



Preparing to disrupt and grow

Insurance CEOs pick up the pace

KPMG International

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Foreword

Insurance CEOs are bullish about their growth prospects. According to our survey, most think they will outperform the market. They say they are already disrupting their competitors. And they feel they are transforming their businesses in order to get closer to their customers.

The fact that CEOs recognize the need to significantly transform is, indeed, good news. That they view this disruption as an opportunity rather than a threat is also encouraging. Yet it may take some time before the benefit of this transformation can be fully realized. And there will undoubtedly be challenges to overcome and new disruptions to avoid or integrate in the meantime.

While CEOs have reason to believe they are making progress, our view of the market is that few are yet taking bold enough steps to be truly disruptive. Indeed, many are focused on incremental change rather than large-scale, enterprise transformation.

This survey of more than 100 insurance CEOs (part of KPMG International's annual CEO Outlook survey) reveals some surprising insights. And the results suggest that insurance CEOs will need to pick up the pace of transformation and innovation if they hope to remain competitive in this rapidly-evolving environment.

In this report, we highlight some of the top-level findings of our survey, drawing from our data and our network's extensive experience to provide context and insight to the results. Over the coming months, our financial services and insurance leaders will take a deeper dive into some of the key trends, topics and issues raised by CEOs. New articles will appear each month, and I encourage you to subscribe to our feeds to follow the conversation.

On behalf of KPMG's network of insurance professionals, I would like to thank those 100-plus insurance CEOs who took part in this survey. To learn more about the topics raised in this report or to discuss your own organization's challenges, I encourage you to contact your local KPMG member firm.

Go beyond the headlines

KPMG International's new online article series launching in September will provide an in-depth analysis of the top risks, emerging trends, and uncover new strategies that will help drive transformative change within the insurance industry. Visit kpmg.com/insurance



Gary Reader
Global Head of Insurance
KPMG International

Survey highlights

A new story is unfolding for the insurance industry, as insurers prepare to disrupt and grow.

Insurers see disruption as an opportunity



81% believe they are actively disrupting the sector

61% see technological disruption as an opportunity rather than a threat

85% are confident in their company's growth prospects this year

CEOs are beginning to realize the value of the customer



73% can confidently articulate their customer value proposition

68% say they now take personal responsibility for advocating for their customers' interests

50% say they have aligned middle and back office processes to become more customer focused

But more must be done to bridge the gap between ambition and action



51% are concerned about the integrity of their management data

43% are concerned that a lack of quality customer data is hindering the depth of their customer insights

Only **48%** plan to increase investment into innovation over the next 3 years



Yet uncertainty is creating concern for the future

76% are spending much more time on scenario planning as a result of an uncertain geopolitical climate

36% believe that emerging technologies are their greatest risk

52% expect to achieve less than **2%** revenue growth over the next 3 years



And they are starting to transform the business

58% say they are effective at sensing market signals

69% say they plan to invest into digital infrastructure over the next 3 years

59% say the primary objective of their investment is to transform their business and operating models

About the survey

A global survey of CEOs

- More than **100 insurance CEOs** across 10 markets surveyed
- **48%** have been the CEO of their firm for more than **5 years**
- **42%** represent companies with revenues of more than **US\$10 billion**

A moderating outlook

Insurance CEOs may have lost some confidence in the economy, but they are certainly confident about their own short-term growth prospects. Yet while many believe they can outperform the market over the next year, our survey suggests they are much less confident about the future.

Rarely has the geo-political and economic landscape been so unpredictable. International agreements are being reviewed. Social expectations are changing. National and regional tax and regulatory environments are evolving. Indeed, after a year of surprise election results, continued global economic uncertainty and rapidly-shifting social expectations, it is perhaps not surprising that insurance CEOs have lost some confidence in the world around them.

Indeed, while two-thirds of insurance CEOs say they are confident in the strength of the global economy over the next year, this is down 5 percentage points from 2016. Confidence in the prospects for the industry fell 12 percentage points to

70 percent, suggesting that many CEOs expect a moderate year ahead for the economy and the industry.

