Empowered for the future

Insurance reinvented

KPMG International

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Transformation is the continual evolution and alignment of …

— an enterprise's strategic and financial objectives

— its business, operating, functional, and human capital models

— its ability to deploy change and adapt within continually evolving external environments.

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Foreword

Insurers have been trying to 'transform' their organizations for decades. First it was to implement big enterprise systems. Then it was to respond to the internet. Now the industry is focused on digitization and customer-centricity. With so much time and effort put into transformation, why has so little changed?

Transformation is difficult, disruptive and time consuming. And most of the time, transformation initiatives fail to achieve their objectives. It's no wonder that many insurance executives have banned the word from their vocabulary altogether.

But whether or not you call it a 'transformation', what is clear is that insurers understand the urgent need to reinvent themselves. They have the ambition to make transformative changes. And they have the data and methodologies required to execute discrete transformation initiatives across their businesses.

The problem is that — for insurers to truly 'reinvent' their businesses — they will need much more fundamental changes to their business models and their operating models than ever before. Success in the insurance industry of the future will not come from simply tweaking the status quo, insurers will need to change virtually every part of their business if they hope to not just survive, but thrive.

To learn more about the specific challenges and opportunities insurers face as they work to reinvent their businesses, KPMG International surveyed more than 70 insurance executives, from the largest organizations around the world. We asked about their recent transformation initiatives, their existing capabilities and their biggest risks and barriers. As well, we asked our network of KPMG professionals to provide their perspective on the data.

What we found was that insurers are well aware of the challenges they face in reinventing their organizations. Many readily admit that they are failing to get the full value from their transformation initiatives. And most tell us that they lack some of the capabilities required to drive change on the scale now required.

However, the data also indicates that insurers have significant capabilities and advantages that could be leveraged to improve the transformation journey. In addition, it shows that insurers are increasingly taking ideas, approaches and even talent from other sectors to help improve the effectiveness of their transformation.

At KPMG, we believe that successful transformation requires changing the way business is run and how decisions are made. This commitment may involve changing the governance structure and decision-making one level below the board. It definitely requires changing how line executives operate, from the setting of new objectives and roles, through to the realignment of goals and incentives.

We hope that this publication provides insurance executives with new insights, practical advice and — most importantly — renewed confidence to boldly move ahead with their transformation agendas. To learn more about the data or the findings in this report, we encourage you to contact your local KPMG member firm.

Gary Reader
Global Head of Insurance

Mary Trussell
Global Insurance Innovation and Change Lead Partner

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Digital, disruption and consumer demand

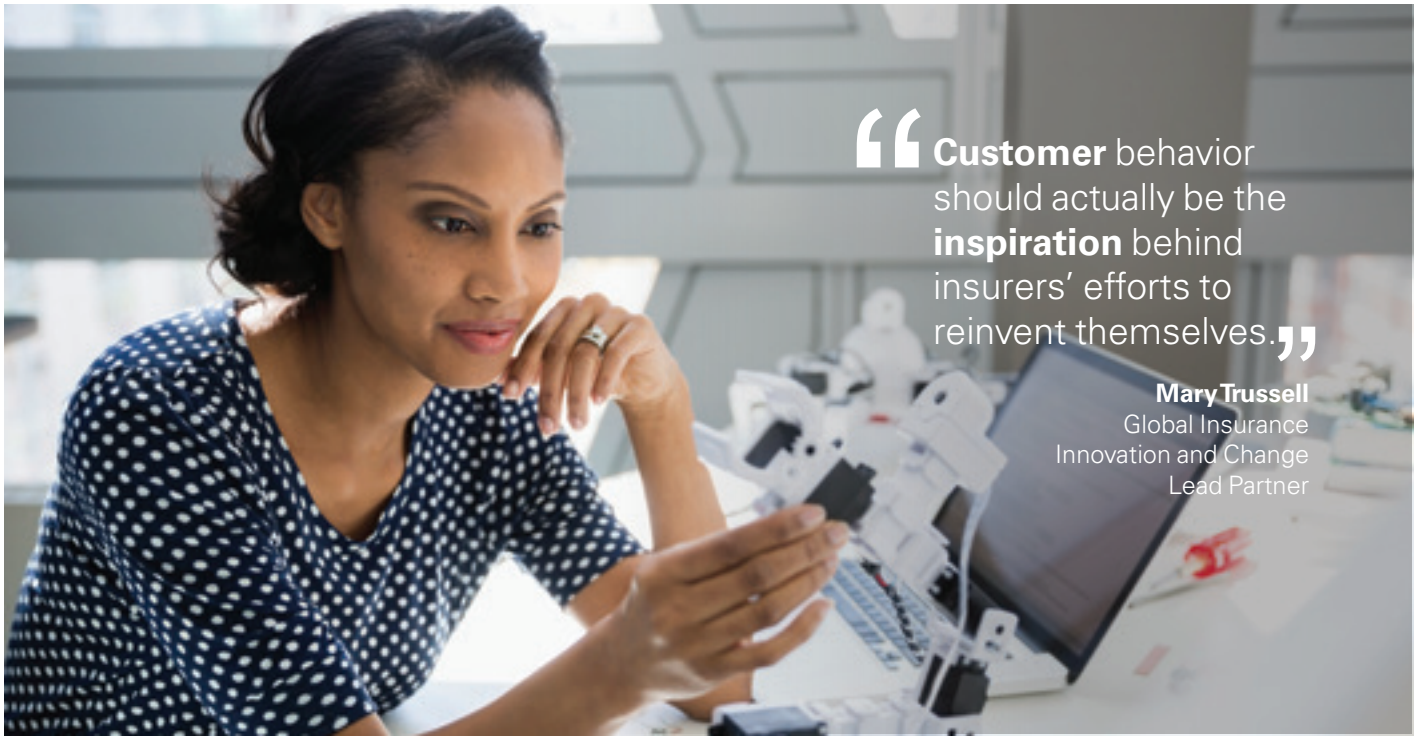
Insurers are no strangers to change. Even so, the past decade has been fairly tumultuous: new and more stringent regulatory requirements, changing customer demands and expectations, increasing competitive pressures and disruptive technologies and business models are all combining to create an era of unprecedented change for the insurance sector.

According to our survey, insurers expect to face a range of highly disruptive pressures on both their business models (which impacts 'where' they play in the market) and their operating models ('how' they play in the market).

Not surprisingly, the potential sources of disruption are broad and varied in the minds of insurance executives. More than a third said that government policy or enforcement agendas will disrupt their business models over the next 3 years. Another 30 percent said they will need to change their operating models in order to balance the pressure for new growth against the reality of shrinking budgets.

Interestingly, while many organizations seem to talk about the need to become more 'customer-centric', just less than one-quarter of respondents expect their operating model to be disrupted by changes in customer behavior. "We would argue that customer behavior should actually be the inspiration behind insurers' efforts to reinvent themselves," argued Mary Trussell with KPMG in Canada. "The fact that less than a quarter expect to be disrupted by changing demographics and preferences suggests that insurers may not have their eyes on the ultimate prize."

