



# New reality for insurance

**Insurance value chain:  
Life and health insurance**

KPMG International

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# 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.

# Life and health insurance

## The new reality | Actions to consider

### Primary activities

	Definition	The new reality	Actions to consider
<b>Product and service development</b>	Using customer and market insights to design, develop and deploy products and services	<ul style="list-style-type: none"> <li>— Core product suite will not change greatly</li> <li>— Acceleration of more creative products (e.g. critical illness riders, health oriented products) and services (e.g. financial wellness). Triggers may include:               <ul style="list-style-type: none"> <li>— customer-driven preferences</li> <li>— regulatory or legislative changes or pressures</li> <li>— social responsibility or care</li> <li>— pensions savings needs due to economic environment</li> </ul> </li> <li>— Greater focus may occur on retirement planning or income protection products:               <ul style="list-style-type: none"> <li>— especially given greater uncertainty around global and local economies and possible concerns about any future national support</li> </ul> </li> </ul>	<ol style="list-style-type: none"> <li>1. Develop products that leverage telemetrics to discount premium and promote physical wellbeing</li> <li>2. Develop greater access for customers to protection products that are more suited to changing requirements</li> <li>3. Digital first concept and adaption to changing customer expectations given the new reality:               <ul style="list-style-type: none"> <li>— improve the product development to allow for multi-channel sales</li> </ul> </li> </ol>
<b>Marketing</b>	Driving, monitoring and enabling sales and customer retention through brand management, advertising and customer engagement	<ul style="list-style-type: none"> <li>— Insurers must seamlessly transition to discovering and engaging consumers digitally:               <ul style="list-style-type: none"> <li>— pandemic may be driving renewed interest in life products</li> </ul> </li> <li>— Online presence and easy-to-access educational materials are critical for maintaining brand awareness with an accelerated focus on health and preventative techniques (e.g. counting steps)</li> <li>— Changing work patterns are likely to influence how products are marketed such as pensions or retirement savings products</li> <li>— More proactive campaigns to retain customers and increase loyalty through 'emotional connection to the brand' demonstrating empathy and customer support during difficult times</li> </ul>	<ol style="list-style-type: none"> <li>1. Update market messaging to reflect customer sentiment and product positioning</li> <li>2. Adjust marketing mediums (e.g. print, mail, digital, TV, event sponsorship) and expected impact analysis to align with spend and return</li> <li>3. Update and align marketing function to new needs, which must consider messages, campaigns, mediums, ways of working, capacity and talent</li> </ol>
<b>Distribution and sales</b>	Understanding and strategically penetrating the addressable market to deliver products and services and to generate revenue	<ul style="list-style-type: none"> <li>— No significant changes to distribution approaches expected in the 'near term' due to COVID-19</li> <li>— For high-end/wealth segment, the advice model likely to continue</li> <li>— Pensions or retirement savings will be linked to the future shape of employment</li> <li>— Direct-to-consumer will eventually be the primary distribution method for protection products, enabled by digital capabilities:               <ul style="list-style-type: none"> <li>— increasing momentum behind the shift away from the agency model</li> </ul> </li> <li>— Traditional barriers to sales process will be reduced as will the role of the agent (shift to more usage of virtual / mobile techniques)</li> <li>— Regional differences will continue to occur depending on the regulatory environment or simply due to customer preferences</li> </ul>	<ol style="list-style-type: none"> <li>1. Reassess the balance needed between agent and digital-assisted distribution models:               <ul style="list-style-type: none"> <li>— evaluate the aspects of the model that need to be changed based on consumer requirements and new accepted ways of interaction</li> </ul> </li> <li>2. Update the stories, based on marketing messages, that distribution and sales will leverage to enable impactful interactions:               <ul style="list-style-type: none"> <li>— stories should be told consistently through the mediums leveraged</li> </ul> </li> <li>3. Establish the new operating model for distribution and sales considering:               <ul style="list-style-type: none"> <li>— how will they work</li> <li>— what physical (versus virtual) footprint is needed</li> <li>— what process and technology will be used to interact with clients or targets</li> </ul> </li> </ol>