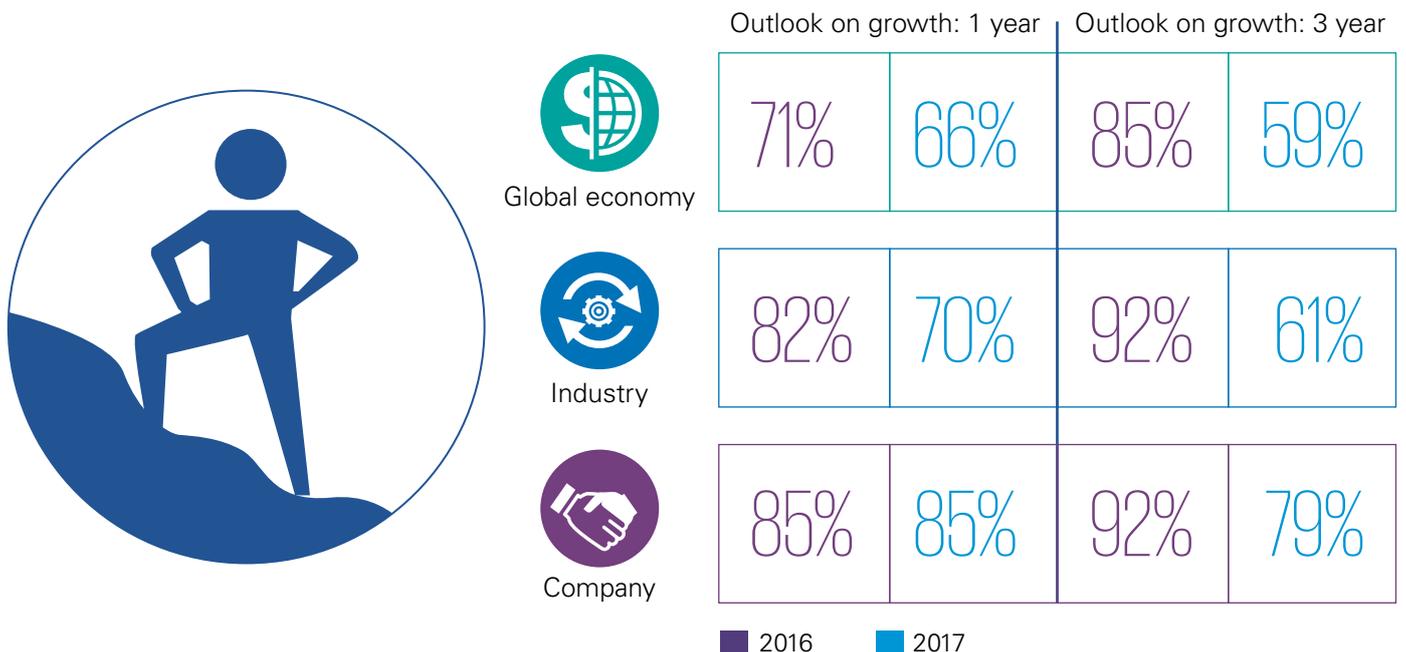
Yet they are positively bullish about their own company's prospects. In fact, 85 percent say they are confident in their short-term growth prospects (unchanged from last year), indicating that many believe they will out-perform their peers this year.

Over the longer-term, however, CEOs seem increasingly concerned. Fifty-nine percent voice confidence in the growth prospects for the global economy over the next three years (down 26 percentage points from 2016). Confidence in the industry fell even further — from 92 percent in 2016 to just 61 percent today.

While insurance CEOs still believe they can out-perform the industry over the medium term, our survey suggests growing uncertainty about the future. So while almost four out of every five CEOs expect to achieve growth over the next 3 years, this is down significantly from the 92 percent that anticipated growth last year.

At the same time, expectations for medium-term revenue growth have also moderated significantly. Whereas the majority of insurance CEOs participating in last year's survey said they anticipated topline growth in excess of 2 percent over the next 3 years, the majority of this year's respondents say they expect less than 2 percent topline growth. Just 8 percent expect to achieve growth of more than 5 percent.

% of CEOs reporting confidence in overall growth prospects in the near-term and less so in their 3-year outlook



Source: CEO Outlook, KPMG International 2017



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In part, this data reflects concerns that — while CEOs think they understand their competitive position today — they are also terribly worried that a Google, Facebook or Alibaba will decide to use their sophisticated customer insights to completely disrupt the current channel and relationship models.”

Tek Yew Chia

Head of KPMG in Singapore’s Financial Services Advisory practice

Positive signs of positive activity

Insurers seem to believe they have been making strong progress towards transforming their organizations. And many suggest they are now better equipped to respond to changing market forces. Indeed, most now view disruption more as an opportunity than a threat.

