5th annual Canadian insurance industry opportunities & risks report

February 2018

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Welcome to KPMG Canada's insurance industry opportunities & risks report

Our 2018 report builds upon the findings from our previous studies. We've consulted with KPMG partners and professionals to look beyond the numbers and explore how perceptions around economic growth, technology, regulatory challenges, and customer expectations have shifted and evolved in recent years. This year's report also takes a closer look at how industry disruptors and new innovations (e.g., blockchain, data analytics, artificial intelligence, etc.) are reshaping the way insurers do business.

Where appropriate, we've also compared these results to our findings from KPMG's latest global Insurance CEO report, *Preparing to Disrupt and Grow*, which tackles many of the same opportunities and obstacles within Canada's insurance community.

Johannes Pastor
National Sector
Leader, Insurance
KPMG in Canada

Stephen Smith
Partner, Audit,
Financial Services
KPMG in Canada

Amit Chalam
Senior Manager, Audit,
Financial Services
KPMG in Canada

What have we found?

Beginning on a hopeful note, this year's survey suggests that industry players are less pessimistic when it comes to growth expectations for the insurance industry and their company than they were one year ago. It may only be a small uptick in optimism, but it is driven by a shared perception that technology is blazing trails for new and innovative production channels, mobile services, and data-led processes that can better identify and serve ever-evolving customer expectations.

Without a doubt, strengthening customer ties is a core focus for insurance providers. This is reflected in the customer-focused opportunities identified by our respondents, as well as their investments in data analytical tools and capabilities. Now, more than ever, there is a desire to capture, clean, and analyze transactional data both to improve organizational intelligence and also to enhance the customer experience both in the online realm and in traditional interactions.

And yet, in the race to innovate and adopt new technologies, the insurance industry faces no shortage of challenges and competition. Opportunities in data analytics are balanced by concerns for cyber security, and the eagerness to out-innovate the competition is being cooled by regulatory and compliance obstacles.

In reality, many insurance companies aren't agile enough to keep pace with the speed of change today. Many are held back by legacy systems and rigid operating models. Industry leaders are identifying the upgrades, talent and transformations necessary to move ahead.

These are some of the key takeaways from our 5th annual Canadian insurance industry opportunities & risks report. Read on for what KPMG leaders have to say about this year's findings, and for insights and predictions beyond the stats.

Respondent profile: Sector

50%
P&C insurance providers

38%
Life insurance providers

4%
Intermediaries

8%
Others

(85% of respondents indicate they are primary insurers/15% reinsurers)

Respondent profile: Functional area

29% executive management

21% Finance / accounting

17% External board members

17% Risk & compliance

6% Actuarial

6% Sales / marketing

4% Other

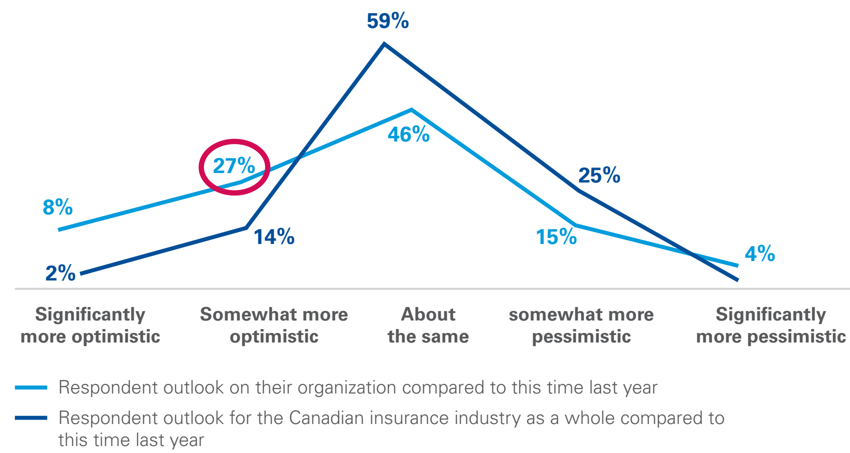
A (slightly) brighter outlook

Insurers are more optimistic than they were in 2016; but just slightly. A quarter (27 percent) of 2017's respondents tell us they are "somewhat more optimistic" about their organization compared to this time last year, while a smaller (albeit notable) 8 percent are "significantly more optimistic". This aligns with the CEOs in KPMG's *Preparing to Disrupt and Grow* report, of which 85 percent said they were confident about their growth in the year to come.

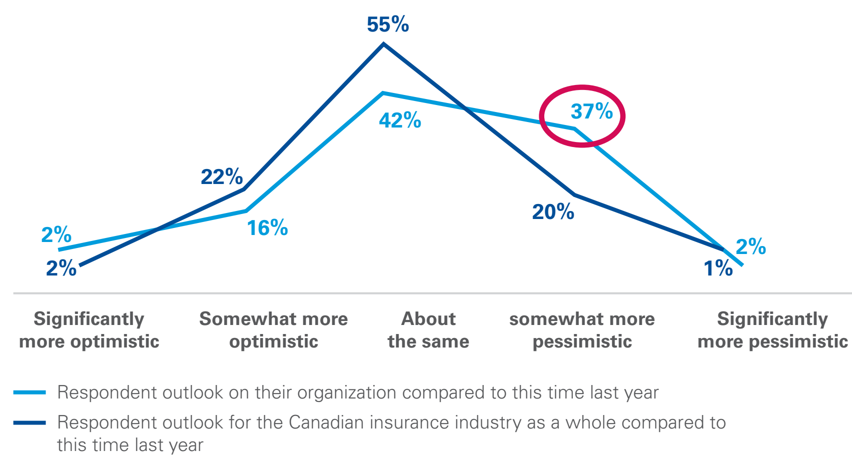
This upswing in optimism is a minor shift from 2016's survey (16 percent "somewhat" optimistic / 2 percent "significantly"), but it's an improvement nonetheless. While insurers are moving forward with a degree of confidence, a majority (46 percent) still feel "about the same" about growth prospects for their own organization (59 percent) for the Canadian industry. This is to be expected, considering insurers have been "cautiously optimistic" in our past surveys due to the notion that while new technologies and innovative models hold great promise, those opportunities remain tempered by regulatory and compliance burdens, industry disruptors, and the rising cost of doing business.

