# Future of Personal Insurance

KPMG in Belgium

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# Foreword

The pace of change is quickening. The scope of change is broadening. And the impact of change is becoming increasingly disruptive. For personal lines insurers, the future has rarely been so uncertain.

The signals of change are everywhere: in the unpredictable economic uncertainty that continues to trouble national and global markets; in the rapidly shifting expectations of customers; in the rising importance being placed on the ESG agenda; in the innovative new models and technologies being brought to market; in the evolving competitive environment; and in the continuously-changing regulatory landscape.

Yet — as insurers know well — uncertainty and risk can create opportunity. And there is no lack of opportunity in today's market, particularly for those who understand how the landscape is changing, what new models are emerging, and how they can harness these changes to create their own winning operating model of the future.

This report outlines KPMG's vision for the Future of Personal Insurance. Over the following pages, we explore how these forces of change are already creating competitive opportunity for insurers. We look at the winning business models of today. And we describe some of the emergent business models we believe will drive success in the future.

But it's no good knowing where you want to go if you don't know how to get there. So, we have provided readers with a clear approach to help drive transformational change by adopting a connected operating model. Supported by a list of key capabilities required to enable change in the personal insurance sector, this report offers case studies, evaluations and next steps to help personal lines insurers take a proactive and practical approach to transformation.

We hope this report provides personal lines insurance leaders and stakeholders with the insights, ideas and frameworks needed to look beyond today's uncertainty and build a winning and connected operating model for the future; recent research by Forrester suggests those with highly connected models are outpacing their less mature peers in today's environment.[1] This report shows how they are doing it.

To discuss these themes in more detail, or to explore how KPMG can help your organization accelerate its transformation, we encourage you to contact your local KPMG member firm or any of the regional leaders listed at the back of this report.

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[1] Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, September 2020

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# Signals of change

## Why the insurance sector is changing

People's lives have been disrupted. And their expectations have changed dramatically. The impact on personal lines insurers will likely be transformative.

Understanding how the world is changing — and which forces are expected to influence your future operating model is not easy. There are many 'signals of change' flashing on the horizon; each can impact your future business and operating models, but in significantly different ways. Indeed, success in personal lines insurance going forward largely depends on how organizations respond to each of these signals.

While the 'signals of change' are continuously evolving, our view of global, regional and national markets suggest there are six key signals that are influencing personal lines insurers today.

**Economic uncertainty:** Shifts in the micro and macro economy are changing the playing field for personal lines insurers. Insurers should change their operating and business models if they hope to meet their customers' demands in this uncertain economic environment.

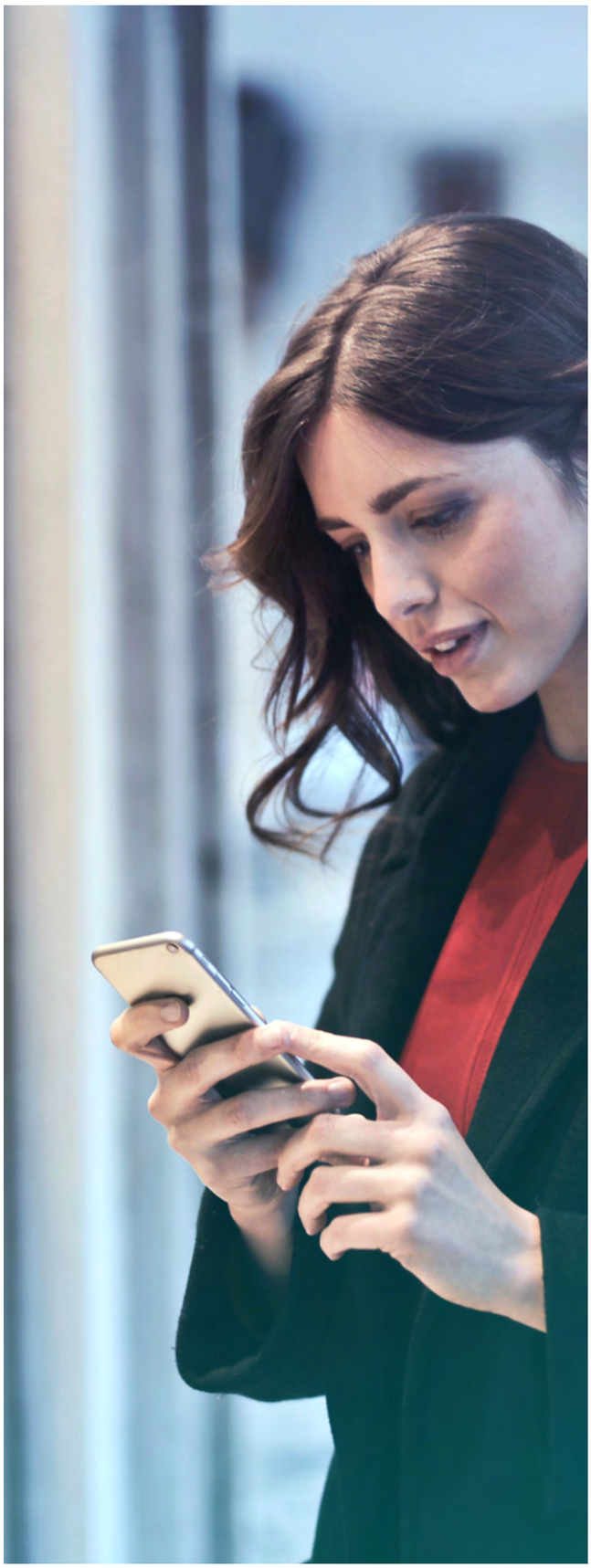
**Customer expectations:** Customers want their insurers to make their lives better and easier. The successful insurers of the future will likely be those that create better customer experiences by leveraging easy-to-use digital tools and digital services across the journey.

**Technological innovation:** It may take technology, data and insights to provide customers with the value they seek. Insurers should invest more into modernizing their technology environment and connecting their broader technology, people, data and customer strategies.

**Competitive disruption:** Insurtechs are showing traditional insurers how to create customer value with agile, innovative and customer-centric propositions. Insurers should either adapt or adopt if they hope to compete on customer experience and value in the future.

**ESG prioritization:** Customers, stakeholders and investors expect more 'good' from personal lines insurers. Personal lines insurers will likely need to become much more focused on integrating the ESG agenda across the front, middle and back office.

**Regulatory direction:** As regulators start to strengthen and broaden their mandates, many personal lines insurers are starting to face increasing regulatory complexity. Staying ahead of the regulators will likely require insurers to become much more agile and much better at integrating their values into their governance structures and culture.



# Signals of change: Economic uncertainty

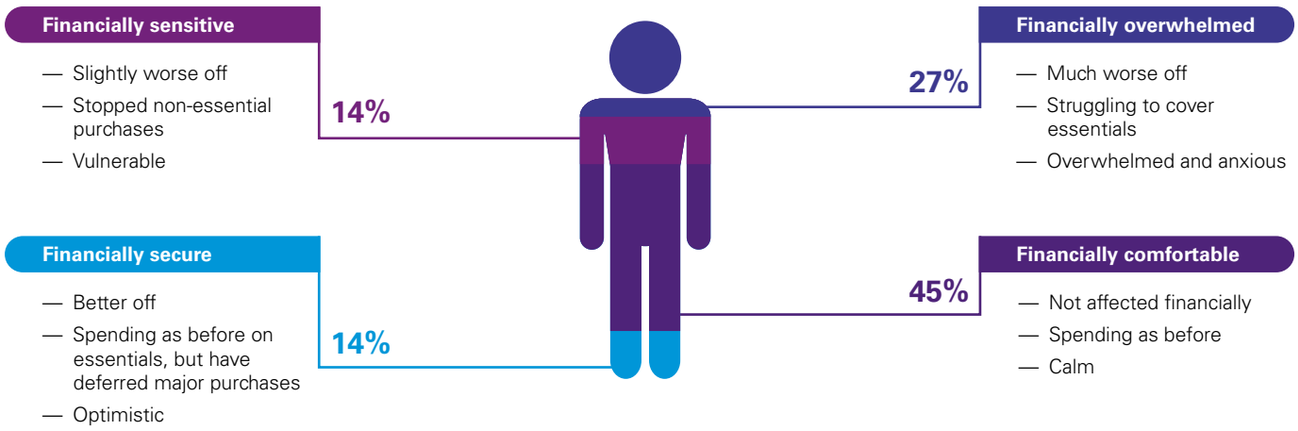
**Shifts in the micro and macro economy are changing the playing field for personal lines insurers.**