Top business model disruptor	Top operating model disruptor
Need to comply with government policy/enforcement agenda	Need to balance growth with shrinking budgets and increased efficiency



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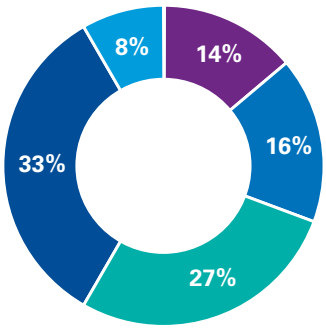
Faced with massive and fundamental changes in the business environment, most insurance organizations have rushed to 'transform' their organizations. More than a quarter of all respondents said they had started a major transformation initiative within the past 2 years and a third said they had recently completed a major transformation. Eight percent boasted that they had completed several change initiatives recently.

"Insurers have certainly undertaken initiatives that could broadly be considered 'transformational' over the past few years, but there is a big difference between conducting a transformation initiative and actually achieving a transformational outcome," noted Louis Régimbal with KPMG in Canada. "Regardless of whether you call it a 'transformation' or not, the reality is that insurers will need to achieve change at a much more fundamental level if they hope to reinvent themselves for the future."

Where is your organization on the business transformation continuum?



- Assessing the need for a business transformation initiative
- Planning a business transformation initiative
- Started the implementation of a business transformation initiative (within past 2 years)
- Completed at least one major business transformation initiative (within past 2 years)
- Have completed several major business transformation initiatives (within past 2 years)

Source: Global transformation study, KPMG International, 2016

KPMG insight

Assessing the need for change

By Thomas Nodine, KPMG in the US

New disruptors have emerged and are already starting to steal away significant market share from traditional players, often by proving they understand customer preferences better than the traditional insurers.

When we work with insurers, we often start by helping management assess and calculate how much of their current business may be 'at risk' over the next 5 years. It isn't easy and much depends on the particular business or market. Driverless cars/accident-free cars, for example, will have a massive impact on the book of business for a property and casualty carrier and a smaller (yet still significant) impact on life insurers and reinsurers.

But once management is able to come to a collective view of their 'at risk' business, we often find that executives are much clearer about the need to change. Indeed, that is when it really becomes a 'blood and guts' part of the business' survival.

Case study

Identifying opportunities for growth

With clear ambitions for growth, this global insurer wanted to make better decisions about its investments into channels, products and processes. The organization wanted to achieve end-to-end transparency into their costs and revenues, leveraging their existing customer experience insights and lean programs to create clear, actionable recommendations.

Supported by KPMG's network of insurance industry professionals, the organization deployed a standardized and pragmatic cost allocation approach that provided cost allocation guidelines, standardized reporting formats and ratio analysis models and a full end-to-end service profile that reflected the organization's core business processes.

Based on these insights, the insurer was able to identify cost opportunities representing more than 5 percent of annual revenues and opportunities for realignment of their strategic change portfolio.

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In their words

An interview with Peter Roschke, AXA

Putting the customer at the heart of transformation at AXA in Asia

With many insurers now focused on becoming more 'customer-centric' as a way to drive growth and increase value, we spoke with ***Peter Roschke, Regional Chief Transformation and Customer Officer at AXA in Asia*** *where the vision is to become 'the most customer-centric insurer in Asia, and by 2030 serve 100 million customers.*

How is this theme of 'customer-centricity' influencing the transformation agenda at AXA in Asia?

Our vision of becoming the most customer centric insurer in Asia and reinventing the customer experience really drives all of our transformation objectives and activities. We are running a broad set of projects across multiple portfolios but all with that vision in mind. Virtually every transformation decision we make — from the shape of the internal organization and how we operate through to what IT systems we use and what distribution strategies we activate — ultimately needs to respond to that end goal of delivering our vision.

Has that shift disrupted the operating and business model for AXA?

I think things that people used to assume were true about the business model are no longer true and that is driving massive change. The notion of having an ongoing relationship with a customer is now actually quite realistic for insurers. The flow and conversation back and forth between companies and customers is now much easier and that allows insurers to be more proactive, more collaborative, anticipate their customers' needs and ultimately move from being a provider of risk transfer solutions to instead become a collaborative partner in the mitigation and prevention of risk.

Does that approach influence the way you conduct transformation initiatives at AXA?

It does. I think every insurer going through a transformation thinks about the data and technical expertise that is required. And I think they strive to create more agile and flexible organizations. But we start with an over-arching desire to deliver a superior customer experience and that really remains first and foremost in our minds as we move through our projects.

How important is agility in driving a successful transformation initiative in the insurance sector?

I think there is a lot of talk about 'agile' as an IT implementation method but where I think agility is really important is on the business and operations side. You really need to have an approach that allows you to implement something relatively quickly, see how it behaves, and have the people and processes in place to react. You need to have smaller, nimbler teams that are funded on an ongoing basis — not just an end-to-end project basis — who can evolve the capability, see how customers are responding and make changes as a result.

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> The notion of having an **ongoing relationship** with a customer is now actually quite **realistic** for insurers.

Asia is a very diverse region and customer preferences change from market to market and country to country. How does this influence the way ideas are generated and integrated across the region?

One of the most exciting things about the Asia region is its diversity and my view is that we essentially have 16 highly innovative, highly engaged entities — that are keen to develop customer solutions in different markets and under different conditions. And many of those ideas and experiences have significant value for other parts of the Group. We have a regional transformation team that works closely with local transformation teams to share ideas, solutions and often, even talent, in order to bring great ideas to the wider Group. We work hard to attract the right talent with a collaborative mindset to allow good work to be replicated quickly and cost-effectively. This diverse culture of inclusion, innovation and trust we foster, enables us to build strong teams to drive mindset change.

Are there technical challenges with integrating those ideas and capabilities into the Group?

Over the past five years, we put significant effort into creating a strong centralized core in Asia with a common set of administration systems and common practices that has provided us with a very strong platform upon which to drive future growth across the region. And we did this while also achieving our 5-year goals of increased delivery in earnings across both our lines of businesses in the region. It was a massive accomplishment but also one that shows our vision is strong and our ability to grow through disruption is resilient.

Peter Roschke
AXA in Asia

Working toward AXA Asia's ambition to become the customer centric-insurer in Asia, and serve 100 million customers by 2030, Peter is overseeing the ongoing transformation of the organization that encompasses a range of initiatives across multiple fronts, including technology, people, processes and culture. His role also involves the management of a large number of teams that include project managers, change management experts and customer experience professionals across different entities in the region.

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Recognizing the challenge

Most insurers want to reinvent themselves. As John Geyer, Senior Vice President of MetLife's Innovation Program noted in an earlier KPMG publication, "Our leadership has their eyes wide open about what is at stake here. And we firmly believe that — if somebody's going to disrupt our industry — it might as well be us."[1]

According to our survey, many insurers also consider themselves to be 'early adopters' or even 'innovators' of business transformation. Less than a quarter of all insurance organizations in our survey admitted being either part of the 'late majority' or 'laggards' when it comes to transformation.

