Being agile to build resilience

Insurance insights from KPMG's 2019 Global CEO Outlook

KPMG International

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Contents

Key findings

Confidence amid uncertainty

CEOs show confidence in their company despite uncertain times.

— Most of them exude confidence in their company's growth (97 percent) over the growth of the industry (85 percent) and global economy (65 percent).

— Contemplating the major threats related to climate change, technology and geopolitics, insurance CEOs (73 percent) understand the need to disrupt business norms.

Changing from within

Insurance CEOs pointed to the crucial role of technology investment in support of future growth.

— In order to build resilience, CEOs are planning to increase their focus on cyber resilience, upskilling their workforce and automating processes through the implementation of automated intelligence (AI).

— A majority of CEOs (71 percent), however, are prioritizing investments in technology over building their workforce.

— But only 14 percent of them have started using AI to automate processes in their organizations.

It's time to change

CEOs are increasingly realizing the need to embed the culture of agility and innovation in their companies.

— A majority of CEOs (85 percent) want their employees to pursue innovation without worrying about negative consequences (if the initiative fails), only 59 percent believe they already have such a culture in place.

— 66 percent believe that a culture of agility can only be achieved through third-party partnerships, even while they faced challenges in the past to incorporate third-party partners into their culture.

The evolution of the CEO

CEOs are taking a fresh look at their role and ability to drive change.

— CEOs realize that as their average tenures have come down to 5 years, there is an increasing need for them to act with agility.

— A majority (87 percent) of them claim to be personally leading the technology strategy of their organization.

Being agile to build resilience

While facing uncharted waters, as their competitive landscape shifts, global insurers are confident in business growth over the next 3 years despite a widespread recognition that they must change from within, embrace culture change, technology transformation and greater customer focus.

Disrupting themselves and the marketplace is top of mind among industry CEOs, while they strive to instill organization-wide innovation and cyber controls and make the most effective technology and workforce investments. These leaders feel the need to upgrade their own skills as they try to overcome an internal 'innovation disconnect,' forge strong external partnerships, and embed the agility and resiliency to develop holistic, flexible strategies for new opportunities and threats in an uncertain future.

Those are among the top themes emerging among insurance executives surveyed for KPMG's 2019 Global CEO Outlook. This annual publication, which includes interviews with CEOs from the world's most significant businesses, provides a unique snapshot of the views of more than 1,300 CEOs in 11 countries and key industries. With data collected in early 2019, the responses from the 132 insurance CEOs offer a timely perspective into this sector. Representing firms from the US, Europe and Asia, with a balanced mix of revenues from US$500 million to US$10 billion and more, these data provide a fascinating snapshot of their CEOs' current mindset, business concerns and priorities.

"We've seen CEOs' optimism rise in tandem with their considerable work to increase resilience. Their confidence has gone up as they take action and they know their activities are going to pay off."

Laura Hay
Global Head of Insurance
KPMG International

The operating landscape:

Navigating uncharted waters

To understand insurers' views of the conditions driving their strategies, we asked them to gauge the risks that currently pose the greatest threat to organizational growth. In response, insurance CEOs listed environmental/ climate change, new technologies and rising territorialism as the largest threats.

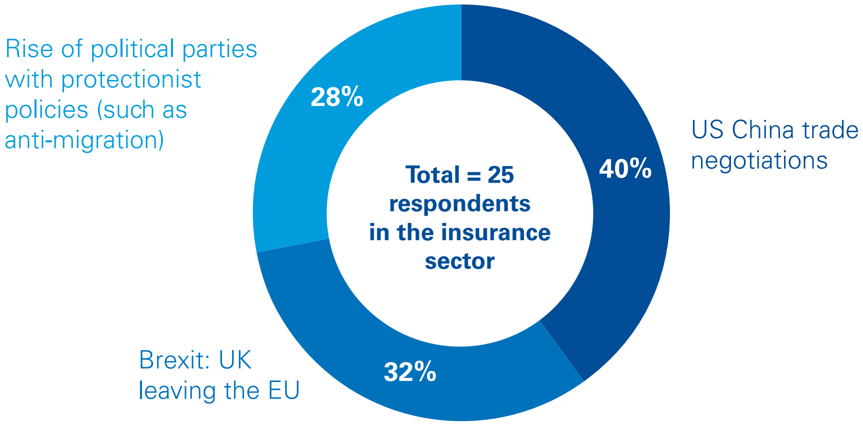
Chart 1: Threats to organizations

2019	2018
Environmental/ climate change risk	Return to territorialism
Emerging/disruptive technology risk	Environmental risk
Return to territorialism	Emerging technology risk
Operational risk	Operational risk
Cyber security risk	Cyber security risk

