



New Reality for Insurance: Australia

**Insurance value chain:
Commercial insurance**

KPMG International

home.kpmg



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
Product and service development	Using customer and market insights to design, develop and deploy products and services	<ul style="list-style-type: none"> — Current product suite with pre-COVID features (and coverage) will be a hard-sell in post-pandemic market, insurers will have to consider newer risks and customer perception to create new product and service offerings to retain business 	<ol style="list-style-type: none"> 1. Simplify product offering and accelerate development of digital channels 2. Simplify terms and conditions and product disclosure statements (PDSs) and provide clarity on pandemic related risks, coverage etc. to address customer concerns and reduce failure demand in relation to queries
Marketing	Driving, monitoring and enabling sales and customer retention through brand management, advertising and customer engagement	<ul style="list-style-type: none"> — New normal demands for greater stability, interconnectedness and customer loyalty to tackle growing uncertainty and deliver customer value demonstrating insurers' empathy 	<ol style="list-style-type: none"> 1. Refresh marketing effort to include new channels of choice i.e. digital campaigns to complement existing brand and marketing efforts 2. Assess changing voice of the customer/broker to reshape branding and advertising
Distribution and sales	Understanding and strategically penetrating the addressable market to deliver products and services and to generate revenue	<ul style="list-style-type: none"> — There is a huge pressure on sales and distribution teams as a result of diminished business activity and limited use of face-to-face channels due to social distancing restrictions — However, this may be somewhat counterbalanced by increased adoption of digital channels 	<ol style="list-style-type: none"> 1. Rethink sales and distribution strategy and cater to changing customer needs and businesses to increase market footprint 2. Increase upfront benefits for businesses impacted due to pandemic (existing customers) and waive off waiting periods (new customers) to increase new sales and retain customers 3. Refresh sales and distribution key productivity indicators (KPIs) to reflect changes in sales strategy due to increased adoption of digital channels for distribution

Primary activities

	Definition	The new reality	Actions to consider
Underwriting	Analysing risk profiles and premium pricing models to bind and issue policies	<ul style="list-style-type: none"> — Due to COVID-19, initial product development from property and casualty companies will be to enhance their brand names <ul style="list-style-type: none"> — premiums are free/cheap but payouts are also small — Expect to see insurers adapt and develop improved service offerings to enterprises, for example <ul style="list-style-type: none"> — an office package product to small and micro businesses — Underwriting processes should not be over complicated for small/medium enterprises (SME) on standard package product — Expect insurers to further accelerate use of analytics and automation to optimise underwriting process for SME and micro businesses to reduce costs while increasing throughput — Large commercial underwriting not significantly changed, but contract wordings will be clearer regarding pandemic inclusion — Revisit risk rating criterion to incorporate accurate exposure assessment in post-COVID world, while maintaining competitive pricing levels 	<ol style="list-style-type: none"> 1. Assess current book from a distribution and pricing perspective to determine key exposures and opportunities for growth 2. Understand the cancellation, renewal and retention of expected outcomes to determine the potential exposures and opportunities 3. Adopt a streamlined technology-enabled process based on risk data for <ul style="list-style-type: none"> — pre-pipeline, pre-fill, rating and RFP responses
Policy administration	Managing the administrative activities required by the enforce populations (e.g. inquiries, cancellations, changes, billing and collections)	<ul style="list-style-type: none"> — Policy administration is still viewed as a 'non-core' set of activities for most insurers — Non-core activities can have a profound perception or operating impact when challenges occur, like in the case of a pandemic — 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 — Policies that were poor value before COVID-19 pandemic have only become worse value as the industry dithers on returning their unexpected windfalls back to their commercial customers 	<ol style="list-style-type: none"> 1. Assess critical path processing activities with special consideration to on-shore, near-shore and offshore activities 2. Introduce better control mechanisms to reduce operational and admin overheads related to cancellations and changes
Claims management	Evaluating and settling claims, including payment, reinsurance recovery and litigation, when applicable	<ul style="list-style-type: none"> — Remote claim handling will become the norm with the goal of frictionless customer experiences — New risks will be presented associated with remote processes which require new control procedures — Better integration with the supply chain providers to enable paperless settlement — Increasing use of advanced algorithms and machine learning to detect frauds e.g. identifying 'networks of frauds', scraping of social media to identify fraudulent claims 	<ol style="list-style-type: none"> 1. Accelerate cash settlement/claims process for SME businesses impacted due to pandemic 2. Self-service enabled claims are a winner by being cost effective 3. Enable the broker network through use of technology, training and access to in-house knowledge management (housing policies etc.) to handle and respond to surge in coverage related queries from customers
Asset and investment management	Leveraging and investing assets from policyholder surplus and reserves to generate revenue and provide solvency for liabilities	<ul style="list-style-type: none"> — Impacts of low yields and discount rates will need continual management although conservative investment strategies and well developed asset and liabilities management (ALM) practices in the Australian market have made this less of an issue for general insurers at this stage — Some challenges/risks around illiquid assets however portfolio mix in Australian market should allow an orderly exit from such assets if required 	<ol style="list-style-type: none"> 1. Maintain focus on ALM and conservative portfolio management 2. Focus on underwriting discipline and claims management absolutely key for profitability, no free kicks from investment returns

