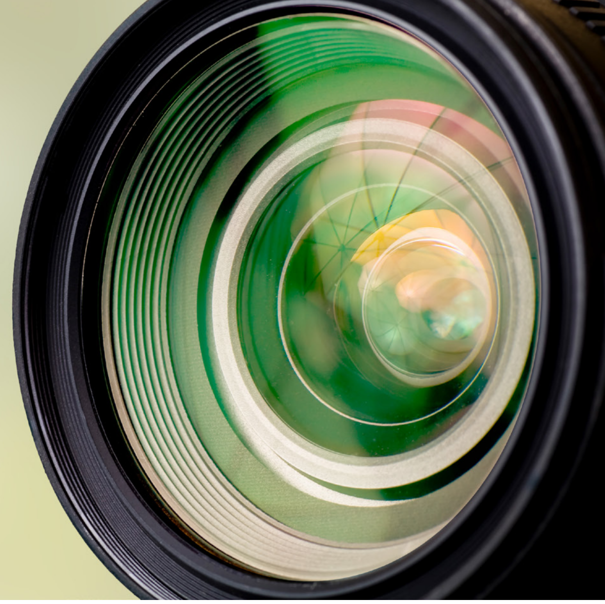
On the 2019 insurance board agenda



Insurers' board and audit committee agendas must continue to evolve in 2019 amid the game-changing implications of ever-evolving customer demands, ongoing technology innovation, new developments in the nature and types of risk.

While striving to offer new products and services quickly to address new risk pools created by changing customer behavior and/or technology advances—at prices that simultaneously build their top and bottom lines and are acceptable to retail and commercial customers—insurers are confronting issues that pose both challenges and opportunities.

Fundamentally, board members in the oversight roles must have confidence that senior management can maintain the balance of near-term focus and agility with long-term planning and execution.

Drawing on insights from our ongoing interactions with insurance directors and insurance industry leaders, we've highlighted six items for insurance boards and audit committees to consider going forward:

— The delivery of relevant products and services that reflect evolving customer needs and expectations

— The recognition that connecting digital transformation with risk management and strategy is more important—and more challenging—than ever

— The potential for more mergers and acquisitions (M&A), as well as alliances and joint ventures with insure-tech organizations, which have become more influential with each passing month

— Assess, monitor, and reinforce culture as a strategic asset and critical risk

— Understand how the finance organization will reinvent itself and add greater value in this technology and data-driven environment

— The need to continue to refine boardroom discussions about how well the organization is managing cybersecurity and data privacy issues

The delivery of relevant products and services that reflect evolving customer needs and expectations

When it comes to winning customer hearts and minds, insurers are no longer being compared just against each other; they are being measured against customer expectations based on the last, best experience the customer had … no matter what industry sector delivered it. That means the pressure is now on insurers to deliver increasingly relevant and valuable experiences. What the leaders demonstrate is that it takes more than just good customer service and fast claim processes to receive a high customer rating in the insurance industry. Rather, it requires insurers to radically sharpen their value proposition to hone in on their target customers' expectations. That won't always be easy. It is about meeting customer expectations from beginning to end. So what does this mean?

In part, that means becoming better connected to their policy holders and insured risks. The emergence of smart home technologies, autonomous cars and the shift towards the sharing and the gig economies are already changing the dynamics in the non-life sectors. The introduction of wearable technologies and the adoption of health and fitness apps may lead to similar changes in the life sector.

It also means becoming a more connected enterprise – from a data, IT and systems perspective, as well as from a vision, culture and objectives perspective. The reality is that customer expectations are not met by operating in silos; carriers that are able to connect and align their organization behind their customer agenda stand to gain the greatest traction with their target customers.

The recognition that connecting digital transformation with risk management and strategy is more important—and more challenging than ever

Advances in digital technologies such as cloud computing, robotic process automation, machine learning, artificial intelligence, and blockchain—and the speed of these advances—are disrupting business models and transforming how insurance organizations do business. Traditional enterprise risk management processes may not be designed to address the disruptive risks posed by these digital advances, or to assess the continuing validity of key assumptions on which an organization's strategy and business model are based. Boards must help management reassess the insurance organization's processes for identifying the risks and opportunities posed by digital advances and for assessing their impact on the company's strategy.

Does management have an effective process to monitor technology changes in the external environment that affects the industry? Does the process provide early warning that adjustments to strategy might be necessary?

Also, understanding how the insurer collects, protects, analyzes, and uses data and complies with privacy laws has become table stakes for broader, potentially game-changing questions: What are the goals of the company's digital strategy and how can the use of big data and advanced analytics help drive the business?

Help the insurance organization test its strategic assumptions and keep sight of how the big picture is changing by connecting dots, thinking differently, and staying agile and alert to what's happening in the world. In short, digital disruption, strategy, and risk should be hardwired together in boardroom discussions.

Potential for more mergers and acquisitions (M&A), alliances, and joint ventures with insure-tech organizations, which have become more influential with each passing month

With insurance industry capital and surplus levels at record highs across the industry, KPMG research indicates that nearly three-quarters of insurance executives expect to seek M&A opportunities, and two-thirds expect to seek partnership opportunities over the next three years.

While such collaborations often are undertaken to solve the underlying challenges of expansion, reduction of costs, and competitiveness, only time will tell whether these transactions will translate into lasting improvements.