Common wisdom in 2019 was that the insurance sector was well prepared for so-called 'black swan events' — even pandemics. Indeed, following the SARS outbreak in 2003, many insurers had introduced relevant exclusion clauses into key personal lines products like travel. Yet COVID-19 put common wisdom to shame. The number of claims rose dramatically — a large London insurer predicted it would see more than 4 billion US dollars (USD) in COVID-19-related property and casualty claims in the first few months of the pandemic alone.[2] Most losses will likely fall to reinsurers, but the long-term impact on revenues, investment income and profit margins could be significant.

At the same time, the prospects for global economic growth remain variable; forecasts suggest many markets will likely struggle with sluggish GDP growth and consumer confidence issues for some time to come whereas others are experiencing a spurt of activity. The continued low interest rates aren't helping: return on equity among personal lines insurers dropped sharply between 2019 and 2020.[3]

With many recession indicators now experiencing volatility and continued uncertainty surrounding the future path of the pandemic globally, the big challenge facing personal lines insurers is how they can adjust their models (which are largely based on historical data) to provide resilience in an uncertain future. Additionally, while governments seek to nurture recovery, inflation and interest rates will likely have ripple effects for insurers in both claims and required premium levels, as well as an impact on fixed income investment.

On the one hand, COVID-19 squeezed insurers' profits and stretched their liabilities and exposures. At the same time, it also forced customers to rethink their own financial and personal risk. Insurers will likely need to change their operating and business models if they hope to meet their customers' demands in this uncertain economic environment.




Source: Responding to consumer trends in the new reality, KPMG International, November 2020

[2] Coronavirus will be the largest loss on record for insurers, Lloyd's of London says, CNBC, May 2020
[3] Do insurers have COVID-19 covered?, KPMG International, 2020

Economic uncertainty has also changed the insurance customer. Our research finds that 41 percent of customers say they are now financially worse off than they were before the pandemic.[4] Their trust in global brands fell significantly during the health crisis.[5] They are much more aware of the risks they face daily, and they are now looking for better coverage to protect them against the next black-swan event.

Winning over these customers will likely require insurers to engage their customers and highlight their underinsurance (such as health/medical coverage or personal protection gaps) to provide more personalized, transparent and reliable coverage. It will likely also necessitate a broader view of how insurance needs have changed; COVID-19 tended to affect households rather than just individuals, thereby calling into question who should be covered for certain risks in certain situations.

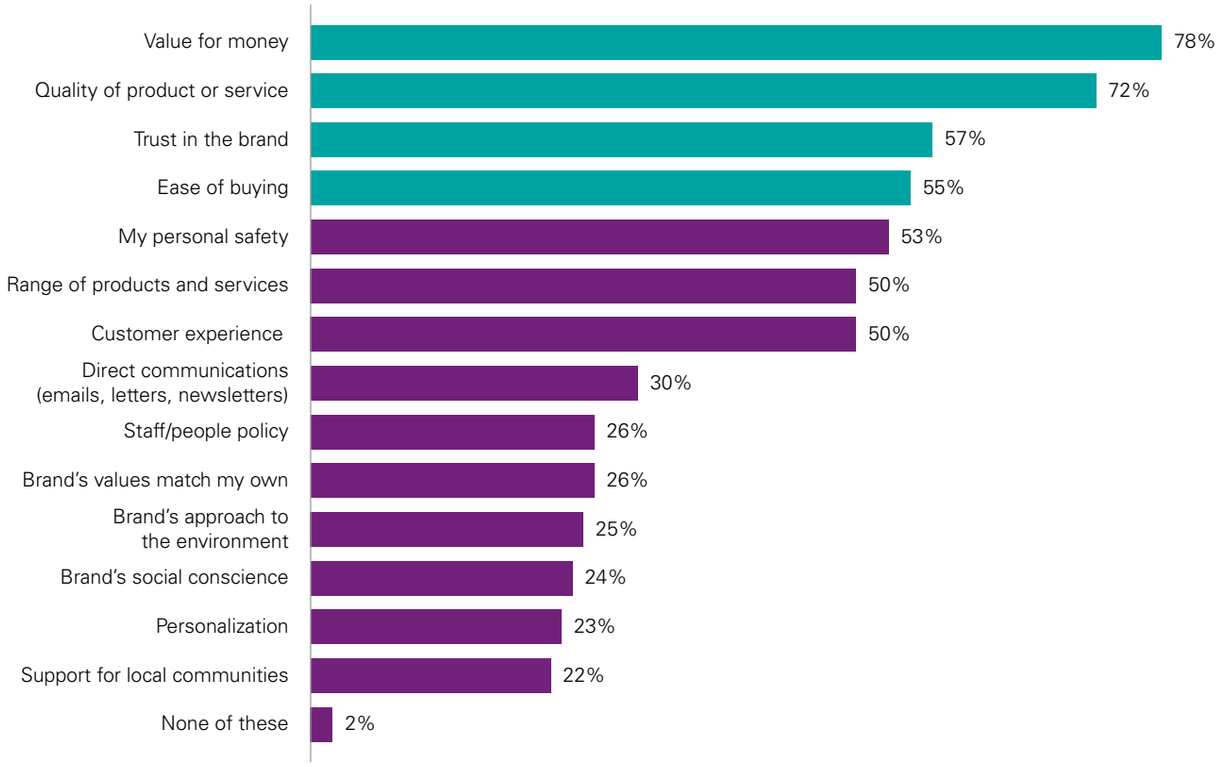
And for many personal lines insurers, that equates into a significant opportunity to offer customers more value for money and a better quality of service — even in an environment of continued risk and liability exposures and downward investment pressure.

Our view suggests niche and non-standard insurance products have become more appealing than ever before. In particular, customers are drawn to products that present good value for money and are tailored to their individual needs.

Some of this appetite for value was likely catalyzed by the insurers themselves — benefiting from lower claims levels in classes such as motor companies like Admiral Insurance in the UK refunded premiums back to their customers to reflect lower driving activity during the pandemic. That, in turn, has made customers ask why they can't always get usage-based pricing. Or, better yet, be able to seamlessly pause, restart and amend their coverage whenever they want.

Not surprisingly, many insurers are now seeing rising demand for these more flexible types of products, reflecting not only changes in risk patterns due to the pandemic, but also longer-term changes to customer risk models and expectations.

Insurers have been forced to adapt to the recent COVID-19 pandemic and accelerate change in their businesses in a way that has not previously been seen (e.g. remote contact center operations, increased digital sales and servicing volumes). It is expected to be those who can maintain this pace of change that will likely be best prepared for the next 'black-swan' event and win in their day-to-day markets.




Source: Responding to consumer trends in the new reality, KPMG International, November 2020

[4] Responding to consumer trends in the new reality, KPMG International, November 2020

[5] Ibid.

# Signals of change: Customer expectations

**Customers want their insurers to make their lives better and easier.**

Even before the global health crisis forced consumers to become more digitally enabled, it was already clear that customer expectations had started to shift dramatically. Customers were growing accustomed to seamless and engaging digital interactions; companies like Amazon and Netflix had largely redefined the type of experience consumers now expected from their brands.