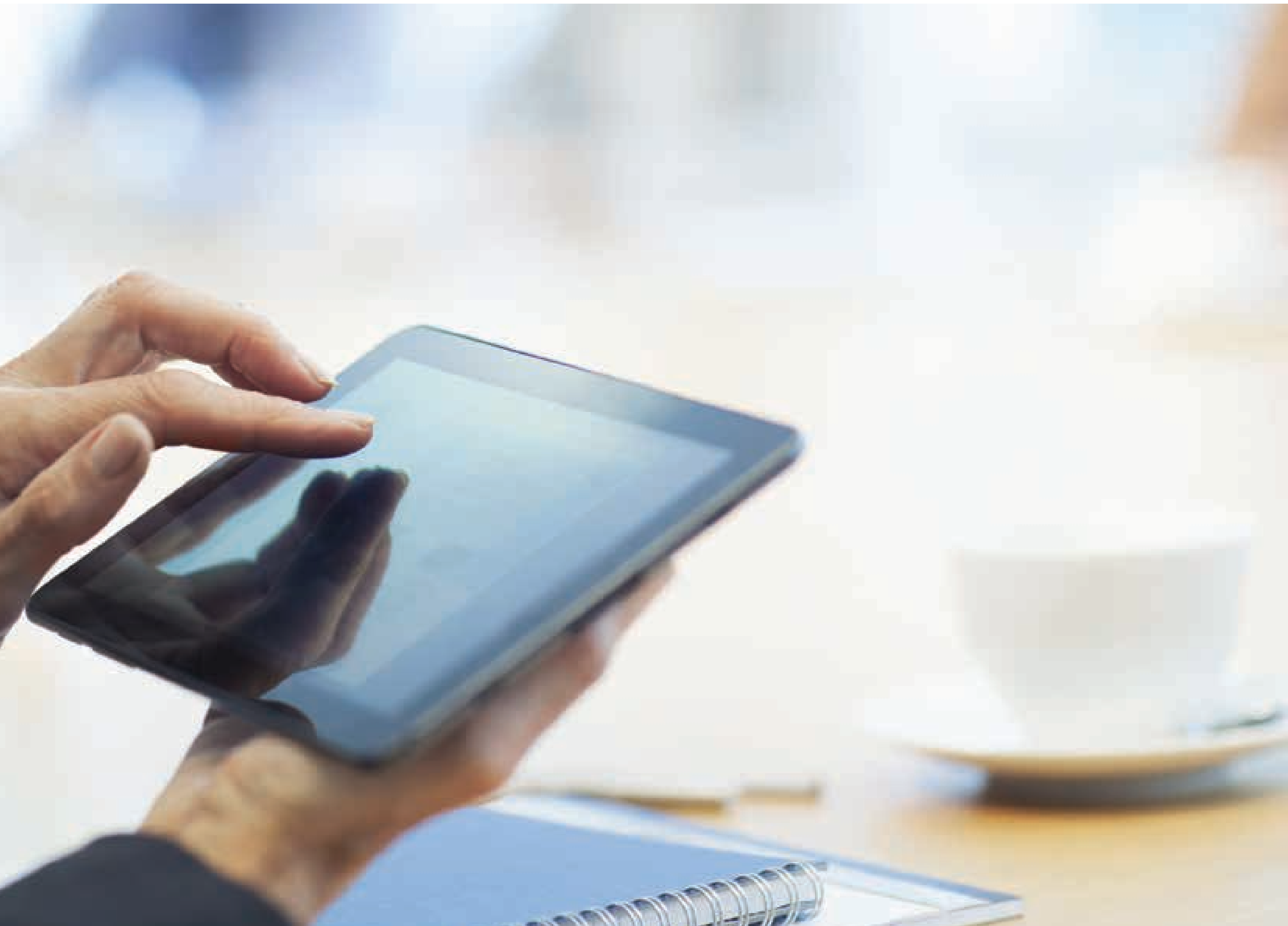
Source: 2019 Global CEO Outlook, KPMG International, 2018 Global CEO Outlook, KPMG International.

Looking more closely at their geopolitical uncertainty, these leaders highlighted US/China trade negotiations and Brexit as their greatest concerns.

Chart 2: Geopolitical threats to organizations



Source: 2019 Global CEO Outlook, KPMG International.