"The incumbent insurance companies are now in an epic race to transform themselves to avoid becoming disintermediated by new digital competitors," noted Tom Nodine with KPMG in the US. "There's a possibility that a number of major insurance names we know today may not be here in 10 years."

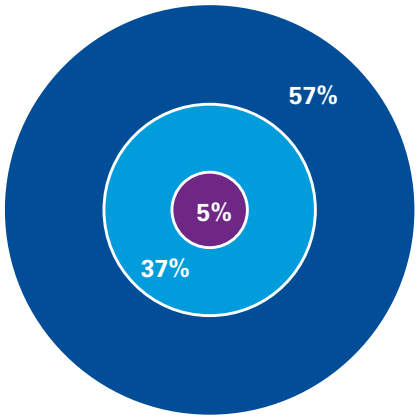
Many insurers seem to believe they possess some of the skills and capabilities required to reinvent their organizations for the future. In fact, 63 percent said they were either capable or highly capable of designing a robust target operating model. And six-in-ten suggested they were capable of driving continuous improvement in their newly-implemented model.

> "**63%** of respondents say they are **capable** or **highly capable** of designing a robust target operating model."

Somewhat tellingly, more than half (53 percent) of our respondents said they were capable of achieving short-term transformation wins. "Insurance organizations are, on the whole, — rather good at tweaking, monitoring and improving their business and operating models. Insurers can often be very keen to optimize the sub-optimal and reiterate the process" noted William Pritchett with KPMG in the UK. "But when it comes to enterprise-wide strategic change — the type that truly leads to companies being reinvented — it takes a much broader view and a much more strategic approach than most insurers have needed for past initiatives."

Not surprisingly, therefore, our data also indicates that few insurers are confident they are achieving full value from their change initiatives. When asked how they would rate their organization against an 'ideal' transformation that led to new, sustainable, value-creating business models and an efficient, agile operating model, just 5 percent said they were 'close to ideal'. More than half (57 percent) admitted they were either 'not ideal' or far from it.

Asked to rate outcomes of business transformations at their organizations, respondents replied:



- Not ideal or far from it
- Between ideal and not ideal
- Close to the ideal

Source: Global transformation study, KPMG International, 2016

"Because the first human instinct is self-preservation, organizations naturally seek to preserve the people, processes and tools that led to past successes," noted Tom Nodine with KPMG in the US. "It can be politically risky to question their relevance for the future and difficult to make necessary changes based on new information."

Many seem to feel they are not seeing sufficient value from their change initiatives. More than half of the insurers in our survey said that they are not capable of extracting and maintaining value from their business transformation initiatives. And more than a quarter said they failed to achieve the value they expected from their last transformation initiative.

[1] *A new world of opportunity: The insurance innovation imperative*, KPMG International, 2015

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KPMG insights

Becoming a circle in an era of triangles

By Simon Phipps, KPMG in Hong Kong

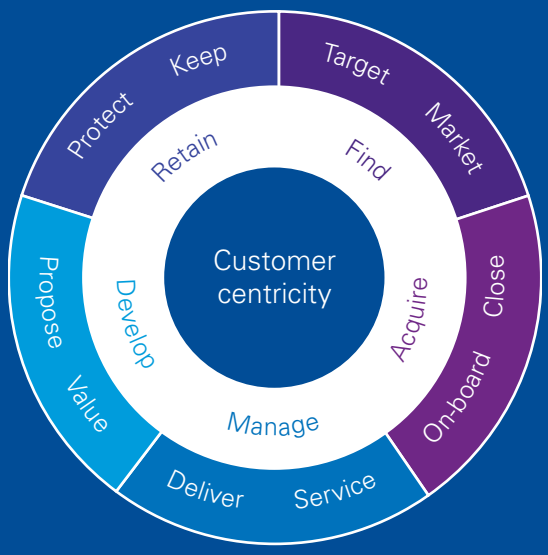
There is little point wasting valuable resources in transforming your business from a triangle to a square if what the market really wants is a circle. Yet one of the main reasons that organizations fail to get value from transformation initiatives is that they are trying to transform into the wrong thing.

Our experience suggests that, all too often, insurers either fail to properly assess what their future state should look like or, they fail to adjust their vision of the future state and the steps needed to get there, as the world around them changes. This is often because companies are too focused on achieving specific outputs (such as the current hype around digitalization or, cutting costs) rather than outcomes (such as the delivery of a truly differentiated customer experience or improving value of new business premiums and customer life value). It can also be because insurers have focused on implementing a specific technology, rather than addressing a specific business challenge (e.g. the outcome new technology is intended to achieve, with technology appropriately positioned as simply the 'business enabler').

Smarter companies benefit from spending more time early on thinking through what they really want to become and what change outcomes they really need. This clarity makes it much easier to rationalize their change portfolio and reduce the huge opportunity cost of trying to do too many things, allowing them to de-clutter the noise and 'pet projects'. These days, changing the business doesn't always need to involve large, complicated programs with huge costs, as long as leadership teams are able to think and act in more agile ways. The right controls and monitoring processes also need to be put in place to ensure that, when things change in the marketplace, they are able to pivot their change portfolio quickly.

Today, the stakes for insurers could not be higher, nor the opportunities better, as *"the industry is going to see more innovation in the next 5 years than it has seen in the last 50."*

Customer centricity — Value cycle



Source: KPMG International, 2016

Getting full value from your change initiative

By Andrea McNeill, KPMG in the UK

As John Kotter famously noted in 1998, about 70 percent of change initiatives fail. Our experience suggests that companies that do not manage the people impact of change effectively are placing up to 60 percent of their transformations' benefits at risk.

The fact that 42 percent of insurers in this survey said they lack the change management acumen required to achieve the objectives of their transformation strategy is worrying. Change management does not just enable organizations to achieve their transformation objectives. It also provides enhanced benefits such as reduced disruption to the organization, a more resilient and adaptable workforce and overall de-risking of future change.

Change management is a pragmatic and iterative process and requires a proactive and structured approach that address the people risk inherent in any business transformation. As a result, we believe incorporating a behavioral change methodology will help get organizations, leadership and employees willing and able to deliver the desired benefits from the change. It is far too important to ignore.

Analyze the impact of the change and the associated organizational and cultural risk and readiness implications to create and identify the required actions.

Engage stakeholders with targeted communications, involvement strategies and alignment efforts to create buy-in, ownership and understanding of the change among the various audiences being impacted.

Deliver results by proactively addressing and mitigating resistance to prepare affected stakeholders for the new ways of working to ensure effective and sustainable realization of business value.

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Seeing the bigger picture

While insurers may feel fairly confident in their ability to change their operating models, most also seem to recognize that they may lack some of the core capabilities required to achieve and sustain value from their transformation strategy.