Where big tech led, other sectors rapidly followed. The banking sector, for example, has made significant progress in making their offerings more digitally-focused and customer-centric. However, our research suggests that insurers continue to lag behind other sectors. Indeed, according to a recent consumer survey by KPMG Nunwood, very few personal lines insurers are seen as delivering a 'best in class' customer experience.[6]

In part, this is because large portions of the customer journey remain disconnected. Significant investment has been poured into digitizing and improving the front-end and the sales journey. But when it comes to managing a claim or amending policy details, for example, the process is often slow, painful and largely analogue for consumers. The lack of connectivity across the broad customer journey has become increasingly apparent.

Customers are looking for personalized, value-driven digital solutions. And they want experiences that put them in the driving seat. Personal lines insurers will likely need to make significant changes to their operating models if they hope to retain their customers and avoid becoming commoditized.

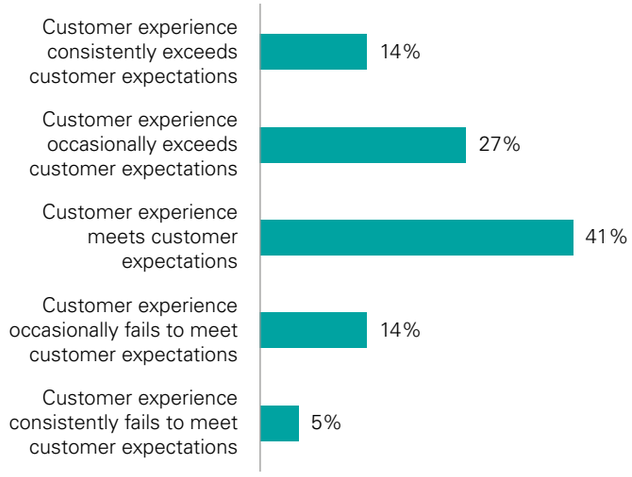
[6] Source: KPMG Nunwood

Personal lines insurance execs seem to recognize the disconnect. Recent research conducted for KPMG found that 46 percent of carriers think they need to prioritize improvements to the customer experience. And more than half say they view customer satisfaction as the top indicator of success. Yet the study also found that just 14 percent of personal lines insurers believe they are delivering customer experiences that consistently exceed expectations.[7]

Part of the problem is that there have traditionally been few touchpoints between insurers and customers. In an age where customer relationships and data are key, many insurers are struggling to maintain the relationship — particularly as other parties in the underlying ecosystem jostle for customer interactions.

Given that the insurer-customer relationship requires a higher level of trust than many other sectors, this gap is problematic. Claims are that key moment of truth generally happening at a challenging time in a customer's life, making it essential that insurers get this customer experience right — but also show that they can be trusted throughout the customer journey so they can be confident in what they might expect to experience if they are ever required to claim.

While digital capabilities are a massive component of that equation, insurers should also be thinking more broadly and more boldly about how they can deliver more value to the relationship. Some are exploring ways to transition towards a more prevention-based approach by, for example, using real-time data, IoT sensors and advanced analytics models to predict a problem and then proactively reaching out to the customer to resolve the issue before a claim occurs (think moisture sensors in a basement to predict flood damage, for example). After all, the best customer claim experience is to not have a claim in the first place.




Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, September 2020

With customer experience emerging as a leading purchase influencer for insurance, carriers should start to focus on making the purchase, use and renewal of personal lines policies simpler, faster and more tailored. Our view suggests that while price is still key, the successful insurers of the future will likely be those that create better customer experiences by leveraging easy-to-use digital tools and digital services across the journey — from the onboarding process through to the billing and payment capabilities.

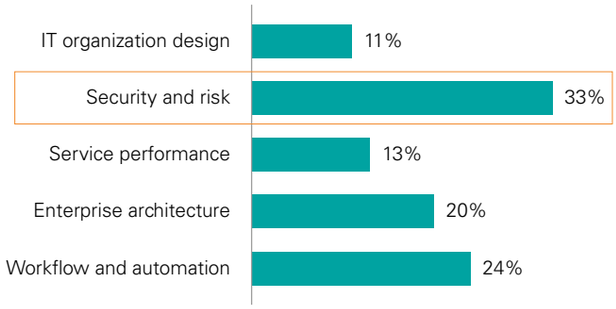
[7] A commissioned study conducted by Forrester Consulting on behalf of KPMG, September 2020

# Signals of change: Technological innovation

**It will likely take technology, data and insights to provide customers with the value they seek.**

One could be forgiven for thinking insurers had embraced technology wholeheartedly. Over the past decade, things like chat bots, photo recognition technologies and telematics have flooded into the market. The problem is that many of these innovations have been deployed as little more than point solutions for limited products and customer segments — front-end gadgets with little to no connection at the back-end to make it all hang together.

There are two critical problems with this. The first is that insurers are essentially forfeiting their ability to get to know their customers better. Collecting, analyzing and understanding customer data from across these varied technology solutions and interaction points can be key to delivering more personalized, value-driven services and tools. New models and offerings such as preventative services, usage-based policies and just-in-time-coverage require insurers to have a deep understanding of their customers. Allowing customer data to sit in point solutions erodes the value that could be gained from connecting this data. Yet, according to our research, just 7 percent of global insurers think they are highly effective at collecting data today. [8]




Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, September 2020

Providing customers with greater personalized value will likely require insurers to invest more into modernizing their technology environment and better connecting their broader technology, people, data and customer strategies. Making the right investment decisions may be a challenge. So, too, could be convincing customers to hand over their data — and higher premiums.

The second critical problem with a disconnected technology approach is that it slows innovation. A future characterized by context-based coverage, for example, will likely require insurers to have the right data to not only understand the customer context, but also to drive the related processes in underwriting, risk pricing and the incentivization of safer behavior.

Data from the Forrester survey suggests insurance leaders are prioritizing security and risk in the transition to digitally enabled technology architecture.[9] That will likely require them to be able to use technologies like IoT, AI and machine learning — and to come to an agreement on who in the value chain 'owns' the risk (if the software powering an IoT moisture sensor fails leading to flooding for a policy holder, who is responsible: the software developer, the sensor manufacturer, the insurer or perhaps the cyber security firm?).

We believe that — in the future — new opportunities for context-based coverage and decision-making will likely open up right across the insurance value chain, through sales and distribution, underwriting, policy administration and claims. And insurers should offer context-based bundles that pool data into knowledge systems that can create a comprehensive view of the customer.

[8] Harvey Nash, KPMG CIO Survey, 2020

[9] A commissioned study conducted by Forrester Consulting on behalf of KPMG, September 2020

Just imagine the types of automated risk-prevention and informational products and services that could be applied over the top of a fully-connected IoT home and vehicle if an insurer were to be connected to, and effectively analyzing and utilizing the data. Then combine this with intelligent interactions in client servicing, policy administration and claims for a seamless customer experience.

This is not purely a technology issue. To help ensure that value is being created, insurers should carefully consider how they transform their culture, their workflows and their processes to embed their technology investments. Leadership and workforces will likely need to be more digitally aware and to understand the power and usage of data to improve products and services. Customer strategies and business models may also need to be modernized and adapted. The interaction between humans and machines should also be considered — customers should be provided a fully-digital experience, with the opportunity to easily and seamlessly interact with a human if and when they wish, likely at key moments of truth such as claims.

While most technology programs are catalyzed by a customer need, it is often surprising to find that communicating that change in value to customers has been left until the last minute. In some cases, the investment into new technologies and the shift towards more preventative solutions will likely necessitate an increase in premiums as more data and processing capabilities are created. To limit this impact, insurers should focus on their ability to decommission legacy systems at pace, with robust controls in place, to help ensure they feel the expected benefits from digital technologies and leverage cost and flexibility outcomes from moving to the cloud.

