



New claims solutions

Transforming the value proposition

Claims transformation

One of a series of seven insightful and instructive articles that examine a set of interconnected themes and trends that are expected to drive the traditional claims function into a new future of customer-centric, digitally-enabled, value-driven service and efficiency.

KPMG International

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The insurance industry has a long history of success helping individuals, families and organizations protect their assets and interests — while also providing a reassuring level of certainty over what will happen if misfortune strikes and a claim takes place. New claims solutions is one of the seven forces that are transforming the claims function and is explored further in this article.

The claims process is the critical ‘moment of truth’ for clients who expect claims handlers to demonstrate empathy, precision and care on the way to efficiently delivering a fair outcome. And while the claims function’s transactional nature hasn’t evolved much in recent decades, the landscape is shifting.

As new products and technologies emerge to meet a new era of client needs, risks and expectations, so must the services and value that claims teams can deliver. Forward-looking insurers are looking to transform how the claims function is positioned within an insurer, making it a strategic partner with the traditional ‘front office’ functions such as underwriting in a connected operating model. This will enable insurers to use the insight and experience of the claims function to enhance the client experience, and to prevent losses from occurring in the first place.

To bring claims into the digital age, today’s insurers need to identify the strategic investments that will enable future success. New claims solutions will broadly fit into one of three areas:

- 1 Connected operating model:** the ability to price risk and handle claims effectively and efficiently for new risks and products.
- 2 Prevention and response:** evolving the claims role to move beyond the traditional ‘write a cheque’ service.
- 3 Value-added services:** delivering new services to clients, including the use of data, and relationships formed in the claims function, to create value.

Modern solutions for modern times — and risks

As risk pools change and technology drives product and service innovation, the claims function must also evolve to provide clients with modern solutions. New products will need to cover emerging risks and existing risks previously deemed uninsurable. New developments such as artificial intelligence, 3D printing, augmented and virtual reality, and cryptocurrencies, for example, are creating new risks that do not fit neatly into existing product categories and coverage offerings.

In addition, the proliferation of connected devices and data from new sources means that currently niche parametric insurance products are becoming more prevalent, especially in general insurance (i.e. personal insurance). There will be fewer subjective interpretations of limited data as connected devices deliver more-complete datasets that support increased automation. Handlers will need to spend less time physically handling a claim and can increasingly turn their focus to data

analysis and setting new rules for data management and claims processing.

The impact of these developments on claims is significant. New capabilities will need to be developed, through new skills and technology, to assess and settle claims for a world of new risks. Future risks are likely to be more complex to assess and resolve, and there is evidence that some types of severe claims — for example, natural catastrophes, such as major wildfires — will become more prominent.

The line between underwriting and claims will increasingly blur, demanding a more-flexible operating model and a break from traditional, functionally led structures to self-contained cells of expertise around risk for specific insurance types, such as motor vehicles. These cells will feature much closer collaboration and feedback loops between the core functions of sales and distribution, reserving, underwriting, policy servicing and claims — with a loop of timely information constantly feeding all areas and providing input from the whole value chain.

For example, claims data could be integrated into parametric insurance products, providing a dynamic premium based on client risk factors. An application of this approach could be charging higher excess for motor claims when they have occurred due to driving a vehicle during high risk conditions, such as ice and snow.

The expertise of claims colleagues could also be applied across the business to design new products to cater to the changing risk landscape. One leading insurer, for example, is using an in-house risk engineering function and claims data to help underwriters determine the value of complex infrastructure assets, which has led to the three teams and the actuarial function working more closely together, evolving the legacy insurance operating model.

A new focus on prevention and response

The benefits of modern prevention and response solutions in reducing disruption among policyholders and lowering costs for insurers are clear enough. KPMG professionals estimate that claims can represent 70 percent or more of the cost base for an insurer and savings will enhance profitability.

