



cutting through complexity

FINANCIAL SERVICES

Transforming Insurance

Securing competitive
advantage

kpmg.com

KPMG INTERNATIONAL



Contents

- 03 Transformation starts now
- 04 A vision for competitive advantage
- 06 Fast facts: Survey highlights
- 08 The stakes are rising: Transformation is being digitally driven
- 10 What does it mean to be digital?
- 12 Propositions and markets
- 16 Driving value from data and analytics initiatives
- 20 Industry Insights:
Allianz Italy leads digital product invention and customer experience
- 22 Governance and people
- 26 Organizational talent and culture play a pivotal role
- 28 Industry Insights:
RGA adds value for clients via data-driven insights
- 30 Risk, regulation and capital management
- 34 Preparing for an era of cyber insecurity
- 36 Distribution and operations
- 40 Addressing deeply embedded technology challenges offers competitive advantage for insurers and brokers
- 44 Securing competitive advantage: The path to transformation
- 47 References



Transformation starts now

The insurance world is changing, not just incrementally, but fundamentally. At the same time, the digital revolution is transforming the way we interact and do business. The entire insurance value chain is impacted, from distribution to intermediation, risk carriers and service providers, as other industries from e-retailers to automotive set foot in insurance markets, and pension funds and hedge funds finance capital market solutions. At the centre of this transformation into a more connected world are customers, whether consumers or corporates, who expect to be able to select from the products of a vibrant marketplace defined and driven by their needs, preferences and convenience.

In KPMG's 2012 report, *The Intelligent Insurer*, we described the dominant megatrends, the economic, business and social challenges and opportunities facing insurance markets. In our 2013 report, *The Valued Insurer*, we defined the essential traits that tomorrow's insurer will need to succeed. We have discussed this with our clients and contacts around the world and have enriched our research with a further years data. It is clear that those insurers, intermediaries and service providers who are thriving in this changing world are those who have re-engineered their business to place their customers at the heart of everything they do — the key message of *The Valued Insurer*.

Yet as we speak to industry players globally, it is clear that many still face significant barriers in making this happen. To capture a realistic picture of these issues, KPMG commissioned global research to provide up-to-the-minute feedback on the challenges they face. What we found was not surprising: an industry struggling to resolve decades-old infrastructure choices and make meaning of potentially game-changing and disruptive technologies. Many players face complex technology crossroads, without confidence that their decision will reap the desired benefits.

For example, while 69 percent of respondents say they have a digital strategy beyond a website, only 37 percent of them say their digital initiatives are fully aligned to their company's strategic objectives.

In *Transforming Insurance*, we hone the discussion on ways technology can help players in insurance markets meet the above challenges and transform their capacity to identify trends, plan, collaborate, and rapidly respond, adapt and thrive. Our starting point is that technology is not the 'tail that wags the tiger'. Rather, the execution of strategy must be business-led and technology-enabled. Rapidly emerging technologies are crucial enablers to create a competitive advantage and must be applied with rigor and clarity of vision.

At KPMG, we believe that value comes from meaningful insights, by providing pragmatic methodologies that match our clients' real-world challenges. Through *Transforming Insurance*, our goal is to inspire, guide and empower your organization for the future, equipping it to outperform through technology-enabled, business-led innovation. We recognize that, while global speciality insurance and reinsurance markets and the life and health, and consumer markets are highly diverse, they all face challenges, some of which they share in common. As such, we present their shared issues in this publication, and highlight key distinctions where possible.

This path is not achieved by patchwork to close gaps — it fundamentally changes your organization from strategy and core processes to rewarding and attracting talent and culture. This is the message of *Transforming Insurance*. It takes bold vision and practical steps to intelligently and strategically reflect in business and operating models that we live in a more dynamic, digital and data-rich world. We share with you insights from our commentators around the world as you embark on the journey.



Gary Reader
Global Head of Insurance,
Partner,
KPMG in the UK
E: gary.reader@kpmg.co.uk



Mary Trussell
Global Insurance Innovation and
High Growth Markets Lead,
KPMG in Canada
E: mtrussell@kpmg.ca

“Focusing on exploiting data opportunities is key to seeing a return on your technology investments.”