In other cases, customers may be required to hand over more data, placing further pressure on the trust they are trying to build. Indeed, in today's environment 'trust' is not synonymous with 'established' or 'familiar' but rather with 'transparent' and 'equal'. Customers will likely want to have a clear view of what data they are providing and what they are getting in return. As insurers move towards providing customers with insights about things like their health, having a high level of trust is expected to become critical.

As technological disruption picks up pace and customer needs continue to evolve, we expect insurers to seriously reevaluate their technology, data and analytics capabilities. The alternative is that they become little more than a commoditized balance sheet… and no insurer wants that.

**Using tech to drive customer value and experiences — Claims example**

| Area | Name | Description | Impact* |
|---|---|---|---|
| **E2E claims** | Virtual claims handlers (bots) | Self-serve claim-bot that can support the complete claim process | Claim time reduced by up to 75 percent<br>Claim operating cost reduced by more than 15 percent |
| **Fraud** | Real-time document extraction and review | Real-time extraction of claims documents for triage and fraud review<br>Enrichment of data from third-party sources | 12 percent increase in number of referrals for fraud review |
| **Assessment** | AI assessment of motor claims | AI technology to automatically assesses the damage, and prices both the parts and labor costs for motor repair | More than 35 percent motor claims fully automated process |
| **Strategic partners** | Complex claim outsourcing | Strategic partner sourced for broad claims management for complex claims<br>Supplier operated remote loss adjustor teams to validate and manage claims<br>Supplier managed contractor network for accepted claims | 70 percent of subsidence claims reported are not subsidence<br>25 percent reduction in operational cost for accepted claims |
| **Recoveries** | Automated recovery process | Subrogated losses automatically feed into third party<br>Payment request letter automatically produced<br>If amount remains unpaid automated solicitor instructions to litigate | 13 percent increase in total recovery value<br>32 percent reduction in recovery payment received |

*Source: Estimate based on the experience of KPMG professionals

# Signals of change: Competitive disruption

**Insurtechs are showing traditional insurers how to create customer value.**

For booksellers and travel agents, the story of competitive disruption has already been written. For banks and retailers, it is reaching a climax. For personal lines insurers, it has barely reached its prelude.

Indeed, most traditional insurers are still largely focused on traditional paths to growth — taking market share from competitors in a near 'zero-sum game', sometimes tapping into emerging products, services and markets to drive new growth.

Now, however, they see new competitors nipping at their heels — our research suggests 30 percent of insurance leaders see increased competition from insurtechs as top obstacle to executing their customer strategy,[10] and they are starting to ask themselves how they will grow profitably in this new environment. They are striving to build the capabilities they need to achieve a competitive advantage. And they are thinking about how they can deliver a differentiated customer experience.

The problem is that insurers have been notoriously slow to pivot and innovate when it comes to offering the tailored and digitized products their customers now expect. Constrained by legacy systems, processes and capabilities, traditional insurers have opened the door for increasingly well-funded insurtechs to find their niches.

In particular, insurtechs are focusing on three specific value propositions:

— **Simplified experiences:** Insurtechs tend to offer much more simplified and fully digital front-end experiences, typically in the form of fluid mobile applications and webpages. This not only provides customers with top-notch digital experiences, it also helps establish transparency, trust and peace of mind. American Insurtech Lemonade, for example, offers a 100 percent digital model for rental, home, pet and life insurance; the company's advertisements tell consumers their claims will be processed in a matter of minutes — a winning proposition for many customers.

As traditional insurers struggle to define their value proposition in a digital world, insurtechs are shaking up the market with agile, innovative and customer-centric propositions. Insurers will need to either adapt or adopt if they hope to compete on customer experience and value in the future.

— **Modular products and services:** Customers of traditional insurance companies frequently complain they feel 'locked in' to longer-term coverage by products that are not tailored to their unique needs. Recognizing this as an opportunity to be seized, insurtechs are focusing on offering usage-based and just-in-time (JIT) insurance products that allow customers to purchase coverage when they need it. This, in turn, creates a more linear relationship between the cost and the value of coverage. UK-based FinTech Revolut, for instance, offers pay-per-day medical insurance with coverage starting as low as 1 pound sterling (GBP) per day.

— **Advanced analytics capabilities**: Insurtechs are technology companies that offer insurance products — not the other way around. That means that they are particularly adept at combining agility with technology to uncover valuable insights from their data. Leveraging customer data to enhance profitability and improve the customer experience is table stakes for these companies. Lemonade, for example, uses 'claims bots' to process customer claims and administer coverage — thereby delivering a more uniform customer experience at a much lower cost than traditional insurers.

[10] A commissioned study conducted by Forrester Consulting on behalf of KPMG, September 2020

**73%**

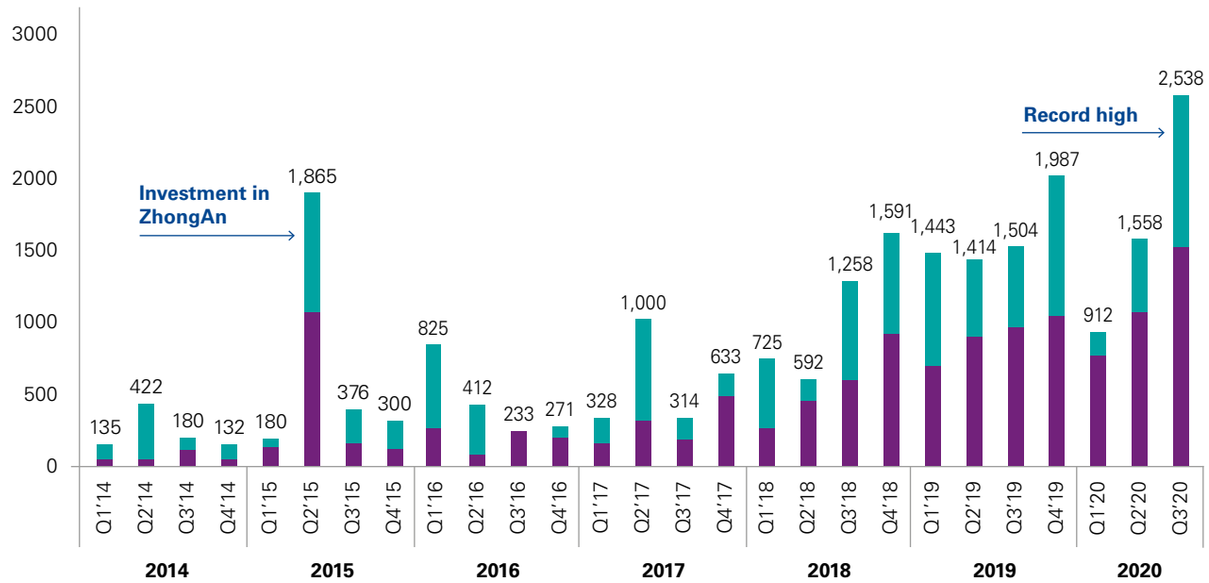
of insurtechs who raised seed capital this quarter, **were raising any form of capital for the very first time.**[11]

The leading personal lines insurers see these insurtechs as both a threat and an opportunity. On the one hand, some insurtechs are now getting big enough to offer real competition to the established players. But they are also an opportunity; the reality is that insurtechs do not take risk in the same way as traditional insurers. What they do is use innovative technology and customer data to mitigate their own risk and more accurately quote policies. And these capabilities could be extraordinarily valuable to traditional insurers. Indeed, by partnering with, or purchasing insurtechs, traditional insurers could improve their own premium pricing and risk mitigation — as well as help accelerate their transition to a fully digital ecosystem.

The risk for traditional insurers is that — as platforms rise in popularity and use — insurers may be further disintermediated from the customer and more dependent on other parties that own the customer relationship. Given that many insurers are now looking for more customer data (particularly when it comes to usage-based insurance), it is clear that some form of partnerships will likely be required.