In some cases, insurers have reason to be confident in the short term. Indeed, in a market characterized by rapidly changing customer preferences, pernicious new competitors and constant technological change, our data suggests that many insurers feel they have made great efforts to improve and transform their capabilities.

“Our experience suggests that most insurers are now undertaking some form of emerging technology implementation,” notes Gary Reader, KPMG’s Global Head of Insurance. “Some are pushing their way towards the cutting edge by partnering with InsurTechs to develop new Artificial Intelligence, Machine Learning and robotics solutions while others are doing more fundamental work, focusing on transforming their capabilities with investments in areas such as cloud implementations.”

Many are certainly saying the right things about innovation and disruption.

Eighty-one percent believe that — in some way or other — they are already actively disrupting the sector. Fifty-eight percent say they are effective at sensing new market signals. And less than a third admit to struggling with the current pace of technological change.

Our survey suggests that most also feel they have put significant attention towards improving their customer focus. Almost three-quarters (73 percent) of insurance CEOs say they can confidently articulate their customer proposition. Sixty-eight percent say they now take personal responsibility for advocating for their customers’ interests. Half also say they have aligned their middle and back office processes to improve the customer-centricity of the front office.

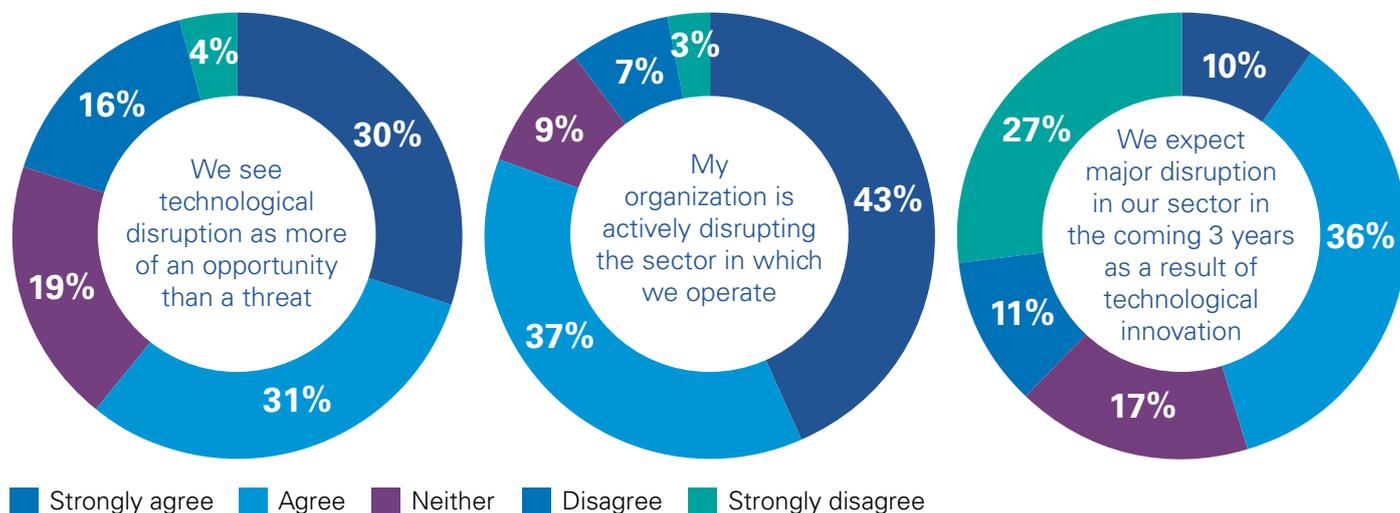
“Some insurers have made great progress in transforming their businesses by realigning their business and operating models with their go-to-market strategies,” noted Tek Yew Chia. “But the reality is that most are

still focused on making incremental changes to their current models and processes and are only now starting on the journey to real disruption.”

That being said, it is a positive sign that the majority of insurance CEOs seem to view much of the current market disruption as an opportunity to create competitive advantage and improve their operations. More than six-in-ten say they see technological disruption as an opportunity rather than a threat. And more than three-quarters view cyber security as an opportunity rather than an overhead cost.