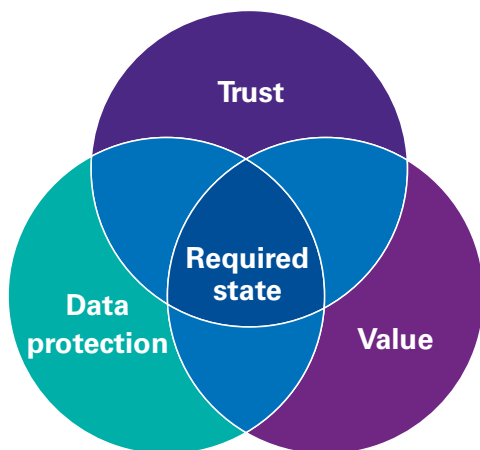
Claims provide organizations with a wealth of data on several risks — from tangible to intangible. There is an opportunity today to analyze data more deeply and produce a more-dynamic view of current risk and how to minimize it. As insurers start focusing on prevention, the insurance model may shift from the traditional risk-transfer model to a mix of risk transfer and risk hedge, where policyholders weigh the claim risk amid the tighter focus on prevention. Given the expertise of the claims function, insurers could increase focus on prevention versus only on handling claims, resulting in the need to change their organizational structure.

In commercial insurance, the concept of risk engineering is relatively well established, with mill owner Zachariah Allen requesting in the 1830s, a reduction in premium in return for the efforts he had made to fireproof his mill. After the insurer refused, Allen collaborated with other mill owners to set up a mutual fire insurance company that based premiums on the quality of preventative measures in place and provided advice to organizations to reduce risk.¹

But challenges exist. In personal insurance, insurers have struggled to influence client behavior. In health insurance, organizations have made progress with connected-health devices and incentives, while for motor, household and travel insurance, impact has been more elusive. This is potentially linked to the level of trust policyholders have in insurers, and the ‘grudge purchase’ challenge whereby clients limit their contact with insurance providers. To combat this, insurers must ask themselves:

- How can we foster trust in the eyes of clients?
- How can we offer meaningful, tailored insights to individuals to help manage their risk?
- How can we incentivize clients to change behaviors and reduce risk?

Ideal state for prevention acceptance by clients



Trust — Client trust in the insurer and their data use. Linking to transparent data records and how long client data is stored.

Data protection — Cyber protection against hacking, especially if insurer holds data over movement etc.

Value — Financial and/or non financial incentives to share more information — ‘what’s in it for me?’

Source: KPMG International, 2021.

Technology is helping insurers both to answer questions such as those noted regarding client trust, insights and

behaviors, and to meet related challenges in order to move toward the ‘required state’ reflected in the graphic above.

The use of connected devices, to support prevention, is showing some evidence of becoming more mainstream, but insurers are still navigating the landscape to understand how and if this fits their business model — for example, Aviva’s purchase (and subsequent sale) of a majority stake in Neos, a smart technology insurance provider that lets consumers monitor and protect their homes through connected devices.^{2,3}

Innovative new partnerships between insurers and technology companies are crucial. For example, an insurer could partner with a large technology to link their home to their devices and create an intelligent ecosystem. Insurers could then expand their offering of additional services, like a break-in monitoring service with a connected doorbell, or an in-home devices that enhance loss prevention.

Today’s insurers also have an abundance of claims data to work with and enhancing their ability to compile and interpret data will unlock smart new insights for consumers regarding loss prevention.

Adding value by sharing insights

For many insurers the only touch point on the client journey is when they are interacting with their client who are making a claim. This light touch relationship with their clients mean insurers are competing on price for business and are increasingly seeing clients lapse on renewal to move to a competitor. Insurers are exploring ways to provide value-add services through the innovative use of data, insights and the claims experience to retain clients.

“ The line between underwriting and claims will increasingly blur, demanding a more-flexible operating model and a break from traditional, functionally led structures to self-contained cells of expertise. ”

¹ https://en.wikipedia.org/wiki/Zachariah_Allen

² <https://www.insurancebusinessmag.com/ca/news/digital-age/aviva-makes-major-investment-in-neos-116814.aspx>

³ <https://www.postonline.co.uk/technology/7847881/sky-takes-majority-neos-stake-from-aviva>