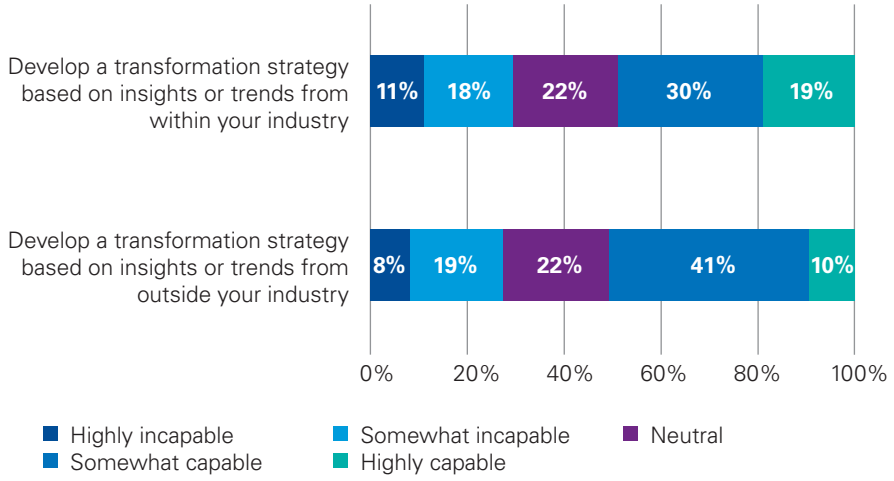
Some are facing challenges creating the right business strategy and envisioning the optimal 'future state' for their organizations. More than half said they do not have the capabilities required to conduct ethnographic research, which can be highly valuable when looking for new insights into customer behavior and expectations. An almost equal number said they lack the capabilities to develop a transformation strategy based on insights gathered from inside or outside of the industry.

"Depending on the size of the organization and scope of change, insurers may not need deep in-house sophistication in these areas. Some may prefer to tap into external resources for activities such as customer analytics or to uncover new insights and ideas from inside and outside of the organization," noted Paul Merrey with KPMG in the UK. "The concern should be less about who is providing those capabilities and more about ensuring you are getting a realistic and fresh external viewpoint."

Most insurers also admit they may lack the change management and transformation skills required to truly reinvent their organizations for the future. As Mark Inkster, Chief Digital Officer at Aegon Asia notes in our Q&A with him on pages 10 and 11, "There is a big difference between the skills needed to encourage digitization and those needed to guide a successful transformation. You really need a strong change management capability and that might come from inside the business or it may come from other industries that are also characterized by large, slow-moving organizations."

According to the survey, just 47 percent said they were able to organize their transformation strategy into a portfolio of interdependent initiatives. And 42 percent said they lack the change management acumen required to achieve the objectives of their transformation strategy.

"In order to truly reinvent the business, insurers need to be able to look across the organization to understand all of the interdependencies and then bring a robust change management capability to bear to ensure that all of the initiatives align to achieve their future state vision," said Soula Courlas with KPMG in Canada. "Taking a portfolio view of your transformation allows organizations to pull multiple levers at once, finding the right combination for their organization and objective."



Source: Global transformation study, KPMG International, 2016

> "**42%** of insurers say that their **lack** of change management acumen is a barrier to **successful** transformation."

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KPMG insights

The nine levers of value

By Louis Régimbal, KPMG in Canada

When we work with insurers to help define their future state business and operating models, we often walk executives through our '9 levers of value' perspective. This approach facilitates a holistic view of the organization, allowing executives to understand both scope of transformation envisaged and relative impacts of the organization.

The process starts with a review of the organization's financial performance targets and an evaluation of the potential market, proposition, brand and client options.

Core business processes such as product development and management, business development, client service models, communication and operational processes are reviewed and aligned between the business model and the operating model.

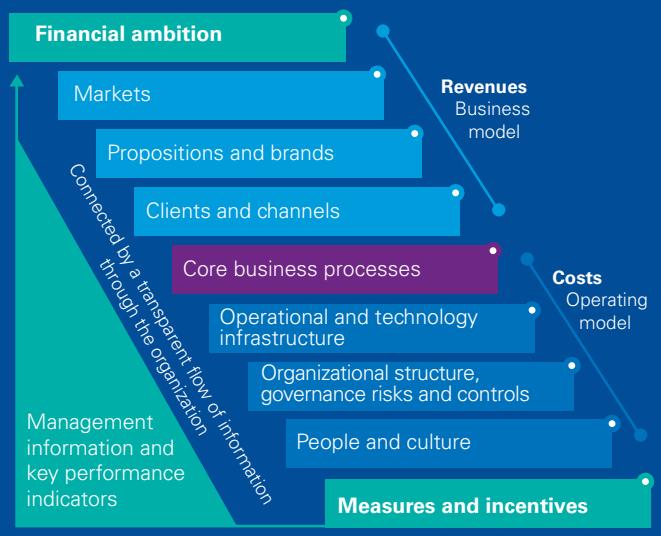
The 9 levers of value also put emphasis on the operational and technology infrastructure, organizational structure and governance, and people and culture to ensure that the delivery of propositions and the management of clients is cost effective and efficient. Incentives and measurement are then aligned to the business and operating models.

No two companies pulls the levers in the same way or in the same combination. However, each lever is critical to consider and to adjust. Insurers will need to understand how each lever influences their change agenda and create their strategy accordingly.

Nine levers and questions to consider

1. **Financial outcomes, structuring, investment and capital allocation**: What are the 3–5 year financial and strategic objectives and key indicators?
2. **Markets**: Does the current portfolio of businesses maximize likelihood of attaining performance targets and strategic objectives?
3. **Propositions and brands**: How should the portfolio of propositions and brands evolve over time to deliver on financial and strategic objectives?
4. **Clients and channels**: What changes to the operating model can enhance customer/channel performance?
5. **Core business processes**: What are our priority business processes to deliver the financial outcomes and a high-performing business model?
6. **Operational and technology infrastructure**: What are the priority infrastructure and technology elements that will be required to enable the target business model?
7. **Organizational structure, governance, risk and controls**: Do we have proper oversight in place to drive the desired outcomes and respect our fiduciary responsibilities?
8. **People and culture**: What leadership is required to drive the transformational change and support the desired culture and behaviors?
9. **Measures and incentives**: What will you measure to monitor progress on strategy, identify issues and enable action where required?

The 9 levers of value methodology



Source: KPMG International, 2016

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In their words

An interview with Mark Inkster, AEGON

In their words: Digital transformation at Aegon in Asia

*As insurers around the world start to reinvent themselves through 'digital transformation', we sat down with **Mark Inkster, Chief Digital Officer at AEGON's Asian** operations to talk about the opportunities and challenges of driving digital through the insurance sector.*

What does the term 'digital transformation' mean at Aegon?

People tend to talk about digital transformation in very broad ways, which can lead to disagreement on what the term means, even within the same company. I look at digital as bringing a natural and fairly predictable set of changes to the insurance industry, not a revolutionary one. The challenge is not so much in predicting the changes as it is in transforming the organizations to make those changes happen. New processes, skills and ways of working are required, and this is the hard part. Peoples' jobs change, and the things that made them successful in the past won't always work in the future. New departments, such as digital marketing, are formed, generally with different cultures than exist in more traditional parts of the organization, and these new groups can drive substantial revenue. The transformation comes through the implementation.