Gary Reader
Global Head of Insurance,
KPMG in the UK

A vision for competitive advantage

We begin with the view that insurers should build upon four key attributes that are essential ingredients to generate value — **focus, efficiency, agility and trust** — to place their customers at the heart of their business and help them face the global megatrends over the coming decades, including **demographic, social, environmental and technological change**.

Harnessing these traits, integrating them into their business model and supporting operations, empowers insurers and intermediaries to recognize, adapt to and succeed in the face of ever-shifting economic, political and market conditions, and position them to leverage new digital technologies, react to competitive threats and seize emerging opportunities.

In May 2014, KPMG International carried out research globally, questioning insurers and intermediaries on the challenges they currently face and their aspirations for the future.

Our research and discussions show that insurers and intermediaries are facing five inter-related issues:

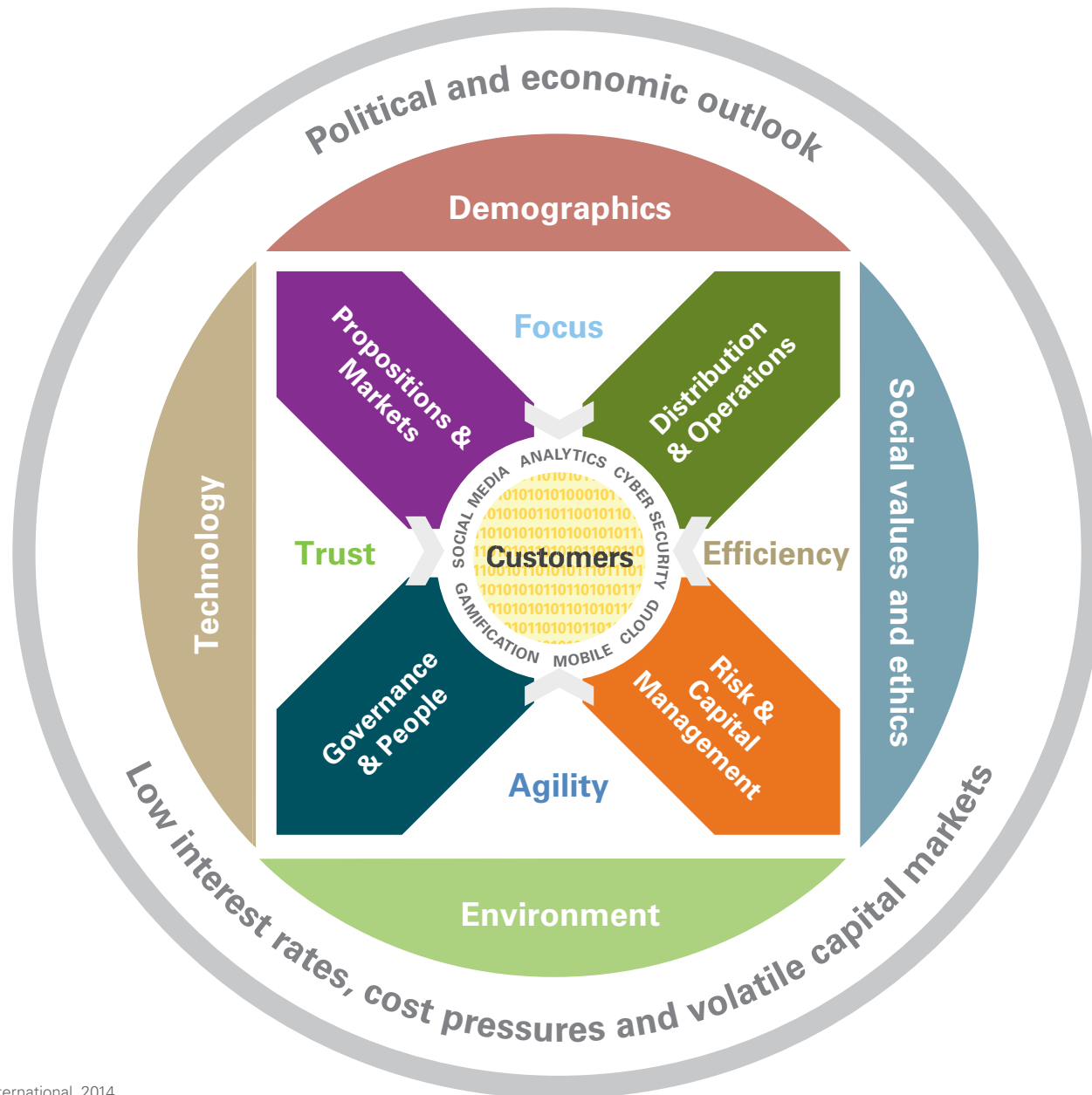
- what it means to be digital and how to operate in a digital world
- how to make the best use of the increased data that the digital world generates

