



Insurance Business Resilience

Emerging from COVID-19

Practical steps to business
resilience

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How organisations surface from COVID-19 will determine their long-term success

To emerge successfully from COVID-19, insurers need to execute short-term, tactical and strategic initiatives, often at the same time. We have defined four specific phases that organisations will need to plan for: reaction in the short-term, resilience and recovery in the mid-term, and positioning for the new reality in the longer-term.

A balanced and distinct approach to each of the four phases should be deployed to achieve the best results.

All organisations in the insurance sector have been severely tested by this crisis and from the boardroom to the field agent there will now be widespread appreciation of the importance of business resilience.

Business resilience has three aspects:

- **Operational**
- **Financial**
- **Commercial**

Focus of this paper

Each aspect is a vital part of long-term business health, however at this time, many of the short/mid-term challenges are firmly in the operational space. This paper focuses on how to use operational resilience as a key lever to optimise business performance during and after COVID-19.

Organisations have reacted reasonably well during the initial period of the crisis. However, due to changed ways of working, they have experienced an increased level of risk in areas such as data, controls or cyber security, simultaneously. Now, organisations will be starting to move forward to work out how they will rebound. Despite the continuing COVID-19 unknowns, assessing learnings from the organisation's initial response whilst also working out how to recover and sustain business performance is key for the future success.

KPMG has developed a simple and practical COVID-19 recovery framework to help organisations respond to this crisis in a structured way, dividing it into four discrete phases:



The phases should be run in parallel, but each one will need a different approach and mind-set.

Organisations are approaching this period differently. Whilst there is focus on getting back to the office, most are simultaneously challenging the old ways of working.

There has never been a better time to think strategically about business and operational resilience - investing in the future today will reap benefits tomorrow.



How will your organisation emerge from the COVID-19 crisis?

KPMG COVID-19 recovery framework

The KPMG framework has helped organisations across a number of sectors bring much needed structure and focus to the short, medium and longer-term aspects of responding to COVID-19.

Each of the four phases are listed with possible constituent activities.

Reaction

- Crisis management
- Resilience in action
- Lessons learned and gap analysis



Recovery

- Liquidity & capital
- Eliminate backlogs
- Restore productivity
- Optimise internal resource mix
- Tactical improvements to third party setup
- Tactical M&A



Resilience

- Communications
- Bridge key gaps
- Formalise resilience
- Update risk controls, scenarios & testing
- Implement regulatory regime
- Assess change portfolio



New Reality

- Competitive positioning
- Strategy & business plan
- Future customer journey changes
- Employee work lifestyle
- Innovate business & operating models
- Physical footprint
- Strategic M&A



Reaction

Organisations will have already reacted to the crisis, establishing home working and ensuring that any key customer services around telephony, payments, mailing etc. can be executed in the new virtual model.

They will have also responded to computer hardware dependencies, telephony routing, offshore and outsourced supplier issues. Many organisations have been pleasantly surprised by how robust this phase has worked, but remain cautious as a lot of changes have been made rapidly and in a short time-frame. Some are experiencing higher productivity as a result.

Not everything will have worked perfectly. Organisations will have a list of lessons learned and need to be prepared to react to further disruptions – COVID-19 or otherwise.

Recovery

In transitioning out of the crisis, organisations will need to maintain or increase their productivity levels whilst implementing flexible and tactical measures that change their pre-COVID-19 operations. It includes tactical steps such as eliminating any work backlogs or re-establishing customer service levels that may have slipped back to pre-COVID-19 levels. It is where organisations should optimise its future change portfolio to implement any lessons learned as well as look at internal and their third party resource mix to ensure the right skills are in the right place.

At the same time, organisations need to further strengthen their scenario, risk and control frameworks, working also closely with key third parties in doing so.

Resilience

This stage is focused on formalising and further strengthening the reactive resilience that firms executed in the reaction stage. The business must be able to withstand further shocks, and controls, scenarios and testing may need to be updated to respond to the remote working world.

The board and the regulators will recognise an organisation's reactive resilience to date but may be less forgiving if there are shortcomings in the response to further disruptions.

