Insurance frontiers: Here to horizon

Opportunities and risks in the Canadian insurance industry

November 2019
Let’s do this.
Today’s business world is one of constant change. The rise of the Millennial consumer and the corresponding shift in customer demands is pressing companies across sectors to reconsider how they are organized, what products and services they offer, and how they communicate with their customers.

While Canadian insurance companies have felt less pressure to embrace large-scale transformation compared to companies in other industries, many are starting to recognize that the insurance industry will look radically different in 10 years from how it does today – and that if they want to grow and remain a relevant part of that new and exciting world, they need to begin making changes now.

Forging a new path isn’t easy. Canadian insurers need to balance a number of competing – and sometimes conflicting – priorities. They can only do this by recognizing and embracing the trends helping to redefine the insurance industry, including changing customer dynamics, new regulations and accounting changes, the rapid rise of disruptive technologies and business models globally, and the increasing value proposition of strategic alliances and changing workforce demands. While each of these trends presents unique risks, Canadian insurers need to find ways to turn these risks into strategic opportunities.

Leading insurers are already paving their way forward. They are embracing customer-centricity, innovative technologies, and dynamic change. They are rethinking what their organizations do, how they are structured, and what skills their workforce will need in the future. But for most, the journey to prepare for a radically different industry is just beginning.

In this year’s report, we examine five key trends shaping the insurance industry today, share how industry leaders are tackling transformation imperatives, and discuss what Canadian companies can do now to become more future ready. We also share insights from our discussions with a diverse group of industry leaders, including board of director members, insurance CEOs, a Canadian Senator, and young innovators from The Knowledge Society, on the opportunities and risks facing the industry. If you would like to discuss these insights in more detail or learn how they might affect your organization, please contact us.
Growth in an era of constant change

The Canadian insurance industry is no stranger to change. The challenge today is not that change is occurring, but rather the speed and scale at which it is taking place. Almost every aspect of the insurance industry is evolving, including customer dynamics, regulatory requirements, supporting technologies, alliance and partnering options, and workforce demands.

Any one of these issues is challenge enough. Canadian insurers, along with insurance companies around the world, are struggling to understand and address all of them at once – even as they work to grow and thrive. It is not a simple task. This perfect storm of change means insurance companies must rethink every aspect of their operations – from customer services, marketing, and sales to finance, information technology (IT), and human resources (HR).

What insurers are starting to recognize, however, is that these issues present just as many opportunities as they do risks. The number of opportunities available today could be a key reason why insurance CEOs remain confident in both their growth prospects and in the growth prospects of the industry as a whole.

Growth prospects – Insurance CEOs

Growth prospects for the company

- Very confident: 55%
- Confident: 42%
- Neutral: 3%

Growth prospects for the industry

- Very confident: 35%
- Confident: 50%
- Neutral: 14%
- Not very confident: 1%

Disruptive growth only comes through a reordering of priorities and cultural change. The critical challenge is how to move Canadian financial institutions – including insurance companies – from a culture that is focused on pushing out incremental changes to traditional products, to consumer-centric organizations that reliably implement disruptive improvements in customer value. Right now, there’s a lot of talk about the need to move towards open banking, but we need more action. That will require our financial institutions to begin to seriously invest in disrupting their traditional business models and finding strategies that will enable them to rapidly improve their productivity so they become globally competitive in the disruptive world of digital banking.

Senator Colin Deacon
Seismic shift in customer dynamics

The phrase, ‘The Customer is King’, has been used for many years but has never been as true as it is today. In a world where customers have endless choice, they are quickly becoming the rationale for every decision a company makes. Unfortunately for insurance companies in Canada, customer dynamics are evolving and are radically different today than they were in the past. Old ways of defining and targeting customers are not going to work very well in the days ahead. This is why Canadian insurance companies are acting now to understand who their customers are and what they want.

This is consistent with CEOs of insurance companies around the world acknowledging they have a lot to learn about their customers. In a recent global survey, 64% said they need to significantly improve their understanding of their customers.2

Who are these customers?
The Millennial generation is now the largest population cohort in Canada and the one with the most buying power.3 The challenge for insurance companies is that these Millennials – and the Gen Z cohort following in their footsteps – are radically different than the Baby Boomers and Gen Xers that came before them. They aren’t following historical norms in terms of predicted life paths, where specific life milestones typically prompted the purchase of insurance products. Many are skipping specific milestones all together – for example, choosing to rent either for lifestyle reasons or due to housing prices in certain Canadian markets, or forgoing the purchase of a car (or never even getting a learners permit) in favour of taking public transit or just using ride-sharing apps.

86% of insurance CEOs are concerned about how Millennials will change their business4

84% of Millennials don’t trust traditional advertising5

95% say friends are the most credible source of product information6
One of the big challenges with the Gen Z population is that they have lower customer loyalty than older generations. While I think the short-term impact of this trend on our business is overstated – the long-term impact could easily be understated. We need to really focus on what they want and how they want to engage. Compared to today, online services will only increase in importance.

Denis Ricard  
CEO, Industrial Alliance

The four demands of the customer

Source: KPMG US Innovation Labs

Institutional customers also want customer-centricity

The Canadian insurance industry caters to more than individual customers. Canadian insurers provide products and services to a wide variety of institutional clients, while reinsurers help traditional insurance companies manage their own risks. Just as the demands of individual customers are changing, so too are the demands of institutional customers. For example, institutional customers may be less interested in easy options and looking for more tailored, micro-insurance products tailored to them.