While there is still a clear role for traditional insurers to play as an intermediary between insurtechs and reinsurers, few traditional players are keen to give up their place in the value chain through disintermediation and commoditization. Better to partner with insurtechs within the ecosystem and use them to reach customers than allow yourself to become little more than a balance sheet for hire.

## Quarterly insurtech funding volume — All stages




### Deal count

| | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **P&C** | 10 | 7 | 16 | 8 | 17 | 13 | 16 | 21 | 44 | 18 | 33 | 29 | 26 | 37 | 29 | 45 | 44 | 46 | 40 | 41 | 58 | 49 | 52 | 40 | 72 | 54 | 74 |
| **L&H** | 9 | 15 | 14 | 15 | 11 | 19 | 15 | 20 | 16 | 17 | 6 | 13 | 17 | 32 | 21 | 11 | 24 | 27 | 17 | 23 | 29 | 20 | 31 | 35 | 24 | 20 | 30 |

Source: *Quarterly InsurTech Briefing Q3 2020*, Willis Towers Watson, October 2020

[11] Quarterly InsurTech Briefing Q3 2020, Willis Towers Watson, October 2020

# Signals of change: ESG prioritization

**Customers, stakeholders and investors expect more good from personal lines insurers.**

The number of climate-related disasters rose by 83 percent in the first 2 decades of this millennium (as compared to the last 2 decades of the 1900s).[12] In 2020 alone, natural catastrophes caused USD76 billion in global insured losses — an increase of 40 percent over 2019.[13] In other words, extreme weather events have become more frequent and more severe.

Some personal lines insurers may shrug. After all, personal lines insurers tend to be rather good at repricing portfolios in order to avoid exposures. However, reliance on repricing seriously underestimates the full impact that climate risks can have on the insurance sector. As we noted in a recent paper on climate risk in the insurance sector,[14] there are two primary ways that climate risk can manifest in the insurance sector:

**Known risks:** These are the more obvious risks such as physical losses related to storms, heavy rain, flooding, hail, drought, wildfires and heatwaves, for example. The floods in Europe during July 2021 could cost insurers and reinsurers up to USD7.7 billion.[15] As the severity and frequency of these natural events escalate, insurers can face increased exposures and potential disruption to economic value chains. Increasing temperatures and air quality are also of concern to some life and health insurers.

**Transition risks:** These are the 'unknown' risks related to how the world may evolve towards a low carbon economy and how policy, regulation and technologies will likely develop accordingly. This can impact investment models, disrupt risk calculations and create new regulatory gaps and challenges.

Society has become more aware. Climate risks have become more acute. And governance has moved higher up the corporate and regulatory agenda. New opportunities and risks are emerging. But to take advantage, personal lines insurers should become much more focused on integrating the ESG agenda across the front, middle and back office.

[12] Extreme weather events have increased significantly in the last 20 years, Yale Environment 360, October 2020

[13] Global Natural and Manmade Disasters Cost Insurers USD$83B in 2020: Swiss Re, Insurance Journal, December 2020

[14] Combating climate risks: the future of insurance, KPMG International 2019

[15] European flood industry loss up to USD$7.7bn: RMS - Artemis.bm 23 August 2021

Some of the immediate action items are fairly clear. Insurers should be accounting for the escalation of climate-related risks into their overall governance and risk management frameworks. They should be conducting qualitative risk modeling[16] and scenario analysis around business model impacts. For example, integrating new sources of data from the Japan Weather Association (JWA) who are expanding their services to support risk management through predicative analytics. And they should be considering the potential for liability claims against high carbon emitters.

Insurers should also be rethinking their investment strategies and diversifying into more 'climate resilient' companies and sectors (leading credit ratings agencies now integrate ESG factors into their rating methodologies).[17] They could also be working closely with their portfolio companies to help them meet their global and regional emissions targets and integrate ESG factors into their strategic plans. In personal lines, insurers should be planning for new opportunities to insure new green sectors like electric vehicles or home solar power. As an example, Singapore has put in a suite of measures to encourage drivers to switch to electric vehicles and is aiming to phase out all internal combustion engine vehicles by 2040. This could fundamentally change the motor insurance underwriting and claims supply chain processes.[18]

Of course, ESG is not all about climate. In fact, in the 2021 CEO Outlook survey, KPMG International found that 98 percent of insurance CEOs are now placing more focus on the social component of ESG.[19] And, with new players and new risks now emerging, it is critical that insurers play their role as good social citizens. That means doing things like engaging in diversity and inclusion issues, speaking out about the more dire consequences of ethical malpractices and striving to ensure that new AI and machine learning tools are held to a high ethical standard (much like the Dutch Association of Insurers has done by collaborating on the development of a framework for the responsible use of AI).

Governance concerns are also mounting. As the ecosystem of partners involved in the insurance value chain expands exponentially, and as new distribution models, partners and IoT devices become more prevalent, insurers will likely need to place particular focus on identifying who holds what responsibilities and liabilities at each stage of the process. Robust governance structures may be required.

Insurers will likely find that efforts to enhance ESG can also drive potential bottom line benefits. Smartphone insurance providers, for example, used to automatically replace broken phones with the newest model. That, however, encouraged customers to break their phones when new models were coming to market, creating environmental waste, but also driving up claims numbers and costs. By switching to an offer of a refurbished, same-model phone replacement, claims were significantly reduced and waste was eliminated.

While ESG may perhaps feel like a distraction from the core business, the reality is that ESG is both critical to stakeholders and to future growth. By consciously investing into sustainable options, we have seen insurers create real and tangible value — both by meeting customer demand for transparency and sustainability, and by creating new and innovative products and business models.

[16] KPMG Consulting and Japan Weather Association collaborate on providing comprehensive consulting services for climate change mitigation and adaptation, Japan Weather Association, August, 2020

[17] ESG and credit ratings agencies: the pressure accelerates, ING, February, 2021

[18] Source: Electric Vehicles, Land Transport Authority, Government of Singapore, July 2021

[19] 2021 Pulse CEO Outlook, KPMG International, 2021

# Signals of change: Regulatory direction

**Regulators are becoming more active and more pervasive.**

There is little doubt that regulators are starting to take a more active role in the insurance sector. In part, this is in response to historic failures — issues like the UK's payment protection insurance (PPI) mis-selling scandal are still fresh in regulators' minds. But regulators also recognize a growing demand for consumer protection in a digital age. And, as such, we are seeing an increasing quantum of regulation being introduced (and strengthened) around the world, aimed at protecting customers by helping to ensure resilience, customer-centricity and ethical pricing practices. Different countries and regions may be moving at different paces, but the direction is one way.

At the same time, regulators are being brought into the equation at new and different points in the insurance value chain. Consider, for example, how new regulations related to climate change or cyber risks are influencing personal lines insurers. Or how topics like AI ethics and data protection are increasingly coming into focus for regulators and insurers alike.

As regulators start to strengthen and broaden their mandates, many personal lines insurers are starting to face increasing regulatory complexity. Staying ahead of the regulators will likely require insurers to become much more agile and much better at integrating their values into their governance structures and culture.

Regulators are also now starting to address more complex challenges and are focusing on using technology as a 'force for good'. The UK regulators are working to eliminate 'price walking' strategies where new customers are offered low prices that then increase over time — a practice used both online and offline.

40%

of personal lines insurers now see regulatory compliance to be a top obstacle to the successful execution of their customer strategy.[20]

[20] A commissioned study conducted by Forrester Consulting on behalf of KPMG, September 2020

## Evolution of the role of regulators in personal insurance

| | | |
|---|---|---|
| Regulators may consider cross sector implications of compliance requirements as sectors converge into 'bundles' | Regulators will likely leverage 'regtech' solutions powered by AI and analytics to enable more efficient and effective supervision | Regulators will likely focus more on regulating industry activities in order to help ensure customers are treated fairly |

Source: KPMG 30 Voices on 2030

Many are looking at how insurers are using advanced technologies like AI and workforce automation solutions to help ensure bias is being properly managed. Some are exploring the implications of the move towards the 'bundling' of insurance with products, focusing on the cross-sector compliance implications.