“The problem is that the vast majority of these efforts are happening at the functional or project level rather than the enterprise level,” noted Gary Reader. “If insurers truly want to reinvent their customer proposition, they need to take a much more fundamental approach to their transformation and innovation initiatives.”

A view on disruption



Source: CEO Outlook, KPMG International 2017

New concerns emerge

Insurance CEOs may be confident in their current market position, but they also recognize that they face an uncertain future where new innovations, technologies and operational risks will upset the status quo and catalyze further disruption.

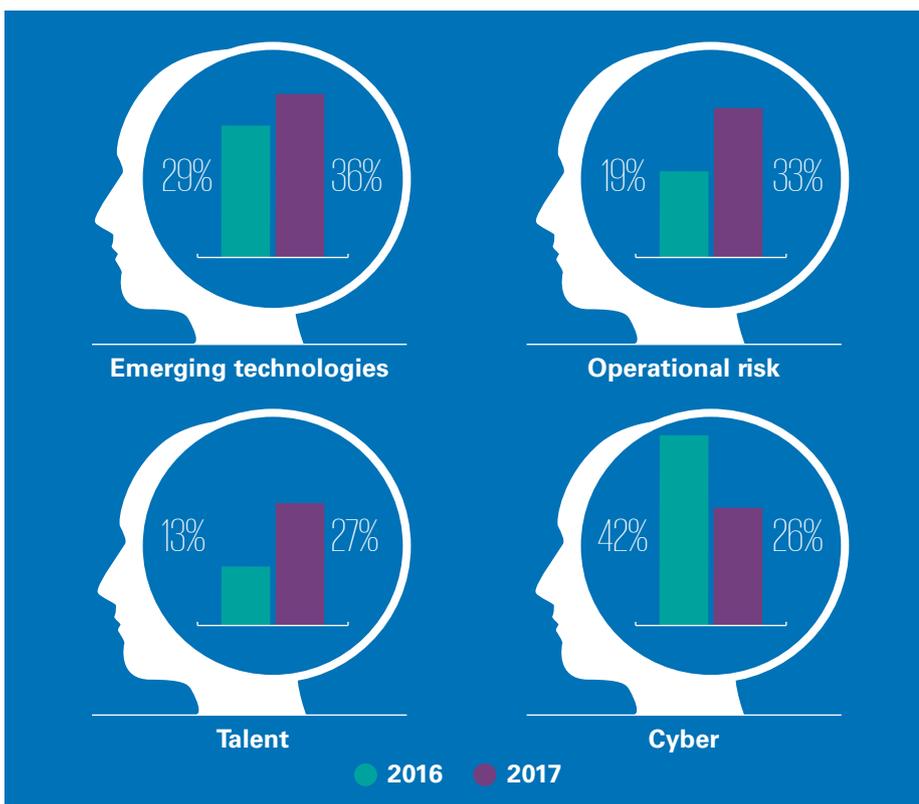
As insurers start to transform their organizations and embrace new models and technologies, the risk landscape is changing. In fact, according to insurance CEOs, the most concerning risks today are those related to people, processes and emerging technology.

Thirty-six percent of CEOs participating in this year's survey admitted they are concerned about emerging technology risks (up from 29 percent in 2016), ranking this as the top risk for CEOs this year. And 45 percent of respondents said they expect technological innovation to create significant disruption in the sector over the next three years.

At the same time, a third of the insurance CEOs we surveyed also noted significant concerns about rising operational risks (up from 19 percent in 2016), suggesting that CEOs are worried that their transformation initiatives may be straining their risk appetites.

"Most insurers are now undertaking multiple change programs across the business and that's putting a lot of pressure on business and operating models," noted Gary Reader. "In this environment, CEOs need to be increasing their focus on governance and controls while Boards and executive committees must allocate enough time to reviewing progress, risks and issues."

Top of mind risks



Source: CEO Outlook, KPMG International 2017



Interestingly, many of the traditional insurance risks seemingly have fallen down the CEO agenda. Cyber risk, ranked the top risk by insurance CEOs in 2016, tumbled to seventh place this year (even as European-based firms prepare for the EU's General Data Protection Regulation).

Yet, in discussion with our clients around the world, we see strong signals that many are moving beyond a generic view of cyber risk to develop risk, resilience and mitigation plans in the context of the parts of their business that could be most seriously affected. We believe the risk remains very much top of mind.

Another interesting change is that just one-in-five CEOs said they are concerned that regulation will inhibit their growth over the medium-term.