Operational resilience will be at the core of focus in this phase and the incoming new regulatory regime will be a structured approach for ensuring business growth is based on robust operational resilience practices in future. Now is a good time to secure any likely investment to bridge any gaps in the resilience capability.

Applying lessons learned and leveraging experiences during the reaction phase will help make a business more resilient.

New Reality

The shock of COVID-19 will cause lasting changes to many aspects of a business: employees, customers/clients, ecosystem partners and the economy as a whole. Some organisations will decide against a return to the 'old normal' and the ways they have worked before, and also think about business model changes.

This phase needs to be approached strategically – trying to combine this activity with the disciplined operational performance management work in the recovery phase will restrict the quality of the longer-term thinking.

It is an excellent time to challenge yourselves hard. It is what your competitors will be doing.

Reaction phase



Timeline: initial response period

Insurance perspective



We have seen the following themes in the market, with how insurance companies have responded to the COVID-19 crises:

- Resilience in action – first line management took control of the reaction, many elements of a holistic resilience model employed in real-time
- Employees are generally responding well to virtual working. Employers are prioritising their employees wellbeing, and seeing increased productivity as a result
- Workarounds developed for many office-based processes e.g. printing and postage

- Captive offshore facilities generally performing well despite issue with local infrastructures, e.g. network bandwidth issues in India
- Third parties' response has been good in parts but inconsistent across the board - some offshore facilities have been less well-equipped for home working due to lack of broadband availability
- Weakening of the risk and control environment for the new virtual working environment



How does operational resilience help?

Operational resilience helps embed business continuity planning (BCP), disaster recovery (DR) and crisis management (CM) into the core, day-to-day operations of an organisation.

During this phase, you will have executed some or all of these operational resilience disciplines in making sure your organisation can continue to trade.

Most insurance companies did not consider a pandemic disruption scenario involving widespread virtual working, and for many, this phase will have been managed in a reactive way.

True operational resilience offers a structured and holistic way of bringing all these disciplines together, and will put your organisation in a better place to react to future disruptions, whether of this scale or not. This is key: while organisations continues to focus on COVID-19, further disruptions caused by other threats may well be harder to respond to.



Key questions to ask

As you progress through this stage, there are a number of key questions worth asking:

1. What are the important business services that we must maintain at all costs?
2. Do we have a clear view on critical resources (technology, third parties etc.) that support the important business services?
3. Are we striking the right balance between employee flexibility and productivity?
4. What are our customers going through, and how should we respond tactically?
5. What may have slipped through the gaps?
6. How could we have responded better?
7. What is the situation with our third party partners?

