



New reality for insurance

Global insurance macro themes

KPMG in the Isle of Man

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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 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 digitization 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.



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

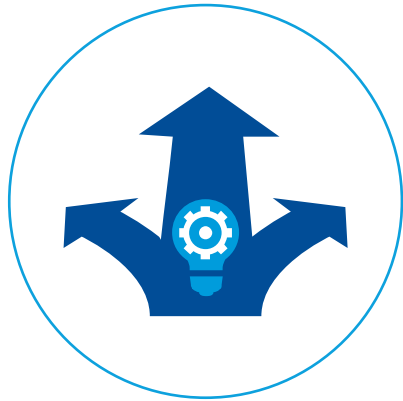
- Realignment of needs for physical versus remote working.
- Expect impacts to infrastructure, risks (cyber, privacy, ergonomics at home), productivity, training/skills building and performance measurement.

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.



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.



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.
- 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.



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.

New thinking on ESG

- Boardroom conversations around ESG are changing, particularly on corporate purpose, stakeholder capitalism, and climate risk and resilience.

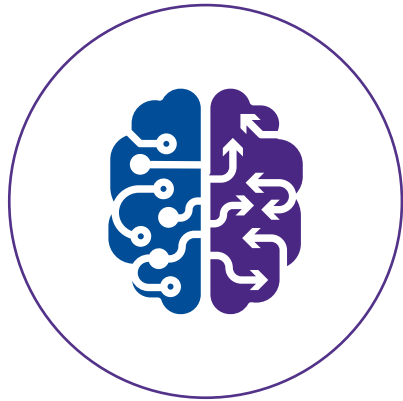
Impact on insurance

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.
- There are also 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.



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.



7

Digital First, Digital Now

Digitizing the organisation

What it means

Customer-led digitization

- COVID-19 is accelerating the digitization 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

Digital transformation is accelerating

- The significant gap between customer expectations and insurer's abilities is driving insurers to connect their front, middle and back offices. Those who move the fastest will reap the competitive advantage.

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

- Movement must be seamless and protected through the different gates.
- Use of internal and external data becomes commonplace (e.g. underwriting).

Technology and infrastructure

- Mass movement to modernising technologies, cloud services and decommissioning legacy systems.

Claims

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

Finance

- Will be a strong business partner and play a key role, enabling operations through deep analytics and predictive capabilities.

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