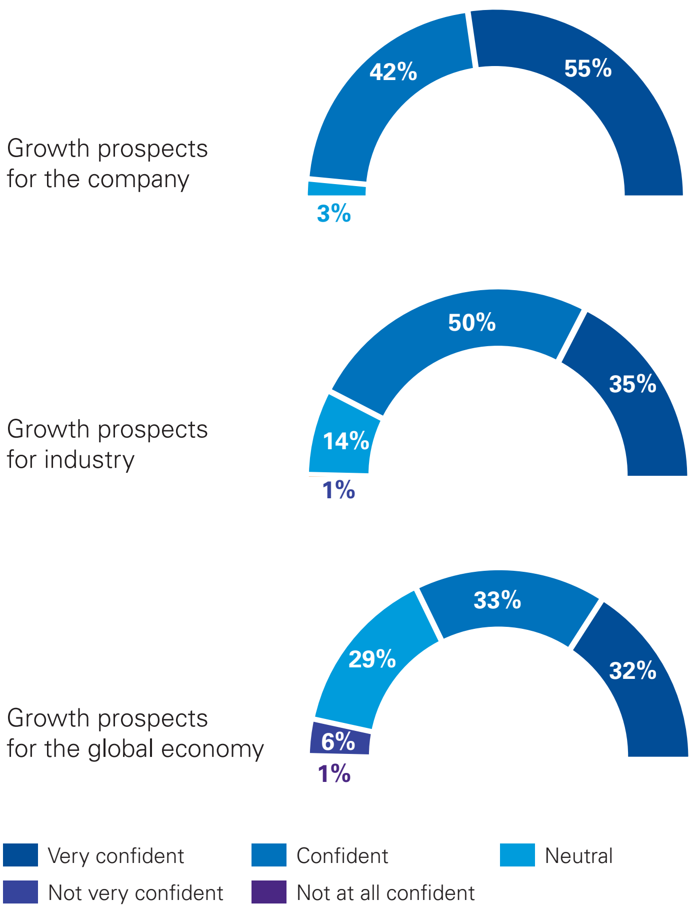


Despite this strong awareness of emerging risks, insurance CEOs appeared bullish on their near-term growth trajectory. When asked about their confidence in the growth prospects for their company, industry, and global economy, although these leaders expressed muted confidence in the global economy over the next 3 years (65 percent), they are highly confident in the growth of their industry (85 percent) and their own company (97 percent).

This strong show of comfort with their organization's resilience can be linked back to insurers' recent efforts to ramp up transformation initiatives. It closely aligns with observations by KPMG professionals over the past 2 years as clients initially defined their transformation plans. Now, many insurers are immersed in significant, multi-function, multi-year efforts — on an enterprise-scale or business-unit wide — to transform their business, either to drive strategic growth or cost objectives.

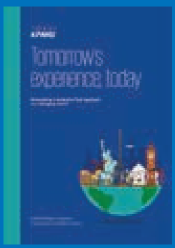
"We've seen CEOs' optimism rise in tandem with their considerable work to increase resilience," observes Laura Hay, Global Head of Insurance at KPMG. "Their confidence has gone up as they take action and they know their activities are going to pay off."

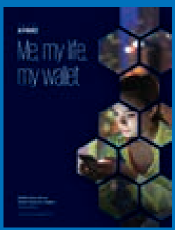
Chart 3: Level of confidence



Source: 2019 Global CEO Outlook, KPMG International.

Read more about customer centricity:





Embracing disruption for a new competitive edge

Amid the emerging threats, insurance CEOs demonstrated a solid appreciation of the need for their organizations to challenge and disrupt business norms, with 73 percent of these leaders agreeing with that statement. A majority of leaders (66 percent) felt confident that they have the structures in place to review their business model and ensure it stays competitive in the face of disruption. And, 62 percent of insurance CEOs believe their company is actively disrupting the sector.

Much of the focus of this disruption is around customer centricity, with 64 percent of CEOs saying they believe that they need to significantly improve their understanding of customers.

These insurers realize that the customer experience goes beyond the moment of sale to other key touch points, for example, when a customer experiences an event and needs to submit a claim. Today's CEOs understand that, to elevate the end-to-end customer experience, they must transform their front, middle and back office functions. To do so, they must gain a better understanding of the customer's current interaction with the organization.

