New Reality for Insurance: United States

Insurance value chain: Life and health

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.

Life and health insurance

The new reality | Actions to consider

Primary activities

	Definition	The new reality	Actions to consider
Product and service development	Using customer and market insights to design, develop and deploy products and services	— Core product suite will not change greatly — Acceleration of more creative products (e.g. critical illness riders) and services (e.g. financial wellness) — Triggers: recent legislation allowing early withdrawals from retirement savings coupled with dropping annuity rates	1. Develop products that leverage telemetrics to discount premium and promote physical wellbeing 2. Explore services or partnerships to assist individuals with planning for longstanding financial wealth and physical health (i.e. every product is a health product)
Marketing	Driving, monitoring and enabling sales and customer retention through brand management, advertising and customer engagement	— Insurers must seamlessly transition to discovering and engaging consumers digitally: — pandemic may be driving renewed interest in life products — Online presence and easy-to-access educational materials are critical for maintaining brand awareness with an accelerated focus on health and preventative techniques (e.g. counting steps)	1. Update market messaging to reflect customer sentiment and product positioning 2. Adjust marketing mediums (e.g. print, mail, digital, TV, event sponsorship) and expected impact analysis to align with spend and return 3. Update and align marketing function to new needs, which must consider messages, campaigns, mediums, ways of working, capacity and talent

Distribution and sales	Understanding and strategically penetrating the addressable market to deliver products and services and to generate revenue	— Direct-to-consumer will eventually be the primary distribution method, enabled by digital capabilities
		— Increasing momentum behind the shift away from the agency model
		— Traditional barriers to sales process will be reduced as will the role of the agent (shift to more usage of virtual/mobile techniques)
			1. Reassess the balance needed between agent and digital-assisted distribution models:
			  — evaluate the aspects of the model that need to be changed based on consumer requirements and new accepted ways of interaction
			2. Update the stories, based on marketing messages, that distribution and sales will leverage to enable impactful interactions:
			  — stories should be told consistently through the mediums leveraged
			3. Establish the new operating model for distribution and sales considering:
			  — how will they work
			  — what physical (versus virtual) footprint is needed
			  — what process and technology will be used to interact with clients or targets

Primary activities

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Underwriting	Analyzing risk profiles and premium pricing models to bind and issue policies	— Consumers are becoming more willing to share personal data allowing underwriters to evolve how they evaluate risk and set pricing — Insurers will continue to interpret new data, including from the internet of things (IOT), to support underwriting and will accommodate streamlined processing (e.g. 'no exam fluids' underwriting)	1. Identify opportunities to source and leverage nontraditional data for underwriting 2. Review underwriting performance to identify and work around process steps that add minimal value or require in person processing 3. Invest in the development of technological enablers (e.g. artificial intelligence (AI), machine learning (ML) and predictive modeling)
Policy administration	Managing the administrative activities required by the inforce populations (e.g. inquiries, cancellations, changes, billing and collections)	— Reduction of policy servicing costs as consumers become more comfortable with digital interactions — Contact centers will be reimagined, leveraging automation (voice, chat, etc.): 　— billing and payments will increasingly shift to contactless processing 　— self-service will provide consumers with more control (at lower costs)	1. Review policy admin processes to identify opportunities to automate and enable self-service as a means to increasing efficiency and decreasing costs 2. Understand the consumer experience and the 'moments of truth' during the maintenance of their policy 3. Assess technological capabilities and determine where external resources may be required (e.g. vendors, alliances, partners)
Claims management	Evaluating and settling claims, including payment, reinsurance recovery and litigation, when applicable	— Need to reimagine claims handling, even if claims paid do not end up being significantly higher as a result of the pandemic — Increased expense ratios will arise from growing volume and potentially limited new business — Insurers will race to create operating models that heavily rely on self-service and automation to process claims	1. Evaluate exposure to pandemic-driven claims and include considerations for potential indirect effects (e.g. fewer accidental deaths, reclassification of other terminal illnesses) 2. Explore and develop automated claims processing capabilities
Asset and investment management	Leveraging and investing assets from policyholder surplus and reserves to generate revenue and provide solvency for liabilities	— Cash and asset management strategies will evolve: 　— increased focus on real-time modeling of solvency ratios due to increased volatility in equities, downgrades and credit spreads — Insurers will closely monitor credit issues and the impact of commercial real estate and loans given the possible shifts in those asset classes	1. Evaluate exposure potentially high risk investments (e.g. commercial real estate, loans) 2. Enhance monitoring of credit risk

Support activities

	Definition	The new reality	Actions to consider
Human resources management	Managing the organization's workforce to engage people effectively (e.g. recruiting, hiring, training, compensating, terminating)	— Ways of working have changed significantly requiring a new process for managing talent, with emphasis on: — right-sizing workforce — right skillsets — training — performance management — Shifts to remote operating models will require revised measurements for productivity/ performance and access to training — Access to talent will expand as location becomes less important under a more remote workforce	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 2. Perform a skills-based assessment of current talent and use a scenario-based approach to shift talent to the future state 3. Identify critical changes that should be made to performance management and training to accommodate a more remote workforce
Finance, actuarial and tax	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))	— Focus on being a valued business partner with the executive leadership team, providing insights including: — evolving cash-management strategies — understanding tax opportunities — finding opportunities to reduce costs/ losses (including within the finance function) — 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	1. Embrace technology disruptors to transform operating models and unlock the benefits of innovation and automation: — cost reduction — increase efficiencies — generate insights that can be incorporated into business strategy 2. Maintain focus on preparing and reacting to federal, state and local regulatory changes to optimize tax planning and outcomes 3. Perform actuarial analyses and adjust reserving as appropriate to reflect new environment
Risk management	Developing and implementing strategies to assess, manage and mitigate losses due to risk exposure across the entire organization	— Continued focus on capitalization and any areas of trapped capital — Risk management teams must adjust to new and different risks presented by planning for dual operating models — physical versus virtual. — Continued focus on cyber and data privacy risks with a more remote workforce — Revived attention on business continuity and resiliency where scenario planning becomes the norm	1. Assess new ways of working to evaluate risks and the associated controls in place (or required): — to mitigate inherent risk, including increased cyber and data privacy risk 2. Determine the appropriate level of investment for reviewing and enhancing business continuity and resiliency plans: — may include collaboration with regulators 3. Assess how risk factors should be adjusted for products with significantly less exposure
Data and technology	Managing, monitoring and securing an enterprise's entire collection of hardware, software, networks, data, facilities and related equipment	— Digital capabilities are table stakes — front, middle and back office — 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 — Access to the market will more heavily require digitally-enabled distribution and marketing channels — The race to acquire digital, technology and data talent will heat up quickly, scenario planning becomes the norm	1. Enhance technology infrastructure to support the organization's future operating model, most likely a dual construct — physical and virtual 2. Update the data strategy to harvest, maintain and protect the internal and external data needed to support the current operating model 3. Define a long term vision for the organization and the role technology will play in the future: — re-establish a technology project portfolio to support and develop that vision

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