



New reality for insurance

**Insurance value chain:
Commercial insurance**

KPMG International

home.kpmg



Insurance value chain

Throughout COVID-19, the insurance industry — along with all business — has experienced a time of monumental challenge. The impacts of a health emergency have expanded into far-reaching economic and societal issues. It seems clear that as we emerge from this period, it will be into a new reality that will look very different to what existed before.

In preparing for the new reality, the KPMG insurance professionals have set out the eleven key components of the insurance value chain and offer insights on the actions that insurers should be contemplating. Naturally, these actions vary according to sub-sector — Commercial, Personal lines, Life & health — as customer needs, preferences and reasons for buying are quite different in each.

Certainly, there is much for insurers to do. Rarely will the transformation agenda have been so pressing. However, through all of this, the industry should face the task with confidence. One of the great lessons that COVID-19 produced was that businesses, including insurance, are capable of doing much more, much faster than anyone probably ever believed.

This knowledge should be the inspiration for looking to the future. There is no doubt that insurers can rise to the challenges posed by the new reality.

Commercial insurance

The new reality | Actions to consider

Primary activities

	Definition	The new reality	Actions to consider
Product and service development	Using customer and market insights to design, develop and deploy products and services	<ul style="list-style-type: none"> — The core product suite will not change greatly but brokers and insurers will need to better explain coverage and exclusions — Aspects of the terms and conditions will change for certain products — New product offerings or riders will be entering the market — Emphasis on streamlining products as many insurers believe that will lead to: <ul style="list-style-type: none"> — accelerating digital — improved exposure management — better transparency for customers 	<ol style="list-style-type: none"> 1. Conduct a review of product terms and conditions, including basic plain English description of policy or suite, to determine approach exposure or perception concerns 2. Identify new or modified service/advice offerings based on recent events: <ul style="list-style-type: none"> — examples include risk strategy reviews and preventative measures (including lowering worker risk when returning to work) 3. Develop better understanding of product positioning and consider changes to associated operating model
Marketing	Driving, monitoring and enabling sales and customer retention through brand management, advertising and customer engagement	<ul style="list-style-type: none"> — An increased awareness of marketing cost/return will be required in an increasingly severe economic environment, requiring a better directed and empathetic message — Operating models must adapt to meet several new requirements, including: <ul style="list-style-type: none"> — brand and trust messages to key stakeholders — enabling distribution with the right messages and stories to make a real connection — identifying the right market mediums for communications — New critical path for shifts in the operating model must be rapidly understood to ensure better ways of working 	<ol style="list-style-type: none"> 1. Consider reputation risks and adapt business and product approach accordingly, while also taking into account social responsibility to build or enhance a positive image 2. Understand the adjusted market messages and stories needed to enable distribution, sales and service to tell winning stories in the new reality. Generally, these messages should be grouped into four key areas: <ul style="list-style-type: none"> — book must retain — book need to recover — book need to obtain/add new — book we need to sell more into (second sales) 3. Working closely with distribution, operations and technology, identify the operating model enablers for marketing — also known as the mediums: <ul style="list-style-type: none"> — given the majority of the face-to-face relationship investments, how will it change going forward?
Distribution and sales	Understanding and strategically penetrating the addressable market to deliver products and services and to generate revenue	<ul style="list-style-type: none"> — Large and upper middle market business will still be mostly broker driven, however, insurers will need to focus on developing a better understanding of the needs of their current and prospective clients — Approaches to identifying, renewing and securing new business will be changed as well as updating client relationship management systems — Upgrades in enabling technology in support of distribution will be substantial — Middle and small market business will experience a significant shift in how that business is secured by insurers — Direct-to-consumer technology-enabled processes will add a handful of brokers, who are adapting how they work to corner this market 	<ol style="list-style-type: none"> 1. Review brokers/portfolios to better understand bind ratios and profitability by broker 2. Upgrade distribution and sales strategy. Assess distribution and sales strategy for each key segment, especially considering a few key factors: <ul style="list-style-type: none"> — talent and effectiveness — significant request for proposal (RFP) response activity with very low win rates — possible push toward more direct-to-consumer for small commercial, standard package products 3. Develop the new way of working for distribution with special attention to four key areas: 1) pre-request for information (RFI) activity, 2) RFI response, 3) RFP response, and 4) deal closure. Emerging new enablers include: <ul style="list-style-type: none"> — using analytics to understand what pre-RFI touchpoints matter the most — using cognitive technology to generate RFI responses — shifting the focus of the function from doing to advising current and potential clients, etc.

