



# New Reality for Insurance: United States

**Insurance value chain:  
Commercial insurance**

KPMG International

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# Insurance value chain

Throughout COVID-19, the insurance industry — along with all business — has experienced a time of monumental challenge. The impacts of a 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.

In preparing for the new reality, the KPMG insurance professionals have set out the 11 key components of the insurance value chain and offer insights on the actions that insurers should be contemplating. Naturally, these actions vary according to sub-sector — Commercial, Personal lines, Life & health — as customer needs, preferences and reasons for buying are quite different in each.

Certainly, there is much for insurers to do. Rarely will the transformation agenda have been so pressing. However, through all of this, the industry should face the task with confidence. One of the great lessons that COVID-19 produced was that businesses, including insurance, are capable of doing much more, much faster than anyone probably ever believed.

This knowledge should be the inspiration for looking to the future. There is no doubt that insurers can rise to the challenges posed by the new reality.

# Commercial insurance

## The New Reality | Actions to consider

### Primary activities

	Definition	The new reality	Actions to consider
<b>Product and service development</b>	Using customer and market insights to design, develop and deploy products and services	<ul style="list-style-type: none"> <li>— Core product suite will not change greatly</li> <li>— Aspects of the terms and conditions will change for certain products</li> <li>— New product offerings or riders will be entering the market, for example:                             <ul style="list-style-type: none"> <li>— additional plain English descriptions of coverage and terms</li> <li>— potential riders to introduce more workers' comp coverage and terms</li> </ul> </li> </ul>	<ol style="list-style-type: none"> <li>1. Conduct a review of product terms and conditions, including basic plain English description of policy or suite, to determine approach exposure or perception concerns</li> <li>2. Assess ability to address changing risk exposure in middle and small-markets (e.g. business interruption, workers' comp, etc.)</li> <li>3. Identify new or modified service/advice offerings based on recent events. Examples include:                             <ul style="list-style-type: none"> <li>— risk strategy reviews and preventative measures (including lowering worker risk when returning to work)</li> </ul> </li> </ol>
<b>Marketing</b>	Driving, monitoring and enabling sales and customer retention through brand management, advertising and customer engagement	<ul style="list-style-type: none"> <li>— Operating models must adapt to meet several new requirements, including:                             <ul style="list-style-type: none"> <li>— brand and trust messages to key stakeholders</li> <li>— enabling distribution with the right messages and stories to make a real connection</li> <li>— identifying the right market mediums for communications</li> </ul> </li> <li>— New critical path for shifts in the operating model must be rapidly understood to ensure better ways of working</li> </ul>	<ol style="list-style-type: none"> <li>1. Understand the adjusted market messages and stories needed to enable distribution and sales; and service to tell winning stories in the new reality. Generally, these messages should be grouped into four key areas:                             <ul style="list-style-type: none"> <li>— book must retain</li> <li>— book need to recover</li> <li>— book need to obtain/add new</li> <li>— book we need to sell more into (second sales)</li> </ul> </li> <li>2. Working closely with distribution, operations and technology, identify the operating model enablers for marketing — also known as the mediums:                             <ul style="list-style-type: none"> <li>— given the majority of the face-to-face relationship investments, how will it change going forward?</li> </ul> </li> </ol>
<b>Distribution and sales</b>	Understanding and strategically penetrating the addressable market to deliver products and services and to generate revenue	<ul style="list-style-type: none"> <li>— Large and upper middle-market business will still be mostly broker driven</li> <li>— Approaches to identifying, renewing and securing new business will be changed</li> <li>— Upgrades in enabling technology in support of distribution will be substantial</li> <li>— Middle and small-market business will experience a significant shift in how that business is secured by insurers</li> <li>— Direct-to-consumer technology-enabled processes will add a handful of brokers, who are adapting how they work to corner this market</li> </ul>	<ol style="list-style-type: none"> <li>1. Upgrade distribution and sales strategy. Assess distribution and sales strategy for each key segment, especially considering a few key factors:                             <ul style="list-style-type: none"> <li>— most of the talent capacity in this market is working remotely — how most effective? What will work today?</li> <li>— significant request for proposal (RFP) response activity with very low win rates — is that effective given how we will now work?</li> <li>— a much different model is emerging to serve large (versus middle and small) markets — Is this the time to introduce more direct-to-customer capabilities?</li> </ul> </li> <li>2. Upgrade the story told to brokers (based on market messages) alongside renewed product positioning/services to protect the profitable books of business</li> <li>3. Develop the new way of working for distribution with special attention to four key areas: 1) pre-request for information (RFI) activity, 2) RFI response, 3) RFP response, and 4) deal closure. Emerging new enablers include:                             <ul style="list-style-type: none"> <li>— using analytics to understand what pre-RFI touchpoints matter the most</li> <li>— using cognitive technology to generate RFI responses</li> <li>— shifting the focus of the function from doing to advising current and potential clients, etc.</li> </ul> </li> </ol>