Although insurers have always known the importance of customers, they now see the need to improve the client experience holistically. This task is made more complicated by the fact that, every day customer expectations are changing, as they deal with other companies in other sectors. As a result, customer demands are dynamic, and insurers must continuously gather and analyze the latest customer insights to keep up with these expectations.

This trend is clearly evident in Asia, where advisors with KPMG China have seen the strong customer focus among Asian-based insurers. It's the result of the fact that tech-savvy Millennials are the largest population segment, relaxed regulations are enabling more digital services, and other sectors are pushing customer expectations higher.

"We see new entrants, micro-insurers and traditional carriers becoming more integrated into the digital ecosystem," says Lee-Han Tjioe, Partner, KPMG China. For example, a number of insurers have partnered with giant digital retailers to protect parcel deliveries and product warranties. Life insurers are also embracing this trend. Many are leveraging customer data for more effective sales interactions, and others are introducing digital, modular product sales, in response to customers' life events, like protecting their new home or health coverage for new parents.

> "There is a strong customer focus among insurers in Asia. It's the result of the fact that tech-savvy millennials are the largest population segment, relaxed regulations are enabling more digital services, and other sectors are pushing customer expectations higher."

Lee-Han Tjioe
Digital Insurance Partner
KPMG China

Changing from within:
A technology focus

Not surprisingly, insurance CEOs pointed to the crucial role of technology investment in support of future growth. In fact, 95 percent of these leaders agreed that they see technological disruption as more of an opportunity than a threat (48 percent strongly agree; 47 percent agree).

They also affirmed the importance of establishing cyber resilience, and 74 percent stated that they view information security as a strategic function and a source of competitive advantage. Their commitment to this capability lies in the deep belief that strong cybersecurity is critical to engender trust with key stakeholders.

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67 percent of CEOs believe that **cybersecurity** is critical to engender trust with key stakeholders

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While the CEOs' emphasis on cyber is a positive development, Gary Plotkin, Principal, CIO Advisory, with KPMG in the US, cautions that there is considerable work to be done: "We've seen that cybersecurity has been a Board and CEO agenda topic for a while, but we must see it become a greater part of core decision-making within company operations."

For example, in many cases the Chief Information Security Officer (CISO) is not embedded in business or technology decisioning, and this function is mainly viewed as a to-do item on a checklist list for other project teams.

This state of affairs is understandable since, until now, many organizations have viewed cyber as mainly a compliance issue, by which they focused on responding to regulations, as opposed to viewing it as a key part of the business. The solution, according to Plotkin: "Insurers need to make cyber everybody's job and create a mindset in which cyber is incorporated from the beginning of product development, from strategy and visioning."

The benefits of more-integrated, embedded cyber strategies are many. For instance, consider the insurers that currently sell cyber insurance. In many cases, they do not include their own CISO in the product definition or underwriting process. Not only could the CISO add value to those activities but also, as the insurers amass considerable cyber intelligence, they could share that insight internally to support their own firm's cyber safeguards.

KPMG China's Lee-Han Tjioe agrees, noting that, "I still think there's a gap, in that we have cyber policies and controls within business lines, but we must move to much more of an ecosystem, so that insurers provide more holistic coverage across the whole supply chain, and that includes working closely with their partners."

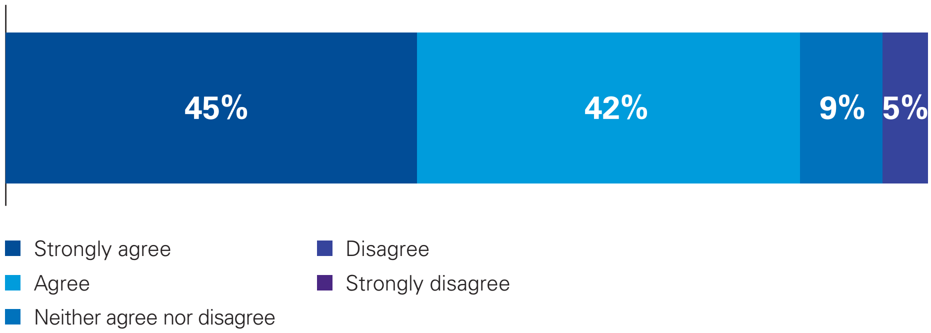
CEOs leading the technology drive

In light of the pressing importance of technology, an astounding 87 percent of CEOs say they are directly involved in devising and leading the technology strategy of their organization.

While that hands-on involvement is impressive, it creates challenges for these leaders. For example, 76 percent say they have overlooked insights from data analysis and computer-driven models because they were contrary to their own experience/intuition. Also noteworthy: 68 percent say that lead times to achieve significant progress on transformation often seem overwhelming.

