



# New Reality for Insurance: United Kingdom

**Insurance value chain:  
Life and health**

KPMG in the UK

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# Insurance value chain

Throughout COVID-19, the insurance industry — along with all business — has experienced the 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.

# Life and health insurance

## 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>— Likely to be driven by regulatory/social care change — e.g. private health care insurance, long-term care</li> <li>— Level of pensions savings (over minimum requirements) dependent on economic recovery                             <ul style="list-style-type: none"> <li>— Transfer of existing employer based pensions to insurers may accelerate depending on available capital</li> </ul> </li> <li>— Greater focus on income protection may occur given greater uncertainty but depends on customer's perception of state support</li> </ul>	<ol style="list-style-type: none"> <li>1. Need to actively shape future government agenda on health care and social care to enable insurance sector to participate in a more meaningful manner</li> <li>2. Continued lobbying for reduction in capital requirements (from Brexit) for longevity risk to enable an acceleration of pension risk transfer business</li> <li>3. Develop greater access for customers to protection and health products more suited to changing requirements.</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>— Insurers must seamlessly transition to discovering and engage consumers digitally                             <ul style="list-style-type: none"> <li>— pandemic may be driving renewed interest in life products</li> </ul> </li> <li>— Customers will demand an omni-channel experience across the full life cycle</li> <li>— 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)</li> <li>— Changing work patterns likely to also influence how pension savings is marketed</li> </ul>	<ol style="list-style-type: none"> <li>1. Refresh market messaging to reflect customer sentiment and product positioning</li> <li>2. Ensure that the provision of any new or existing multi-channel engagement is truly integrated in terms of the customer experience and messaging (i.e. shift from multi-channel to omni-channel)</li> <li>3. Adjust marketing mediums (e.g. print, mail, digital, TV, event sponsorship) and expected impact analysis to align with spend and return</li> <li>4. 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>— The technology and digital capability of intermediaries is falling behind what customers are demanding. This will require a shift in the advice model away from solely face-to-face engagement to embrace all communication channels</li> <li>— For pension savings, the future shape of employment/employers will be the key driver with a likely acceleration of the shift to multi-employer trust based models (master-trusts)</li> <li>— Protection likely to follow the direct-to-consumer model but is likely to need government/social change to lead to growth rather than replacing existing channels</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. 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> <li>— potential impact of consolidation on the intermediary market as smaller players struggle to manage through a market downturn or fund the required technology change</li> </ul> </li> </ol>

## Primary activities

	Definition	The new reality	Actions to consider
<b>Underwriting</b>	Analysing risk profiles and premium pricing models to bind and issue policies	<ul style="list-style-type: none"> <li>— Consumers are becoming more willing to share personal data allowing underwriters to evolve how they evaluate risk and set pricing</li> <li>— 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)</li> </ul>	<ol style="list-style-type: none"> <li>1. Identify opportunities to source and leverage nontraditional data for underwriting</li> <li>2. Review underwriting performance to identify and work around process steps that add minimal value or require in person processing</li> <li>3. Invest in the development of technological enablers (e.g. artificial (AI), machine learning (ML), predictive modeling)</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>— Reduction of policy servicing costs as consumers become more comfortable with digital interactions</li> <li>— Contact centers will be reimagined, leveraging automation (voice, chat, etc.) <ul style="list-style-type: none"> <li>— billing and payments will increasingly shift to contactless processing</li> <li>— self-service will provide consumers with more control (at lower costs)</li> </ul> </li> <li>— Outsourcers — increased activity around transfers of outsourcers or renegotiation of existing arrangements based on automation</li> </ul>	<ol style="list-style-type: none"> <li>1. Review policy admin processes to identify opportunities to automate and enable self-service as a means to increasing efficiency and decreasing costs</li> <li>2. Understand the consumer experience and the 'moments of truth' during the maintenance of their policy</li> <li>3. Assess technological capabilities, reevaluate existing partners and determine where external resources may be required (e.g. vendors, alliances, partners)</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>— Need to reimagine claims handling, even if claims paid do not end up being significantly higher as a result of the pandemic</li> <li>— Increased expense ratios will arise from growing volume and potentially limited new business</li> <li>— Insurers will race to create operating models that heavily rely on self-service and automation to process claims</li> </ul>	<ol style="list-style-type: none"> <li>1. Evaluate exposure to pandemic-driven claims and include considerations for potential indirect effects (e.g. fewer accidental deaths, reclassification of other terminal illnesses)</li> <li>2. Explore and develop automated claims processing 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>— Regulatory focus on credit risk management, particularly illiquid assets, likely to increase</li> <li>— Greater monitoring will be required and potentially external evaluation of internal credit risk ratings on direct investments</li> <li>— Cash and asset management strategies will evolve <ul style="list-style-type: none"> <li>— increased focus on real-time modeling of solvency ratios due to increased volatility in equities, downgrades and credit spreads</li> </ul> </li> </ul>	<ol style="list-style-type: none"> <li>1. Enhance monitoring of credit risk and liquidity risk</li> <li>2. Consider greater disclosure on internal ratings of direct investments and use of external validation</li> <li>3. Management of commercial mortgage exposures focusing on different economic impacts for different sectors</li> </ol>

## Support activities

	Definition	The new reality	Actions to consider
<b>Human resources management</b>	Managing the organisation'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 ALM)	<ul style="list-style-type: none"> <li>— Focus on being 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>— Consider embracing talent from other sectors and disciplines, such as, data science into these functions</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 central, county and local regulatory changes to optimise 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 organisation	<ul style="list-style-type: none"> <li>— Continued focus on capitalisation 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 organisation'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 organisation 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>

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