- how to conquer and tame the challenges of the complex web of legacy systems many have inherited
- how to achieve all of this in a manner that keeps the business secure in the face of increased threats to cybersecurity and, lastly but most importantly
- how to attract and retain the people needed to drive the change this implies — in a nutshell — how to get started.

To help insurers and intermediaries overcome these practical challenges, we have captured the thinking of some of KPMG's opinion formers around the world and provide a selection of case studies to bring our ideas to life, against a snapshot of current challenges and leading practices. To provide a structure, we have mapped our ideas against the simplified picture of the insurance business model we have used throughout this series.

In this way, we continue our dialogue on the ideas and insights specific to the insurance industry to help insurers and intermediaries adapt to the rapidly unfolding digital world and secure the goals of customer-centric innovation and sustainable competitive advantage.

Vision



Source: *Transforming Insurance*, KPMG International, 2014

Fast facts:

Survey highlights

108%

In the past, digital technology has primarily been used to enhance existing ways of doing business. In the future, the uses of digital technology will become more strategic, focused on driving transformational change in the business — our survey shows a 108 percent increase in respondents planning to use digital technology to enter new markets in the future as have done so in the past 3 years, and 43 percent more are planning to use it to develop and deliver new products and services in the next 3 years compared with the previous 3 years.

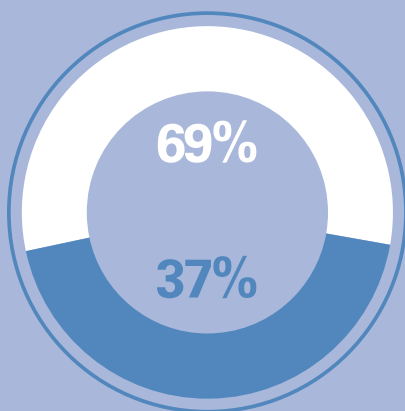


67%

These changes will also change the operating model — 67 percent more respondents plan to use digital to optimize their supply chain as have done so in the past.

Investment in data and analytics is becoming increasingly important to turn strategy into action. Almost half of respondents see improving the implementation of strategic change as the greatest potential benefit from investment in data and analytics initiatives followed by gaining greater insights into customer needs.

But there are significant challenges to overcome — and many of these relate to people



While 69 percent of respondents have a digital strategy beyond a website, only 37 percent of respondents say their digital initiatives are fully aligned to their company's strategic objectives.

65 percent of respondents consider that the regulatory environment does not yet support product and channel innovation.



31%

Insurers and intermediaries face some intensely practical challenges — 31 percent of all respondents said the leading challenge regarding data analytics is capturing reliable data.

When asked why, the top reason cited by 35 percent of all respondents is legacy systems and the difficulty of integrating data technology into existing systems and operating models.



Over half of our respondents identified human barriers to implementing a data and analytics strategy rather than technical constraints, such as legacy systems, cost and data privacy.



31%

20%

16%

Overwhelmingly, insurers and intermediaries are focused on managing risk, with the greatest proportion of our respondents — 31 percent — seeing data security as one of the top three business areas impacted by digital, followed by customer relationship management — 20 percent; and standardization and automation of IT systems — 16 percent.

Not surprisingly, risk drives investment in digital capabilities — with more of our respondents identifying investment in data and cybersecurity than any other area of the business including analytics and investment in upgrading IT and legacy systems.