Is the insurance industry generally aware of the urgent need for digital transformation?

The insurance industry is going through digital transformation much later than most other industry sectors. The travel industry and even parts of the mutual fund industry were already starting to transform 20 years ago. What that means is that insurance executives have had the benefit of watching digital transformations unfold for two decades and, as a result, they are probably better prepared than their peers in other sectors were in the past.

Many insurers suggest that regulation creates a major barrier to digital transformation. Do you agree?

On the one hand, I think regulation has actually allowed the insurance industry to undertake this transformation a little slower because startups, which are usually key change agents, can find it hard to navigate the regulatory environment. But I think regulation has also reinforced an industry culture that is, appropriately, relatively cautious, and which does not always align with the culture that you would find in a digital transformation team. Insurance is not an industry that lends itself to the 'go fast break things' type of approach that is so prevalent in digital startups.

The value of passionate and dedicated leadership is often cited as an important factor in driving successful transformation. How does Aegon build support and consensus within the leadership team?

I wholeheartedly agree that leadership is critical and that insurers need some top-down guidance to drive change. It's also important to create a common sense of purpose and urgency within the leadership team so that everyone knows what we are doing and why. We recently brought 80 of our most senior global leaders together in Silicon Valley to discuss digital transformation with some fascinating technology leaders. That initiative gave us common perspectives and language which, in turn, has helped accelerate several of our initiatives.

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> You need a **strong** change management capability, and that might come from inside the **business** or it may come from other industries.

Are insurers lacking any specific capabilities and skills necessary for digital transformation?

Specific digital skill sets, such as search engine marketing or web analytics, may need to be brought in from parts of the industry that have already digitized or from other sectors where they are fairly common. But there is a big difference between the skills needed to execute digitization and those needed to guide a successful transformation. You really need a strong change management capability, and that might come from inside the business or it may come from other industries that are also characterized by large, slow-moving organizations.

Do you face challenges in integrating new ideas and new skill sets into the insurance sector?

The biggest challenge is finding the right degree of separateness for the different elements. Some initiatives need to be run completely separate from the existing businesses, while others may need tighter connections within the organization and still others will need loose couplings. It's not one size fits all, and it needs to evolve over time. So, for example, if you are trying to create digital marketing capabilities, you may want to keep that separate from your traditional marketing group for some time to protect the new ideas and their unique ways of working but, in time, you will need to integrate them back into the core. So you really need to start by getting those degrees of separateness right.

Mark Inkster
AEGON in Asia

Mark has built digital businesses globally since the late 1990's. As director of international operations at Yahoo!, he led the global rollout of Yahoo!'s full suite of communication, media and e-commerce properties. Mark moved to Asia in 2002 as vice president of Yahoo!'s search business for the region, later joining e-Bay China as chief product officer. He founded a Shanghai based travel startup in 2006 and was a founding member of AngelVest, the leading investment network in China. In 2009, Mark became Southeast Asia managing director for Microsoft's online business services, before joining Vistaprint as President in Asia. Marked joined AEGON in 2014.

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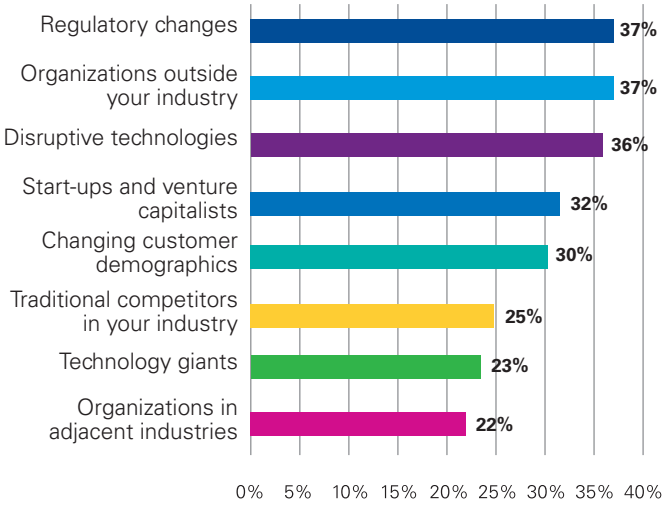
Getting past the road blocks

To be fair, insurers may face more barriers to change than other sectors and industries. One massive perceived barrier is regulation. In fact, more than a third (37 percent) of our respondents said that the potential for regulatory change represented a major threat to achieving their transformation objectives.

Interestingly, more than a third of our insurance respondents said that either disruptive technologies or disruption from organizations outside of the insurance sector also posed major threats to their transformation agendas.

Perceived as the greatest threats to organizational transformation objectives



Source: Global transformation study, KPMG International, 2016

"This reinforces the need to be able to pivot and adjust your transformation strategy as the market changes," noted Simon Phipps with KPMG in Hong Kong. "Organizations that are looking 5 to 10 years out with the right vision, the right future state business model and a flexible approach to transformation should be able to adapt to disruption and still achieve their objectives."

Our interview (pages 4-5) with Peter Roschke, Chief Transformation and Customer Officer at AXA in Asia, reinforces the value of having a strong vision and flexible approach. "Our vision of becoming the most customer-centric insurer in Asia really drives all of our transformation objectives and activities," he noted, adding that to succeed, "you really need to have an approach that allows you to implement something relatively quickly and see how it behaves."

As insurers shift toward digital environments in order to enable their future state models, many are also finding that their technology architectures are creating significant barriers to change. Thirty-seven percent of respondents said that their legacy technology infrastructure and systems were slowing their change initiatives.

"Technology has evolved to a point where new insurance organizations can be virtually 'stood up' in a matter of weeks using almost no physical infrastructure and renting everything from servers through to customer interfaces," notes William Pritchett with KPMG in the UK. "This technology is not reserved for start-ups and disruptors. Traditional insurers can also leverage

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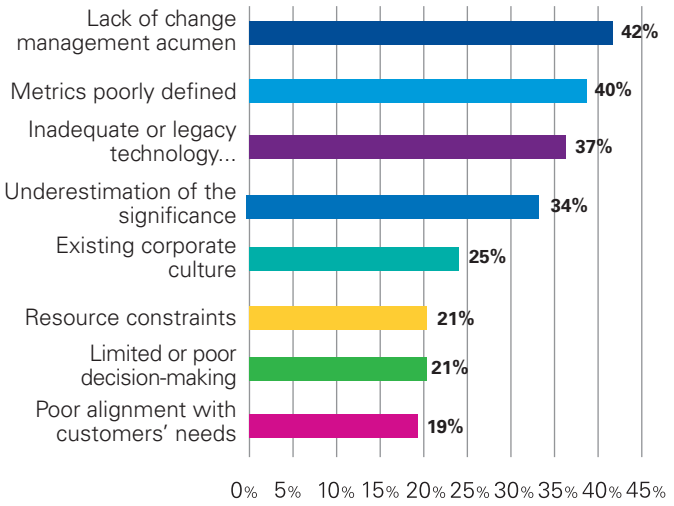
these tools and approaches to create a new value proposition in the market with little capital investment and fairly low risk." In fact, 40 percent of survey respondents said they look at cloud-based solutions as both drivers and enablers of transformation.