Insurance companies have a wealth of data and information at their fingertips. If they can use this data to help companies better understand, manage, and respond to their unique risks (e.g. using predictive analytics to assess the driving patterns of company cars in order to reduce fleet insurance premiums), they could gain a significant competitive advantage.
What do they want from Canadian insurers?

The customers of today – and tomorrow – want the same personalized care and responsiveness from insurance companies as they get from their favourite organizations. Given they can order a product with one click of a mouse (or tap on a touch screen) and have it show up the same day, they don’t want to wait a week or more for an insurance company to get back to them with a quote or to mail their renewal documents.

Data allows you to put the customer at the centre and to know them in ways that it simply wasn’t possible to know them previously – and to provide them with more valued insights and services. The upside is that by doing that, insurance companies also get many more opportunities for growth and profitability.

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The big customer challenge: Data, data, data

Providing short term, complementary, and personalized products means that Canadian insurance companies will need much stronger data collection and analysis tools. This requires a total rethink of how to collect data, store it, analyze it, and make use of it – not to mention how to ensure data security and privacy protection.

Peter Doyle
KPMG in Canada
What can Canadian insurers do to take advantage of this trend?

Offer flexible and short-term products

Insurers should think outside the box about the products and services they will offer in the future. They should focus on knowing who their customers are and designing products that relate to their unique lifestyles. This could include providing short-term and just-in-time insurance or insurance focused on one personal item, one travel day, or even one hour of driving time in a shared vehicle. One example of this approach is Duuo – an on-demand digital insurance product offering pay-per-use insurance for home-sharing, which was developed by the Co-operators, in collaboration with insurtech Slice.7

Provide complementary products and services

Canadian insurers should look at products or services that complement their insurance offering and provide enhanced value to their customers. For example, providing customers with prevention-focused tools and supports that help protect their health or their insured items. Case in point, Manulife’s Vitality program encourages insured customers to earn reward points by completing weekly health goals (e.g. eating well, exercising, completing health assessments).8 These types of activities have the advantage of also potentially contributing to a reduction in claims.

Tailor customer service

Insurers should consider ways to make it easy for customers to appreciate the value insurers provide and to trust that insurers care about their needs – both through the products they provide and their approach to customer service. To do this, insurers should focus on making every customer a ‘segment of one’ by offering personalized care and customized insurance products through the use of data analytics, social media listening, and artificial intelligence (AI).

8 https://www.manulife.ca/personal/vitality.html
When it comes to managing conduct risk effectively, organizations need the right leadership, tone from the top, policies, training, and diversity. These are all critical practices that lead to appropriate risk management as it pertains to the treatment of customers and how they manage financial risk.

Janine Lang
Director, Advisory, Management Consulting
KPMG in Canada

Key questions to ask your organization

1. How can we get to know our customers’ needs and wants better?
2. How can we change or expand our products and services to enhance flexibility and address short-term needs?
3. What proactive and preventative services can we offer or inform our customers about that would help protect them and/or help them reduce the impact of an insured loss event?
4. How can we use technology to make it easy for our customers to choose our products or services and to interact with us?
5. How can we become more proactive in informing our customers of new risks, opportunities, and policy or product changes?
6. How can we manage our data effectively in terms of usage, privacy, and security?
Technology and business disruption is quickly becoming the name of the game in the business world – although a large majority (73%) of CEOs in Canada are confident in their ability to stay competitive in the face of disruption. Rather than focusing on the risk of being disrupted by more nimble startups, many companies are embracing business model change, innovation, and technology change – seeing them as a means to extend their product reach, attract new customer segments, and improve customer-centricity.

Despite recognizing the importance of all facets of innovation, however, Canadian insurers have been relatively slower to implement disruptive technologies and business models than insurers in other jurisdictions. This is likely because Canadian insurers are somewhat insulated from direct disruption due to the existence of barriers, such as regulatory structures (e.g. capital, rate) and a significant broker channel distribution model, that make it difficult for digital startups to get into the game.

At the same time, the speed of innovation and technology change is starting to increase within the Canadian insurance industry, and it is only expected to get faster over the next few years. Factors such as changing demographics, evolving customer demands, and regulatory changes like IFRS 17 are driving Canadian insurers to think differently about the products and services they provide and how they provide them. This is sparking them to explore more innovative technologies, such as AI, machine learning, automation, and the Internet of Things (IoT).
Innovative technologies have incredible potential to make insurers more efficient and effective. For example, robotic process automation (RPA), specifically within the finance and actuarial functions, can provide tangible efficiency improvements in routine reconciliation and actuarial calculation activities – allowing professionals to focus on exception clearing and analysis, rather than on exception identification. AI and data analysis for areas like fraudulent underwriting or claims administration could also be incredibly beneficial.

Dick Freeborough
Board Director and Chair of Audit Committee
Economical and RGA Canada

The big risk of innovation labs

While innovation and digital labs and other standalone innovation units can be very effective at generating fresh ideas and solutions, the big risk is that these solutions never get implemented – or do not get implemented effectively. Canadian insurers should understand these types of programs are only valuable if they can leverage and execute on program outputs and findings. To help mitigate these risks, insurers should be agile and not be afraid of ‘failing fast’ if an idea is not viable. They should also ensure they create strong connections between their innovation program and traditional business – one way to do this is by soliciting the traditional business for problems that could potentially be solved by the innovation program.