Nevertheless, hopes are high among insurers for securing customer loyalty and attracting new clients to their brand. And with fewer insurers reporting feeling pessimistic about their future than they did in previous years, one can argue that hopes for the future outweigh the speed-bumps in their path.

Outlook 2017



Outlook 2016



#2 & 4 Opportunity

The customer comes first (again)

Customer acquisition and retention remain top of mind for the Canadian insurance industry. For the third year in a row, a majority of the top opportunities cited by survey respondents for both their organization and Canadian insurers were directly linked to enhancing the customer experience and fostering client relationships. These attitudes are mirrored in our CEO survey, wherein over half of our respondents have aligned middle- and back-office processes to become more customer-focused and nearly three-quarters are confident in their ability to articulate their customer value proposition.

This spotlight on the customer is also driving a bulk of the industry's "mega trends." As a case in point, the topmost opportunity identified by 2017's respondents is to leverage data analytics tools to better understand customers, assess their specific needs, and deliver tailor-made solutions. Elsewhere on the list are plans to enhance operational processes to respond to changing customer needs, and create a more streamlined, secure, and satisfying customer experience.

These ambitions align with market expectations. Today's customers expect one-click access to their "partners," be they doctors, financial advisers, or favourite shopping platforms; and they presume that service providers in their network will be available at any time. As such, brand loyalty is built by companies that can deliver.

Relationship building 2.0

Evolving customer expectations pose both an opportunity and a risk to the insurance community. On one hand, they serve as prime motivators to invest in new channels and digital technologies. On the other, the ability to provide instant, 24/7 service can't be taken for granted in an industry beholden to strict regulations and aging legacy systems.

Certainly, technology has created an expectations gap that's only growing in size. That gap is not indicative of the insurance industry's failure to keep up, but more so a sign that clients' expectations are evolving at breakneck speeds.

Insurers are doing what they can to keep pace. According to our survey, many are taking steps to better understand their customers and their behaviours through all channels (e.g., phone, online, in-person, and through mobile apps and programs). That includes using data to augment face-to-face interactions with financial professionals who remain the customers' most valuable and trusted source of insurance information across generational lines—even more than the internet, their family, and social circles.

No doubt, insurance companies do not lack the willingness to transform. Many are aware of the need to focus on the customer, and are working to address that need by upgrading the channels, processes, and partnerships through which Canadians purchase their insurance products.

Making the moments count

It's no surprise that four of the most top-of-mind opportunities are related to the customer. The insurance industry has traditionally conducted its business with little need for customer interactions. Policies are often drafted and issued in isolation from the holders, and renewals often occur with no face-to-face interactions. That leaves the claims process as the only viable time for relationship building with an existing customer; and it's here where automated processes and customer analytics can go a long way towards having the biggest impact in a short amount of time.

Getting to know you

Understanding customers goes beyond pulling stats from a form. It's about genuinely understanding their life goals, needs, and service preferences. Only when these insights are obtained can the industry tailor their approach to individual customers by:

- **Segmenting the customer base:** Creating a 360-view of the customer, focusing on individuals, not risks; and layering in growth and profitability.
- **Educating the customer:** Creating opportunities to educate customers on products, risks, and benefits; and providing guidance and advice in real time.
- **Collaborating with distribution channels:** Working with brokers/intermediaries to get the full benefit of customer intelligence, and creating value for all parties, including the customer.

"When clients file a claim, they're going into that call expecting a stressful experience. As an insurer, if you can find ways to speed up that process, automate those time-consuming steps, and generally make that moment a lot more satisfying, then you will re-enforce loyalty and keep those customers for a long time."

— **Amit Chalam**, Senior Manager, Audit, Financial Services, KPMG in Canada

Market disruptors

The demand for a more customer-centric approach to service is high. In response, some companies are already using predictive modelling and analytics to gain ground in niche markets.

For example, one market player in the U.S. has started marketing accidental death products to emerging graduates that provide protection from student loans. Once on board, the company builds a rapport with the customer by offering online financial guidance, budgeting advice, and products catering to the different stages of their lives (e.g., finding a job, buying a house, starting a family, etc.). This is simply one example of a company tailoring their offerings to a specific market and building from there to create customers for life.

#5 Opportunity

The broker as an ally

The myth of the endangered broker is busted. At least, in Canada it is. Not long ago, industry watchers believed that the emergence of online policy buying options, industry aggregators, and big bank competition spelled the end for insurance brokers. The reality, however, is that these professionals remain integral to the Canadian insurance supply chain. That explains why respondents to our 2017's survey cite "focusing on brokers/intermediaries and their needs" as the fifth-most important opportunity on their organization's radar.