Perceived as the greatest barriers to a successful business transformation initiative



Source: Global transformation study, KPMG International, 2016

Insurers cited a number of other major, and likely common, barriers to achieving their transformation agenda. A significant number (40 percent) admitted that their performance metrics were either too poorly defined, analyzed or reported to allow them to demonstrate how their results aligned to the business objectives. More than a third also said that they underestimated the significance of the operating model changes that would be required to reinvent their organizations.

> "**40%** of survey respondents said they look at cloud based **solutions** as both drivers and enablers of **transformation**."

KPMG insight

Putting people first

By Soula Courlas, KPMG in Canada

There are always three legs to the transformation stool: people, processes and technology. Unfortunately, most organizations tend to focus on the processes and technology and underestimate the people requirements. And that is when the stool tips over.

People are a critical component of change and central to insurers' efforts to reinvent themselves. From frontline agents and brokers through to actuaries and back office administrators, everyone must be engaged and empowered for the realities of the 'new' organization.

This can't be an afterthought. It must start at the very beginning when the vision is being set and the implications of the strategy can be assessed and key stakeholder groups can be identified. It's reverse engineering. Start with the end-state in mind, what you want to achieve and who will be impacted by the change. Then, make sure you have a smart strategy that makes sure your people are being properly empowered to get the full value from that change.

Case study

Preparing for digital health

Recognizing the ongoing shift toward-e-Health and wearable devices, one of Europe's largest health insurers wanted to assess their existing digital capabilities and understand how evolving customer preferences would impact their future capability mix.

Working with KPMG, the insurer worked to assess their digital maturity, leveraging KPMG's Digital Maturity Assessment methodology. The team then mapped their methodology to the customer experience pathway, allowing the organization to describe their required capabilities across more than 20 different categories.

Ultimately, the insurer was able to define their optimal digital ecosystem, design the future state model for their IT organization, assess the impact of electronic patient information (such as electronic medical records) and develop a robust digital roadmap for the next four years.

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Looking for new ideas

If you are going to reinvent insurance, you can't look at what your competitors are doing. You need to look outside of the status quo.

Take, for example, the lessons that can be learned from the evolution of the 'sharing economy' (something that 21 percent of respondents said would disrupt their operating model), or the experience that could be gathered from the retail industry's 'omni-channel' strategy. According to our survey, insurance executives are keen to gather new ideas, technologies and inspiration from outside of their organization.

Perhaps not surprisingly, given the high focus across the industry on becoming more customer centric, insurance executives were most likely to say they were looking at customer demographics and insights as a way to help define their business transformation strategy.

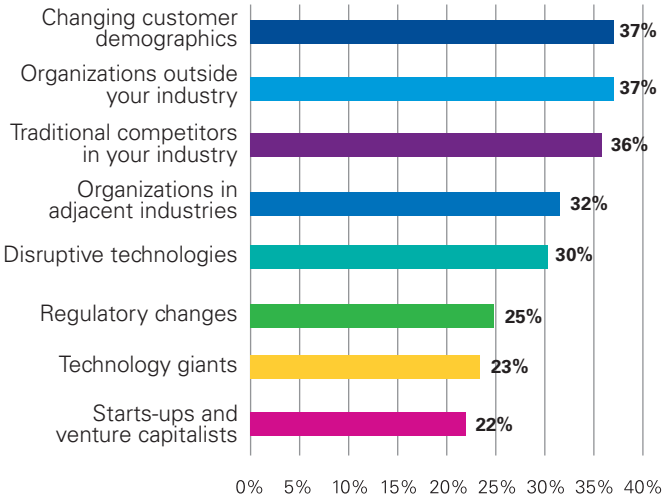
"There are lots of tools and processes you can use to encourage customers and employees to generate new ideas that impact the business," noted Susie Quirk with KPMG China. "When it gets really exciting is when insurers use tools like crowdsourcing and social media platforms, because they help establish the types of behaviors and the collaborative approaches that organizations want to encourage."

At the same time, around a third of our respondents also noted that they were watching organizations outside of their sector, in adjacent industries and those with disruptive technologies in order to find inspiration and ideas that may help them reinvent their organizations.

"What's important is to bring in lots of people with different views that take you out of your comfort zone," noted Paul Merrey with KPMG in the UK. "Some organizations might hire in an executive from a consumer-facing industry like a retailer to set up and lead their customer strategy, others may work with agencies, advisors, suppliers and consultants or attend industry events to uncover new ideas; the point is to find ways to compete with other leading organizations, not just other insurers."

Our survey suggests that insurance executives increasingly view technology as not only a catalyst to change, but also as an enabler of transformation. Forty-seven percent said that new mobile platforms and apps were forcing change in their businesses and also creating new opportunities for transformation. Forty-five percent said the same about social networking and collaboration. It's not surprising that 41 percent also see data and analytics as both driver and enabler.

Perceived as the most influential source of insights and trends for a business transformation strategy



Source: Global transformation study, KPMG International, 2016

However, the same data also suggests that some insurers may be missing emerging opportunities to both catalyze and enable their change initiatives. A third of respondents said they did not think that artificial intelligence (AI) and cognitive computing would be either a driver or an enabler; a quarter dismissed the Internet of Things as being inconsequential; and two-thirds said that robotics would not apply to them.

"In some cases, technology can catalyze transformation as the introduction of telematics did to usage-based insurance, but more often technology plays the role of enabler, providing more effective and efficient tools and methods for achieving the businesses transformation objectives," noted Mary Trussell with KPMG in Canada. "You can't let technology drive the bus, but you also don't want it to overtake you."

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KPMG Insights

Transforming the art of transformation

By Louise Portelli, KPMG in the UK

In today's environment, insurers sometimes can't afford a long, drawn-out transformation initiative. Their competitors are moving too fast and the market is evolving too quickly. That is why a growing number of leading insurers are seeking to transform the way they undertake transformation initiatives.

In some cases, this will mean merging traditional transformation approaches with new, more flexible and agile methods to create speed and drive innovation. But insurers will need to remember that being agile does not mean they need to forsake the planning or the strategic vision.

At the same time, technology is also rapidly changing the transformation game, creating new opportunities for insurers to release themselves from the constraints of legacy systems and legacy thinking. With rapid advances in data analytics, robotics and artificial intelligence, it seems clear that technology is key to creating more customer-centric business models which, in turn, will help drive more successful transformation outcomes. Insurers are also drawing on the innovative solutions being developed by start-ups and Insurtechs who are exploring new service models and tools. Investments by large insurers in the Insurtech and start-up community can provide powerful partnerships combining the capital and knowledge of established large firms with the creativity and customer-focussed innovations of start ups.

The ability of large firms to draw on new thinking from both within and outside their organizations will be a critical success factor in their capacity to develop differentiated solutions which can transform the customer experience and the firms potential for growth.