Chat 4: Level of agreement

I am personally leading the technology strategy for our organization



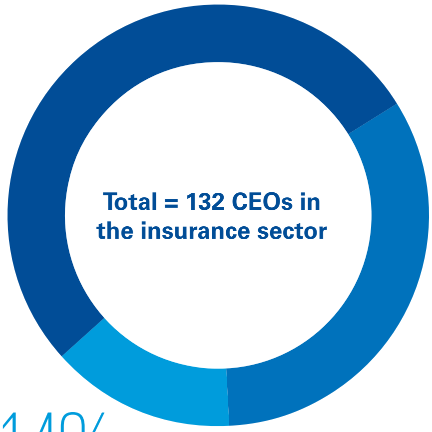
Source: 2019 Global CEO Outlook, KPMG International.

Slow progress on specific innovations

Despite CEOs' stated enthusiasm for technology, we found lower levels of action in new technology implementation. Specifically, when we asked CEOs about the actual application of AI in automation processes, only 14 percent claim to have already implemented such programs. Most companies were still piloting or conducting limited implementation with a few processes.

However, KPMG technology professionals note that insurers' progress to date with AI is not surprising, in light of the complexity of this new technology. As with any new technology, there can be a lot of hype about its potential, which can often exceed its actual delivery capability.

Chart 5: Application of AI in automation processes



Source: 2019 Global CEO Outlook, KPMG International.

In addition, considerable lead time is required for any company, including insurers that may face significant legacy technology challenges, to reach a point of readiness to successfully incorporate new technology. As an example, in recent years insurers experienced similar extended timelines to prepare for and adopt related advancements such as robotic process automation and machine learning.

AI is expected to be equally challenging for companies to incorporate, since it will require them to build out both their cultural and physical infrastructures first. That encompasses both improving their data capacity and accelerating their migration to the cloud.

Gary Plotkin adds that. "And of course, insurers need to find the right usage for AI, since it will not be the answer for everything." He points out that companies must not equate automation with customer satisfaction, and insurers will have to experiment with the right mix of automation and human agents to enhance the customer experience.

> "Insurers need to find the right usage for AI, since it will not be the answer for everything. It would be a mistake to equate automation with customer satisfaction, and insurers will have to experiment with the right mix of automation and human agents in the customer experience."

Gary Plotkin
Principal
CIO Advisory
KPMG in the US

Leading in uncertain times; Time for culture shift

Although insurance CEOs strongly affirm their desire to transform their organization with a bullish, innovative spirit, our survey uncovered a sizable "innovation disconnect". While an overwhelming 85 percent of CEOs want their employees to pursue innovation without worrying about the negative consequences if an initiative fails, only 59 percent believe they already have such a culture in place. More than half of CEOs agree that there is a need to improve their innovation processes and execution over the next 3 years.

This perspective mirrors the patterns of client activity witnessed across KPMG member firms, where, to date, few insurers have fully introduced a truly agile, innovation culture. This is due to the considerable time required to prepare and adapt an existing internal culture for such a change.

To perform this attitudinal transformation effectively, company leadership must view innovation in terms of a culture and mindset shift, rather than simply the pursuit of cool, new tech gadgets. That requires an organization to set up new rules of engagement for their employees and for leaders to model the same behaviors.

Evan Metter, Principal, People and Change, KPMG in the US, agrees, noting that, "This issue has to be addressed at the organizational level, and you need to go all the way down to the studs in the house. It depends on how you hire, organize work, the structures in place to create incentives for innovation, and the cultural allowances for failure."

In fact, cultural change hasn't been easy in Asia either, even though the regional insurance industry is often touted for its advanced customer and digital capabilities. It is noteworthy that much of the successful innovation that changed the game in the Asian markets began with new entrant insurers. These new players were able to build their digital channels and the right culture from scratch, rather than trying to change the traditional players or shift the agency structure.

That said, while culture shift is difficult, traditional insurers are in a tremendous position to succeed in this arena since they have very unique capabilities in areas, like risk management, and large customer bases upon which they can test best practices, new services and channels. To accelerate this process, insurers may consider adopting the growing practice in other industries of 'borrowing talent', by which employers embrace contingent labor, and the gig economy, to inject innovative thinking.

Insurers' ability to execute sweeping culture change is also demonstrated by the considerable innovation and experimentation already underway in segments of the industry or within specific business lines or divisions of individual companies. The difficult part is how you proliferate that innovation across the entire organization.