What are Canadian insurers doing about disruption?

When it comes to embracing disruption, some Canadian insurers are still testing the waters and laying the groundwork for change, while others are making bigger bets. The range of activities insurers are undertaking include:

Streamlining end-to-end processes

Many Canadian insurers are investing in technologies to help them streamline their end-to-end processes in order to improve their cost structure, transaction times, claims processes, and customer responsiveness.
Investing in sales channels

Historically, P&C products have been delivered through a broker and advisor-based sales model. Now, some Canadian insurers are investing in direct sales channels in order to take more control of their customer relationships. Economical’s digital-only subsidiary, Sonnet, is one example of this.\(^{11}\) At the same time, they are looking at how they interact with brokers and advisors to enable technology to enhance the customer experience and improve timing.

Leveraging big data

In order to take a more predictive approach to analytics, some Canadian insurers are looking at ways to leverage big data, apart from just actuarial processing. By using big data to inform assumption setting, insurers can look for deeper trends to use for pricing, managing risk exposures, and others to gain a competitive advantage.

Investing in standalone innovation programs

A number of Canadian insurers have set up standalone digital hubs, innovation labs, and other processes for sparking innovation (e.g. Aviva’s Digital Garage,\(^ {12}\) Wawanesa’s Innovation Outpost\(^ {13}\)). Insurers are establishing these programs as a means to generate ideas that can eventually be applied to their traditional businesses.

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12 https://www.avivadigitalgarage.ca/
What should Canadian insurers be doing right now to drive disruptive innovation?

Seventy-six percent of Canadian CEOs agree they need to improve their innovative processes and execution – but how exactly can they do so?¹⁴ For insurers, a good starting point is to keep their eyes on the prize when it comes to disruptive innovation. Given the number of strategic priorities that many insurance companies are juggling today, they need to ensure their innovation efforts are focused and well aligned with their future vision and growth strategy. By focusing on customer-centricity, insurers can ensure their innovation spend is geared toward achieving real outcomes, including the return on investment (ROI) their investors and other stakeholders expect.

In addition to having a strong value-driven and customer-centric focus to their innovation and disruption efforts, Canadian insurers should also make execution a critical priority. Generating innovative ideas will not achieve results – only execution of ideas will. This doesn’t mean that insurers should wait for all factors to be perfect before hitting the ‘play’ button on an innovative initiative; in fact, in this agile world, failing fast can be a real competitive advantage.

Expected ROI on innovation investment over the next 3 years:¹⁶

| 84% | Digital transformation |
| 61% | AI |
| 29% | RPA |

Manulife using AI to create more responsive products

In 2018, Manulife launched Manulife Par – a new whole life insurance product that leverages AI to speed up the underwriting process. It is expected that the new product will improve Manulife’s operational efficiencies by decreasing turnaround time on applications, while also catering to the demands of customers who want easier and more responsive ways to buy insurance.¹⁵

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¹⁴ https://assets.kpmg/content/dam/kpmg/ca/pdf/2019/05/2019-canadian-ceo-outlook.pdf
¹⁶ https://assets.kpmg/content/dam/kpmg/ca/pdf/2019/05/2019-canadian-ceo-outlook.pdf
Open banking could present a unique opportunity for insurers

Open banking is coming to Canada over the next few years – it will give customers more control over the data financial institutions, including insurance companies, have on them, and allow customers to request that their data be shared with other organizations. From the customer’s perspective, open banking will enhance their ability to apply for different products, get better rates, or switch to new products or financial institutions. For insurers, open banking could make it easier to attract customers, provide quicker quotes, and tailor products and services to unique customer needs. While the Canadian government is still working to define what its open banking model will look like, early signs suggest it will look similar to the data sharing model developed by Australia. Such a model would transform the traditional bilateral business model into one with multi-lateral data flows to accredited third parties – thereby allowing more companies to get involved in the business model. This kind of data model would allow insurers and tech companies to partner in new ways, sharing and supplementing their existing data with payments data to better understand and respond to the needs of their customers.

Now’s the time for insurers to get into the game. While Canada’s open banking model is still being developed, insurers can lay the groundwork for success. As a starting point, insurers should consider:

– Developing an open banking strategy.
– Assessing their readiness for open banking.
– Identifying their key priorities and how they can establish a ‘first mover’ advantage in these areas.
The challenge is that when companies deploy digital, most simply take paper-based processes and automate them, as opposed to looking at the paper-based processes and going, ‘Okay, what do we want to achieve and how will technology enable that?’. This will result in a new process designed with a digital mindset. In addition to design approach, governance is often an afterthought and you can actually create a whole bunch of negative outcomes. This is not the kind of disruption you want.

Gavin Lubbe
Partner, Management Consulting
KPMG in Canada

1. What will our organization need to look like (e.g. structure, products, channels) in order to be successful in the future?

2. How can we adjust our internal processes and structures to support the creation and implementation of innovative ideas and solutions?