The right capabilities at the right time

By Susie Quirk, KPMG in Hong Kong

To sustain new business models and innovative operating models, insurers need new skills and capabilities. Analytics capabilities will certainly be valuable. So, too, will customer service capabilities and creativity. But depending on the future state vision of the organization, different skills at different levels of sophistication may be required.

While this type of shift in capabilities once stymied most HR departments, today's technology and analytics tools have opened the door to what we call 'evidence-based HR'. Simply put, organizations can now accurately predict the types of skills that will be required in the future, match it to their current organizational capabilities and even predict when certain talent will leave the organization.

Being able to assess gaps in skills and capabilities allows insurers to focus on attracting, developing and retaining the right talent for each stage of the organization's transformation journey.

Acting like a dolphin rather than a whale

By Paul Merrey, KPMG in the UK

Dolphins move quickly, darting from objective to objective with agility and purpose. Whales tend to make massive waves but take forever to get anywhere or make sudden changes in direction. Insurers are whales. But they need to be dolphins.

The challenge is that the rate of change in the market outpaces the rate of transformation at insurers much like a dolphin outmaneuvers a whale. What that means is that insurers may need to start thinking about shorter, more agile and purposeful change initiatives that allow the organization to continually transform while maintaining the ability to flex or pivot when needed.

Transformations should not be journeys with destinations and insurers should never stop reinventing themselves. You can be guaranteed that the market will not stop evolving. In this environment, I would prefer to be a dolphin, not a whale.

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Empowered for the future

Business transformation can no longer be a 'one and done' initiative. Top executives realize that their organizations must create mechanisms to continuously evolve and respond to their external environment. Unfortunately, these business leaders are also up against serious barriers to reaching their goals, as well as massive disruption in the form of generational change in customer preferences and demand.

We believe that in order to succeed in enterprise-wide transformation initiatives, organizations need leaders who can collaborate inside and outside their organization to create and implement the new operating models that will enable future success. Insurers that can anticipate what their clients truly value and harness technology to enable innovative opportunities to give those clients more of what they want, will prevail.

Steps to reinvention:

1. Organizations need to horizon scan the possible world 5 to 10 years in the future and then take small but measurable steps that move them forward and retain relevance. A conventional 3-year plan is doomed to failure.
2. Think differently and integrate external thinking, ideas and inspiration to create a differentiated value proposition. Thinking like an insurer will not lead to transformation or reinvention.
3. Be willing to disrupt your business model. Try new models and partner with new stakeholders to truly compete in an innovation-led competitive marketplace.
4. Any effort to reinvent an organization without first assessing customer preferences is wasted time. There is no value in reinventing yourself into something people no longer want.
5. Consider new open architecture technology solutions that will be adaptable to your future business needs.
6. Make sure you are targeting your innovation investments and partnerships into high value areas, aligned to clear customer demand signals and preferences. Inspiring innovation is tough. Commercializing and maintaining the innovative edge is even more difficult.
7. Gone are the days of massive, multi-year transformation initiatives. Today's leading organizations are moving with agility to launch portfolios of projects that deliver quickly and create value.
8. Learn from others. Partnerships will be the key to future success but organizations need the right structures, models and infrastructure in order to create value from them. Consider alliances with partners outside of insurance to accelerate customer benefits and expand the value chain.
9. Perhaps most importantly, apply agile and dedicated leadership. Successful transformation initiatives that create long-lasting value require leadership, strong executive support and a clear vision.

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How KPMG can help your business transform

With our breadth of industry experience, KPMG's global network of insurance professionals helps clients discover actionable insights, working with insurers and reinsurers of all sizes. Strategy is the foundation of business transformation.

Too often, the value from transformation goes unrealized due to disconnects between business model strategy, operating model execution, and the complex issues that companies face when implementing change. The accelerated pace of change means businesses need focused and agile strategies to drive their transformational agendas.

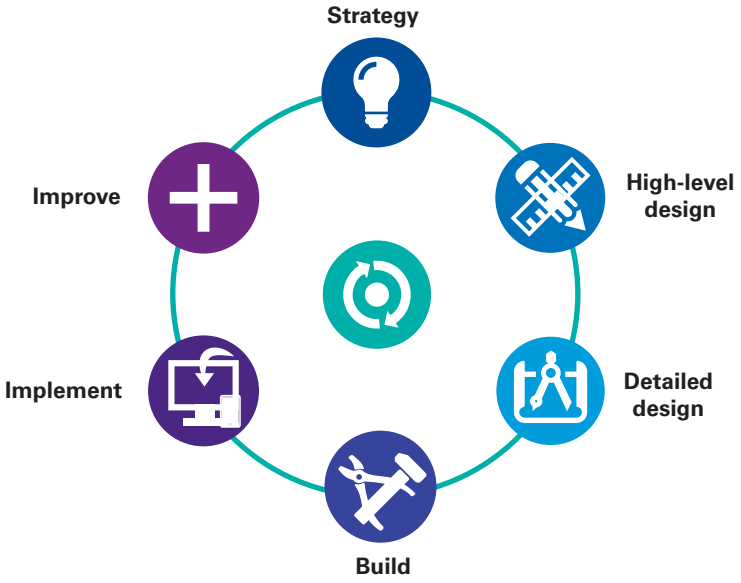
KPMG's customer-centric and innovation-driven business transformation approach allows our member firms' clients to develop and align their strategic and financial objectives to required business and operating models, organizational culture, measures and incentives and provides them with the capability to change to connect vision to value.

KPMG insurance professionals understands the significance and complexity of choreographing the continual model refinements necessary to effect transformation across people, process, technology, data, and risk management. Our Value Delivery Framework guides transformation delivery and it is supported by a tightly knit, global, and integrated approach to connect strategy with execution and achieve the optimal value from transformation.

The Value Delivery Framework

Having a framework that is agile to help you plan and envision your transformation journey is critical. The value delivery framework can be leveraged regardless of the project's start point or current progress.

1. **Strategy** — Define the strategy, including the overarching ambition/goal and business operating model.
2. **High level design** — Define how the operating model needs to be reconfigured to deliver the vision, strategy and value.
3. **Detailed design** — Capture the detailed requirements and define the solution design that will deliver the target operating model.
4. **Build** — Develop, prototype and test the changes according to the desired outcomes.
5. **Implement** — Deploy the changes and new ways of working into the business.
6. **Improve** — Extract the value from the transformation, maintain the value created, and continue to improve performance incrementally through a culture that supports innovation and ongoing business sustainability.



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KPMG insight

Resisting the hype and focusing on the business

By William Pritchett, KPMG in the UK

In the Hitchhiker's Guide to the Galaxy, there is a supercomputer that answers the ultimate question of life, the universe of everything. The problem is that nobody stopped to work out what the question was in the first place. The lesson for insurers is that you can't start with the solution. First you need to know what problem you are solving.

Any business transformation must, therefore, be led by the business rather than the technology. Indeed, to achieve transformational outcomes (versus outputs), insurers need to start by understanding what outcomes they are trying to achieve as a business and then focus on how technology can help enable that and support the business throughout the journey.