## Primary activities

	Definition	The new reality	Actions to consider
<b>Underwriting</b>	Analyzing risk profiles and premium pricing models to bind and issue policies	<ul style="list-style-type: none"> <li>— Consumers are becoming more willing to share personal data allowing underwriters to evolve how they evaluate risk and set pricing</li> <li>— Insurers will learn to interpret new data, including unstructured, unlocking data from legacy systems and from the internet of things (IOT)</li> <li>— Continued focus on streamlined processing and better use of data and analytics (e.g. 'no exam/fluids' underwriting)</li> </ul>	<ol style="list-style-type: none"> <li>1. Identify opportunities to source and leverage nontraditional data for underwriting</li> <li>2. Review opportunities for improved processes and data collection and the use of AI to harness the power of predictive modeling and machine learning</li> <li>3. Build technical capability in underwriters recognizing that simpler tasks will be automated: <ul style="list-style-type: none"> <li>— how to train junior underwriters when complex cases go to senior underwriters</li> </ul> </li> </ol>
<b>Policy administration</b>	Managing the administrative activities required by the inforce populations (e.g. inquiries, cancellations, changes, billing and collections)	<ul style="list-style-type: none"> <li>— Reduction of policy servicing costs as consumers become more comfortable with digital interactions</li> <li>— Contact centers will be reimagined, leveraging automation (voice, chat, etc.): <ul style="list-style-type: none"> <li>— billing and payments will increasingly shift to contactless processing</li> <li>— self-service will provide consumers with more control (at lower costs)</li> </ul> </li> <li>— Outsourcing strategy will be reviewed with transfers and renegotiations expected due to automation</li> </ul>	<ol style="list-style-type: none"> <li>1. Review policy admin processes to identify opportunities to automate and enable self-service as a means to increasing efficiency and decreasing costs</li> <li>2. Understand the consumer experience and the 'moments of truth' during the maintenance of their policy</li> <li>3. Assess technological capabilities and determine where external resources may be required (e.g. vendors, alliances, partners)</li> </ol>
<b>Claims management</b>	Evaluating and settling claims, including payment, reinsurance recovery and litigation, when applicable	<ul style="list-style-type: none"> <li>— Need to reimagine claims handling, even if claims paid do not end up being significantly higher as a result of COVID-19</li> <li>— Increased expense ratios will arise from growing volume and potentially limited new business</li> <li>— Insurers will race to create operating models that heavily rely on self-service and automation to process claims</li> <li>— Automation will focus more on back-end processing given claims is the most significant 'moment of truth' for customers</li> </ul>	<ol style="list-style-type: none"> <li>1. Evaluate exposure to pandemic-driven claims and include considerations for potential indirect effects (e.g. fewer accidental deaths, reclassification of other terminal illnesses)</li> <li>2. Explore and develop automated claims processing capabilities, with focus on developing operating model and staff capabilities to support a more automated environment</li> <li>3. Invest in automation to expedite and simplify complex handling processes</li> </ol>
<b>Asset and investment management</b>	Leveraging and investing assets from policyholder surplus and reserves to generate revenue and provide solvency for liabilities	<ul style="list-style-type: none"> <li>— Cash and asset management strategies will evolve: <ul style="list-style-type: none"> <li>— increased focus on real-time modeling of solvency ratios due to increased volatility in equities, downgrades and credit spreads</li> </ul> </li> <li>— Insurers will closely monitor credit issues and the impact of commercial real estate and loans given the possible shifts in those asset classes</li> <li>— Regulatory focus on credit risk management, particularly illiquid assets, likely to increase in certain markets</li> </ul>	<ol style="list-style-type: none"> <li>1. Evaluate exposure to potentially high risk investments (e.g. commercial real estate, loans)</li> <li>2. Enhance monitoring of credit risk</li> <li>3. Assess investment strategies given challenging yield environment and shifting views of economic recovery patterns</li> </ol>