This perception makes sense given the significance of customers buying from brokers/intermediaries. Yes, there are tech-savvy policy shoppers who are comfortable—and indeed, prefer—non-human interactions, but a majority of customers still choose to sit down with a trusted professional to map out their insurance strategy. Therefore, to let broker/intermediary relationships stagnate is to risk missing out on that existing—and sustainable—market share.

Perhaps this is why KPMG has observed its insurance clients investing in the channels, tools, and platforms for brokers to enhance their interactions with the insurer, which in turn provides a better customer experience. After all, while online self-serve models do pose an alternative to brokers/intermediaries, they also creates an opportunity for insurers to step in and work with them.

That's not to say the tides won't turn. As the market evolves, more and more options will arise for customers to bypass brokers and purchase their policies online or access a more convenient channel for insurance information.

The threat to broker professionals is real; however, that threat is an opportunity for brokers to re-enforce their value and for insurers to buoy their success, maintaining market share in the process.

> **"The Canadian market is unique in that it remains more oriented towards the broker channel compared to other countries. Brokers are still being used to the extent that insurers are launching initiatives that help them enhance their customer interactions and deliver advanced services. At the same time, there is mounting pressure on brokers to demonstrate their value in the supply chain to both customers and insurers alike, especially as self-serve models and mobile technologies encroach on their territory."**
>
> — **Anh Tu Le**, Senior Manager, Risk and Economic Capital, KPMG in Canada

#1 & 3 Opportunity / #3 & 4 Risk

Rise of the machines

In the world of industry 4.0, organizations must choose between being the disruptor or waiting to be disrupted. For Canadian insurance companies, the choice is overwhelmingly the former. While 61 percent of CEOs in our 2017 Insurance CEO study, *Preparing to Disrupt and Grow*, see technological disruptions as an opportunity rather than a threat, 81 percent would rather take measures to be the ones doing the disrupting than wait for their competition to make the first moves.

And the technologies to disrupt are here. They include robo-advising systems that can provide customer advice and create digital wealth models, predictive modelling tools which anticipate needs and customize products to specific demographics, and digital self-service models offering automatic underwriting and mobile tools to facilitate scenario planning.

That being said, there's a reason why 2017's respondents cited "enhanced operational processes and the use of technology" as a top opportunity and "failure to adopt new technologies successfully" as a prominent risk. It's because while the disruptors are out there, they're also available to everyone. And while smaller innovators have more flexibility to experiment with mobile technologies and advanced systems, larger and more established organizations may find it harder to adapt given their reliance on older, less flexible systems. Unsurprisingly, this concern shows up in our survey where respondents believe the fact that their legacy systems are constraining their ability to adapt to change is one of the biggest risks.

Emerging disruptors

New products and sharing economy	Peer-to-peer insurance	Behaviour-driven models	Blockchain technology	Data analytics
New products emerge for which the provider takes on the collective risk, instead of the end-user (e.g., autonomous products; sharing economy)	Individuals create a shared platform to pool their premiums from which they pay out claims	The use of new technologies (e.g., Internet of things; social media; wearables) enables usage based insurance, dynamic pricing and improves risk-assessments and prevention	Blockchain technology may be used to automatically pay-out on pre-determined conditions, authenticate identities or enable actual-time-used coverage	With new technologies, including data analytics, wearables, socio-metrics, insurers innovate their risk pricing, portfolio management, analysis of claims and consumer experience
SnappCar, Google	insure a peer, insPeer, friendsurance, Bought By Many, Lemonade	whoosz!, oscar, fitbit, faizekering, metromile	SmartContract, HitFin	LimelightHealth, EARNIX, INSLY, APIXIO, QuanTemplate, Analyze Re, InforcePRO
Repositioning	Disruptive	Improving margins	Disruptive	Improving margins

Source: KPMG Analysis, 2017

Insurers are increasingly using data to guide their customers

Robo-advising

- Artificial Intelligence driven advice
- Digital wealth models now prevalent – Canada & U.S.

Predictive modelling

- Anticipate needs
- "Next Best Offer"
- Feed scenario planning

Simplified products

- Low cost products meeting specific needs
- Making insurance easier to comprehend – articulating the value

Self-service models

- Automating underwriting – such as "top-ups" & other simple products
- DIY – using scenario planning to determine needs

Source: KPMG Analysis, 2017

Tech on two sides

The push for technology is occurring on both ends of the insurance process. On the customer-facing side, we've seen stronger investments being made in online self-service models and mobile apps in a bid to accommodate customer trends and create a more integrated supply chain network. On the provider end, companies are adopting the means to enhance corporate functions and gain deeper insights into customer habits.

Take, for instance, vehicle insurers who are now using telematics to gauge customers' driving habits and using those insights to provide information on their driving performance or offer supplementary training and guidance. Similar techniques are being used in the life insurance sector where providers are exploring ways to use health monitoring products to measure and react to policy holder activity, predict long-term health conditions, and provide healthcare resources.

The onboarding balancing act

Consumer preferences are shifting toward digital, but that doesn't mean an end to traditional channels. With a majority of Canadians still turning to insurance professionals for guidance, the onus on providers is to find a happy medium.

"With all generations becoming more and more comfortable with shopping online, insurance companies have to determine how much they need to invest in onboarding customers digitally over a traditional branch, and how to do that securely and without disturbing existing channels," says Douglas Schneider, Partner, Digital Transformation/Financial Services ITA leader with KPMG in Canada. "It's a balancing act."