The next step is to ensure that you are investing in the right technologies, cutting through the hype to pragmatically select tools and solutions that enable business change while recognizing the realities of the business; its people, their capabilities, their processes; and their limitations.

> "Enterprise-wide transformation requires insurance leaders to collaborate inside and outside their organizations to create and implement new business models that will be sustainable for the future."
>
> **Gary Reader**
> Global Head of Insurance
> KPMG International

Case study

Building transformation capabilities

As insurance organizations look to leverage digital technologies and a sharper focus on the customer to transform for the future, many are starting to recognize that their resources and skills may not match their ambitions.

For one European-based multinational insurance organization, the development of their new five-year strategic plan offered a perfect opportunity to reassess their workforce development tools, capabilities and processes, with a particular focus on identifying the new digital skills and capabilities required to support its digital transformation strategy.

Supported by a team of insurance, digital, HR and change management specialists from KPMG, the insurer developed a new strategic workforce planning approach that included customized tools for workforce data visualization and projections.

The KPMG team's collaborative working style, supported by a 'test and learn' co-working methodology that supports full engagement with both the business and HR functions, allowed the organization to uncover new insights that helped align their strategic planning with their workforce needs.

With the full support of the Executive Committee the team developed a robust five-year workforce plan for each employee population and created methodologies for helping identify, assess and respond to workforce risks.

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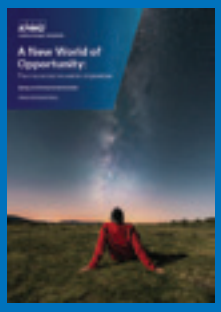
Keeping you abreast of emerging industry trends

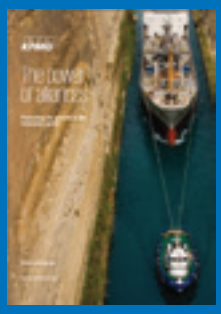


Innovation imperative

This report brings together global survey data, KPMG insights and highlights from interviews with more than a dozen insurance, reinsurance and start-up leaders around the world to provide an insightful view of the innovation challenges, opportunities and considerations facing the sector.

Pulse of FinTech

'The Pulse of FinTech' is a quarterly report created by KPMG Enterprise and KPMG FinTech along with CB Insights (the 'go to' name for insights related to venture capital investment). The series analyzes the latest global trends in venture capital investment data on the FinTech sector.



Power of Alliances

This report focuses on three main areas of partnership where insurers have been particularly active: bancassurance, FinTech and innovative distribution. The report provides actionable insights and lessons to help you create more sustainable and value-driven partnerships and alliances.

Frontiers in Finance

Frontiers in Finance is a forward-looking collection of market insights, thought-provoking perspectives and sector-specific issues that impact key decision-makers of financial services organizations around the world.

About the survey

KPMG International commissioned Forbes Insights to survey 380 Financial Services executives in early 2016 on business and operating model transformation. Of those responses, 20 percent were from the insurance/reinsurance sector.

Business (AUM):

Sixty-one percent of respondents originated from insurance firms with US$5B to US$49.9 billion in assets under management (AUM). And, 39 percent originated from insurance firms with US$50 billion in AUM or more.

Seniority:

Sixty-two percent of insurance respondents were C-suite executives and represented a range of functions across their organizations including IT/technology, sales and marketing, human resources, finance and operations.

Geography:

Nearly half of respondents from the insurance sector originated from Europe (48%), followed by the Americas at 33 percent and Asia Pacific at 19 percent.

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Mary brings deep expertise covering a broad range of insurance markets — from life and health and personal lines to specialty risks and reinsurance — across Asia Pacific, Europe and North America. As a member of KPMG's Global Insurance Leadership team, Mary focuses on innovation and accounting change for insurers, and leads the development of many of KPMG International's global thought leadership for the insurance industry. In October 2015, Mary was appointed to lead the Insurance practice for KPMG in Canada.

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Tom serves as the leader of KPMG's Insurance Strategy practice in the United States and the Americas region. In addition to many years providing advisory services globally, Tom has also served as an executive leading corporate strategy, technology strategy, innovation and corporate development functions within insurance and other industries. He has a deep background in finance and valuation and assists his clients with competitive and technology strategy creation, enabling omni-channel customer interactions using cloud technologies and applying artificial intelligence to agent and customer interactions.

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Louis is a Partner in the financial services practice of KPMG in Canada and a member of KPMGs global strategy team specializing in insurance. He has extensive experience in business strategy formulation, in developing and implementing strategic initiatives and advising companies on organizational issues and large-scale organizational transformation. Louis leads KPMG's insurance practice in Quebec, Canada.

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Soula brings more than18 years of industry experience across banking and insurance, technology, telecommunications and the public sector, coupled with more than a decade of top-tier professional services consulting experience. As national leader of the People and Change practice for KPMG in Canada, Soula works with C-suite clients to help them achieve their business goals and vision through people, leadership and organization effectiveness. Soula's areas of expertise include enterprise operating model redesign, talent/leadership development and developing sustainable change programs.

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Andrea leads the People and Change capability for the insurance sector in KPMG's UK member firm. She is highly experienced in leading change management, HR and organization design work-streams for complex transformation programs, helping clients navigate the people impact of regulation, and assessing and managing organizational culture.

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Paul specializes in strategy advice to the insurance industry, and has significant experience in strategic options assessments and growth strategy development. He is currently leading KPMG's work on strategy within the Lloyd's and London market, supporting the Vision 2025 ambitions. Prior to joining KPMG, Paul spent 10 years at Prudential plc, where he was latterly Group Head of Strategy and M&A. He is a qualified Chartered Accountant and has an MBA from Warwick Business School and an MA from the University of Oxford.

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Louise has over 15 years' experience leading and advising on large-scale transformational change in the financial services and health sectors in the UK and Australia. At KPMG in the UK, Louise provides strategic insight to financial services clients on how to best implement their business strategies through their transformation programs and change portfolios. Her areas of expertise include innovation, cost optimization and growth strategy execution.

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William leads the technology enablement work across KPMG's insurance and investment management practice within the UK. He has over 20 years in industry and advisory delivering complex technology change, large-scale M&A transactions and running global operations. William works with his clients, increasingly leveraging the disruptions of digital to unlock change. He is passionate about ensuring that business change is enabled through technology and that the full potential of his clients ambitions are realized.

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Simon is focused on helping make the best insurers better. His personal motivation is to try and help bring the insurance industry further and faster into the 21st Century. As well as a wide range of consulting experience in Asia, much of which is currently focused on building customer-centric, digitally-enabled businesses across the insurance ecosystem, Simon has previously run an insurance company in Hong Kong, led numerous successful transformation initiatives and, established and led the change management function of one of the world's largest insurers.

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A member of KPMG's global people and change team, Susie leads the people and change practice for KPMG China and Hong Kong. Susie brings over 25 years of corporate people leadership experience in transformational and operational roles across a variety of industries. She advises clients on people management strategies to support cultural change, business transformation and workforce effectiveness. Susie's fields of expertise are behavioral and cultural transformation, workforce design, performance management, talent and organizational development and optimizing the HR function for business performance.

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