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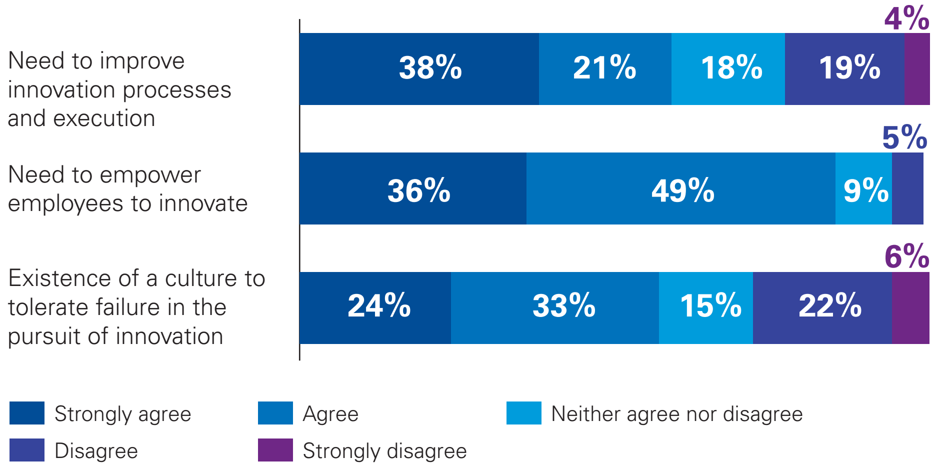
Evan Metter
Principal
People and Change
KPMG in the US

Chart 6: Innovation disconnect



Source: 2019 Global CEO Outlook, KPMG International.

Become agile or irrelevant

In light of the serious challenges and daunting priorities identified by the CEOs, the majority (66 percent) agreed that their organization must become agile in order to avoid bankruptcy.

On one hand, these CEOs say they are focused on a c-suite reboot of themselves and their leadership team to achieve this agility, with 86 percent saying they are actively transforming their leadership to build organizational resilience. Two-thirds of these CEOs (66 percent) also acknowledge that, with an average tenure of 5 years, the need for each of them to act with agility has also increased.

On the other hand, many CEOs say they plan to turn to third-party partnerships to add fresh agility into their company. Two-thirds of respondents say the only way to achieve agility is by increasing their use of third-parties. Partnerships also figured prominently in the various ways CEOs identified to undertake growth in the next 3 years.

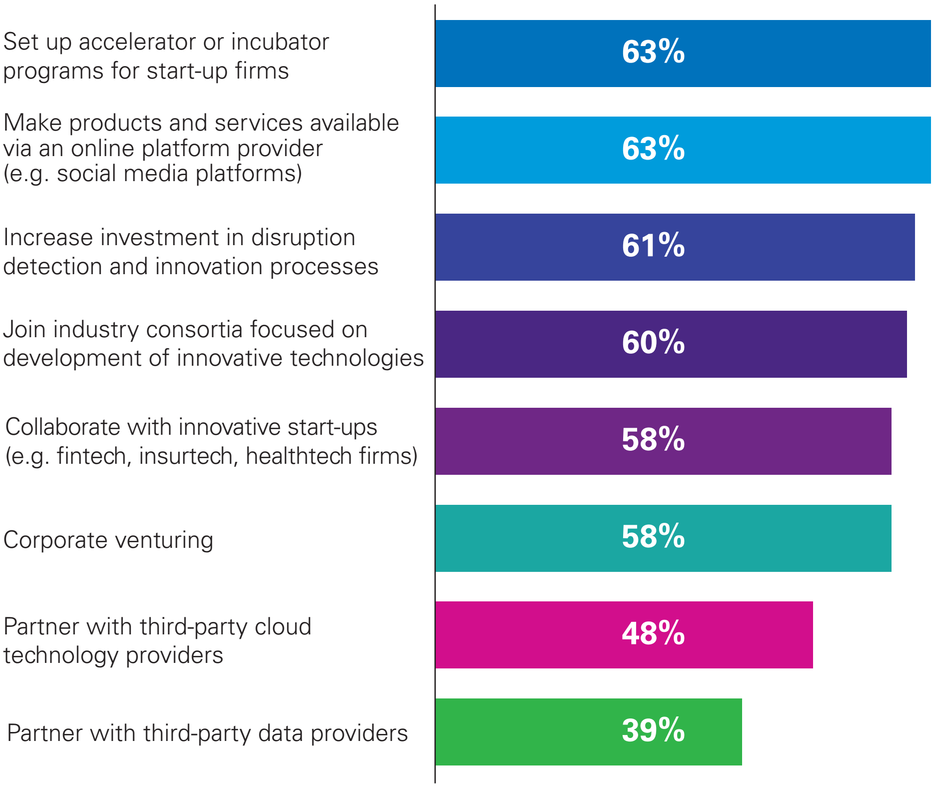
"The world is moving faster than many companies can transform themselves, and CEOs understand that, to become a 21st century enterprise, and move at the pace of marketplace and technology change they must think of partnerships and alliances as a normal, everyday part of their business model," explains Laura Hay.