3. How are our internal and external innovation programs being structured to drive real value for our organization?

4. Do we have the data we need to make the most of our innovative solutions?

5. What are our innovation ambitions? Are we on the strategic course to be a trailblazer of new ideas, a fast follower, or do we just want to keep pace?
Focus on strategic alliances and partnerships

Canadian CEOs ranked strategic alliances as their top strategy to achieve growth in 2019, accounting for more than double the percentage who chose mergers and acquisitions (M&A) – the top growth strategy in 2018.\textsuperscript{17} Despite this change in priorities, the insurance sector is seeing an uptick in M&A deal volume in comparison to 2018.\textsuperscript{18}

The increasing focus on strategic alliances likely reflects recognition that traditional companies and innovative startups often have very different organizational structures, cultures, and ways of doing things. The complexities associated with integrating an acquired startup, even if it remains a standalone business, can result in far less than desired outcomes. Strategic alliances, meanwhile, do not come with the same barriers as M&A. Strategic alliances allow organizations to work together more agilely, with mechanisms to sever the alliance should it not achieve desired outcomes.

For Canadian insurance companies looking to embrace innovation and enhance customer-centricity, strategic alliances and other third-party partnerships can be a great way to leapfrog ahead of the competition. While many Canadian insurers recognize the importance of innovation to their future growth, their internal efforts are often stymied by internal challenges, such as long-entrenched cultures, outdated legacy systems and processes, and the inability to attract the talent needed for innovation efforts.

Many insurtechs are focused on enhancing or improving one segment of the insurance value chain, rather than trying to disrupt the entire insurance industry. Recognizing this, insurers have become less anxious about potential competition and more excited about the opportunities insurtechs offer. By forming alliances with insurtechs and other technology-focused companies, insurers gain access to their innovative solutions without the need to develop their own.

\textsuperscript{17} https://assets.kpmg/content/dam/kpmg/ca/pdf/2019/05/2019-canadian-ceo-outlook.pdf

How are strategic alliances elevating Canada’s insurance industry?
In the Canadian insurance industry, strategic alliances today are taking a number of different forms. Some insurers are using alliances to grow their global reach and market share, such as Sun Life – the insurer recently formed a strategic partnership with HR digital platform company Rise.\textsuperscript{19}

A number of insurers are also forging strategic alliances with tech companies to enhance their internal processes. Gore Mutual recently announced plans to collaborate with global AI leader, Element AI, to integrate Element AI’s Underwriting Partner software into its underwriting practice. This is expected to help accelerate certain underwriting processes.\textsuperscript{20}

Historically, when you look at the P&C market in Canada, the top 10 insurers were dominated by foreign-owned companies. In more recent years, there’s been far more Canadian-owned company and broker acquisitions.

Hudson Lopez
Partner, Audit, Financial Services
KPMG in Canada

Top strategies to achieve growth\textsuperscript{21}

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<th>Strategy</th>
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<tr>
<td>Strategic alliances</td>
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<td>Organic growth</td>
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\textsuperscript{19} https://www.sunlife.ca/ca/About+us/Newsroom/News+releases/Announcement/Sun+Life+Financial+and+Rise+People+collaborate+on+all-in-on e+HR+and+benefits+experience?vgnLocale=en_CA&id=123217
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Insurance companies have a golden opportunity to use strategic alliances and technology-enabled partnerships to accelerate all aspects of the customer value chain. While using partnerships, insurance companies should continue to deliver on their core strength, which is to appropriately select risks, underwrite them and manage capital efficiently.

Amit Chalam
Partner, Financial Services
KPMG in Canada

What should Canadian insurers be doing with respect to strategic alliances?

Strategic alliances present a massive opportunity for Canadian insurers – not only to provide innovative solutions to their customers, but also to enhance their own internal operational effectiveness so that they can focus resources on higher-value activities. This is particularly true for certain back-office and middle-office functions where third-party providers could provide significant value without affecting an organization’s core capabilities. The challenge for many insurance companies is convincing their functional leaders and staff to think outside the box when it comes to what they do and how they do it.

Insurance companies would benefit from stepping back and thinking about what the insurer of the future looks like without considering their current organizational structures. By envisioning what is possible, insurers can look at how third parties and strategic alliances could help them achieve that vision.

M&A still strong in brokerage space

There is still a significant amount of M&A occurring within the Canadian brokerage space as organizations look to grow. In October 2019 alone, P&C brokerage BrokerLink acquired Calgary-based Jamber and GTA-based Routh Chovaz, while US-based Hub acquired three Canadian brokerages – among them, Toronto-based PDF Financial Group Inc.
When it comes to growth, our key focus right now is on strategic alliances and partnerships. We’ve been able to use them to accelerate our products and offer members more choice – like our new critical illness insurance, life and disability offerings and virtual health care options. What makes our alliances successful? We’ve been using agile sprint approaches to product development. This lets us conduct iterative improvements ‘on the fly’ while still getting a product into the market quickly.

CEO of a health insurance company

Key questions to ask your organization

1. What functional activities are we behind the curve in – and could a service provider help us up our game while letting us focus on more strategic business areas?

