



New reality for insurance

**Insurance macro themes and their
impact on Hong Kong**

KPMG



Macro trends

Throughout COVID-19, the insurance industry — along with all business — has experienced a time of monumental challenge. The impacts of this health emergency have expanded into far-reaching economic and societal issues. It seems clear that as we emerge from this period, it will be into a new reality that will look very different to what existed before.

KPMG insurance professionals have been reflecting intensively on — and widely discussing with clients — the nature of the upheaval taking place and what this means for insurers.

We start by exploring seven key macro themes that we believe are particularly relevant to Hong Kong insurers and which they must respond to in a fundamental way in order to thrive in the new reality.

Some of the seven themes have been with us for some time but have become greatly accentuated and accelerated in the wake of COVID-19 — such as financial resilience or climate change response.

Others, though, are almost entirely new. The fundamental importance of health in terms of staff, customers, products and economic impacts — what we call The Age of Biology — is one such example. The New Reality Workforce is another because, although remote working has been with us for many years, COVID-19 has elevated it to a new plain altogether, completely overturning old norms.

We list it as number seven — but in fact the imperative to become Digital First, Digital Now is absolutely core and runs across every single macro theme. COVID-19 has shown us the inter-connectivity of multiple forces and the response must be digital ways of working and originating business that drive speed, efficiency and a better customer experience.

Insurers have historically lagged other sectors in their digitisation efforts — now, we have reached a watershed moment. It is time for insurance to catch up and re-emerge stronger and better.

We believe that investing in capabilities to respond to these trends may pay long-term dividends for an insurer.



1

The Age of Biology

**Building organisational
immunity across biology
and economics**

What it means

Biology has left the lab

- Biology is playing an important role in the C-suite, the board room and throughout the workplace.
- Health is now becoming a core competency across all organisations.

Balancing biology and economics

- There is business tension between doing right for the collective and making a profit, getting back to work and keeping workers safe.

Impact on insurance

Health and safety concerns

- There needs to be more flexibility, testing and physical spacing to accommodate a safer workplace.
- In-depth cleaning will take place and availability of hand sanitiser everywhere will be the "new normal" in office spaces.
- Technology will play a major role assisting with the balance between staying at home and returning to the office.

Product innovation

- New products may emerge around pandemics or viruses, existing products (e.g. critical illness) may become more popular, and usage-based products (e.g. auto) may gain in popularity.
- Prevention-related products will increase along with incentives around safety.

Relevance to Hong Kong

COVID-19 related product innovation has already emerged in Hong Kong:

- Medical plans have been developed to provide protection over COVID-19 and the vaccine side effect with hospital cash benefits and indemnity.
- Travel Insurance extensions have incorporated coverage for cancellation of trip due to outbreak of COVID-19 at the travel destination according to the Outbound Travel Alert issued by the Hong Kong Government.
- Some Hong Kong insurers launched the Work from Home Insurance which enables employers to continue to take care of their employees' health and well-being.



2

The New Reality Workforce

Building a versatile and adaptable workforce

What it means

Workforce change drivers

- There will be bifurcation of workers into essential and non-essential employees, unprecedented unemployment and office closures.
- The needs of frontline and knowledge workers must be balanced.

Workforce archetypes

- Companies need to consider new archetypes combining technology and a flexible workforce.

Impact on insurance

Remote working becomes more permanent

- Realignment of needs for physical versus remote working.
- Expect impacts to infrastructure, risks (cyber, privacy, ergonomics at home), productivity, training/skills building and performance measurement.

Access to talent

- There will be significant opportunities to acquire new talent (e.g. digital, technology and data) to upskill the workforce as organisations will be less reliant on location.

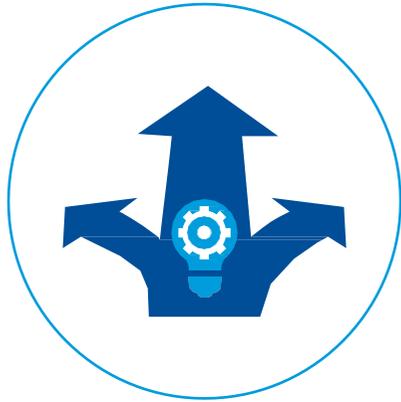
High volume workforces

- Claims handling, contact centers will be reimagined as more automation is introduced and customers are more comfortable with digital interactions.