Practical steps to take

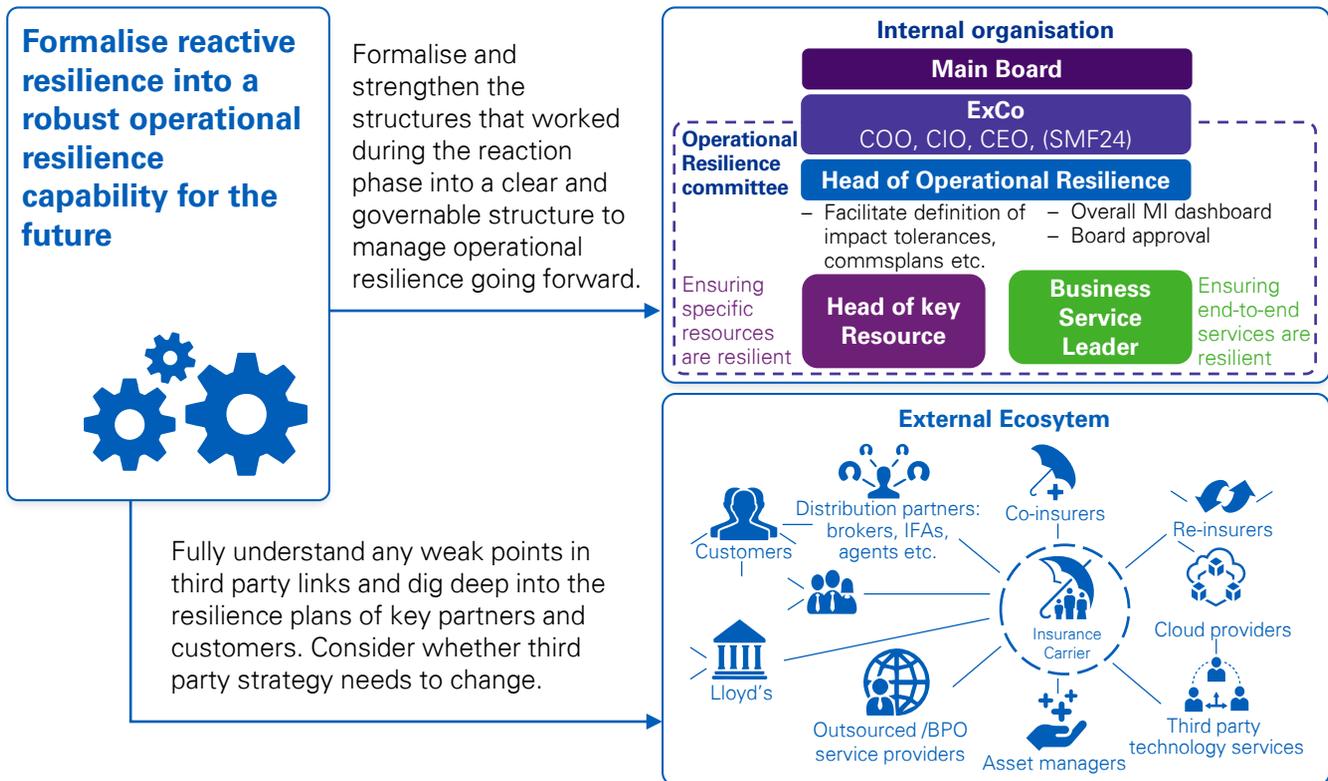


1. Conduct a comprehensive review of lessons learned during the initial reaction. Involve all functions and all levels. Talk to third party partners across the value chain
2. Keep communicating, top down and on a one-to-one basis
3. Monitor employee welfare
4. Problems may not emerge during normal interactions
5. Keep focused on customer service levels and feedback, monitoring backlogs and KPIs
6. Consider other significant disruption scenarios that may occur and how to respond

Resilience phase



Indicative timeline: from now for 3-6 months



Insurance perspective



Prior to COVID-19, the formalisation of operational resilience was at different levels of maturity amongst insurance companies. For example, some have already implemented an Operational Resilience Committee with structured governance that encompasses BCM, DR and CM, whereas for others, implementation of a holistic operational resilience capability remains on the to-do list.

Our recent benchmarking study highlighted some of the aspects of how insurance companies are addressing the incoming operational resilience regulation:

- Prior to COVID-19, only 10% of participants had included a pandemic disruption scenario

- Only 25% of respondents felt that their executive management understand the likely impact of this regulation on their organisation at this stage
- 60% of participants see the new regulation as an opportunity to strengthen or re-design the operating model
- The biggest change in mind-set within organisations as a result of this regulation is seen to be the taking of an end-to-end perspective when defining important business services
- 60% of organisations are worried that third party partners seem to have limited or no awareness of the proposed operational resilience regulation



Why formalise operational resilience now?

COVID-19 certainly tested organisational resilience. Whilst the regulators recognise that some have responded well, they have concerns that others may fall short of compliance to the expected new regulatory regime. They will be looking specifically to see how lessons learnt from this crisis are implemented - it is in all organisations best interest to demonstrate thorough application of the new regulatory regime.

Boards will want reassurance that resilience capability has appropriate governance, measurement, testing regimes and that it is sufficiently embedded into the DNA. Whilst there are plenty of other important priorities, now is an excellent time to properly bridge any gaps, and to obtain required investment.

In summary, good operational resilience will give your organisation the framework to make better decisions about how to recover performance and rebuild the company for the new reality.



Key questions to ask

As you progress through this stage, there are a number of key questions worth asking:

1. What further threats are plausible going forward, and what is our resilience capacity to these new scenarios?
2. How do we re-design and govern functions that could cause business disruptions to create an operating model that reflects operational resilience expectations?
3. How would we become compliant with the incoming regulatory regime?
4. What is the best way to embed lessons learned from our COVID-19 response?
5. How can changes to the third party strategy improve our organisation's resilience?
6. Have we got enough technical and business resources engaged in formalising our resilience?
7. Have the quality of our risk controls kept pace with our operational response to COVID-19?