The risk of IT investments

Technology is enabling massive transformation across all areas of the insurance business. It's no wonder, then, that the cost and risks of IT investments are a growing concern among this year's survey respondents.

Those concerns are justified. Between insurtech innovators and online giants (e.g., Amazon) threatening to take market share, and disruptors such as autonomous vehicles, drones, and Internet of Things technologies creating demand for new insurance products, staying competitive means keeping pace with the speed of tech. To catch up, insurance companies must upgrade their IT capabilities and that can be a costly and risky endeavour for those still held back by aging legacy systems. Fortunately, there are an increasing number of consumer back-office solutions available to insurance companies as well as third-party IT providers that can mitigate those risks.

"A lot of insurance companies are finding it a challenge to adapt right now because they haven't been extremely innovative in the past. Most insurers were stuck with legacy systems and have not been very proactive in investing in technology until very recently. Now, the pace of change and innovation is a lot faster than what they've been used to, and they're finding themselves ill-equipped to keep up while being threatened and disrupted from all sides."

— **Walter Rondina**, Partner, Management Consulting, KPMG in Canada

"Technology can prove vital in creating customer loyalty and making good on a brand's promise. It's been proven that insurance customers with the highest loyalty are those who have had a claim and had it handled to their expectations. You can create that positive claim experience by connecting with customers, processing their claims quickly, and getting that cheque to them without delay. Automation and data-sharing facilitates—it's in those brief moments of interaction where technology can help build loyalty."

— **Scott Laiken**, Senior Principal, Customer and Analytics, KPMG in Canada

#1 Opportunity

The power of ones and zeros

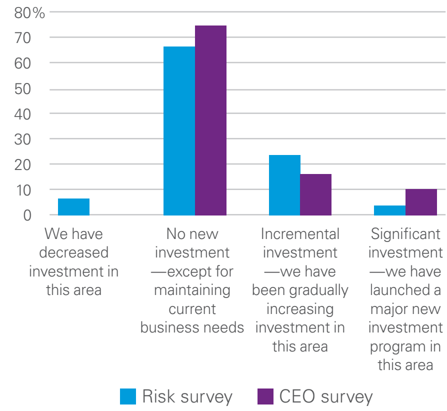
Insurers are eager to disrupt, yet actual investments in technological disruptors appear to fall flat over the next three years. 60 – 70 percent of respondents say they will not be making any new investments in robotic process automation, cognitive technologies, cognitive automation, blockchain, or resources related to the Internet of Things.

Where respondents are planning investments, however, is in data analytics (D&A). Over half of insurers (55 percent) are planning to make incremental investments on top of the ones they've made already, and nearly 20 percent are planning to launch a major new investment in D&A. Insurance CEOs think alike, with 60 percent planning to make incremental investments and nearly 30 percent planning significant ones. Comparatively, only 25 percent of risk survey respondents and 10 percent of CEOs say they will not be making any new investments in D&A.

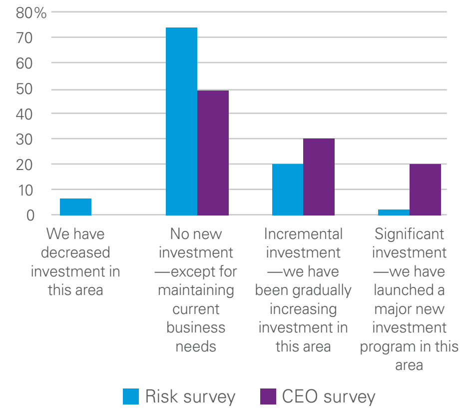
This focus on D&A investments is understandable. While advances in cognitive technologies, the Internet of Things, and artificial intelligence may be the end goal for insurance companies, they all rely on a foundation of clean, usable information.

Data is also being used to fuel customer "eco-systems" which generate a broader set of insights and options for providers and policy holders alike. These systems can include everything from driving telematics that inform parents of younger drivers when their car is being used outside of certain boundaries or windows of time, or APIs which can mine health and pharmacy data to identify public health patterns and mitigate healthcare risks. Predictive and reactive capabilities such as these are not sci-fiction, but a reality that many in the industry are already creating. And it all begins with data.

