KPMG

New Reality for Insurance: Australia

Insurance value chain: Life and health

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.

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	— Due to a) legislation allowing early withdrawals from retirement savings, b) increased scrutiny on appropriateness of product terms, and c) changes in consumer wants-needs; creative/ modular products will be needed that cater for the ageing population who are underprepared for retirement and more discerning and educated younger middle market who want products that meet their individual needs
		— The Australian Government has released a set of incentives to support families and small businesses that impact the new economic outlook
		    — legislation allowing early withdrawals from retirement savings coupled with a drop in market returns will accelerate pursuit of creative products (e.g. critical illness riders) and services (e.g. financial wellness)
		    — The JobKeeper Payment scheme is a temporary subsidy for businesses significantly affected by COVID-19. Eligible employers, sole traders and other entities can apply to receive AUD1,500 per eligible employee per fortnight (source: Australian Taxation Office)
		— These factors will have implications on product and service development of life insurance products such as Income Protection (IP), Total and Permanent Disability (TPD). As well as mental wellness propositions
			1. Open up speedy channels for full and quick claim settlement. Increase the number of customer touchpoints to the insurer to remove the reliance on face-to-face sales
			2. Expanded policy coverage and enhanced production for front-line healthcare workers and volunteers
			3. Strengthen sales management and safeguard the legitimate rights and interests of policy holders

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) — Insurers need to improve communication with policyholders, to maximise on the recent increased engagement with life insurance, and move away from insurance being a 'set and forget' purchase — More aggressive campaigns to retain customers and increase loyalty through "emotional connection to the brand" demonstrating empathy and customer support during these difficult times	1. Update market messaging to reflect customer sentiment and product positioning 2. Update and align marketing function to new needs, which must consider messages, campaigns, mediums, ways of working, capacity and talent 3. Need to better connect with policyholders (how and when) providing them with personalised and experience-led engagement that meets their needs
Distribution and sales	Understanding and strategically penetrating the addressable market to deliver products and services and to generate revenue	— Advice will continue to be a significant channel for insurance distribution, particularly if current trends towards increased need for financial advice continues — However, changes in consumer buying behaviors, will force insurers to be able to offer the right products to the customer at the right time via the right channel	1. Development and enhancement of end-to-end digital distribution capabilities (i.e. linking underwriting, policy administration and claims with third-party distribution and management systems for advisers and superannuation providers) — advisors adopting new digital interaction channels to provide advice to existing and new customers 2. Operating model that supports the move towards digital advice 3. Funds providing new products and policies (or revamped premiums) particularly for vulnerable customers and customers nearing retirement

Primary activities

	Definition	The new reality	Actions to consider
Underwriting	Analysing risk profiles and premium pricing models to bind and issue policies	— 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) — need to significantly improve data capabilities and in doing so manage information held in legacy systems and the quality of this data to enable the use of it for predictive/ individual underwriting	1. Investment in building/enhancing data capabilities to automate/personalise underwriting decisions 2. Investment in technology to improve automatic underwriting and operating models to support the increased automation 3. Building technical capability in underwriters — as automation removes the need for simple underwriting, the ability to train up junior underwriters becomes challenging when the need for experienced underwriters increases to manage complex cases
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) — focus on complexity around management of legacy systems, and products/data
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 — Expect automation at first will be focused on back-end processing as opposed to automation at customer touch points, given that claims is the most significant 'moment of truth' for customers — Significant increase of medical consultations to be delivered over tele-health moving forward (impacting claims assessments)	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, with focus on developing operating model and staff capabilities to support a more automated environment 3. Investment in automation to expedite and simplify complex handling processes
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 — Expectation that premium revenues generated from superannuation funds will reduce over the short to medium term and consumers opt out of insurance, or coverage automatically ends as the early draw down on their superannuation balances prevents them from being able to pay premiums, or takes them below new thresholds for mandatory coverage	1. Evaluate exposure to 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 organisation'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 — Continued investment in infrastructure to support new ways of working (remote working, real estate space that challenges the Monday to Friday 9am to 5pm model)	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: — assess shortage of skilled resources in underwriting, claims and actuarial with the potential to utilize and access international talent pools leveraging remote working arrangements — implement internal programs to build technical capabilities (e.g. partnering with reinsurers to provide training academies in underwriting and claims) 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 ALM)	— Focus on being valued business partners within 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 — Pricing new products to ensure they remain sustainable and affordable for consumers will be a key challenge	1. Perform actuarial analyses and adjust reserving as appropriate to reflect new environment 2. 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 3. Maintain focus on preparing and reacting to federal, state and local regulatory changes to optimise tax planning and outcomes — 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	— Continued focus on capitalisation and any areas of trapped capital — Risk management teams must adjust to new and different risks presented by planning for dual operating models — physical vs. 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 — revise risk management frameworks under a COVID-19 lens 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 — Need to implement back end technology solutions to reduce the reliance/limitations imposed by legacy systems and data	1. Enhance technology infrastructure to support the organisation'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 organisation and the role technology will play in the future — re-establish a technology project portfolio to support and develop that vision

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

Octavio Gomez Haro
Director of Business Development
KPMG Australia
E: ogomezharo@kpmg.com.au

Scott Guse
Partner, Audit, Assurance & Risk Consulting
KPMG Australia
E: sguse@kpmg.com.au

Daniel Knoll
National Industry Leader, Financial Services
KPMG Australia
E: danielknoll@kpmg.com.au

Karen Parkes
Partner, Customer & Operations
KPMG Australia
E: kparkes@kpmg.com.au

Tim Thomas
Partner, KPMG Strategy
KPMG Australia
E: timthomas@kpmg.com.au

Richard Yee
Partner, General Insurance Actuarial and Data Analytics
KPMG Australia
E: richardyee@kpmg.com.au

home.kpmg/socialmedia

Designed by Evalueserve.

Publication name: New Reality for Insurance — Australia

Publication number: 136930-G

Publication date: August 2020