The stakes are rising: Transformation is being digitally driven

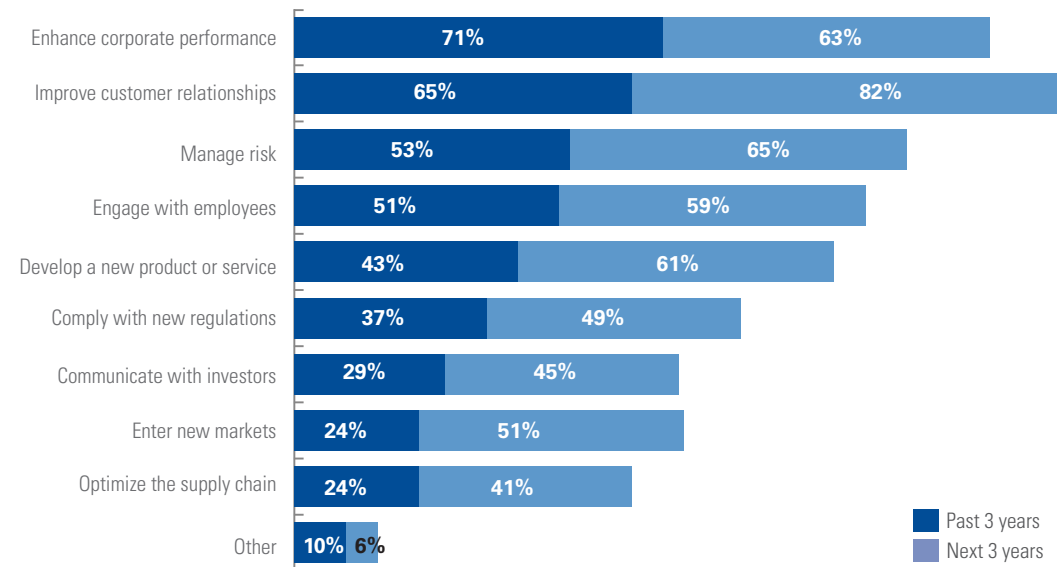
In the past, digital technology has primarily been used to enhance existing ways of doing business. In the future, the uses of digital technology will become more strategic, focused on driving transformational change in the business — with many more respondents planning to use digital technology to enter new markets as have done so in the past and to develop and deliver new products and services as have done so to date. These changes will also change the operating

model — almost twice as many respondents plan to use digital to optimize their supply chain as have done so in the past.

But for many insurers this remains a major challenge — while 69 percent of our survey respondents now have a digital strategy beyond their website, only 37 percent have wholly aligned their digital initiative with their strategic objectives.

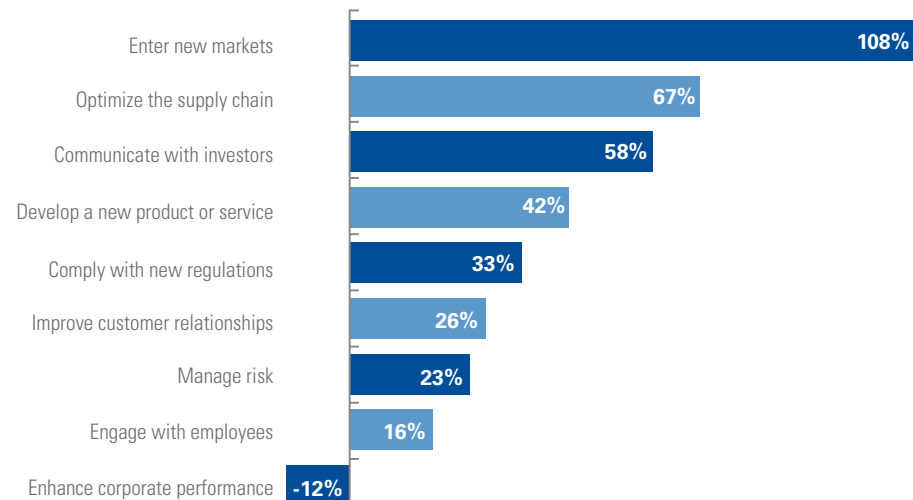
Survey results

How do you plan to use digital technology in the next 3 years, and how does this compare with how you have used digital technology over the last 3 years?