The challenge facing personal lines insurers is that the sector is often regulated locally or nationally. And that makes compliance much more complex and operationally challenging. A global firm operating in both the US and the EU, for example, would need to comply with a range of different state regulations in the US, as well as regional requirements such as the EU's new Digital Operational Resilience Act (DORA) which aims to harmonize digital operational resilience across the sector.

What is clear is that — as insurers move towards a more digital and customer-centric operating model — the quantum and scope of regulatory requirements will likely only increase.

In some cases, regulators may hope to take a 'principles-based' approach that provides insurers with broad writ to come up with ways to comply with the requirements. Others are seeking to take a more 'rules-based' approach where regulators are much more prescriptive about their expectations and more focused on assessments.

So how can insurers get ahead of regulatory complexity? In part, it's about anticipating and reacting to future social and regulatory change, embedding values into decision-making and creating a culture where employees are rewarded for 'doing the right thing'. It's also about taking a more customer-centric view of the organization — focusing on issues like data privacy, pricing practices and consumer protection — to identify areas for proactive change.

Ultimately, this often comes down to leadership; insurance executives should embed a focus on doing the right thing, as opposed to hoping they don't get caught doing the wrong thing. The winning business models of the future, therefore, should make regulation an inherent outcome of the way an insurer operates rather than allowing it to become an overhead or review function that acts as an operational constraint.

# Approach to change

## Outcomes and winning business models

# Today's personal insurance business models

**In the current market environment, personal insurers tend to fall into one of five main business models types:**

1 **Direct single line:** These insurers focus on the top line, driving volume by offering commoditized products with relatively basic coverage for common risks (areas like standard motor risks, home and travel policies). They leverage sophisticated marketing expertise to attract mass-market clients and carefully contain servicing costs through lean standardized processes.

2 **Client composite:** These insurers aim to maximize their share of the customer wallet with comprehensive product offerings. The most successful combine deep CRM and data analytics capabilities to create a single customer view which they then use to help maximize customer lifetime value. These insurers often appeal to clients looking for 'one stop shop' insurance through bundling.

3 **Intermediary model:** These insurers use intermediaries (e.g. brokers, banks, agents) to write business and access a wider customer base. Intermediary model insurers tend to offer a standardized 'menu' of products distributed through their chosen intermediary channel(s). They often rely on advice from 'locally-based, known, human entities' and therefore utilize standardized processes and products for their sales force to help ensure consistency of offering and assist with reducing regulatory or mis-selling risk.

4 **Bespoke/HNW:** These insurers focus on high net worth (HNW) and ultra HNW clients, offering low volume, high margin products that differentiate through coverage, service and prestige. Clients tend to demand specialized coverage (for items like aviation, fine art and jewelry) with few restrictions. Risk and relationship-based pricing often relies on underwriter experience and manual processes.

5 **Niche risks:** These insurers focus on niche risks for customers with uncommon needs. They are often accessed through managing general agents (MGAs) or brokers, and are able to command high margins due to their expertise and product innovation in niche risks areas. Propositions tend to focus on specialized products and coverage for uncommon items like caravans, narrowboats and non-standard motor risks.

While these business models may be serving insurers well enough today, it is clear that the signals of change identified earlier are now driving an evolution across the sector. Our research suggests future profitable growth and competitiveness will require insurers to quickly pivot to business model ecosystems.

The transformative forces sweeping across the personal insurance sector demand that insurers reinvent themselves. And we are seeing insurers explore a range of new trends as they seek to adapt their business models, including:

— **Platforms and ecosystems:** As other industries (such as housing, mobility and health) coalesce around platforms and ecosystems, insurance will likely increasingly become a feature that is embedded into the ecosystem; for example, there are already automotive ecosystems where customers can add financing and insurance as part of a used car purchase. Insurers may find an opportunity to participate in many ecosystems, thereby enhancing their attractiveness to platforms and customers. Similarly an emerging sales channel, particularly in Asia, is the B2B2C model with the rise in technology unicorns and 'super apps' as financial gateways.

— **Commoditization:** While insurers continue to work hard to differentiate in their markets, for users of online comparison tools the key purchase decision tends to be based on price. At the same time, the rise of insurtechs has demonstrated that insurance can be delivered through a truly digital experience — providing a simpler, more personalized, on-demand, easy-to-understand, automated experience with fast claims handling and the promise of continuous service improvement.

— **Globalization:** With the industry and consumers rapidly shifting towards digital, many observers expect the personal insurance market to become more international. The move towards multinational platforms and the growing number of Software-as-a-Service (SaaS) solutions that can be used in multiple markets and against a range of regulatory developments suggests the market will likely rapidly globalize.

— **Usage based:** The application of cutting-edge automotive telematics technology is transforming the auto insurance industry through usage or behavior-based insurance offerings. In many cases, this model allows customers to not only activate cover only when it is needed, but also to reward policy holders for good behavior through declining premiums. This not only improves customer satisfaction, it also helps reduce the overall claims cost by attracting lower-risk policy holders. At the same time, however, it also introduces new challenges related to data privacy, the interpretation of usage information and new fraud risks.

The big question facing personal insurers is how to stand out. What proposition do you offer customers that distinguishes you from the competitors in the market? In some cases, this may be through cost leaders, increased relevance or a very clear articulation of a purpose that plainly translates throughout the business and operating model, for example health and wellness propositions that provide value adding services as well as raising awareness of protection needs.

# Emergent business models of the future

**In the future, we believe three personal insurance models are likely to dominate the market**

1 **Purpose-led insurer: Customers want to work with insurers that put their purpose at the core of their proposition.**

We expect to see peer-to-peer solutions continue to connect like-minded customers, driving greater loyalty and behaviors that can reduce claims costs (a win-win for customers and insurers alike). Price and product information will likely become easier to understand and claims service may become simpler, quicker and fairer — thereby creating value around transparency. Customers will likely expect to see ESG at the heart of the purpose so they can assess how their insurers are responding to current global challenges and issues.

2 **Scaled and diversified insurer: Price is expected to remain a key purchase driver. Insurers will likely need to be relentless in building a low-cost model.**

Meeting the changing expectations of customers (which are being influenced by experiences in other sectors) will likely require insurers to create broad digital insurance models that enable customers to transact conveniently and easily. At the same time, insurers should reshape and re-size the front, middle and back-offices from end to end to help drive cost reduction and more competitive pricing. We expect those who are able to transition away from legacy systems and processes at pace to be the biggest winners in the future.

3 **Agile and focused insurer: Data will likely become a critical asset that can differentiate insurers from their peers.**

Real-time data analytics can allow insurers to deliver coverage that anticipates customer needs and helps to ensure suitable products and services are offered. Increasingly sophisticated pricing will likely help insurers more accurately assess their risks while also aim to ensure better customer outcomes through a clear focus on value for money. New sources of data will likely be used to support claims prevention and to enhance claims response. And, in doing so, insurers can help build customer loyalty and enhance their ability to cross-sell.

# Approaching change means adapting to a connected operating model

**Our connected enterprise approach is designed to help insurance companies assess their existing capabilities, identify capability gaps, and manage the transformation hurdles across the enterprise to overcome the above challenges.**

The eight capabilities of KPMG Connected Enterprise:


With the need for more connected and seamless digital offerings, what does good look like?

- Investing in the right capabilities to drive effective digital first ways of working operating models
- Connecting and applying them across the functional value chain
- Making the most of technology with a platform mindset

*Base: 1,299 professionals involved with customer-centric strategy decisions.

Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, every year since 2018. The research is conducted on a sector specific basis. Each capability is enabled by five level two capabilities. Maturity statements on each one are gathered and provide the quantified evidence base.