Practical steps to take



1. Put in place an operational resilience organisation and governance structure with clear responsibilities
2. Assess current capability against the regulators' consultation papers to determine gaps
3. Ensure you have a robust plan for implementing regulatory compliance and share the plan with the board
4. Develop a mechanism to measure the organisation's operational resilience capability. Perform an initial maturity assessment as a baseline

Recovery phase



Indicative timeline: from now for 6-12 months or longer if necessary

Insurance perspective



Your organisation may benefit from further scrutiny in the following areas:

- Reduced employee availability and emotional wellbeing
- Call centre opening hours
- Increased claims volumes in certain lines of business and general claims backlog

- Economic downturn affecting short-term demand
- Customer-site assessment capability
- Risk assessment of changed customer situations and client business models
- Clarity of coverage, particularly business interruption



How to approach recovery using operational resilience?

Business recovery will be delivered through disciplined performance management and strong action planning to bridge performance gaps. For the recovery to be consistent with longer-term business resilience, we suggest the adoption of three key principles:

Assess your firm's recovery plans through an operational resilience lens:

- How are they affecting important business services?
- How quickly can you get back within tolerance levels? Setting impact tolerances for end-to-end business services is a good way to focus on the important performance improvements.
- Will any changes be resilient to disruption scenarios?

Implement changes with a transformation change programme approach – this will help manage impact on employee welfare.

The recovery plan should focus on tactical changes that can be made within 6-12 months. Anything requiring strategic or longer-term change should be considered by the new reality phase.

As the change portfolio adapts, check that each project is aligned to improve business and operational resilience.



Key questions to ask

As you progress through this stage, there are a number of key questions worth asking:

1. Is the plan consistent with lessons learned from our COVID-19 response, and does it improve our resilience capacity?
2. Have we created action plans to fill the gaps identified whilst in crisis?
3. Where do we need to modify the internal resource base and the reliance on third parties to improve productivity?
4. Does the recovery require any update to risk controls?
5. Is there any opportunistic M&A that could aid or enhance productivity or customer experience?

Practical steps to take



1. Structure the approach into a 3,6,9 month plan
2. Build in a good comms plan – keeping employees positively engaged through a difficult period will pay dividends
3. Define clear edge criteria to differentiate between tactical recovery and longer-term new reality activities

6. New Reality phase



Indicative timeline: from now for 12-24 months

Insurance perspective



Like most sectors, insurance organisations have demonstrated great innovation recently. The New Reality phase provides an excellent opportunity to challenge your organisation to make further innovations to improve competitive positioning and reach new customer generations.

Furthermore, the economy is struggling and customers' requirements are changing.

Achieving robust financial, commercial and operational resilience is crucial for business stability and building market and customer trust. Some insurance organisations have already started to challenge and re-think their business and operating models in preparation for the new reality, to ensure future growth.



Improving business resilience through the operating model

Key aspects organisations should consider:
Significant cost reduction opportunity through increased remote working in the future:

- What physical office space will you need going forward?
- Any changes to core processes?
- How to measure productivity, and what are the new performance drivers?
- Update the risk & governance model?
- Employee welfare management?
- What cost base and resource levels can your organisation operate with longer-term?
- What skill-sets will be needed longer-term?
- Can you improve longer-term performance and resilience by changing the balance of make-buy and where-make?
- Is now the right time to leap forward with technology platforms and data management?

As organisations consider these longer-term options, a changed or new operating model will emerge. It's important to keep operational resilience front of mind so that the new operating model will have increased agility and flexibility to respond to evolutions of the current COVID-19 crisis, and to further disruption events.



Improving business resilience through the business model

Customer demand will change in the mid-longer term as different sectors undergo their own innovations and as customer perceptions and expectations change:

1. How is the quantity and quality of customer demand likely to change, considering target markets and channel mix?
2. What are the new client and customer experience expectations likely to be?
3. What customer journey and proposition changes should we make?
4. What are our partners and competitors likely to be planning?
5. How do we build in operational resilience by design in customer change initiatives?