This growing appreciation of the value of third-party cooperation means that executives are examining any function that is not core to their business as a potential opportunity to work with a third party. By building a more platform-based organization that can mix and integrate its activities with different partners and technologies, they can achieve the right lithe and nimble state for the future.

Making digital partnerships work

However, these leaders also voiced concern about the form of such plans to increase external partnerships. For example, 55 percent say they have reconsidered third-party partnerships in the past that could have helped with growth because the partner did not fit well with their organization's culture and purpose. And, 68 percent say they are looking for quality over quantity in their new partnerships, including having fewer, deeper relationships.

Chart 7: Actions for growth over the next 3 years



Source: 2019 Global CEO Outlook, KPMG International.

Such viewpoints may reflect the past frenzy by financial services firms to select technology partners first and later try to fit them into their business. Today, more companies are first determining their firm's strategic direction and then identifying the right partner to align with that, wisely putting the business need before the partner need.

Gary Plotkin explains that, "In many cases, there was not enough 'upfront dating' between parties to sort out the details before the marriage occurred, and that includes meeting the family." For example, insurers must carefully review potential partnership from the end-to-end process, not just the small chunk that they might outsource. Important considerations also include how an insurer will incent their partner to achieve the desired results. "Meeting the family" means ensuring that partnering companies carefully consider how all levels of their operations will work together. Unfortunately, often partnership decisions are made at the executive level when in reality success will depend on the working relationships at the middle management levels.

Creating workforce 4.0: Upskill workforce, but when?

Another important element of the 'changing from within' focus to achieve agility relates to insurers' human resources plans. Our survey respondents made it clear that they plan to create a "Workforce 4.0", by upgrading the skills of their employee base. In fact, almost half of CEOs (47 percent) say they plan to upskill more than half of their entire workforce, particularly in digital capabilities like advanced data visualization and coding, within the next 3 years.

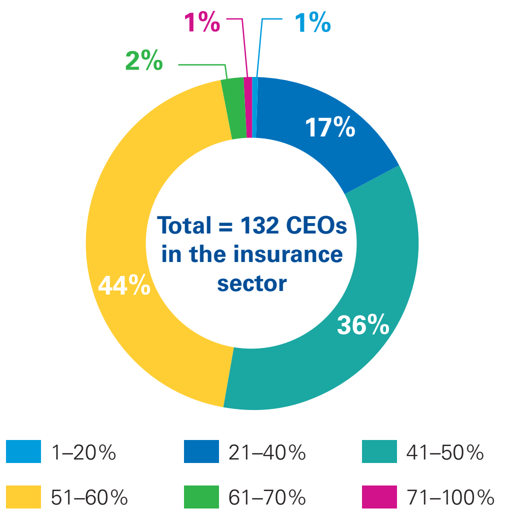
This challenge is amplified by the fact that, not only is the work changing, but there is also a premium on the skills required by insurers across many industries. As a result, companies must consider a diversified, 'build, buy and save' approach to develop their workforce.

As such, it is crucial that insurers save and retain their current workforce, in addition to actively hiring the next generation. This can be done in part by creating a value proposition and employee experience that goes beyond pay and benefits to a culture and environment where they can thrive and do their best work.

To create workforce 4.0, insurers must learn to manage their people in a new way, which includes defining people by what they can do versus specific job codes. Observes Evan Metter, "With rapidly changing business needs, companies must rethink the currency of human capital and move away from the 20th century concept of workforce planning to a more fluid view of skills versus jobs and learn how to practice workforce shaping."

This new approach means that insurers must ask themselves, 'What competencies will we need?' instead of only asking, 'How many actuaries do I need?' They must then begin investing in their people so these capabilities are ready for deployment when the work demands. Although this change in approach is a 'heavy lift' for large insurers with traditional HR functions, these firms also have a huge advantage since they have a bigger talent pool to shape and considerable internal HR expertise and data to guide their efforts.