Support activities

	Definition	The new reality	Actions to consider
Human resources management	Managing the organisation's workforce to engage people effectively (e.g. recruiting, hiring, training, compensating, terminating)	<ul style="list-style-type: none"> — Employee satisfaction and retention will prove to be a challenge in post-pandemic era and will require insurers to redefine measures to support their workforce of the future — Investing in people (training, perks etc.) and skills-based hiring will reduce the time required for post-pandemic recovery 	<ol style="list-style-type: none"> 1. Embrace 'business as un-usual' and the new normal to support new ways of working 2. Establish policies and procedures to support remote and agile workforce 3. Refresh and rethink traditional productivity measures and face-time dependent KPIs to minimise impact on staff performance
Finance, actuarial and tax	Managing and reporting on finances, including contollership, financial planning and analysis (FP&A), accounts receivable/ accounts payable (AR/AP), tax and actuarial (reserving, capital liquidity and ALM)	<ul style="list-style-type: none"> — Increased frequency of catastrophic (CAT) events and exposure to business continuity risk due to pandemics will demand insurers to integrate their claims reporting with actuarial and underwriting divisions, by developing options to support business customers experiencing financial hardships to sustain and stabilise 	<ol style="list-style-type: none"> 1. Review of pricing of existing products and new products 2. Reduce cost base of the business (leaner and more agile structures) 3. Continued review of products and pricing as a result of regulatory and royal commission findings
Risk management	Developing and implementing strategies to assess, manage and mitigate losses due to risk exposure across the entire organisation	<ul style="list-style-type: none"> — Risk management teams must adjust to new and different risks presented by planning for dual operating models - physical vs. virtual — Cyber and data privacy risks continued focus with a more remote workforce — Revived attention on business continuity and resiliency where scenario planning becomes the norm 	<ol style="list-style-type: none"> 1. Assess new ways of working to evaluate risks and the associated controls in place (or required) <ul style="list-style-type: none"> — 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 <ul style="list-style-type: none"> — may include collaboration with regulators 3. Renewed focus on compliance with the General Insurance Code of Practice with regular reporting by insurers on compliance/ exceptions
Data and technology	Managing, monitoring and securing an enterprise's entire collection of hardware, software, networks, data, facilities and related equipment	<ul style="list-style-type: none"> — Acceleration in embedding digital capabilities across middle and back-office operations — High reliance on technology infrastructure to support remote working and enable optimisation of operating costs. An increased spend on cyber security and remote working technologies may increase the technology spend in the shorter term — Access to the market will more heavily require digitally-enabled distribution and marketing channels 	<ol style="list-style-type: none"> 1. Enhance technology infrastructure to support the organisation's future operating model, most likely a dual construct — physical and virtual, and to support mass scale remote working on a more sustained basis 2. Increased use of data to enable adoption of digital technologies across the value chain

Contacts

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

KPMG International

E: ljhay@kpmg.com**David Kells****National Sector Leader, Insurance**

KPMG Australia

E: dkells@kpmg.com.au**Linda Elkins****National Sector Leader, Asset & Wealth Management**

KPMG Australia

E: lindaelkins@kpmg.com.au**Karen Parkes****Partner, Customer & Operations**

KPMG Australia

E: kparkes@kpmg.com.au**Octavio Gomez Haro****Director of Business Development**

KPMG Australia

E: ogomezharo@kpmg.com.au**Tim Thomas****Partner, KPMG Strategy**

KPMG Australia

E: timthomas@kpmg.com.au**Scott Guse****Partner, Audit, Assurance & Risk Consulting**

KPMG Australia

E: sguse@kpmg.com.au**Richard Yee****Partner, General Insurance Actuarial and Data Analytics**

KPMG Australia

E: richardyee@kpmg.com.au**Daniel Knoll****National Industry Leader, Financial Services**

KPMG Australia

E: danielknoll@kpmg.com.au**home.kpmg/socialmedia**

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

© 2020 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Liability limited by a scheme approved under Professional Standards Legislation.

Designed by Evalueserve.

Publication name: New Reality for Insurance — Australia

Publication number: 136930-G

Publication date: August 2020