2. How could a strategic alliance help us create new value (e.g. innovation capacity, product breadth, market-access)?

3. How are the different technologies we are deploying creating business value – and are they working together?

4. How do our internal processes and governance structures need to be adjusted to account for third-party strategic alliances or partnerships?
Game-changing regulations

While the customer experience and technology innovation may be dominating the agenda of Canadian insurance executives, regulatory issues have continued to be a recurring theme over the past few years. IFRS insurance accounting change has been a particularly looming concern for Canadian insurers for over a decade, but increased its prominence in 2017 when the International Accounting Standard Board (“IASB”) released IFRS 17 – Insurance Contracts in 2017.

IFRS 17 marks a significant shift in how insurance contracts are accounted for; it is considered the biggest single change to insurance financial reporting. The ramifications from IFRS 17 are expansive – it is already causing organizations to re-evaluate their processes, data flows and data models and is expected to have significant impact on financial statement presentation and disclosures, as well as capital and tax implications once implemented.

What’s new on the IFRS 17 front?

In June 2019, the IASB issued proposed amendments to IFRS 17 in ED/2019/4 in June 2019 in response to myriad stakeholder concerns over the complexity and ramifications of the new regulation. A feedback period related to the proposed amendments closed on September 25, 2019. The IASB is expected to issue the amended IFRS 17 in 2020.
Highlights of the proposed amendments

In addition to deferring the effective date of IFRS 17 to January 1, 2022, the proposed amendments address implementation challenges related to seven key focus areas:

- Scope changes for certain credit cards and loans that provide insurance coverage.
- Accounting for investment services in an insurance contract.
- Allocating acquisition cash flows that relate to future contract renewals.
- Mitigating the financial risk of direct participating contracts.
- Presentation of insurance contract assets and liabilities.
- Reinsurance of onerous contracts.
- Accounting for acquired claims liabilities on transition.

Recognizing the challenge of scalability

IFRS 17 is a complicated standard with many facets insurers need to consider. One of the biggest issues for Canadian insurers is that while the standard is principles-based, it is not scalable. While implementing IFRS 17 will be more complicated for larger institutions due to their more complex books of business, they likely have the flexibility to obtain or dedicate the resources they need to ensure compliance even across multiple subsidiaries and jurisdictions. Small Canadian insurers, meanwhile, are finding the regulatory burden associated with IFRS 17 quite challenging to address given their more limited internal resources and operational flexibility.

What are the biggest risks to Canadian insurers related to IFRS 17?

Regulatory and compliance risks: Given the significant changes that will be required by IFRS 17, insurers that do not act soon could be at risk of not being ready on time. In order to mitigate this risk, Canadian insurers need to start early to ensure they have enough time to analyze and compare results and make the changes necessary to fully comply by 2022.

Operational risks: IFRS 17 will require insurers to make a number of operational changes within their organization. In order to reduce potential operational risks, insurers need to develop new processes and effective controls to manage the new requirements.

IT risks: System and IT risks are always a critical concern when making changes within an organization. Insurers need to manage these risks proactively. This includes ensuring existing controls remain effective, identifying new risks, and developing and implementing new controls as needed.

Resource risks: In order to support IFRS compliance, many insurers will need to hire new resources or obtain external support. Given the extensive impact of IFRS 17, small Canadian insurers face a significant risk of resource strain and could find it difficult to compete with larger insurers for the skilled talent or external support they need to help them address IFRS.

Implementation risks: While considering IFRS 17 implications is important, there is a risk that Canadian insurers that are among the first to adopt and report, could find themselves having to adjust course later. Making changes early, thereby allowing new accepted practices to be developed, could result in re-statement or re-visiting policy choices and key judgments in the future.

We’re far enough into IFRS 17 that smaller insurers are beginning to realize how big a wrench is being thrown into their business model and what the cost of compliance will be. While the larger companies may still be focused on getting their own house in order, we may start to hear some rumblings around M&A over the next year and as we get closer to 2022.

Alison Rose
Partner, Life & Pensions Actuarial Practice
KPMG in Canada
Beyond IFRS 17

OSFI B-3 making waves in the P&C space

In June 2019, OSFI released a draft guidance on managing reinsurance risk, Guideline B3, with the view that reinsurance practices and the insurance industry have changed significantly since the original guideline was introduced in 2010, and to ensure a more consistent interpretation and application by federally regulated insurers/reinsurers (FRIs). The objectives of the revisions are as follows: encourage insurers to better identify and manage risks arising from the use of reinsurance, particularly counterparty risk; clarify OSFI’s expectation that reinsurance payments flow directly to a ceding insurer in Canada (or a person acting for or on behalf of the ceding insurer); reaffirm OSFI’s principles-based expectation that an insurer not cede substantially all of its risks; and clarify other aspects of OSFI’s expectations related to the prudent management of reinsurance risks.

The changes to the guideline have caused much debate in the P&C insurance community, including certain P&C insurers arguing this change is out of step with international standards. Specifically, in relation to OSFI Guideline B-2\textsuperscript{25} on counterparty risk consideration exposures being amended to impose a rule limiting the issuance of high-limit policies by P&C insurers. They argue that this proposal could result in required increases in capital for certain Canadian P&C insurers. Navigating this and other changes in regulation is a high priority for many insurers.

OSFI E-25 near on the horizon

In June, OSFI released Draft Guideline E-25: Internal Model Oversight Framework. The proposed guideline outlines OSFI’s expectations for P&C insurers related to establishing and maintaining an oversight framework for any internal models used to determine regulatory capital requirements.\textsuperscript{26}

The new guideline is expected to enhance quality control and reliability associated with specific models and improve overall governance. The consultation period for the draft guideline closed on August 30, 2019. It is expected that the final guideline will be issued over the next few months.