These and other questions are likely to change your organisation's mid/long-term business plan and may well require new perspectives on investment plans.



Ensure that future operating and business models remain consistent with resilience frameworks to give your business the agility to respond to future disruptions

Practical steps to take



1. Establish a 'go-forward' or 'new reality' team with the specific remit of strategically challenging the operating and business models. Let this team operate in a way that is unconstrained by the shorter-term recovery from the COVID-19 crisis
2. Engage the Board and establish reasonable expectations for timing of conclusions. Given the unknowns of COVID-19, it is important to allow sufficient time for a thorough exercise
3. Ensure good linkages and information sharing with teams working on resilience and on recovery
4. Establish strategic dialogues with ecosystem partners – they may be going through similar processes

Conclusion

Although COVID-19 took the world by surprise, it has been a useful lesson that severe disruptions happen and will continue to happen. The insurance companies of tomorrow will have learned from this crisis, and will take this opportunity to become more adaptable and operationally resilient.

The path to business resilience is by no means easy and requires work on the operational financial and commercial aspects of your business. It also requires a cultural change and is best structured into 4 different

stages, each of which requires a different approach.

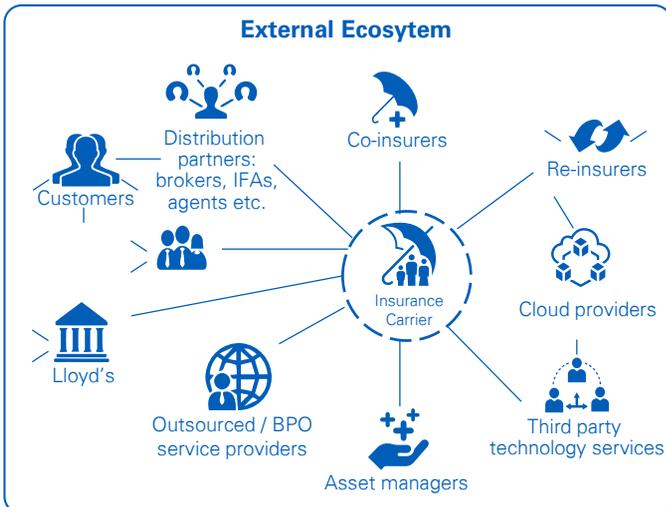
Implemented correctly, operational resilience is a powerful tool where the benefits will outweigh the costs. Embracing the upcoming regulatory change, and building those changes into the operating and business models will help ensure your business emerges from COVID-19 in a stronger state.

There has never been a better time to focus on business resilience.

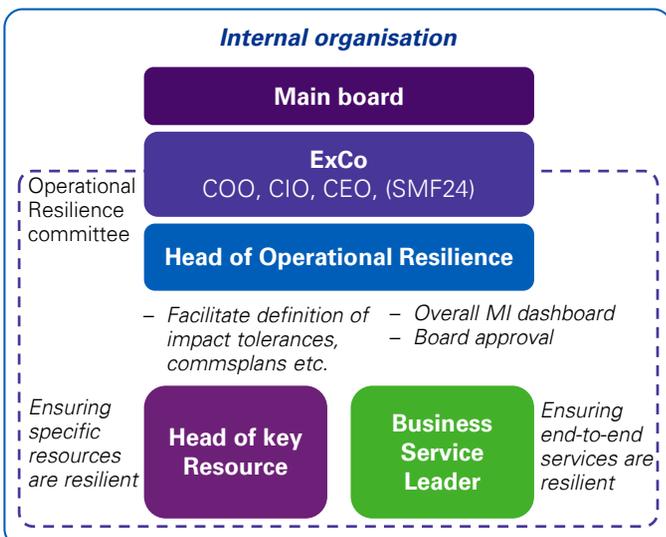



Take the time now to formalise your organisation's resilience capability.

Now is a good time, and you will need it for future disruptions.




Engage proactively with ecosystem partners. Focus on resilience, recovery and on the new reality.




Strengthen your resilience capability by formalising the team and governance within the operating model.



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