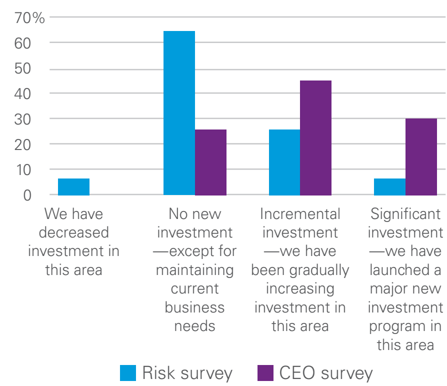
Robotic process automation



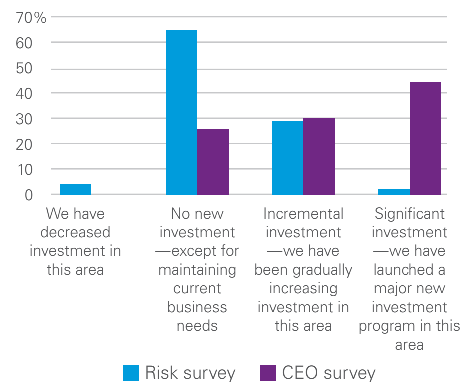
Cognitive automation



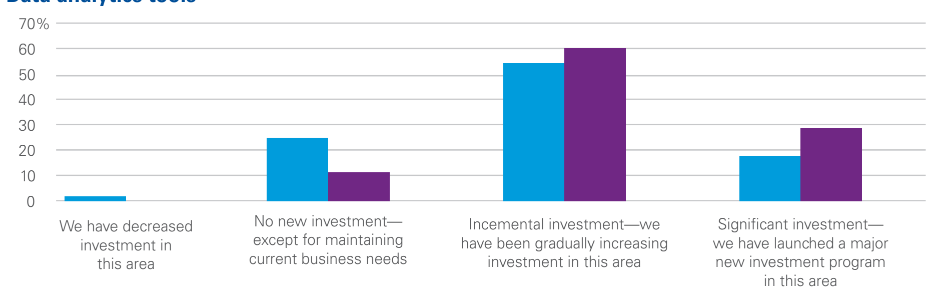
Cognitive technologies (AI, Machine Learning)



Internet of things



Data analytics tools



Source: KPMG's 2017 Canadian insurance industry opportunities & risks survey and Preparing to Disrupt and Grow: Insurance CEOs pick up the pace, KPMG International, 2017

Disruption by the numbers

45% CEOs expect disruption in their sector over the next 3 years as a result of technological innovation.

36% CEOs see emerging technologies as the most top of mind risk (up 7% from 2016)

28% CEOs will make significant investments in blockchain, or have already launched a major initiative.

Source: Preparing to Disrupt and Grow: Insurance CEOs pick up the pace, KPMG International, 2017

"We've been relying on D&A for hindsight, but now we can begin harnessing that data for predictive insights, versus a descriptive standpoint. We can start thinking like a customer and building better products and services from that perspective."

— Scott Laiken
Senior Principal, Customer and Analytics,
KPMG in Canada

#1 Risk

Regulatory road blocks

According to this year's survey, half of survey respondents (50 percent) said regulatory and compliance burdens are among of the biggest obstacles to success both in the year ahead and over the next 3 to 5 years (40 percent). Fueling that concern over factors such as low interest rates, equity market risk, and regulatory and compliance burden.

There is no shortage of change on the regulatory and compliance front. For one, many insurance companies are still unclear how the Office of the Superintendent of Financial Institutions' (OSFI) IFRS-17 for Insurance Contracts will impact accounting and actuarial functions. Lack of clarification has left many to wonder how these new standards will affect company strategy, pricing, compensation, or even distribution. Then, there is the cost of implementing IFRS 17—a cost all companies must incur regardless if they are a $3 billion insurer or $30 million insurer.

Combined with OSFI's Operational Risk Management Guideline (Guideline E-21) and Life Insurance Capital Adequacy Test (LICAT), emerging privacy laws, market conduct considerations—not to mention the overall challenges of maintaining trust and compliance in the social media realm—one can understand why operational risks rank high among the industry's perceived risks.

"While we have international standards for IFRS 17, we don't have the related interpretation and reporting and disclosure requirements from the local regulators. That's going to have a significant impact on current reporting, so there is quite a bit of uncertainty from that standpoint."

— **Anh Tu Le**, Senior Manager, Risk and Economic Capital, KPMG in Canada

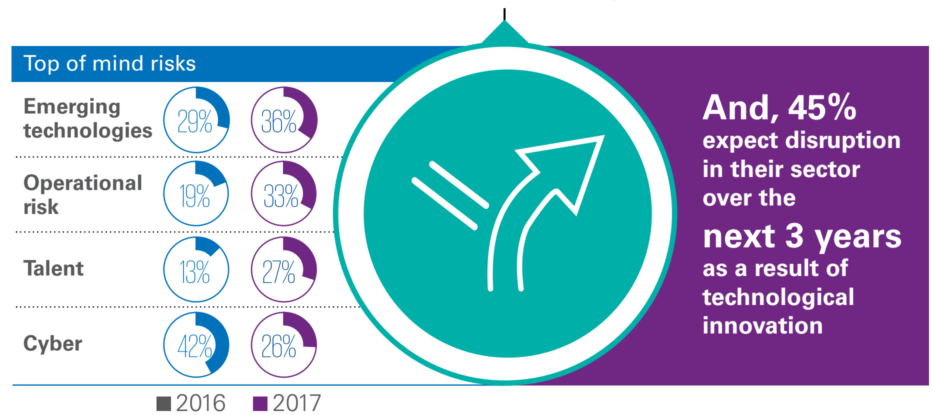
Barriers to innovation

Concern over regulatory risks may also be a reason why it is harder to pursue innovation in the insurance industry. After all, reputation is paramount in this sector and innovation—by its nature—involves trial and (sometimes very public) error. In recent years, the race to dominate online markets and be the first to app stores with a mobile insurance model has resulted in cases of lost data and security breaches. Nevermind that failure is also a common outcome in the innovative process, and failing to launch a product in the insurance space also comes with a risk of pushing customers to those who can get it "right."

"Canada is still a highly regulated environment which limits the amount of innovation that can occur," says Douglas Schneider, Partner, Digital Transformation/Financial Services ITA leader with KPMG in Canada. "Even when you do see innovation, it's typically already occurring somewhere else in the world."

The risk landscape

The risks that CEOs are most worried about have changed dramatically since 2016:



Source: Preparing to Disrupt and Grow: Insurance CEOs pick up the pace, KPMG International, 2017

#4 Risk

Cyber security

The move towards cloud computing, D&A, and integrated systems is elevating the risks around the protection of sensitive data. It's no wonder that cyber security risks are the fourth largest concern among companies moving forward, especially in light of reporting laws and elevated cyber incidents.