# Connected capabilities can enable a winning operating model

**The winning operating model will likely require maturity in eight connected capabilities. These are cross-functional and apply across the operating model. Insurers who are investing in these are more likely to see overall success.**

| | I. Purpose-led insurer | II. Scaled and diversified insurer | III. Agile and focused insurer |
|---|---|---|---|
| **Insight-driven strategies and actions** | Personalize pricing and offers, and target customers using data. Offer transparency through data sharing. | Deliberate portfolio management actions informed by robust performance insight and clear strategies for each market segment. | Rapid data-driven decision making by underpinning pricing and underwriting capabilities. |
| **Innovative products and services** | Products connect customers into communities and reward improvements in risk behavior. ESG is at the heart of the customer proposition. | Broad range of products and services with a focus on increasing cross-product holdings and responding to customer needs. | Simple, straightforward products targeted at specific customer segments. |
| **Experience-centricity by design** | Products have transparency at the core, putting customers in control with an experience built around their needs. | 'One insurer with many front doors' to help ensure simple, low cost experiences across products and channels. | Digitally-orientated customer experiences to help minimize cost and enhance price competitiveness. |
| **Seamless interactions and commerce** | Customer interactions are seen as a key moment to re-affirm organizational purpose and brand, and the chosen channel(s) reflects this. | Use technology to enhance and drive consistent interactions across all channels, with channel options rationalized to focus investment and staff time. | Most customer interactions are digital only. All 'purchasing' done through apps that require minimal customer input. |
| **Responsive operations and supply chain** | Customers are provided differentiated service aligned to the organization's purpose. ESG factors are a key consideration for the supply chain and used as a differentiator. | An effective operational management system is in place to maintain performance supported by technology. Supplier processes and handoffs have been enhanced. | Minimal operations roles required as customers self-serve and processing is handled digitally. The supply chain is connected through APIs to help ensure the speed of the dynamic model. |
| **Aligned and empowered workforce** | A clear employee value proposition brings together the workforce in alignment with the broader organizational purpose. | A multi-skilled workforce is enabled by technology, with a greater focus placed on culture and enabling colleagues to drive change. | The majority of the workforce is digitally native, with agile principles and ways of working embedded across the organization. |
| **Digitally enabled technology architecture** | Define and prioritize digital enablement/interaction across the full customer journey, community building and prevention technologies. | Focus on high volumes to drive scale advantage, with continuous improvement on cost, simplicity and speed. | Open architecture with a focus on data capture and analysis capabilities to drive data-driven decisions. |
| **Integrated partner and alliance ecosystem** | Forge alliances with partners that fit with the purpose and add value to the community — all driven from the insurers' own platform. | Enable API interaction with (international) ecosystems for distribution and specialized service providers to drive down cost. | Focus on partners in specific ecosystems that support data gathering to achieve a better understanding of context, usage, risk etc. to feed data driven decisions making. |

# High maturity organizations continue to outpace their less mature peers

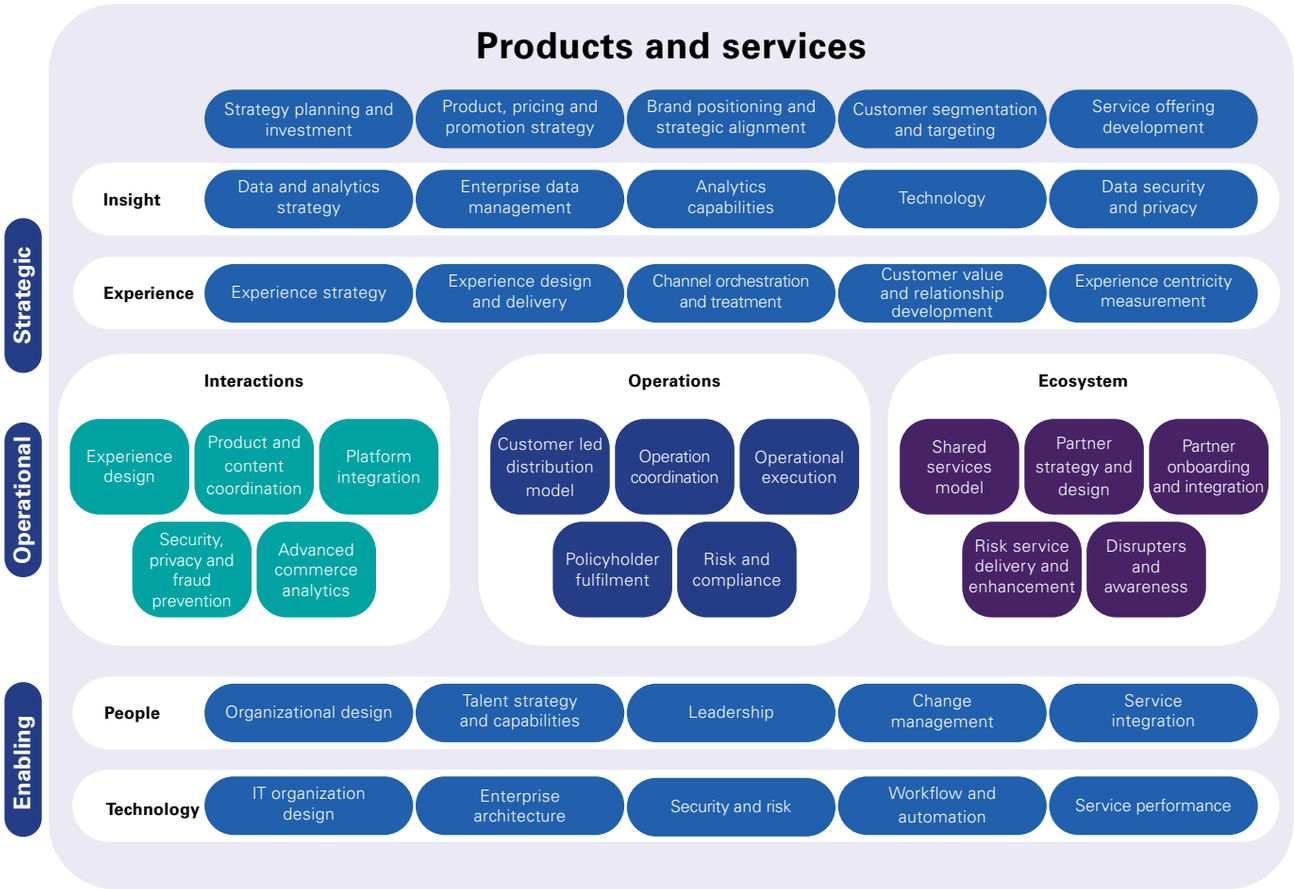
**Compared with their less-mature peers, high-maturity insurance companies who are investing in the eight capabilities are more likely to successfully:**

| | |
|---|---|
| 1.8X | Build a customer-centric organization and culture that inspires people to deliver on the customer promise and drive up business performance. |
| 1.7X | Create intelligent and agile services, technologies and platforms, enabling the customer agenda with solutions that are secure, scalable and cost-effective. |
| 1.6X | Engage, integrate, and manage third parties to increase speed-to-market, help reduce costs, mitigate risk, and close capability gaps to deliver the customer promise. |
| 1.5X | Harness data, advanced analytics, and actionable insights with a real-time understanding of the customer and the business to shape integrated business decisions. |
| 1.5X | Interact and transact with customers and prospects across marketing, sales and services, and achieve measurable results. |
| 1.4X | Design seamless, intentional experiences for customers, employees and partners, supporting customer value propositions and delivering business objectives. |
| 1.4X | Develop compelling customer value propositions on price, products and services to engage some of the most attractive customers and drive profitable growth. |
| 1.3X | Operate the business with efficiency and agility to fulfill the customer promise in a consistent and profitable way. |

Base: 152 professionals involved with customer strategy decisions at personal insurance companies
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, September 2020

# Evaluating your capability maturity

**Each of the eight enabling capabilities are underpinned by a set of five sub-capabilities. The first step in defining a winning model is understanding your relative maturity in each sub-capability against the required maturity to deliver your winning business model. KPMG firms offer three levels of maturity diagnostic depending on the needs of your business.**




KPMG professionals work with clients to shape and define their digital transformation vision, using the eight capabilities to inform and evaluate their plans, prioritize the roadmap, and align investment with value creating activity that enables the desired future operating model.