Boards and management should be watching these events closely. Actively assess the organization's current footing, and whether a move to consolidate would be beneficial. Are there opportunities for innovation and business process transformation, enhancing the customer experience through new platforms, and creating new economic value pools to take capitated risk and achieve smart growth?

The decision to build, buy, partner, or align is a complex one for management and the board. Factor in required investment, regional dynamics, and short- and long-term risks within and outside the organization.

As a result, organizations need to think through potential scenarios and related investment models. In thinking through the scenarios in the context of the organization's strategy and risk appetite, the board should consider issues such as: What is our competitive position in the marketplace relative to health plans? Do we have the required capabilities to take on risk and other insurers' competencies? Would we have effective input in governing joint ventures and partnerships?

Assess, monitor, and reinforce culture as a strategic asset and critical risk.

Corporate culture is front and center for companies, shareholders, regulators, employees, and customers—as it should be for every board. Headlines of sexual harassment, price gouging, shady sales practices, and other wrongdoing—with corporate culture as the culprit—have put boards squarely in the spotlight: Where was the board? And what is it doing to fix the culture?

Given the critical role that corporate culture plays in driving a company's performance and reputation—for better or for worse—we see boards taking a more proactive approach to understanding, shaping, and assessing corporate culture. Among the messages we hear: Have a laser focus on the tone set by senior management and zero tolerance for conduct that is inconsistent with the company's values and ethical standards, including any "code of silence" around such conduct. Be sensitive to early warning signs and verify that the company has robust whistle-blower and other reporting mechanisms in place and that employees are not afraid to use them.

Understand the company's actual culture (the unwritten rules versus those posted on the breakroom wall); use all the tools available—surveys, internal audit, hotlines, social media, walking the halls, and visiting facilities—to monitor the culture and see it in action. Recognize that the tone at the top is easier to gauge than the mood in the middle and the buzz at the bottom. How does the board gain visibility into the middle and bottom levels of the organization? Do employees have the confidence to escalate bad behavior and trust their concerns will be taken seriously?

Make sure that incentive structures align with strategy and encourage the right behaviors, and take a hard look at the board's own culture for signs of groupthink or discussions that lack independence or contrarian voices. Focus not only on results, but also on the behaviors driving them.

Understand how the finance organization will reinvent itself and add greater value in the current technology- and data-driven environment

Over the next two years, we expect finance functions to undergo the greatest technological transformation since the 1990s and the Y2K ramp-up. This transformation will present important opportunities for finance to reinvent itself and add greater value to the business. As audit committees oversee and help guide finance's progress in this area, we suggest several areas of focus.

First, recognizing that the bulk of finance's work involves data gathering, what are the organization's plans to leverage robotics and cloud technologies to automate as many manual activities as possible, reduce costs, and improve efficiencies?

Second, how will finance use data and analytics and artificial intelligence to develop sharper predictive insights and better deployment of capital? The finance function is well positioned to guide the company's data and analytics agenda—and to consider the implications of new transaction-related technologies, from blockchain to cryptocurrencies.

As historical analysis becomes fully automated, the organization's analytics capabilities should evolve to include predictive analytics—an important opportunity to add real value.

Third, as the finance function combines strong analytics and strategic capabilities with traditional financial reporting, accounting, and auditing skills, its talent and skill sets must change accordingly. Is finance attracting, developing, and retaining the talent and skills necessary to deepen its bench strength and match its evolving needs? It is essential that the audit committee devote adequate time to understand finance's transformation strategy.

Need to continue to refine boardroom discussions about how well the organization is managing cybersecurity and data privacy issues

Cyber threats continue to grow more sophisticated and aggressive, with implications for nearly every facet of business. Hacks punctuate the new reality that any organization on the grid is vulnerable. Boardroom discussions should be moving beyond prevention to detection, containment, and response—and to addressing cybersecurity as an enterprise-wide business issue that affects strategy, compliance, product development, M&A, expansion into new geographies, and relationships with vendors, suppliers, and customers. A robust and frank boardroom dialogue is vital to helping the company learn to live with cyber risk and making cybersecurity a core competency across the business.

How frequently is the maturity of the company's cybersecurity risk management framework evaluated?

How is the company keeping up with regulatory changes and new legal requirements? Is the company staying abreast of industry practices and connecting with law enforcement?

Does the company have an incident readiness and response plan that has been reviewed and tested? Is the board getting the information it needs (cyber dashboard) to oversee cybersecurity efforts?

What risks does the use of big data pose, and who is responsible for making decisions about the collection and use of data? Europe's recently enacted General Data Protection Regulation, and other data privacy rules such as California's Consumer Privacy Act should prompt rigorous assessments of companies' data practices. Indeed, with data privacy linked so tightly to trust and reputation, a running reality check is essential: "Just because we can doesn't mean we should."

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KPMG recognizes that insurers are rethinking the way they conduct business. Volatile markets, disruptive technologies, laser focus on the customer, and new regulations and compliance issues have brought financial services companies to a crossroad.

KPMG's Insurance professionals know how to transform today's uncertainty into opportunity for our clients. We view our insurance clients' current challenges as possible breakthroughs that can transform their operations and create a sustainable advantage. We work with leading insurers to help them redirect these changes—with the goal of creating answers to their most pressing business questions.

Contact us

Learn more about KPMG's Insurance practice at
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