Cyber risks vary in the insurance world. In the life and health insurance sector, there is the very real threat of exposing client data and risking reputation damage as a result. We've already glimpsed the potential fallout based on cyber-attacks in other jurisdictions, and we know all too well how failing to secure customer or intellectual data can impact many individuals. Surely, as life and health insurance providers work to expand their digital horizons, it's these considerations that are becoming top of mind.

Similar risks exist in the property, assets, and auto insurance circles. Today, insurers are experimenting with apps and products that can be used by policy holders to gauge their habits and provide tailored products. These are entering the market in the form of gadgets that can be plugged into cars to monitor driving habits and frequency of use, health devices that can be worn by customers to track and adjust premiums accordingly, and apps that can monitor policy holder habits.

While a step in the right direction, these technologies pose a risk of data manipulation (e.g., different drivers, different runners). What's more, many of these devices are not designed to secure and transmit user data to the standards that the industry requires.

Re-examining the value of data

The need for stronger cyber security is also making insurance providers question the value of their data. After all, data analytics can be a great tool for insurance companies, but when one considers the inherent security considerations they must make to keep that data from the wrong hands, it's only natural to wonder if the data is worth keeping at all. That is, if the decision it to keep health statistics to conduct analytics, what is the cost of doing that? If you're going to collect sensitive information about a customer's driving habits, is it worth the risk of exposing that customer down the road?

Organizations must determine the value of their data, and balance that worth against the risks and costs of keeping it.

"Organizations are taking a more meaningful look at their data to determine what they really want or need to retain, and the costs and risks associated with doing so. Not so long ago, for example, companies used to use customers' credit card numbers as a way to search and organize their data. Now, they're witnessing cyber-attacks and data thefts take place around the world and thinking twice about holding on to sensitive data that might be making them vulnerable to similar events. More and more they're saying, 'Maybe we don't want to keep this data.'"

— **John Heaton**, Partner, Cyber Security Advisory Services, KPMG in Canada

Case study:

UK's cyber-attack testing

In 2017, UK's Bank of England sought to measure the country's resilience against a systemic cyber event by calling on major banks and financial firms to conduct a deep dive analysis of their cyber defense systems. The goal of the exercise was to determine if the UK's financial system could defend itself against multiple, coordinated attacks in the industry and, if not, how quickly could they recover in the wake of a hack.

Findings from the industry-wide analysis have gone on to inform regulators, and serve as a wake-up call for firms that might not have been as prepared as they thought before walking through their cyber defense protocols.

"The UK was quite advanced in doing this analysis because it not only subjected major financial players to a higher level of testing, but it generated some very important insights for the government," says John Heaton, Partner in KPMG Canada's Cyber Security Advisory Services practice. "Now that other countries like Singapore have taken UK's lead, perhaps it's also time for Canada to follow suit by testing our insurance community to determine how it would fare in a major cyber event."

Security across the network

No insurance company operates alone. The industry's supply chain includes many players from brokers/intermediaries, regulators, re-insurers, third-party administrators, adjusters, among others who are still connected to the business whether or not they touch the actual policies. And in the eyes of a cyber-criminal, everyone is a target.

"Organizations need to do a really good job at understanding who has what data and what controls are in place to protect it," says Stephen Smith, Partner, Audit, Financial Services, KPMG in Canada. "Insurers should be looking at their entire supply chain and making sure everyone is doing what they can to protect the data they're sharing with them. Because if the broker/intermediary gets hacked, the insurer's reputation will also be at risk."

Additional risks at a glance

Talent: Over a quarter of CEOs see access to talent as a top of mind risk. This is especially true as the need to upgrade legacy systems intensifies and as automation, artificial intelligence, and data science become tools of the trade. Insurance companies will need to fortify their teams with professionals who not only understand these technologies, but can spearhead their implementation. More than that, insurance companies require talent who can weather—and in some cases, lead—the industry transformations to come, be they driven by technical, regulatory, or consumer changes.

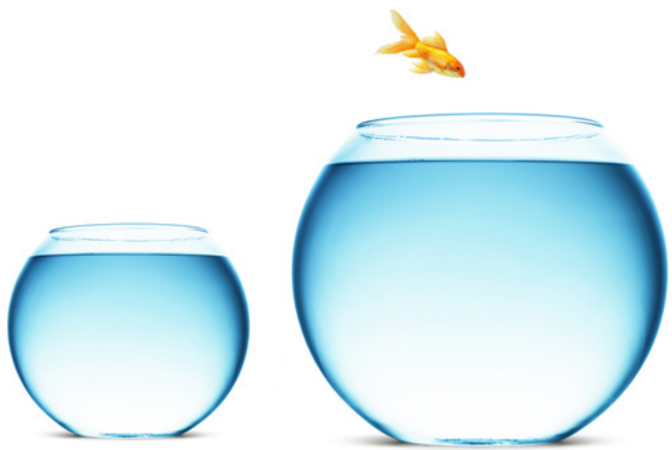
The insurance industry is not alone in its search for talent. And as the demand for ambitious, adaptable, and tech-savvy professionals grows within all industries, insurance organizations will be challenged to compete for the people it needs.

"Insurance companies are going through multiple, large-scale transformation programs right now and they need people who can guide that transformation from multiple dimensions: strategy, regulatory, change management, business insights and technology insights."