Evolved travel claim process

	Prevention/pre event	Notification and assignment	Investigation	Fraud management	Negotiation & settlement	Payment
Customer	<ul style="list-style-type: none"> Usage-based policy triggers at the airport/port etc. Prevention advice and information on key events via phone using geographic location data Access to key information — travel booking, accommodation etc., shared 	<ul style="list-style-type: none"> Some cover — e.g. cancellation/delay auto notifies and pays Use digital assistant to make claim by voice e.g. 'hey Siri'/'ok Google'/'Alexa ...' to make a claim 	<ul style="list-style-type: none"> Provides further information digitally by allowing access to various data sources 		<ul style="list-style-type: none"> Non-financial 'resolution option' — digital rebooking etc. 	<ul style="list-style-type: none"> Immediate payment for rules based claims
Insurer	<ul style="list-style-type: none"> Real time insight into risk exposure — knowledge of which policyholders are abroad, and where they are Prevention guidance sent to policyholders on key risks for destination 'Nerve centre' to manage risks and preempt claims 	<ul style="list-style-type: none"> Auto upload and population of key information 	<ul style="list-style-type: none"> AI used to validate any physical evidence without the need for human validation Small team of specialist claims investigators process claims by exception 	<ul style="list-style-type: none"> Data used to detect suspected fraud automatically In-built controls reduce the risk of fraud AI identifies falsified evidence 	<ul style="list-style-type: none"> Upsell opportunities for resolution options Concierge service that supports the claims process 	
	Real time updates to reserving throughout					
Suppliers	<ul style="list-style-type: none"> Third-party data sources feed in dynamic information on different locations including geopolitics, weather events etc. Local suppliers that supply digital prevention advice tailored to individual (family/sports person) 	<ul style="list-style-type: none"> Integrated third-party sources of data and information on weather, event status etc. 		<ul style="list-style-type: none"> External data sources provide information to identify suspicious claims 	<ul style="list-style-type: none"> Travel and leisure ecosystem player plugged in to provide potential solutions 	

Source: KPMG International, 2021.

Insurers could provide a value-add service by minimizing the non-financial losses that many claims bring clients, such as loss of time, distress and inconvenience — which are difficult to place a financial value upon. A travel insurer could handle a client claim by booking a different holiday for the price of the claim amount, providing a convenient, value-adding service to the insured. A health insurer covering specific conditions could highlight other potential health risks that might be on the rise — and if the policyholder falls into a high-risk category, coverage can be revised.

Insurers' valuable insights and expertise regarding motor-vehicle accidents, for example, could help feed into the manufacturing of safer vehicles, which are more efficient and less costly to repair. This could provide a benefit to commercial clients, and an indirect benefit to the insured through lower prices for repairs and preventing defects in vehicles from occurring in the first place, reducing the likelihood of a claim and keeping clients safe.

Take a strategic approach to evolving claims for a new era

To keep pace and stay competitive amid marketplace changes, insurers' claims capabilities need to evolve. Thinking long term and developing a strategy to deliver the services clients' need should help insurers stay relevant, which will involve considering changing their business and operating models to put claims at the forefront of their value proposition.

Setting up the organization to take advantage of New Claims Solutions

Some insurers may choose to invest in claims and innovation to provide new solutions and services, offering longer-term sustainability and security. Others may focus on enhancing core activities within traditional claims functions to reduce costs and improve the client experience. Neither choice is right or wrong — but it will be critical for insurers to take a strategic approach. Insurers should consider the following to take advantage of opportunities in claims:

- 1 Connect claims and other functions more closely.** Consider reorganizing the operating model of the organization to better connect and collaborate, and make use of the qualitative and quantitative insights that claims can deliver. Be prepared to handle claims for new products and services that the organization is developing.
- 2 Map out the potential future end-to-end client journey.** Use creative thinking to imagine the ideal state client journey, incorporating opportunities for claims to play new roles in creating client value.
- 3 Develop business cases for prevention, response and value add services.** Match use cases, and available technology together to create business cases to be tested and reviewed in order to find potential new solutions that can deliver client value and a financial return.

Explore our [Claims Transformation](#) articles series further to learn how the seven forces are affecting the claims function.

If you'd like to discuss how KPMG professional can help your organization with its claims transformation journey, please contact us.

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