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<b>Underwriting</b>	Analyzing risk profiles and premium pricing models to bind and issue policies	<ul style="list-style-type: none"> <li>— More data-driven and remote underwriting capabilities will be necessary to compete: <ul style="list-style-type: none"> <li>— especially true in risk exposure analysis, pre-fill processing, risk measurement, rating and pricing</li> </ul> </li> <li>— Insurers with some or increasing capabilities will become stronger and separate themselves as leaders in the market</li> <li>— Tighter underwriting will be a true competitive advantage, especially in a hardening market</li> </ul>	<ol style="list-style-type: none"> <li>1. Assess current book from a distribution and pricing perspective to determine key exposures and opportunities for growth</li> <li>2. Understand the cancellation, renewal and retention expected outcomes to determine the potential exposures and opportunities</li> <li>3. Adopt a streamlined technology-enabled process based on risk data for: <ul style="list-style-type: none"> <li>— pre-pipeline, pre-fill, rating and RFP responses</li> </ul> </li> </ol>
<b>Policy administration</b>	Managing the administrative activities required by the inforce populations (e.g. inquiries, cancellations, changes, billing and collections)	<ul style="list-style-type: none"> <li>— Policy administration is still viewed as a ‘non-core’ set of activities for most insurers</li> <li>— Non-core activities can have a profound perception or operating impact when challenges occur, like in the case of a pandemic</li> <li>— Operating models require review and potential upgrading to ensure they are more “battle-tested” while looking for ways to ensure better performance even in times of disruption</li> </ul>	<ol style="list-style-type: none"> <li>1. Assess critical path processing activities with special consideration to on-shore, near-shore and offshore activities</li> <li>2. Review any areas of concentration risk (vendor, region, etc.) and adjust accordingly</li> <li>3. Run and test scenarios around non-core activities to identify opportunities for improved performance</li> </ol>
<b>Claims management</b>	Evaluating and settling claims, including payment, reinsurance recovery and litigation, when applicable	<ul style="list-style-type: none"> <li>— Remote claim handling will become the norm with the goal of frictionless customer experiences</li> <li>— New risks will be presented associated with remote processes which require new control procedures</li> </ul>	<ol style="list-style-type: none"> <li>1. Scale the operating model for remote claim handling, including where remote processing will and will not be leveraged.</li> <li>2. Understand leakage areas and where potential exposures reside: <ul style="list-style-type: none"> <li>— process must be technology-enabled, yet subject matter expert anchored</li> </ul> </li> </ol>
<b>Asset and investment management</b>	Leveraging and investing assets from policyholder surplus and reserves to generate revenue and provide solvency for liabilities	<ul style="list-style-type: none"> <li>— The lack of travel provides wholesalers the opportunity to cover more advisors but to be effective, they need better digital capabilities.</li> <li>— Environmental, social, and governance (ESG) factors continue to be a priority with an emphasis on “S” and also the ability to effectively measure and report on organizational effectiveness and results</li> <li>— Asset managers are continuing to expand their product portfolio to cater to the needs of investors</li> <li>— Process optimization and automation: The use of robotic process automation (RPA), business process management (BPM), low-code/ no-code platforms to automate repetitive processes and create capacity for staff to manage work-life balance in the virtual world</li> <li>— Modern delivery: adoption and/or acceleration of adoption of cloud to enable organization for agility in delivery of solutions/technology products</li> </ul>	<ol style="list-style-type: none"> <li>1. Assess products and services for a strategic fit, agility, understandability, and alignment to customer needs</li> <li>2. Employ a proven approach to modern delivery including a point of view (POV) on vendors and applications best fit for the organizational needs</li> </ol>