## Support activities

	Definition	The new reality	Actions to consider
<b>Human resources management</b>	Managing the organization's workforce to engage people effectively (e.g. recruiting, hiring, training, compensating, terminating)	<ul style="list-style-type: none"> <li>— Ways of working have changed significantly requiring a new process for managing talent, with emphasis on:               <ul style="list-style-type: none"> <li>— right-sizing workforce</li> <li>— right skillsets</li> <li>— training</li> <li>— performance management</li> </ul> </li> <li>— Shifts to remote operating models will require revised measurements for productivity/ performance and access to training</li> <li>— Access to talent will expand as location becomes less important under a more remote workforce</li> <li>— Leaders will need to be equipped and suitably enabled to lead through this transformation</li> </ul>	<ol style="list-style-type: none"> <li>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</li> <li>2. Perform a skills-based assessment of current talent and use a scenario-based approach to shift talent to the future state</li> <li>3. Identify critical changes that should be made to performance management and training to accommodate a more remote workforce</li> </ol>
<b>Finance, actuarial and tax</b>	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"> <li>— Focus on being a valued business partners within the executive leadership team, providing insights including:               <ul style="list-style-type: none"> <li>— meaningful internal management reporting</li> <li>— evolving cash management strategies</li> <li>— understanding tax opportunities</li> <li>— finding opportunities to reduce costs/ losses (including within the finance function)</li> </ul> </li> <li>— Better integration of actuarial and accounting functions along with end-to-end redesign of reporting processes</li> <li>— Real-time modeling of cash flows and solvency ratios will be a key focus, considering:               <ul style="list-style-type: none"> <li>— increased volatility with equities</li> <li>— rating downgrades</li> <li>— low interest rates</li> <li>— widening credit spreads</li> <li>— flight to security</li> </ul> </li> </ul>	<ol style="list-style-type: none"> <li>1. Embrace technology disruptors to transform operating models and unlock the benefits of innovation and automation:               <ul style="list-style-type: none"> <li>— cost reduction</li> <li>— increase efficiencies</li> <li>— generate insights that can be incorporated into business strategy</li> </ul> </li> <li>2. Maintain focus on preparing and reacting to federal, state and local regulatory changes to optimize tax planning and outcomes</li> <li>3. Identify opportunities for bringing in cost efficiencies through digitization of finance and actuarial processes</li> </ol>
<b>Risk management</b>	Developing and implementing strategies to assess, manage and mitigate losses due to risk exposure across the entire organization	<ul style="list-style-type: none"> <li>— Continued focus on capitalization and any areas of trapped capital</li> <li>— Risk management teams must adjust to new and different risks presented by planning for dual operating models - physical vs. virtual.</li> <li>— Continued focus on cyber and data privacy risks with a more remote workforce</li> <li>— Revived attention on business continuity and resiliency where scenario planning becomes the norm</li> </ul>	<ol style="list-style-type: none"> <li>1. Assess new ways of working to evaluate risks and the associated controls in place (or required):               <ul style="list-style-type: none"> <li>— to mitigate inherent risk, including increased cyber and data privacy risk</li> </ul> </li> <li>2. Reassess risk models to factor in new or evolving risks (liquidity, credit default, business closures, etc)</li> <li>3. Determine the appropriate level of investment for reviewing and enhancing business continuity and resiliency plans (may include collaboration with regulators)</li> </ol>
<b>Data and technology</b>	Managing, monitoring and securing an enterprise's entire collection of hardware, software, networks, data, facilities and related equipment	<ul style="list-style-type: none"> <li>— Digital capabilities are table stakes — front, middle and back office</li> <li>— Accelerated move to cloud provisioning and adopting global use cases to local cloud solutions</li> <li>— 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.</li> <li>— Access to the market will more heavily require digitally-enabled distribution and marketing channels.</li> <li>— The race to acquire digital, technology and data talent will heat up quickly</li> </ul>	<ol style="list-style-type: none"> <li>1. Enhance technology infrastructure to support the organization's future operating model, most likely a dual construct — physical and virtual</li> <li>2. Update the data strategy to harvest, maintain and protect the internal and external data needed to support the current operating model</li> <li>3. Accelerate cloud adoption to support flexible work arrangements and client servicing</li> </ol>

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