\textsuperscript{25} http://www.osfi-bsif.gc.ca/eng/fi-if/rg-ro/gdn-ort/gl-id/Pages/b2-let-20.aspx
\textsuperscript{26} www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-id/Pages/e25-let-dft.aspx
How is IFRS 17 spurring opportunities for Canadian insurers?

Improving existing systems

Insurers are making improvements to their current systems and processes – identifying and implementing best practices and standardizing their models, generation of financial results, and generation of disclosures. Companies are doing this, in part, to improve efficiencies and free up resources so they can focus on other tasks that will assist in the transition associated with IFRS 17. As a part of this effort, some insurers are upgrading their actuarial models to increase the level of automation that goes into their actuarial financial reporting.

Developing human capital

Within Canadian insurance companies, the people working on IFRS 17 related cross-functional programs are getting incredible insight into how existing systems and processes work, the data available, and the potential to generate more robust insights from data previously trapped within specific silos. Insurance companies are using this experience to develop their human capital, enhancing people’s skillsets so they are more future-ready.

Generating business insights

Historically, finance and actuarial staff have never worked so closely together. Now, Canadian insurers are starting to benefit from the cross-pollination of ideas from people who were previously siloed, while also gaining the value of having more granular data available for analysis.

IFRS 17 is a massive undertaking, affecting many aspects of the business. To get ready, we’re seeing a lot of insurance companies focusing on improving existing systems and processes – not just generating financial statements – but standardizing models, automating controls, and presenting management information in more digestible, user-friendly ways.

Dana Chaput
Partner and Insurance Accounting Change Leader
KPMG in Canada
What should Canadian insurance companies be doing right now about regulatory change?

Given the complexities associated with compliance with IFRS 17, Canadian insurance companies shouldn’t wait to see how the final amendments play out before acting. While many companies have already examined how they will be affected by IFRS 17, now is the time to start enacting changes that will help ease the transition. While companies may not be able to pinpoint exactly what the amended version of IFRS 17 will say, they can identify specific activities that will likely be required regardless of final details.

By focusing on these ‘no regrets’ change activities while the IASB finalizes IFRS 17, insurers can lay the groundwork for change while ensuring they retain the flexibility needed to adjust course once the final details are confirmed. It’s important to act now to ensure you are ready for adoption.

Key questions to ask your organization

1. Have we identified the resources and budget we need to support IFRS 17 compliance to ensure we are ready by 2022?
2. Recognizing IFRS 17 will be finalized in 2020, what ‘no regrets’ activities can we do now to lay the groundwork for compliance?
3. What is our plan for communicating the ramifications and impact of IFRS 17 to our stakeholders (e.g. board of directors, investors, customers)?
4. Beyond IFRS 17, are we fully aware of the other regulatory changes that will likely affect our organization (e.g. OSFI reinsurance guidelines)?
Building a future-forward workforce

63% of Canadian CEOs say their inability to find the workers they need is negatively impacting growth.

75% of Canadian CEOs want their employees to innovate without fear of failure.

With significant change on the horizon, CEOs both within and outside the insurance industry recognize that their current workforce will not be sufficient to fulfil their future mandate. While automation is expected to replace many repetitive tasks, organizations will require skilled people to take on the new responsibilities necessary to see innovative technologies and business models implemented, applied, and leveraged to their fullest extent. In fact, 79% of Canadian CEOs believe AI and robotics will create more jobs than they eliminate – a strong increase compared to 66% in 2018.

The key workforce risk for insurers will be not being able to find the workers they need to manage their innovation agenda, thus negatively impacting their long-term growth. Already, insurance companies are struggling to attract tech-savvy employees who tend to find tech companies and startups more attractive to work for than insurance companies or financial institutions.

The skills that will be critical in the future will likely be quite different than they have been historically. For example, data scientists, technology specialists, cybersecurity specialists, and transformation managers will likely be in much higher demand. Even existing roles will likely require broader skill sets in the future, including the ability to understand and leverage technology outputs and to conduct more critical analyses.

28 https://assets.kpmg/content/dam/kpmg/ca/pdf/2019/05/2019-canadian-ceo-outlook.pdf
29 https://assets.kpmg/content/dam/kpmg/ca/pdf/2019/05/ceo-workforce-4.pdf
How are Canadian insurers responding to the talent evolution?

To address their skills gaps, 44% of CEOs in Canada plan to upskill more than 40% of their staff in digital capabilities.\(^{30}\) This will likely help promote buy-in for new technology solutions and business models – although entrenched cultures could still be a significant barrier to long-term success. More than half (53%) of companies are also hiring new skills regardless of their future growth targets; this is a higher-risk move since hiring for talent in advance of knowing how best to use them could result in significant turnover for the skill sets that will be needed most in the future.

What can Canadian insurers do to create a future-forward workforce?

Given how the insurance industry is expected to evolve over the next decade, including the increasing integration and use of innovative technologies, Canadian insurers could easily find themselves with a workforce unable to meet future skill demands if they don’t proactively develop their workforce.