Source: *Transforming Insurance*, KPMG International, 2014

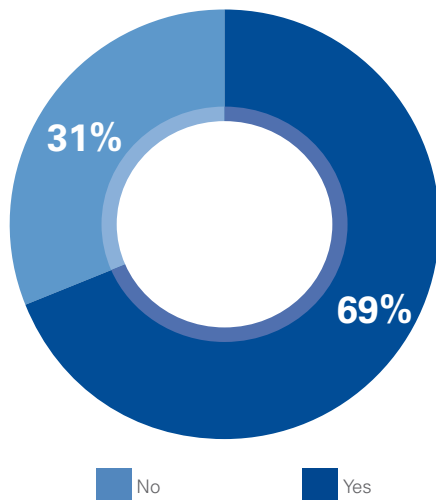
Change in how firms intend to use digital technology in the next 3 years over the past 3 years.



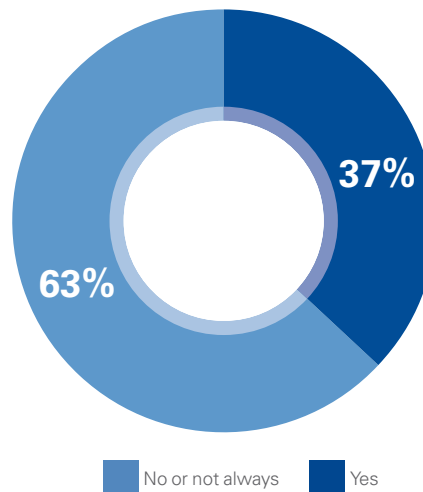
Source: *Transforming Insurance*, KPMG International, 2014

Do you have a digital strategy beyond your corporate website? And are your digital initiatives aligned to your company's strategic objectives?

Digital strategy beyond a website



Digital strategy aligned with your strategic objectives



Source: *Transforming Insurance*, KPMG International, 2014

KPMG Insight



Alwin Magimay

Head of Digital and Analytics,
Partner, KPMG in the UK



Duncan Avis

Managing Director, Strategy and
Operations, KPMG in the US



Mark Shank

Managing Director, Technology
Enablement, KPMG in the US

What does it mean to be digital?

To get us started, we talked with **Alwin Magimay**, Head of Digital and Analytics, Partner, KPMG in the UK, **Duncan Avis**, Managing Director, Strategy and Operations, KPMG in the US, and **Mark Shank**, Managing Director, Technology Enablement, KPMG in the US for their thoughts on some of the key aspects of digital in terms of the changing interactions between insurers, intermediaries and their customers.

What does digital mean to you?

Alwin Magimay: *"I see digital consisting of six disruptive forces that either create economic value or are destroying it for our clients. These are mobile devices and apps, the Cloud, social media/networks, advanced analytics and visualization, cybersecurity and gamification. Individually or combined these can be used to create new value."*

What do these forces ultimately mean for the insurance industry?

Engaging digital conversations and meaningful interactions with customers and the opportunity to be at the centre of the changes in their customers' lives, if they choose to be. For example, as customers' life circumstances change, insurers could position themselves to be the trusted hub from which all changes to customer data can flow, such as, alerting utility providers about an impending relocation. Commercial insurers could link data on weather patterns and commodity prices to help protect manufacturers from disruption to their supply chains. By thinking laterally insurers have the opportunity to help, engage and delight their customers and hence move the relationship forward — as well as helping them manage risk.

While insurers currently collect vast amounts of data, they now need the specialized skills to connect the data and build intimacy from anonymity.

- Global smartphone sales are now double PC and tablets combined.
- 34 percent of consumers now prefer to access the internet by smartphone (68 percent among Gen Y).
- Consumers spend 4x more time on smartphones accessing apps than the web.
- Only 40 percent of policy-holders have reviewed their policies in their entirety over past 12 months.
- One in five believe they understand the details of the insurance policies they have purchased.
- Half of consumers don't know how to file a claim after an accident.

Source: Aite, US

Are insurers laggards in terms of developing digital strategies, and if so, how can they start to play 'catch up'?

In many countries insurance lags behind other industries in their adoption of digital strategies. Early views of digitalization saw it as a means to reduce cost-to-serve, and the sectors investing in digital strategies first were those with very high volumes of customer interaction migrating human transactions online. Opportunities for insurers to

differentiate themselves from other providers except through price seemed limited. Now, service, convenience and customization of experiences are all possible and customers demand it.