Relevance to Hong Kong

Work from home arrangements are also found to be popular in HKG, however greater access to talent does not yet seem to have materialised:

- Surveys show that employees feel that there is significant improvement on work-life balance and also work efficiency when working from home. Many of them expressed their preference to work from home even after the pandemic is over.
- CEOs are confident about the growth for the economy but to deliver this growth organisations will need to make sure they have the right talent with the right skills to bring their growth plans to life. (Source: KPMG 2021 CEO Outlook)



3

Ambidextrous Business Models

**Playing across physical,
virtual and digital**

What it means

Oscillating models

- Insurance organisations need to navigate a rapidly changing workforce, customer behaviors and business environments.
- Insurers switched from an in-person environment to a virtual model overnight and it's likely that they will continue to oscillate between the two.

New core competencies

- A rapid response to an uncertain environment will become a new core competency. Businesses that can sense and respond to these new needs will both survive and grow.

Impact on insurance

Cost, continuity and resiliency

- Continued strain on operations and the associated costs are forcing a fresh look at operations across-the-board.
- Continuity and resiliency rating models becomes a core component of transformation efforts.

AI and automation

- Will drive the change and re-thinking of operating models on an end-to-end basis.

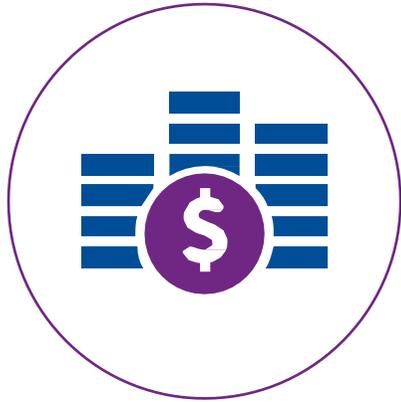
Scenario planning

- Becomes the norm for ongoing operations in a combined online/offline organisation structure.

Relevance to Hong Kong

Digital incubators are available in Hong Kong and virtual Insurers have commenced operations:

- The Banking, Financial Services and Insurance (BFSI) Accelerator 2021 launched by Hong Kong Science and Technology Parks Corporation serves as a platform in connecting innovators and businesses where they can co-create solutions that bring new business opportunities in the BFSI industry.
- Hong Kong insurers are starting to obtain the license of virtual insurance so that the entire experience from applications to claiming a coverage can be done through online system.



4

Building Financial Resilience

**Ensuring freedom
to maneuver**

What it means

Capital, liquidity and cost

- Insurers need to maintain sufficient liquidity and capital to continue to operate.
- Managing cost pressures is a top, immediate concern.

Navigating uncertainty

- CFOs are in the midst of the most uncertain, yet critical time for decision making, along with accounting and regulatory change
- Pulling the right levers across liquidity, capital and cost will be critical.

Impact on insurance

Solvency ratios

- Volatility is expected and understood by stakeholders but requires increased modeling on a real-time basis

Liquidity

- More detailed cash management strategies evolving while removing barriers to trapped cash and capital.
- There will be an increased use of scenario planning and analyses to gain real-time understanding.

Investments

- Closer monitoring of low interest rates, equity markets and credit issues is required due to the downturn in financial markets. The impact on the valuation of commercial real estate/loans is essential given the possible shifts in those assets classes.

Relevance to Hong Kong

Transition to IFRS/HKFRS 17 and preparations for the Hong Kong Risk-Based Capital regime (“HKRBC”) are in full swing:

- As IFRS/HKFRS 17 enters its final implementation year, it is placing increased pressure on project and BAU teams as they finish their systems build and prepare for parallel reporting.
- The HKRBC requirement will make capital requirement more sensitive to the level of risk borne by Hong Kong insurance companies.



5

Climate Change

Preparing for a future of increased risk

What it means

Climate risk as a core business issue

- Global temperatures are rising creating risk to the global economy, ecology, and human health and well-being.
- Growing exposures from increased catastrophic weather events (e.g. hurricanes, wildfires) to pandemic risks are rapidly becoming a new reality, challenging the bottom line.

Impact on insurance

Role of the insurance industry

- Insurance can build socio-economic resilience and enabling economic development and entrepreneurial pathways for achieving climate change goals and targets.
- Use of incentives and performance metrics helps to drive the right focus on ESG issues.
- Mitigation isn't just the right thing - it is also a pathway to profitability; insurers can play a role in adaptation, working with public bodies to build interventions that make societies more resilient to the impact of climate change (e.g. flood defenses, building standards).