In response, insurance CEOs seem to be shifting their strategic priorities to focus on innovation, emerging technologies and data. The top two priorities — cited by 25 percent of CEOs — were to foster greater innovation and become more data-driven. Twenty-four percent said their top priorities include implementing disruptive technologies.

"Many CEOs recognize that — over the long-term — their traditional evolutionary approaches of achieving select and systematic improvements will no longer work," said Laura Hay, National Insurance Leader, KPMG in the US. "They understand that they will need to take an approach that revolutionizes their relationship with customers, their use of technology and their business models."



Two things keep me awake at night: cyber-crime and geopolitical issues. You need to be fast-paced and agile or you're toast."

Mark Wilson
Group CEO
Aviva PLC

Top three priorities for insurance CEOs

1. Fostering innovation **(25%)**
2. Becoming more data-driven **(25%)**
3. Implementing disruptive technology **(24%)**

Bridging the gap

Our survey suggests a growing gap between CEO ambition and reality. But bridging the gap will require insurers to take a fundamentally new approach to investment, innovation and transformation.

While CEOs may admit high levels of concern about their medium-term outlook and note the implementation of emerging technology as a big risk, few seem willing to put significant new investment into developing a response. In fact, less than half of the CEOs in our survey said they plan to increase investment into innovation and emerging technologies over the next 3 years.

“The CEOs I talk to recognize that incremental investment will only deliver incremental results,” noted Gary Reader. “But many of them are also struggling to balance the need to invest against the challenges of the current low profit margin environment. As a result, CEOs may need to look for greater efficiencies from the business today in order to find the investment required to rejuvenate the business for tomorrow.”

To ensure investments are targeted towards driving future growth, insurers will also need to become much better at understanding new customer segments, geopolitical trends and disruptive channels. More than three-quarters of our respondents say they now spend more time focused on scenario planning to respond to unexpected events. Most, however, still admit that they struggle to understand Millennials and assess the real impact of disruptive competitors.

“Millennials largely want the same thing most other segments want — simplified products they can research and purchase online. But as an industry, we have not been very good at making our products easy to understand and buy,” noted Laura Hay. “Ultimately, the industry will likely shift towards a much more simplified, on-demand model that reflects the way customers actually view insurance.”

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Laura Hay

National Insurance Lead Partner
KPMG in the US

The way forward

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We've reached a point where the old models and processes are no longer fit for purpose," added Gary Reader. "It's going to take big steps — possibly an entirely new outlook — to drive growth in the future."

Our view is — to achieve their transformation objectives — insurers will ultimately need to form more sophisticated ecosystems by working with a variety of external partners. However, in this new ecosystem, insurers will have access to increasing amounts of data from a variety of different sources and will need to become more adept at analyzing such data to create value for customers. Currently, 43 percent of insurance CEOs feel that the quality of their data hinders their ability to improve customer relationships and around half

say that they are concerned about the integrity of the data they are basing their decision on.

Ultimately, insurance organizations may need to accelerate their transformation efforts if they hope to live up to their growth and transformation ambitions. "We've reached a point where the old models and processes are no longer fit for purpose," added Gary Reader. "It's going to take big steps — possibly an entirely new outlook — to drive growth in the future."

Five takeaways as insurance CEOs prepare to disrupt and grow.



01 Disruption is long-term.

CEOs are aware that their businesses need to significantly transform in order to meet changing customer demands and optimize business and operating models. However, it may take some time and significant effort before the benefit of this transformation can be fully realized.

02 Customers are key.

CEOs have sharpened their organizational and personal focus on the customer and have made efforts to align processes to improve customer relationships. Yet most still have a long way to go before they can say that they have truly differentiated themselves from their competitors.

03 Risks are changing.

CEOs are concerned about the changing risk environment and worry that their transformation efforts may be creating additional risks for the business. As a result, firms should be concentrating on their governance and control environments as well as core capabilities such as program management.

04 The future is everything.

CEOs will need to understand their strategic positioning for the future and what it means for their innovation strategy. This will require significant foresight and bold decisions, particularly as new business models emerge and evolve within the industry.

05 Focus for results.

CEOs will want to be more strategic with their investments. With budgets remaining tight, CEOs will need to be focused in the way they invest, targeting technology and investments that truly compliment the business model and future direction of their organization.

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