For life insurance and commercial insurance, interaction between customer and insurer remains less frequent. The level and frequency of engagement has defined the level of digitalization and depth to which digital strategies are aligned to core business strategies.

Highly regulated, the industry has a low tolerance for failure. Regulations impose barriers; in Canada, for example, you cannot buy a life insurance policy solely online; you must speak to a person to complete the transaction.

How can a firm enable digital innovation?

- 1. Focus on people:** digital experiences do not have ‘users’ — they live with people in a more intimate and direct relationship than software from a previous generation. You must adopt an ethnographic lens in any digital experience you ship.
- 2. Keep a sharp eye on emerging trends:** consider how your digital platform can contribute to fending off or capitalizing on new challengers; the strategy should articulate threats and the tactics that need to be employed.
- 3. Do not be afraid to fail:** and learn to fail safely. Digital is very much driven by the test, learn and experimental culture.
- 4. Agility is king:** be prepared to get out there quickly and get fast consumer feedback to refine offerings and guide the final product, service or back-office solution.
- 5. Embrace risk:** this is a very unnatural cultural change in the world of insurance and likely the most difficult for firms to execute.

We believe that, to get ahead, there are three main phases of digitalization: first, automating existing processes, then collaborating and improving human interactions with rich media and, finally, reinventing and optimizing the business.

Where to start?

Firms are typically at different stages of digital maturity, so performing a digital self-assessment in order to know where you are starting from is a good first step. We would then recommend the following:

1. Develop a digital strategy in the context of omni-channel service and greater customer centricity.
2. Look beyond the insurance industry and immediate competitors for your inspiration. A ‘me-too’ mind-set, while easier, has a limited shelf-life and likely won’t result in the return-on-investment and competitive advantage desired.
3. Above all, the strategy needs to be executable. Different organizations have different cultures, realities, operating models and legacies. Innovate in the context of what challenges your organization can actually execute.



What's the challenge?

Insurers and intermediaries see that harnessing digital technologies should enable them to improve customer experience and better manage risk, thereby increasing revenues and enhancing efficiency. What many find more difficult is knowing what to tackle first.

"We see an industry fully aware of the need to adopt digital technology but where few have taken significant steps. Insurers handle large amounts of data but few have yet to use that information to excel in customer service or take the next step and use data to create entirely new propositions. The biggest prize is how data can help you sell new services or find entirely new revenue streams."

Giulio Della'Amico, Partner, KPMG in Italy

"At the moment, we see most innovation driven by regulatory demands rather than by genuine customer needs."

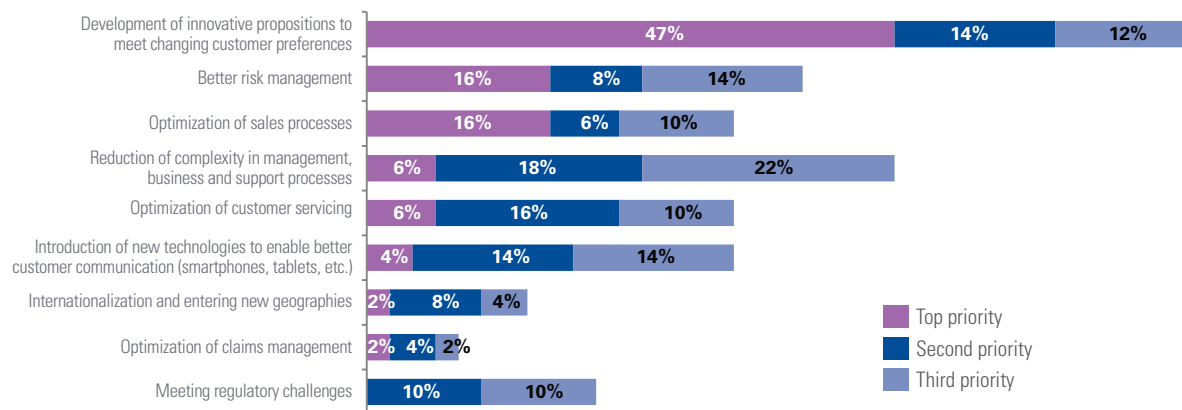
Jörg Günther, Partner, KPMG in Germany

Staying relevant for customers — and attracting new ones

The greatest business priority amongst our respondents is developing innovative propositions followed closely, in a highly regulated and risk-averse industry, by investment in better risk management, just ahead of optimizing sales processes. Digitally enabled devices are becoming increasingly important, with 61 percent of respondents seeing the use of telematics and wearables, such as fitness monitors, having a significant impact on their product portfolio in the future.