Chart 8: Proportion of workforce planned to be upskilled



Source: 2019 Global CEO Outlook, KPMG International.

Technology over people investments

It's interesting to note that, when CEOs were asked about their specific investment priorities to improve organizational resilience, a large majority (97 percent) are emphasizing capital investment in technology rather than on developing workforce skills (29 percent).

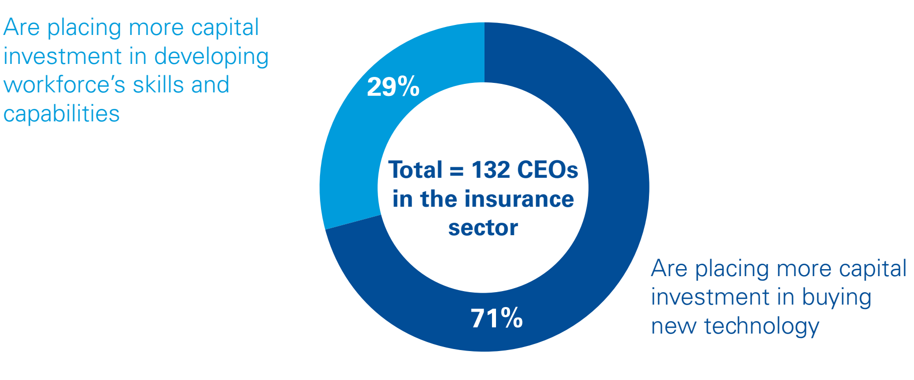
This is not necessarily a contradiction since it is natural that companies see the need to invest in the technology first before they flesh-out the staffing requirements to maintain these systems. That said, it's also important for leaders to understand that technology is not the silver bullet to their challenges, and technology is only half the story. They must carefully balance investments in building their people skills, change management and training.

Formal change management practices are essential to support the evolving human/technology mix. Such programs must extend beyond the usual 'communication and training' and incorporate disciplined methodology delivered by a professional change management function. By doing so, the necessary change management activities can begin early and the necessary continuity will be achieved to ensure they are executed effectively.

The right kind of leadership is also essential. "There is a big difference between great generalist, operational- and technology leaders versus a true change leader, in terms of their characteristics and behaviors," points out Evan Metter. Organizations often look for leaders who can drive results, but they also need to put the right kind of leaders in place who can lead the organization through change. That means elevating leaders who exhibit the right combination of empathy, curiosity, resilience and humility. These individuals also need to practice new tactics including pacing implementation, managing political dynamics, creating an enabling environment and activating networks to be effective change leaders."

For example, a few of the critical skills of strong change leaders include their ability to communicate a compelling story, activate networks, manage political dynamics and create an enabling environment.

Chart 9: Investment priorities for the organization's resilience



Source: 2019 Global CEO Outlook, KPMG International.

Top of the CEO agenda/ conclusions

In summary, the Global CEO Outlook highlights how today's insurance CEOs are well-attuned to the future they face. With customer needs changing and expectations rising, and the competitive landscape evolving, insurers understand that their legacy operating models will no longer be fit for purpose. The future of insurance lies in achieving a deeper understanding of the customer, operational excellence, intelligent automation and adapting to the industry's shifting talent needs.

These findings reflect the current efforts by the large insurers to become more agile. This challenge is often intensified by the need to balance dual priorities of both protecting their current business and short-term objectives while also investing in the future. And, as both our survey respondents and advisory professionals note, investing in the future requires considerable strategic planning, not just inserting innovations into current operations that respond to today's customer challenges, but also considering the future needs they will have. To do so, the insurers must increasingly consider what future platforms they build, and develop transformation plans that extend across functions. As highlighted by the surveyed executives, their success depends on being more responsive, faster at introducing products, and better at building effective partnerships.

Concludes Laura Hay, KPMG's Global Head of Insurance, "To become the resilient insurer for the future, organizations must adopt agile operating models and complementary technology and data capabilities, increase partnerships to spark greater innovation, and embrace new ways of collaboration and automation to build the required digital workforce. Our survey findings suggest that, despite the many challenges, insurance CEOs are eager to tackle these opportunities."

> To become the resilient insurer for the future, organizations must adopt agile operating models and complementary technology and data capabilities. Our survey findings suggest that, despite the many challenges, insurance CEOs are eager to tackle these opportunities.

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