## Support activities

	Definition	The new reality	Actions to consider
<b>Human resources management</b>	Managing the organization's workforce to engage people effectively (e.g. recruiting, hiring, training, compensating, terminating)	<ul style="list-style-type: none"> <li>— Ways of working have changed significantly requiring a new process for managing talent, with emphasis on:               <ul style="list-style-type: none"> <li>— right-sizing workforce</li> <li>— right skillsets</li> <li>— training</li> <li>— performance management</li> </ul> </li> <li>— Shifts to remote operating models will require revised measurements for productivity/ performance and access to training</li> <li>— Access to talent will expand as location becomes less important under a more remote workforce</li> </ul>	<ol style="list-style-type: none"> <li>1. Assess new ways of working to evaluate risks and the associated controls in place (or required) to mitigate health and safety concerns, increased cyber and data privacy risk</li> <li>2. Perform a skills-based assessment of current talent and use a scenario-based approach to shift talent to the future state</li> <li>3. Identify critical changes that should be made to performance management and training to accommodate a more remote workforce</li> </ol>
<b>Finance, actuarial and tax</b>	Managing and reporting on finances, including controllership, financial planning and analysis (FP&A), accounts receivable/ accounts payable (AR/AP), tax and actuarial (reserving, capital liquidity and asset and liability management (ALM))	<ul style="list-style-type: none"> <li>— Focus on being a valued business partners within the executive leadership team, providing insights including:               <ul style="list-style-type: none"> <li>— evolving cash management strategies</li> <li>— understanding tax opportunities</li> <li>— finding opportunities to reduce costs/losses (including within the finance function)</li> </ul> </li> <li>— Real-time modeling of cash flows and solvency ratios will be a key focus, considering increased volatility with equities, rating downgrades and shrinking credit spreads</li> </ul>	<ol style="list-style-type: none"> <li>1. Embrace technology disruptors to transform operating models and unlock the benefits of innovation and automation:               <ul style="list-style-type: none"> <li>— cost reduction</li> <li>— increase efficiencies</li> <li>— generate insights that can be incorporated into business strategy</li> </ul> </li> <li>2. Maintain focus on preparing and reacting to federal, state and local regulatory changes to optimize tax planning and outcomes</li> <li>3. Consider and assess new approaches to asset liability management (ALM)</li> </ol>
<b>Risk management</b>	Developing and implementing strategies to assess, manage and mitigate losses due to risk exposure across the entire organization	<ul style="list-style-type: none"> <li>— Continued focus on capitalization and any areas of trapped capital</li> <li>— Risk management teams must adjust to new and different risks presented by planning for dual operating models — physical versus virtual</li> <li>— Continued focus on cyber and data privacy risks with a more remote workforce</li> <li>— Revived attention on business continuity and resiliency where scenario planning becomes the norm</li> </ul>	<ol style="list-style-type: none"> <li>1. Assess new ways of working to evaluate risks and the associated controls in place (or required):               <ul style="list-style-type: none"> <li>— to mitigate inherent risk, including increased cyber and data privacy risk</li> </ul> </li> <li>2. Determine the appropriate level of investment for reviewing and enhancing business continuity and resiliency plans:               <ul style="list-style-type: none"> <li>— may include collaboration with regulators</li> </ul> </li> </ol>
<b>Data and technology</b>	Managing, monitoring and securing an enterprise's entire collection of hardware, software, networks, data, facilities and related equipment	<ul style="list-style-type: none"> <li>— Digital capabilities are table stakes — front, middle and back office</li> <li>— Dual operating models have a high reliance on state-of-the-art technological infrastructure to support remote working, while still aiming to cut operating costs for the long term</li> <li>— Access to the market will more heavily require digitally-enabled distribution and marketing channels</li> <li>— The race to acquire digital, technology and data talent will heat up quickly, scenario planning becomes the norm</li> </ul>	<ol style="list-style-type: none"> <li>1. Enhance technology infrastructure to support the organization's future operating model, most likely a dual construct — physical and virtual</li> <li>2. Update the data strategy to harvest, maintain and protect the internal and external data needed to support the current operating model</li> <li>3. Define a long term vision for the organization and the role technology will play in the future:               <ul style="list-style-type: none"> <li>— re-establish a technology project portfolio to support and develop that vision</li> </ul> </li> </ol>

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