— **Walter Rondina**, Partner, Management Consulting, KPMG in Canada

Natural Catastrophes (# 5 Risk) From flooding in Manitoba to the BC Wildfires, natural disasters (aka "nat cats") are becoming more and more frequent. Undoubtedly, this is creating a challenge for the insurance world in terms of managing large-volume claims and creating reliable forecasts. However, it is also creating opportunities to innovate the claims assessment process and rise as a brand champion among policy holders.

Political Shifts: Potential changes to NAFTA, Brexit impacts, and North American border policies are bound to have ripple effects across all industries—insurance included.



Takeaways at a glance

If you're hoping for business as usual, don't. The next five years will see a big change for insurance companies in the role they play in their customers' lives. The rise of self-service models and niche-market competitors will drive all industry providers to find new and innovative ways of making inroads with their customers.

There will be winners and losers along the way. That is, just as there will be new entrants with wildly successful innovative models, there will also be companies that are not nimble or reactive enough to compete.

If our survey is any indication, many insurance leaders are primed for transformation. The journey will be different for each industry, yet there are several common considerations:

Bridge the gap: Meeting customers on their terms can be a challenge, but it is far from impossible. As online competition and industry disruptors enter the fray, now is the time for insurance companies to invest in the tools and data-driven resources to learn more about their customers and take their relationships even further.

Remember the broker/intermediary: Canadian customers still value the broker's role in the insurance transaction—more than online advice or word of mouth. Companies that support that relationship, either by investing in broker capabilities or fostering stronger ties within the brokering community, will benefit from access to a still-thriving market channel.

Respect the data: The power of data to segment customers, create stronger partnerships, and develop custom products cannot be understated; neither can the need to protect that data from theft or leakage and ensure it's been leveraged effectively. Before investing in D&A, evaluate what data your organization needs to grow and what information will only take up valuable storage space or make it more vulnerable.

Target the niches: The sharing economy has created demand for niche insurance products. Whether it's new insurance categories for shared vehicle services (e.g., Uber and Lyft) or shared accommodations (e.g., Airbnb), find a niche and become nimble in that space.

Trust in allies: The future won't be won by lone wolves. Look to industry consultants and insurance experts for insights, bridge capability gaps, and manage the transformation.

"Today, most insurance is sold because of regulatory reasons; you need car insurance or you'll get fined, or mortgage insurance or you won't get to buy a home. Over time, however, the emergence of driverless cars and other disruptors will mean the industry is selling to meet needs, rather than compliance. That's why today's players are motivated to learn more about their customers and come up with a needs-based product that appeals to them."

— **Amit Chalam**, Senior Manager, Audit, Financial Services, KPMG in Canada

"It is easy to become irrelevant if insurers don't stay in touch with customer needs. When Uber came, there was no insurance Uber drivers could buy. Eventually, one came out but it took a long time. That just goes to show someone will find an alternative if insurance companies aren't quick."

— **Scott Laiken**, Senior Principal, Customer and Analytics, KPMG in Canada

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Appendix: Opportunities & risks

Opportunities & risks

Organizational opportunities for 2017

Next year

Respondents were asked to select the top opportunities for their ***organization*** over the ***next year***:

- Data analytics to enhance product design, marketing and pricing (63 percent)
- Offering better customer experience (60 percent)
- Enhanced operational processes and use of technology (54 percent)
- Changing customer needs and expectations (46 percent)
- Focusing on brokers and their needs (42 percent)

3 to 5 years

Respondents were asked to select the top opportunities for their ***organization*** over ***3 to 5 years***:

- Data analytics to enhance product design, marketing and pricing (63 percent)
- Offering better customer experience (56 percent)
- Enhanced operational processes and use of technology (56 percent)
- Changing customer needs and expectations (48 percent)
- Customer preferences for direct and digital channels (46 percent)

Organizational opportunities for 2016

Next year

Respondents were asked to select the top opportunities for their ***organization*** over the ***next year***:

- Enhanced operational process and use of technology (61 percent)
- Offering better customer experience (48 percent)
- Improved management of risk and use of capital (44 percent)
- Data analytics to enhance product design, marketing and pricing (43 percent)
- Strengthening customer loyalty and reducing market conduct risk (30 percent)

3 to 5 years

Respondents were asked to select the top opportunities for their ***organization*** over ***3 to 5 years***:

- Data analytics to enhance product design, marketing and pricing (49 percent)
- Improved management of risk and use of capital (49 percent)
- Enhanced operational processes and use of technology (44 percent)
- Offering better customer experience (40 percent)
- Changing customer needs and expectations (36 percent)

Percentages will be greater than 100%, as the charts shows the frequency that respondents that selected that option.