### Capabilities and maturity assessment

### Business blueprint

### Technology blueprint

### Value model and future roadmap

# Case studies

1

## Connected Enterprise approach for digital adoption and transformation

The client, a leading global fintech group, was looking to improve their operational efficiency, namely to release their annual report 18 calendar days earlier than the previous year. The efficient release of the annual report, which is seen as the embodiment of the company's governance and technological capabilities, was essential for the management of external market expectations and stock prices.

The KPMG team in China was tasked with creating a digital roadmap and process for the client's transformation. They used the Connected Enterprise approach to work with the client to evaluate and implement the digital solutions required to transform the process of the report release and were able to identify key acceleration opportunities across the client's culture, management, data and systems, providing an enterprise-wide perspective. The targeted (18-day) acceleration of the report release was achieved.

2

## Creating a connected insurer through enterprise transformation

KPMG in Italy was tasked to create a transformation project by a client that was comprised of three companies: a retail bank and two insurance companies belonging to a European banking group, all operating in Italy. The client approached KPMG in Italy for help in assessing their in-house business transformation plan, specifically as it related to understanding whether their application architecture and integration approach could support their business plan and purpose.

The KPMG team in Italy presented the client with the Connected Enterprise methodology, showing how its holistic approach could tie the client's technology needs with business performance and customer journey, which would help understand the user actions and user-to-system interactions. The team structured their solution by applying the Connected Enterprise methodology. While the client had already designed the customer journey in-house, their plan lacked an enterprise-wide lens in that it was a purely business solution, separated from other supporting functions (such as IT), which would lead to a misaligned roadmap. The final output of the engagement was a report with findings and improvement recommendations so the client could go into the execution phase.

# Making it happen

## KPMG Connected Enterprise for personal insurance is an insight-led, customer-centric approach to digital transformation

In KPMG professionals' experience, there are a number of key considerations that can help personal insurance companies make faster progress on the connected journey:

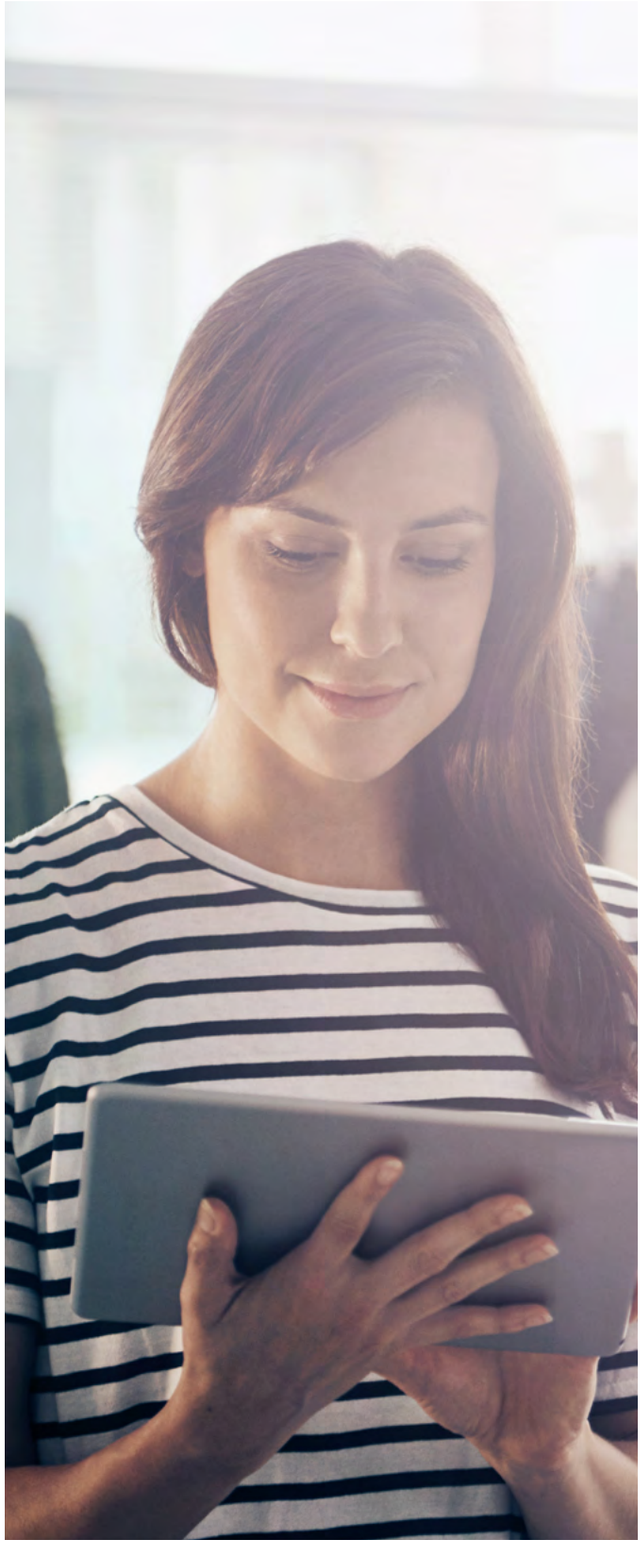
1. **Keep close to what your consumers want.** The ability to think 'outside-in' is key in building a customer-centric business. Aim to ensure you know and act on what your consumers want, need and value; keep continually looking up and outside of the organization and industry to help ensure alignment with the best consumer experiences in day-to-day life.

2. **Do things in an agile way.** Break changes down into specific steps, sequence them and implement. Keep standing back to assess whether the change has been successful in a 'test and learn' approach. It's about a series of small changes that together add up to a significant and impactful transformation.

3. **Build in resilience.** Take on today's challenges with resilience and determination and be prepared to expect the unexpected, fail fast and learn along the way. By developing a connected enterprise architecture, you can find your ability to change course at speed is significantly enhanced.

4. **Keep it human.** While embedding new technologies such as AI and automation are likely to be critical in developing more seamless interactions for consumers, remember that you also need to keep the experience 'real'. Great organizations remain defined by the quality and passion of their people and their sense of purpose.

5. **Make use of new technologies.** Continually look at what new technologies are becoming available that could help you serve consumers better or connect your business more seamlessly. Experiment with the opportunities available through cloud, machine learning and advances in data science.



Our approach is centered on improving all eight connected capabilities across the enterprise to the level that provides the greatest value. These connected capabilities map to the operating model of an insurer and can allow you to prioritize, shape and execute your digital transformation.

KPMG firms help insurers evaluate their maturity across these connected capabilities, and to then shape their transformation agenda and plans, and deploy improvements in the capabilities across the enterprise with the aim of providing the greatest value.

KPMG professionals' experience of working in digital transformation has informed a set of accelerators, including a range of configurable SaaS solutions from leading technology providers, which enable us to deliver a faster option to delivering transformational outcomes.

With the consumer at the core, there are five critical questions insurers should ask themselves:

1. Are you connecting your consumers with compelling value propositions, opportunities, and interactions?
2. Are you connecting and empowering your employees to deliver on the consumer promise?
3. Are you connecting your front, middle and back offices to execute the consumer growth agenda?
4. Are you connecting your ecosystem of business partners to jointly deliver on commitments to consumers?
5. Are you connecting to market dynamics and digital signals?

**To learn more, contact us or visit:**
home.kpmg/futureofpersonalinsurance

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