Primary activities

	Definition	The new reality	Actions to consider
Underwriting	Analyzing risk profiles and premium pricing models to bind and issue policies	<ul style="list-style-type: none"> — Underwriting will be digitized across all segments focused on: <ul style="list-style-type: none"> — portfolio management at the SME/lower middle market end — curated risk selection and decision taking in the middle market — information rich expert underwriting management for multinational business — All will be supported by data and analytics, internal and external, which will reduce foraging for information — For straight-through processing, underwriting workbenches and multi-national programs, information will be automatic to enable underwriting decision taking from automated, through curated to deliberate risk review/decisions — Dynamic technical pricing models will be incorporated into the digital underwriting processes — Tighter underwriting will be a true competitive advantage, especially in a hardening market 	<ol style="list-style-type: none"> 1. Review digital strategy to assess the move to virtual digital working across products and segments: <ul style="list-style-type: none"> — include a review of business that could have been acquired on digital platforms but has not with the intention of driving adoption 2. Revitalize data strategy from a business perspective and use data and analytics to drive underwriting excellence and efficiency 3. Review the end-to-end operating model with brokers and other third parties: <ul style="list-style-type: none"> — review underwriting approach as to how business is to be conducted moving forward — consider how firms need to change as a result
Policy administration	Managing the administrative activities required by the inforce populations (e.g. inquiries, cancellations, changes, billing and collections)	<ul style="list-style-type: none"> — Policy administration is still viewed as a 'non-core' set of activities for most insurers: <ul style="list-style-type: none"> — activities can have a profound impact on perception or operating impact when challenges occur — Insurers have recognized the dependence on manual processes: <ul style="list-style-type: none"> — intense focus will be on further automation of standard processes — Operating models will require review and upgrading: <ul style="list-style-type: none"> — to ensure they are more 'battle-tested' — by identifying ways to ensure better performance even in times of disruption — to mitigate risks — to enable resilience while driving efficiency 	<ol style="list-style-type: none"> 1. Assess critical path processing activities with special consideration to on-shore, near-shore and offshore activities 2. Review controls and business continuity plans of key third-party suppliers and their sub-contract parties: <ul style="list-style-type: none"> — consider areas of concentration 3. Review automation strategy and accelerate automation projects for lines of business where policy administration may be automated
Claims management	Evaluating and settling claims, including payment, reinsurance recovery and litigation, when applicable	<ul style="list-style-type: none"> — Insurers will accelerate the drive to digital end-to-end claims processes — Where change budgets have been cut, insurers will consider low code or no code solutions in conjunction with the core legacy platforms: <ul style="list-style-type: none"> — these solutions can help organizations to move to digital more quickly and at lower cost — Functions will also drive to more effective and efficient operations as cost becomes even more of a focus — New risks will be presented associated with remote processes which require new control procedures 	<ol style="list-style-type: none"> 1. Scale the operating model for remote claim handling, including where remote processing will and will not be leveraged. 2. Enable the broker network through use of technology and training to handle and respond to surge in queries 3. Understand leakage areas and where potential exposures reside: <ul style="list-style-type: none"> — process must be technology-enabled, yet subject matter expert anchored — identify early fraud warning indicators
Asset and investment management	Leveraging and investing assets from policyholder surplus and reserves to generate revenue and provide solvency for liabilities	<ul style="list-style-type: none"> — Cash and asset management strategies will evolve: <ul style="list-style-type: none"> — increased focus on real-time scenario modeling — Insurers will closely monitor credit issues and impact of commercial real estate and loans given the possible shifts in those asset classes 	<ol style="list-style-type: none"> 1. Evaluate exposure to potentially high risk investments (e.g. commercial real estate and loans) 2. Enhance monitoring of credit risk 3. Assess investment strategies given challenging yield environment and shifting views of economic recovery patterns

