



New Reality for Insurance: United Kingdom

**Insurance value chain:
Commercial insurance**

KPMG in the UK

home.kpmg/uk





Insurance value chain

Throughout COVID-19, the insurance industry — along with all business — has experienced a time of great challenge. The impacts of the 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, 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 early 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"> — The core product suite will not change greatly — There will be emphasis on streamlining products as many insurers believe this will <ul style="list-style-type: none"> — improve the step towards digitalisation — give management line of sight to coverage and exposure — provide the transparency clients need without damaging the offerings available — Insurers should consider how they can get closer to the client with risk management services and how that plays in with broker/agent. Key questions <ul style="list-style-type: none"> — how to acquire the right skills — what is the business model — how it can be packaged so that it includes risk transfer as a combined service/product offering 	<ol style="list-style-type: none"> 1. Conduct a review of product terms and conditions, including product simplification, basic plain English description of policy or suite, to determine approach exposure or perception concerns 2. Conduct a product review to assess where management of risk and risk transfer can be combined and where each should play in a stand-alone product and service 3. Assess what the operating model would look like to <ul style="list-style-type: none"> — incorporate management of risk as well as risk transfer across products and segments — assess where the gaps would be and how they could be plugged
Marketing	Driving, monitoring and enabling sales and customer retention through brand management, advertising and customer engagement	<ul style="list-style-type: none"> — Marketing needs to stay close to messaging and brand advertising <ul style="list-style-type: none"> — since commercial business is intermediated, it is likely that changed approaches to products/operating models etc., will be handled directly by the business through intermediary channels — New critical path for shifts in the operating model must be rapidly understood to ensure better ways of working 	<ol style="list-style-type: none"> 1. Consider reputation risks and adapt business and product approach accordingly <ul style="list-style-type: none"> — ensure marketing aligns and supports business efforts 2. Working closely with distribution, operations and technology, identify the operating model enablers for marketing — also known as the mediums <ul style="list-style-type: none"> — given the majority of the face-to-face relationship investments, how will it change going forward?
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"> — Digitalisation of the lower segments with underwriters acting as portfolio managers, supported by finance and data science. Team shapes will change — There will be an upgrading of the use of CRM systems to be a broker/underwriter performance management tool as well as opportunities management — In the mid-large segments, many insurers are talking about the need to understand the clients and their context better than the brokers to approach brokers with a product and client strategy to pursue 	<ol style="list-style-type: none"> 1. Review brokers/portfolios to understand bind ratios and profitability by broker 2. Develop performance management to embrace broker and underwriter performance versus opportunities presented and/or pursued 3. Take a new approach to business development strategy with brokers <ul style="list-style-type: none"> — Use data and analytics to develop a product/client strategy across the portfolio and agree with brokers your expectations