In order to reduce the risk of not keeping up with future workforce trends, insurers need to work to understand how their workforce requirements will change over time – what roles will be impacted, how workloads will shift, and how technology will support old and new roles in different ways. Workforce change cannot be conducted overnight, so insurers need to act now in order to put the building blocks in place to create a future-forward workforce. As a starting point, Canadian insurers should consider undertaking the following activities, if they are not doing so already:

- **Create a workforce strategy:** Develop a future vision and identify what the future workforce will need to look like in order to execute against that vision. The progress towards achieving a long-term vision will take time; different skills (e.g. collaboration) will be necessary as insurers shift from the predominantly task-oriented organizations they are today into the more outcome-focused organizations they will need to be in the future.

- **Identify workforce requirements associated with new technologies:** Automation, AI, and other technologies cannot be implemented in a vacuum. Organizations need to take the time to understand the skill-set requirements associated

### Workforce capabilities considered highly effective

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Technology specialists</td>
<td>73%</td>
</tr>
<tr>
<td>Data scientists</td>
<td>63%</td>
</tr>
<tr>
<td>Cybersecurity specialists</td>
<td>60%</td>
</tr>
<tr>
<td>Digital transformation managers</td>
<td>59%</td>
</tr>
</tbody>
</table>

\(^{30}\) https://assets.kpmg/content/dam/kpmg/ca/pdf/2019/05/2019-canadian-ceo-outlook.pdf
with new technologies – from the skills needed to train and monitor bots and ensure the robustness of data inputs to the skills required to understand and leverage technology outputs in ways that add business value.

**Create processes that will last beyond the honeymoon period:** There are always people who will be happy to create or implement innovative solutions like AI, automation, or smart data analytics. The challenge for insurers is being able to continue to harness the business value of such technologies after the initial excitement has faded away. To do this, insurers need to establish processes upfront and train affected employees in the day-to-day tasks associated with leveraging new technology solutions effectively. For example, training staff to understand, monitor, and report on ever-changing data insights.

**Instill a culture that is attractive to next-generation employees:** In addition to needing to attract skilled technology talent like data scientists and technology specialists, insurance companies should also recognize that their workforce of the future will be increasingly made up of the very customers they want to attract. Canadian insurers need to look at what these individuals want – not only from a customer service perspective, but also from a workplace perspective. By considering what type of work environment their future workforce is interested in, insurers can begin acting now to make the changes required to shift their organizational culture accordingly. Culture change can take a significant amount of time; by understanding where they need to move early, companies can begin moving in the right direction.

Workforce shaping is a challenge insurers are going to need to address as they increasingly use technology to do a lot of the transactional work and move their people to more analytical and agile roles. This is going to require a change not only in the skill sets that insurers look for, but also in terms of how they are set up and how they structure their teams.

**Zaid Hoosain**
Partner, Advisory Services,
Management Consulting
KPMG in Canada
**Shifting roles, shifting resources: Building the future of financial and actuarial operations within an insurance company**

### Increase time spent on these activities:

#### Run and control
- Core financial, accounting and actuarial acumen to run and control the operations and reporting
- Strong communication skills
- Ability to identify and embed continuous improvement culture
- Design and maintain the control framework

#### Build and change
- Design the overall data and systems architecture
- Design thinking
- Data modelling, analytics and visualization
- Model development, testing and maintenance
- Robotics / AI capability
- Effective program management

#### Plan
- Enable and support innovation and growth strategy
- Impactful storytelling
- Technical expertise to understand cause and effect (e.g. capital management)
- What-if modeling and scenario analysis across different metrics (e.g. dividend capacity)

#### Engage
- Knowledge of the business
- Effective communication
- Effective negotiation and influencing skills
- Provide insight to the business on the interventions required to change the performance
- Working closely with the business on pricing and reserving

### How? By defining capabilities for the future

**Become a true business partner**
- Build capability to drive data driven decisions that drive value
- Driver-based and forward looking insight
- Predictive and prescriptive analytics
- Data-driven capability
- An integrated design
- Strong data and systems foundation
- Leverage emerging technology
- Create capacity to do more for less through intelligent automation (IA)

### What does this look like for the workforce?

<table>
<thead>
<tr>
<th>Current</th>
<th>Future</th>
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</thead>
<tbody>
<tr>
<td><img src="chart.png" alt="Chart" /></td>
<td><img src="chart.png" alt="Chart" /></td>
</tr>
</tbody>
</table>

- **Current**
  - Strategic planning
  - Budgeting, forecasting and management information (MI)
  - Financial reporting
  - Actuarial reporting

- **Future**
  - Strategic planning
  - Budgeting, forecasting and MI
  - Integrated reporting (all metrics)
  - Value analysis and enablement

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Key questions to ask your organization

1. What skills will be most important to us as we transition into a future-forward organization?

2. How can we upskill our current employees so that they can be effective as the insurance industry in Canada continues to evolve?

3. What processes and organizational structures do we need to change in order to support our transition to a future-forward workforce?

4. How can we incent the shift to a more collaborative and innovative-focused culture where employees are not afraid to fail?
Embracing the new frontier

The Canadian insurance industry is standing at the edge of the unknown, with nowhere to go but forward. Myriad factors are driving insurers to rethink and reshape every aspect of their business – from the way their organization is structured to how they create and offer products that deliver value to their clients and customers.