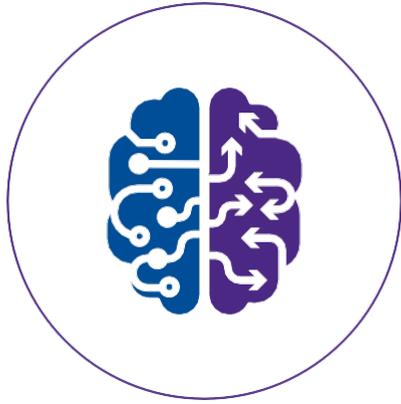
New products and business opportunities

- There are new risks to insure, including risks related to new industries, such as wind farms and alternative energy facilities along with the emerging financial risks, such as those involved in carbon trading.
- Insurers can move funding into greener investments, and will be challenged by stakeholders if they invest in initiatives deemed not good for the environment.

Relevance to Hong Kong

ESG initiatives and regulations are gathering speed:

- The Green and Sustainable Finance Cross-Agency Steering Group announced the next steps to bolster Hong Kong's position as a leader in green and sustainable finance and help transition the financial ecosystem towards carbon neutrality.
- Besides the listing rules amendment on ESG mandatory disclosure requirement that took effect in July 2020, HKEX has published a consultation paper in Apr 2021 that outlines the proposed enhancement to the Corporate Governance Code and Corporate Governance Report in relations to ESG disclosures and standards.



6

The Innovation Imperative

**Unlocking new competitive
advantages**

What it means

Invest for growth

- Radical waves of innovation are expected as insurers adapt to current environment.
- Making the right bets in innovation may help insurers to capture market share and move into new markets.

Leapfrog

- Innovation leaders will leverage this moment to leapfrog ahead of their peers.
- New ecosystem of innovative firms will be the next wave of insurers.

Impact on insurance

Innovation at scale

- Remote working happened so quickly proving that companies can move faster. The appetite for large-scale, impactful innovation has increased and typical barriers seem to be removed or lessened.

Outsourcing to drive innovation

- Insurers looking to cut costs and take advantage of innovative solutions and infrastructure are looking towards insurtechs.

Partnerships

- Access to the latest technologies and new talent will be critical as insurers focus on operational excellence, AI and automation.

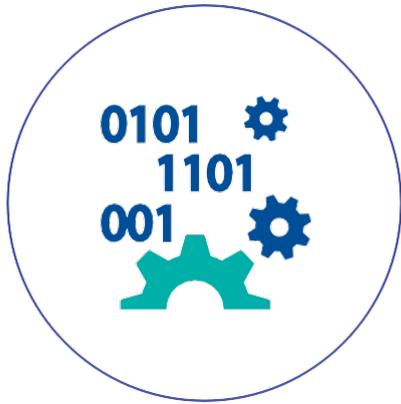
Accelerating growth and the digital agenda

- CEOs are shifting toward a cloud-first mindset, with 78% saying that they need to be quicker to shift investment to digital opportunities and divest businesses that face digital obsolescence. (Source: KPMG 2021 CEO outlook)

Relevance to Hong Kong

Insurtech development is encouraged by the Insurance Authority

- Authorities are encouraging the industry to conduct trials of Insurtech through Insurtech Sandbox to help policy holders purchase suitable insurance products safely by using non-face-to-face channels.
- The rise of virtual insurance in Hong Kong also entails that insurers can now operate without a physical office



7

Digital First, Digital Now

Digitising the organisation

What it means

Customer-led digitisation

- COVID-19 is accelerating the digitisation of business and operating models across the front, middle and back office.

Modern technology infrastructure

- Is critical in order to serve customers and enable employee productivity.
- Robust cyber security and fraud protection is required as risks rise.

Impact on insurance

Customer-first thinking

- Direct-to-consumer sales will require significant and rapid upgrades particularly in many parts of personal insurance.
- Brokers/agents need to be integrated at each step through digital interactions and interfaces.

Data, technology and infrastructure

- Movement must be seamless and protected through the different gates.
- Use of internal and external data becomes commonplace (e.g. underwriting).
- Mass movement to modernising technologies, cloud services and decommissioning legacy systems.

Claims

- Early focus for digitisation — anything that can be digitised will be; from first notice of loss/claims submission through to ultimate payment of claims including all interim steps.

Relevance to Hong Kong

Digital transformation is accelerating:

- The gap between customer expectations and insurer's abilities is driving Hong Kong insurers to connect their front, middle and back offices through digital interactions and interfaces. Those who move the fastest will reap the competitive advantage.
- For instance, some Hong Kong insurers are developing virtual onboarding services that enables intermediaries to conduct financial needs analysis and sell selected insurance products to customers online.

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