Support activities

	Definition	The new reality	Actions to consider
Human resources management	Managing the organization's workforce to engage people effectively (e.g. recruiting, hiring, training, compensating, terminating)	<ul style="list-style-type: none"> — Ways of working have changed significantly requiring a new process for managing talent, with emphasis on: <ul style="list-style-type: none"> — right-sizing workforce — right skillsets — training — performance management — Shifts to remote operating models will require revised measurements for productivity/ performance and access to training — Access to talent will expand as location becomes less important under a more remote workforce — Leaders will need to be equipped and suitably enabled to lead through this transformation 	<ol style="list-style-type: none"> 1. Assess new ways of working to evaluate risks and the associated controls in place (or required) to mitigate health and safety concerns, increased cyber and data privacy risk 2. Perform a skills-based assessment of current talent and use a scenario-based approach to shift talent to the future state 3. Identify critical changes that should be made to performance management and training to accommodate a more remote workforce
Finance, actuarial and tax	Managing and reporting on finances, including controllership, financial planning and analysis, accounts receivable/accounts payable, tax and actuarial (reserving, capital liquidity and application lifecycle management)	<ul style="list-style-type: none"> — Focus on being a valued business partner within the executive leadership team, providing insights including: <ul style="list-style-type: none"> — meaningful internal management reporting — evolving cash management strategies — understanding tax opportunities — finding opportunities to reduce costs/losses (including within the finance function) — Better integration of actuarial and accounting functions along with end-to-end redesign of reporting processes — Real-time modeling of cash flows and solvency ratios will be a key focus, considering: <ul style="list-style-type: none"> — increased volatility with equities, — rating downgrades — low interest rates — widening credit spreads — flight to security 	<ol style="list-style-type: none"> 1. Embrace technology disruptors to transform operating models and unlock the benefits of innovation and automation: <ul style="list-style-type: none"> — cost reduction — increase efficiencies — generate insights that can be incorporated into business strategy 2. Maintain focus on preparing and reacting to federal, state and local regulatory changes to optimize tax planning and outcomes 3. Identify opportunities for bringing in cost efficiencies through digitization of finance and actuarial processes
Risk management	Developing and implementing strategies to assess, manage and mitigate losses due to risk exposure across the entire organization	<ul style="list-style-type: none"> — Better exposure management processes will be developed and embedded — Continued focus on capitalization and any areas of trapped capital — Risk management teams must adjust to new and different risks presented by planning for dual operating models — physical vs. virtual. — Continued focus on cyber and data privacy risks with a more remote workforce — Revived attention on business continuity and resiliency where scenario planning becomes the norm 	<ol style="list-style-type: none"> 1. Assess new ways of working to evaluate risks and the associated controls in place (or required): <ul style="list-style-type: none"> — to mitigate inherent risk, including increased cyber and data privacy risk 2. Train resources to better understand and monitor insurance risk exposures 3. Determine the appropriate level of investment for reviewing and enhancing business continuity and resiliency plans (may include collaboration with regulators)
Data and technology	Managing, monitoring and securing an enterprise's entire collection of hardware, software, networks, data, facilities and related equipment	<ul style="list-style-type: none"> — Digital and data will combine to transform end-to-end processes for claims, underwriting, servicing and sales and distribution — Accelerated move to cloud provisioning and adopting global use cases to local cloud solutions — Low code and no code solutions will sit on top of legacy platforms to improve overall workflow — Acceleration of simplifying legacy estates as security becomes a more significant issue — Dual operating models have a high reliance on state-of-the-art technological infrastructure to support remote working, while still aiming to cut operating costs for the long term — Access to the market will more heavily require digitally-enabled distribution and marketing channels 	<ol style="list-style-type: none"> 1. Enhance technology infrastructure to support the organization's future operating model, most likely a dual construct — physical and virtual 2. Update the data strategy to harvest, maintain and protect the internal and external data needed to support the current operating model 3. Accelerate cloud adoption to support flexible work arrangements and client servicing

Contacts

Laura J. Hay

Global Head of Insurance

KPMG International

E: ljhay@kpmg.com

Erik Bleekrode

Head of Insurance Asia-Pacific region

KPMG International

Partner and National Head of Insurance

KPMG China

E: erik.bleekrode@kpmg.com

Edward J. Chanda

Head of Insurance Americas region

KPMG International

National Sector Leader, Insurance

KPMG in the US

E: echanda@kpmg.com

Chris Cornell

Partner and National Sector Leader, Insurance

KPMG in Canada

E: ccornell@kpmg.ca

Jacques Cornic

Partner and National Sector Leader, Insurance

KPMG in France

E: jcornic@kpmg.fr

Dr. Frank Ellenbürger

Head of Insurance EMA region

KPMG International

Partner

KPMG in Germany

E: fellenbuerger@kpmg.com

Leah Fegan

Senior Manager Global Marketing & Communications, Insurance

KPMG International

E: lfegan@kpmg.com

Tal Kaissar

Global Head of Insurance Tax

KPMG International

Partner

KPMG in the US

E: tkaissar@kpmg.com

David Kells

Partner and National Sector Leader, Insurance

KPMG Australia

E: dkells@kpmg.com.au

Mark Longworth

Global Head of Insurance Advisory

KPMG International

Partner and Head of Insurance Consulting

KPMG in the UK

E: mark.longworth@kpmg.co.uk

Dr. Frank Pfaffenzeller

Global Head of Insurance Audit

KPMG International

Partner

KPMG in Germany

E: fpfaffenzeller@kpmg.com

Simon Ranger

Partner and National Sector Leader, Insurance

KPMG in the UK

E: simon.ranger@kpmg.co.uk

Ton Reijns

Partner and National Sector Leader, Insurance

KPMG in the Netherlands

E: reijns.ton@kpmg.nl

Dr. Christian Schareck

Partner and National Sector Leader, Insurance

KPMG in Germany

E: cschareck@kpmg.com

Mary H. Trussell

Insurance Accounting Change Lead Partner

KPMG International

E: mary.yrussell@kpmg.co.uk

home.kpmg/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve.

Publication name: New Reality for Insurance

Publication number: 136930-G

Publication date: July 2020