Leading insurers are already looking strategically at how they can forge confidently into the future rather than be among those that will follow in their wake. When they look at the trends expected to reshape the insurance industry, they are not only considering the risks – they are envisioning the unparalleled opportunities.

Here in Canada, the transformation journey is just beginning. The question insurers need to ask is, “Where do we want to go from here?”

What advice does the next generation have for the Canadian insurance industry?

KPMG works with The Knowledge Society (TKS) – an accelerator program geared toward giving young people the opportunity to help solve global problems. We asked students working on insurance industry projects at TKS for their opinions on what Canadian insurers could be doing differently. Here’s what they said:

**Make communications easy and relatable**

“A lot of Millennials and Gen Z just don’t have the financial or insurance literacy to understand what’s out there. Insurers need to simplify how they communicate.”

“Insurers need to be more relatable. One thing I learned from my project was that life insurance when considered across 10 years costs less than an average cup of coffee. This is the kind of information Millennials can relate to.”

“Millennials and Gen Zers are the most uninsured generations ever. We gravitate to online platforms, though – if you make an easy to use and engaging platform, we’ll follow.”

“Most Millennials simply aren’t thinking about insurance – they’re thinking about things like student debt. Insurers need to show how insurance fits in their life and with their current priorities.”
Create customer experiences – when and where we want them

“Insurers should consider partnering with, and bundling insurance protections into their products and services, and use this partnership to create a customer experience that younger generations can relate to and get excited about. For example, car rental insurance is embedded with many credit cards. However, many consumers may not be aware of what is covered. Insurers could intelligently use the credit card data, to reach out to customers with a quick push notification about the insurance protection that they already have as soon as they detect that a customer is taking a rental car.”

“Insurers should look at ways to be more interactive – like using apps to exchange information or IoT devices so people can understand their risks better.”

“Change the focus to: ‘Insurance is bought – not sold’.”

Figure out how to manage and use data – it’s the key to getting everything else right

“Data is the first problem. Tech is only going to work if you have good data.”

“Data is becoming more and more important. There is a lot that insurance companies could do to improve how they manage their data. They could be a lot more efficient.”

“Data is one of the biggest issues for people working with clients. If insurers want their people to be successful, they need to support them properly.”

“Big data will be really important in the future. Insurers need to look at how to get unstructured data from social media and the like. If they can figure out how to use this data, they’ll be able to create more relevant products and services.”

There’s a lot of low hanging fruit – don’t miss out on it

“Making small processes more efficient is a good place to start. For example, scraping through records could easily be done through RPA. These types of activities can be done quickly and even built on top of existing legacy systems.”

Think outside the box about climate change risk

“Climate change is a growing financial risk for insurers. Yet, insurance companies are among some of the largest asset managers. It would be interesting to see them investing in assets and projects that mitigate climate change, aligning their investments with enhancing protections for their clients.”

Millennials and Gen Z are more than customers – they are your future workforce

“I want to know that the work I do makes a difference.”

“I want to know that my ideas will be valued.”

“I want to work in an environment where I can learn how to improve and understand what I need to do to grow. That’s not as easy as it looks. One of the biggest problems with performance management is that a lot of people don’t get really good – useful – feedback.”
Everyone talks about the upcoming disruption, but no one can pinpoint when, where, and how disruptive everything will be. Insurance companies need to be aware, diligent, and focus on building a resilient company that can withstand and embrace disruption no matter when and how it comes.

Chris Cornell  
Partner, National Insurance Sector Leader  
KPMG in Canada
Call to action: Questions to ask yourself in the next 12 months

Are we ready...

For the seismic shift in customer dynamics?
How can we get to know our customers’ needs and wants better?
How can we change or expand our products and services to enhance flexibility and address short-term needs?
What proactive and preventative services can we offer or inform our customers about that would help protect them and/or help them reduce the impact of an insured loss event?
How can we use technology to make it easy for our customers to choose our products or services and to interact with us?
How can we become more proactive in informing our customers of new risks, opportunities, and policy or product changes?
How can we manage our data effectively in terms of usage, privacy, and security?

For strategic alliances and partnerships?
What are our innovation ambitions?
Are we on the strategic course to be a trailblazer of new ideas, a fast follower, or do we just want to keep pace?

For business model disruption, innovation, and technology change?
What will our organization need to look like (e.g. structure, products, channels) in order to be successful in the future?
How can we adjust our internal processes and structures to support the creation and implementation of innovative ideas and solutions?

For game-changing regulations?
Have we identified the resources and budget we need to support IFRS 17 compliance to ensure we are ready by 2022?
Recognizing IFRS 17 will be finalized in 2020, what ‘no regrets’ activities can we do now to lay the groundwork for compliance?
What is our plan for communicating the ramifications and impact of IFRS 17 to our stakeholders (e.g. board of directors, investors, customers)?
Beyond IFRS 17, are we fully aware of the other regulatory changes that will likely affect our organization? (e.g. OSFI reinsurance guidelines)

To build a future-forward workforce?
What skills will be most important to us as we transition into a future-forward organization?
How can we upskill our current employees so that they can be effective as the insurance industry in Canada continues to evolve?
What processes and organizational structures do we need to change in order to support our transition to a future-forward workforce?
How can we incent the shift to a more collaborative and innovative-focused culture where employees are not afraid to fail?
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