



# New Reality for Insurance: United States

**Insurance value chain:  
Personal lines**

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.

# Personal lines

## 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>— A significant shift to remote work seems likely, and therefore will change the potential product suite of home, auto, second home and leisure craft policies</li> <li>— New product offerings, riders or changed terms will emerge around:               <ul style="list-style-type: none"> <li>— usage-based auto</li> <li>— home use for work purposes</li> <li>— travel insurance and coverage or exclusions for pandemics (maybe 'coverage for any reason' will emerge)</li> </ul> </li> </ul>	<ol style="list-style-type: none"> <li>1. Introduction or re-introduction of usage-based policies at scale</li> <li>2. Clearer definition and triggers on premium returns based on losses or use and develop a process for assessing how and when to make such offers in the future</li> <li>3. Identify any coverage changes or adjustments based on the increased use of home as an office for an extended period of time</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 may require adjustment based on several key considerations for the future:               <ul style="list-style-type: none"> <li>— will the price of the marketing medium be worth the return? (large events cancelled, yet more may view them on TV/media)</li> <li>— will tied agents be able to be the second wave of personal marketing?</li> <li>— how will the products be positioned going forward?</li> <li>— will the discount game (e.g. cheapest price) continue to resonate?</li> </ul> </li> </ul>	<ol style="list-style-type: none"> <li>1. Update market messaging to reflect customer sentiment and product positioning</li> <li>2. Adjust marketing mediums (e.g. print, mail, digital, TV, event sponsorship) and expected impact analysis to align with spend and return</li> <li>3. Update and align marketing function to new needs, which must consider messages, campaigns, mediums, ways of working, capacity and talent</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>— Direct-to-consumer will continue to be common for auto insurance and will start to be more tested in homeowners insurance</li> <li>— The agent-based model will be stressed, especially considering the cost pressures that model has endured over the past several years</li> <li>— Distribution and sales model will focus on obtaining a more optimal balance of direct/digital and agent-force               <ul style="list-style-type: none"> <li>— while also meeting the customer where they 'want to be met'</li> <li>— which will present unique opportunities and challenges</li> </ul> </li> </ul>	<ol style="list-style-type: none"> <li>1. Reassess the balance needed between agent and digital-assisted distribution models:               <ul style="list-style-type: none"> <li>— evaluate the aspects of the model that need to be changed based on consumer requirements and new accepted ways of interaction</li> </ul> </li> <li>2. Update the stories, based on marketing messages, that distribution and sales will leverage to enable impactful interactions:               <ul style="list-style-type: none"> <li>— stories should be told consistently through the mediums leveraged</li> </ul> </li> <li>3. Establish the new operating model for distribution and sales considering:               <ul style="list-style-type: none"> <li>— how will they work</li> <li>— what physical (versus virtual) footprint is needed</li> <li>— what process and technology will be used to interact with clients or targets</li> </ul> </li> </ol>

## Primary activities

	Definition	The new reality	Actions to consider
<b>Underwriting</b>	Analyzing risk profiles and premium pricing models to bind and issue policies	<ul style="list-style-type: none"> <li>— Pricing will be very competitive given that the pandemic significantly reduced exposure for many personal products:               <ul style="list-style-type: none"> <li>— less car accidents</li> <li>— early detection of event in the home), especially in a prolonged work-from-home world</li> </ul> </li> <li>— More data-driven underwriting using enhanced technology:               <ul style="list-style-type: none"> <li>— consumers are more willing to share personal and usage data via the internet of things (IOT)</li> </ul> </li> <li>— Insurers may revisit usage-based products that will play better to consumers with significantly less auto and homeowners risk exposure</li> </ul>	<ol style="list-style-type: none"> <li>1. Invest in innovation to make underwriting fully tech-enabled           <ul style="list-style-type: none"> <li>— streamlining the process from quote through issuance (including enablers such as AI, machine learning and predictive modeling)</li> </ul> </li> <li>2. Continue identifying and incorporating non-traditional data into the underwriting process (e.g. data reading from auto and home sensors)</li> <li>3. Explore the risk profiles and pricing models for usage-based products</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>— Radical shift in customer behavior and acceleration of digital adoption</li> <li>— Critical need to adapt all processes to enable a 'digital first' culture</li> </ul>	<ol style="list-style-type: none"> <li>1. Prioritize transactions according to scale and customer willingness to engage digitally. Then relentlessly focus on streamlining customer experience</li> <li>2. Identify middle/back office process automation opportunities</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>— Insurers need to prepare for the 'next wave' of claims by advancing technology-enabled processes</li> <li>— Claims handling will transform to a self-adjudication process:               <ul style="list-style-type: none"> <li>— one that allows the policyholder to digitally submit and track the claim</li> </ul> </li> <li>— Automation, including artificial intelligence (AI), will process the claim:               <ul style="list-style-type: none"> <li>— this will reduce/remove reliance on traditional claims personnel and processes over time</li> </ul> </li> </ul>	<ol style="list-style-type: none"> <li>1. Evaluate exposure to pandemic-driven claims and incorporate learnings into pricing and reserving</li> <li>2. Develop self-adjudication and automated claims handling capabilities</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>— Flight to safety and stability. For example, potential increased holdings of government debt and cash</li> <li>— More limited appetite for significant investment risk until economic recovery takes hold:               <ul style="list-style-type: none"> <li>— will be balanced against need for increased yield given low interest rates</li> </ul> </li> </ul>	<ol style="list-style-type: none"> <li>1. Close and continuous monitoring of solvency positions</li> <li>2. Rapid decision-making to mitigate risks and identify opportunities</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. Perform actuarial analyses and adjust reserving as appropriate to reflect new environment</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> <li>3. Assess how risk factors should be adjusted for products with significantly less exposure</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>

# Contacts

**Laura J. Hay****Global Head of Insurance**

KPMG International

**E:** [ljhay@kpmg.com](mailto:ljhay@kpmg.com)**Edward J. Chanda****National Sector Leader Insurance**

KPMG in the US

**E:** [echanda@kpmg.com](mailto:echanda@kpmg.com)**Gary Plotkin****Principal, Management Consulting****Insurance Lead**

KPMG in the US

**E:** [gplotkin@kpmg.com](mailto:gplotkin@kpmg.com)**Scott Shapiro****Principal, Insurance****Advisory Lead**

KPMG in the US

**E:** [sashapiro@kpmg.com](mailto:sashapiro@kpmg.com)[home.kpmg/socialmedia](https://home.kpmg/socialmedia)

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