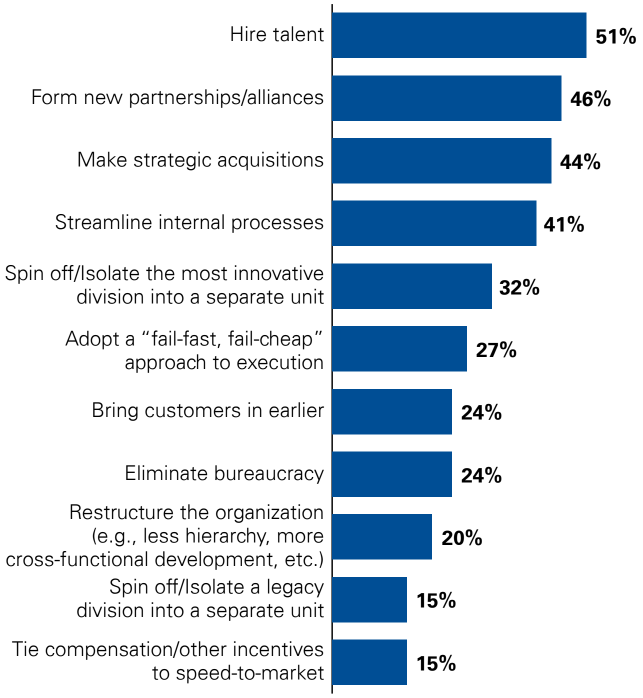
Over the next 3 years, 29 percent of insurance CEOs expect to be involved in a merger and 37 percent expect to be involved in an acquisition.

What forms of M&A or other significant deals do you expect to undertake in the next 3 years?



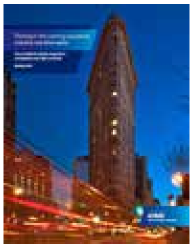
Meanwhile, 51 percent of insurance CEOs say hiring talent is the top activity being used to drive their business strategy forward.

What is your organization doing to accelerate the execution of your strategy?

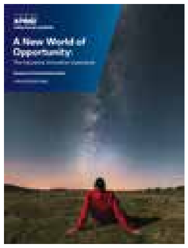


Whether they hire or acquire, both approaches will be instrumental to addressing gaps in where the business is today and where it will need to go to thrive in the future. After all, in this period of rampant change, future insurers are likely to need skills, resources, knowledge, and capabilities in areas where they have not traditionally focused, especially in high-tech areas such as digital and mobile, data and analytics and the Internet of Things.

Further reading

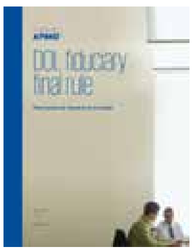


Thriving in the coming insurance industry transformation: Five practical actions insurance companies can take to thrive



A New World of Opportunity: The insurance innovation imperative

Keeping Up With the Pace of Change: Demands by customers Are Driving the Life and Annuity Agenda



DOL fiduciary final rule: Five issues for insurers to consider

Emerging Risks in the Global Insurance Industry

Helping insurers compete in the age of disruption

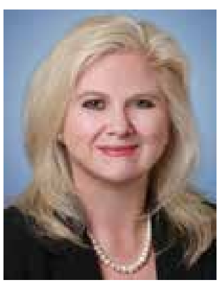
About KPMG's 2016 KPMG CEO Outlook Survey

The third annual KPMG CEO Outlook Survey analyzes the views of 400 U.S. CEOs from organizations with at least $500 million in revenue. The survey canvasses opinion on a wide range of issues affecting the business landscape, including topics such as U.S. economic conditions, technological disruption, innovation, regulation, and cybersecurity. For more information on the KPMG CEO Outlook 2016 report, please visit:

About KPMG's Insurance practice

KPMG's Insurance team is part of KPMG's Financial Services practice, one of the largest providers of professional services to financial services globally. More than 1,400 strong, KPMG's experienced insurance professionals help you meet your business challenges. They have deep knowledge about the issues affecting insurers today—from global regulatory reform to legacy platforms to customer-centric strategies.

Contact us



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