Organizational risks for 2017

Next year

Respondents were asked to select the top risks for their ***organization*** over the ***next year***:

- Low interest rates and equity market risks (50 percent)
- Regulatory and compliance burden (50 percent)
- Legacy systems constrain ability to adapt to change (40 percent)
- Cost and risks of IT investment (35 percent)
- Failure to adapt new technologies successfully (33 percent)
- Cyber-security risks (33 percent)

3 to 5 years

Respondents were asked to select the top risks for their ***organization*** over the ***3 to 5 years***:

- Failure to adopt new technologies successfully (44 percent)
- Regulatory and compliance burden (40 percent)
- Failure to adapt to changing customer preferences and insurance needs (40 percent)
- Legacy systems constrain ability to adapt to change (35 percent)
- Cyber security risks (33 percent)
- Low interest rates and equity market risks (33 percent)
- Cost and risks of IT investment (33 percent)

Organizational risks for 2016

Next year

Respondents were asked to select the top risks for their ***organization*** over the ***next year***:

- Regulatory and compliance burden (40 percent)
- Low interest rates and equity market risks (39 percent)
- Cyber security risks (37 percent)
- Cost and risks of IT investment (35 percent)
- Cost reduction pressure is increasing operational risks (30 percent)

3 to 5 years

Respondents were asked to select the top risks for their ***organization*** over the ***3 to 5 years***:

- Low interest rates and equity market risks (35 percent)
- Failure to adopt new technologies successfully (35 percent)
- Failure to adapt to changing customer preferences and insurance needs (35 percent)
- Regulatory and compliance burden (33 percent)
- Cyber security risks (33 percent)

Percentages will be greater than 100%, as the charts shows the frequency that respondents that selected that option.

Canadian insurer opportunities for 2017

Next year

Respondents were asked to select the top opportunities for the **industry** over the ***next year***:

- Changing customer needs and expectations (65 percent)
- Data analytics to enhance product design, marketing and pricing (62 percent)
- Enhanced operational processes and use of technology (58 percent)
- Offering better customer experience (56 percent)
- Customer preferences for direct and digital channels (44 percent)

3 to 5 years

Respondents were asked to select the top opportunities for the **industry** over the ***3 to 5 years***:

- Changing customer needs and expectations (71 percent)
- Customer preferences for direct and digital channels (62 percent)
- Data analytics to enhance product design, marketing and pricing (60 percent)
- Enhanced operational processes and use of technology (54 percent)
- Offering better customer experience (44 percent)

Canadian insurer opportunities for 2016

Next year

Respondents were asked to select the top opportunities for the **industry** over the ***next year***:

- Improved management of risk and use of capital (61 percent)
- Data analytics to enhance product design, marketing and pricing (48 percent)
- Enhanced operational processes and use of technology (43 percent)
- Customer preferences for direct and digital channels (35 percent)
- Mergers and acquisitions to enhance market position (33 percent)

3 to 5 years

Respondents were asked to select the top opportunities for the **industry** over the ***3 to 5 years***:

- Data analytics to enhance product design, marketing and pricing (48 percent)
- Enhanced operational processes and use of technology (43 percent)
- Customer preferences for direct and digital channels (37 percent)
- Mergers and acquisitions to enhance market position (35 percent)
- Strengthening customer loyalty and reducing market conduct risk (33 percent)

Percentages will be greater than 100%, as the charts shows the frequency that respondents that selected that option.

Canadian insurer risks for 2017

Next year

Respondents were asked to select the top risks for the **industry** over the ***next year***:

- Low interest rates and equity market risks (56 percent)
- Regulatory compliance burden (44 percent)
- Natural catastrophes (33 percent)
- Failure to adapt to changing customer preferences and insurance needs (33 percent)
- Legacy systems constrain ability to adapt to change (33 percent)

3 to 5 years

Respondents were asked to select the top risk for the **industry** over the ***3 to 5 years***:

- Failure to adapt to changing customer preferences and insurance needs (50 percent)
- Regulatory compliance burden (40 percent)
- Low interest rates and equity market risks (40 percent)
- Cyber-security risks (35 percent)
- Legacy systems constrain ability to adapt to change (35 percent)

Canadian insurer risks for 2016

Next year

Respondents were asked to select the top risk for the **industry** over the ***next year***:

- Cyber security risks (50 percent)
- Low interest rates and equity market risks (49 percent)
- Regulatory and compliance burden (43 percent)
- Failure to adopt new technologies successfully (31 percent)
- Failure to adapt to changing customer preferences and insurance needs (26 percent)

3 to 5 years

Respondents were asked to select the top risk for the **industry** over the ***3 to 5 years***:

- Failure to adapt to changing customer preferences and insurance needs (45 percent)
- Low interest rates and equity market risks (42 percent)
- Regulatory and compliance burden (39 percent)
- Cyber security risks (38 percent)
- Customer preferences for direct and digital channels (30 percent)

Percentages will be greater than 100%, as the charts shows the frequency that respondents that selected that option.

Contact us

For more information, please contact our Insurance sector professionals or your local KPMG adviser.

Johannes Pastor
National Industry Leader, Insurance
T: 416-777-8092
E: johannpastor@kpmg.ca

André Dugal
Partner, Audit
T: 514-840-2226
E: andredugal@kpmg.ca

Pierre Lepage
Partner, Property & Casualty Actuarial
T: 514-840-2289
E: plepage@kpmg.ca

Stéphane Lévesque
Partner, Life & Pensions Actuarial
T: 416-777-8192
E: slevesque@kpmg.ca

Hudson Lopez
Partner, Audit and Accounting Advisory Services
T: 416-777-3034
E: hlopez@kpmg.ca

Gavin Lubbe
Partner, Insurance Management Consulting
T: 416-777-3116
E: gavinlubbe@kpmg.ca

Walter Rondina
Partner, Management Consulting
T: 514-840-7295
E: wrondina@kpmg.ca

Stephen Smith
Partner, Audit, Financial Services
T: 416-777-3194
E: stephensmith@kpmg.ca

Amit Chalam
Senior Manager, Audit, Financial Services
T: 647-777-5376
E: amitchalam@kpmg.ca

kpmg.ca