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"> — Underwriting will be digitised across all segments focused on <ul style="list-style-type: none"> — portfolio management at the SME/lower middle market end — curated risk selection and decision taking in the middle market — information rich expert underwriting management for multinational business — All will be supported by data and analytics, internal and external, which will reduce foraging for information — For straight-through processing, underwriting workbenches and multi-national programmes, information will be automatic to enable underwriting decision taking from automated, through curated to deliberate risk review/decisions — Dynamic technical pricing models will be incorporated into the digital underwriting processes. <ul style="list-style-type: none"> — Location will become less important and much of the business will be undertaken virtually — Most insurers will retain a smaller footprint in London and will reinvent their regional footprint to more much smaller offices 	<ol style="list-style-type: none"> 1. Review digital strategy to assess how to move to virtual digital working across products and segments. Include a review of business that could have been acquired on digital platforms but has not with the intention of driving adoption 2. Revitalise data strategy from a business perspective and use data and analytics to drive underwriting excellence and efficiency 3. Look at the end-to-end operating model with brokers and other third parties <ul style="list-style-type: none"> — review underwriting approach as to how business is to be conducted moving forward — consider how firms need to change as a result
Policy administration	Managing the administrative activities required by the inforce 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 <ul style="list-style-type: none"> — non-core activities can have a profound perception or operating impact when challenges occur, like in the case of a pandemic — In the UK, the new operational resilience regime (due to come in late 2021) is causing companies to look at their services and make decisions about how key elements are being fulfilled <ul style="list-style-type: none"> — in house, outsource and alliances — implementing stronger controls on those third parties they will retain — Operating models for service are changing <ul style="list-style-type: none"> — desire to accelerate the automation of policy administration to mitigate risks, enable resilience and bring efficiency 	<ol style="list-style-type: none"> 1. Assess critical path processing activities with special consideration to on-shore, near-shore and offshore activities. 2. Review controls and business continuity plans of key third-party suppliers and their sub-contract parties 3. Review automation strategy and accelerate automation projects for lines of business where policy administration may be automated
Claims management	Evaluating and settling claims, including payment, reinsurance recovery and litigation, when applicable	<ul style="list-style-type: none"> — Insurers will accelerate the drive to digital end-to-end claims processes — Where change budgets have been cut, insurers will consider low code or no code solutions in conjunction with the core legacy platforms. <ul style="list-style-type: none"> — these solutions can help organisations to move to digital more quickly and at lower cost — Functions will also drive to more effective and efficient operations as cost becomes even more of a focus 	<ol style="list-style-type: none"> 1. Scale the operating model for remote claim handling, including where remote processing will and will not be leveraged 2. Understand leakage areas and where potential exposures reside <ul style="list-style-type: none"> — process must be technology-enabled, yet subject matter expert anchored
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"> — Digitisation — acceleration of plans for automation and operational efficiency and increased margin pressure across the industry — Further disintermediation of distribution models and a move towards ‘direct to consumer’. Winners will be those that can leverage brand and are digitally accessible — Product innovation focus on lifestyle investing, offering more flexibility as mass retail investors experience job losses during a period of sustained macroeconomic uncertainty — “ESG v2.0” — growth in demand for impact investment products beyond traditional ESG offerings <ul style="list-style-type: none"> — Closer alignment between ‘corporate’ and ‘product’ ESG narrative 	<ol style="list-style-type: none"> 1. Review digital strategy <ul style="list-style-type: none"> — Enhance operational efficiencies through automation and use of technology throughout the investments value chain — Enhance online presence and digital applications to enhance customer experience 2. Investigate opportunities to leverage client knowledge from the insurance business to better target lifestyle products 3. Revisit both corporate and product ESG strategy and marketing

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"> — Ways of working have changed significantly requiring a new process for managing talent, with emphasis on <ul style="list-style-type: none"> — right-sizing workforce — right skill sets — 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 	<ol style="list-style-type: none"> 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 ALM)	<ul style="list-style-type: none"> — Better integration of actuarial and accounting functions and redesign of end-to-end reporting processes — Accelerated move to the cloud for accounting and actuarial platforms — Focus on being valued business partners within the executive leadership team, providing insights including <ul style="list-style-type: none"> — evolving cash management strategies — understanding tax opportunities — finding opportunities to reduce costs/losses (including within the finance function) 	<ol style="list-style-type: none"> 1. Embrace technology disruptors to transform operating models and unlock the benefits of innovation and automation <ul style="list-style-type: none"> — cost reduction — increase efficiencies — generate insights that can be incorporated into business strategy 2. Maintain focus on preparing and reacting to central, county and local regulatory changes to optimise tax planning and outcomes 3. Consider and assess new approaches to Asset-Liability Management (ALM)
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"> — Better exposure management processes will be developed, such as <ul style="list-style-type: none"> — document management through the use of machine learning techniques to read high volumes of policies in short timeframes — Risk management teams must adjust to new and different risks presented by planning for dual operating models — physical versus virtual — Continue 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 	<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
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"> — Digital and data will combine to transform end-to-end processes for claims, underwriting, servicing and sales and distribution — Low code and no code solutions will sit on top of legacy platforms to improve overall workflow — Acceleration of simplifying legacy estates as security becomes a more significant issue — 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 	<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 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 <ul style="list-style-type: none"> — 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

Simon Ranger

Partner and Head of Insurance

KPMG in the UK

E: simon.ranger@kpmg.co.uk

Trevor Jones

Head of Actuarial and Insurance Risk

KPMG in the UK

E: trevor.jones@kpmg.co.uk

Rob Lant

Partner, Head of FS Deal Advisory

KPMG in the UK

E: rob.lant@kpmg.co.uk

Mark Longworth

Global Head of Insurance Advisory

KPMG International

Partner and Head of Insurance Consulting

KPMG in the UK

E: mark.longworth@kpmg.co.uk

home.kpmg/UK



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. 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.

© 2020 KPMG LLP, a UK limited liability 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.

Designed by Evalueserve.

Publication name: New Reality for Insurance — United Kingdom

Publication number: 136930-G

Publication date: September 2020