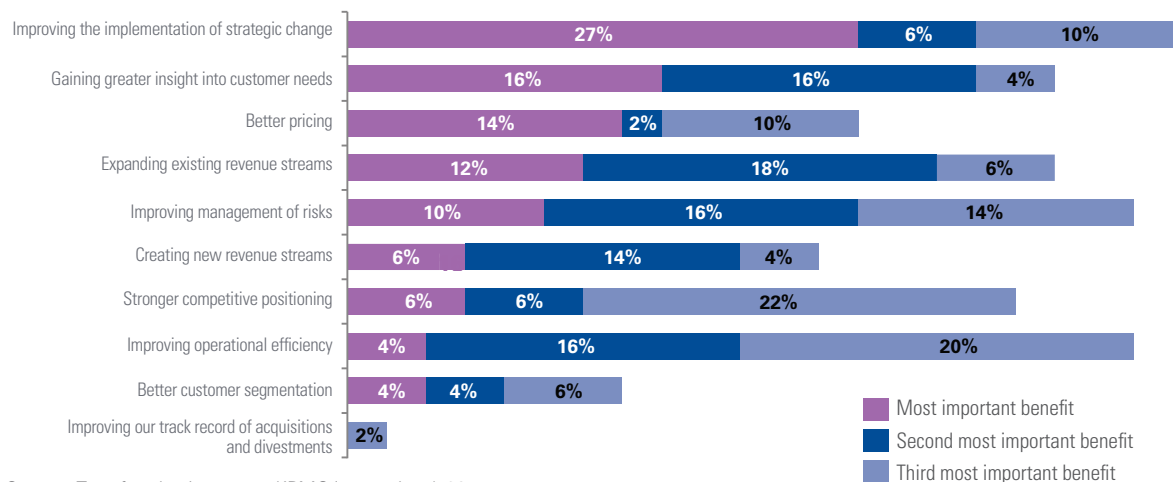
But the challenge is turning strategy into action — and this is where investment in data and analytics is becoming increasingly important. Almost half of our respondents see improving the implementation of strategic change as the greatest potential benefit from investment in data and analytics initiatives followed by gaining greater insights into customer needs.

In the next 3 years, where do you expect to see the greatest benefits from using data and analytics initiatives?



Source: *Transforming Insurance*, KPMG International, 2014

What do you see as being the greatest business priorities for your company over the next 2–3 years?



Source: *Transforming Insurance*, KPMG International, 2014

“We can now automate and provide tools and information directly to the people who need it. We talk about the democratization of information – the ability to put things in the hands of employees. This provides the opportunity to dis-intermediate parts of the value chain entirely and say we really don’t need that group now. This places a heavier burden on other parts of the chain to ensure that the infrastructure stays up, and is available, consistent and accurate.”

Mark Shank,
 Managing Director, Digital and Mobile,
 KPMG in the US

As digital strategies mature, insurers and insurance distributors go through several phases of evolution. Initially web-presence is sufficient. Next comes the ability to transact via the internet. The next phase brings process and productivity gains, largely to win cost efficiencies. The most sophisticated are building an ecosystem where they look to interact with their customers in multiple contexts and recognize that customers are complex and multifaceted.

Propositions and markets: around the world



“We see insurers ultimately aspiring to ‘own the house’ or even ‘own the person’, linking insurance to feedback from connected devices and wearables. So the focus will increasingly switch to risk mitigation rather than the insurance itself.”

David Brown, Partner, KPMG in the UK



Local champions still triumph in Holland and Belgium

Amongst these local champions is DELA,¹ a Dutch funeral insurer which substantially increased its insurance capital through an emotional award-winning campaign based on real people sharing their feelings about loved ones on websites, and turning those videos into TV ads and billboards.



Innovative solutions can make an impact even in a mature market

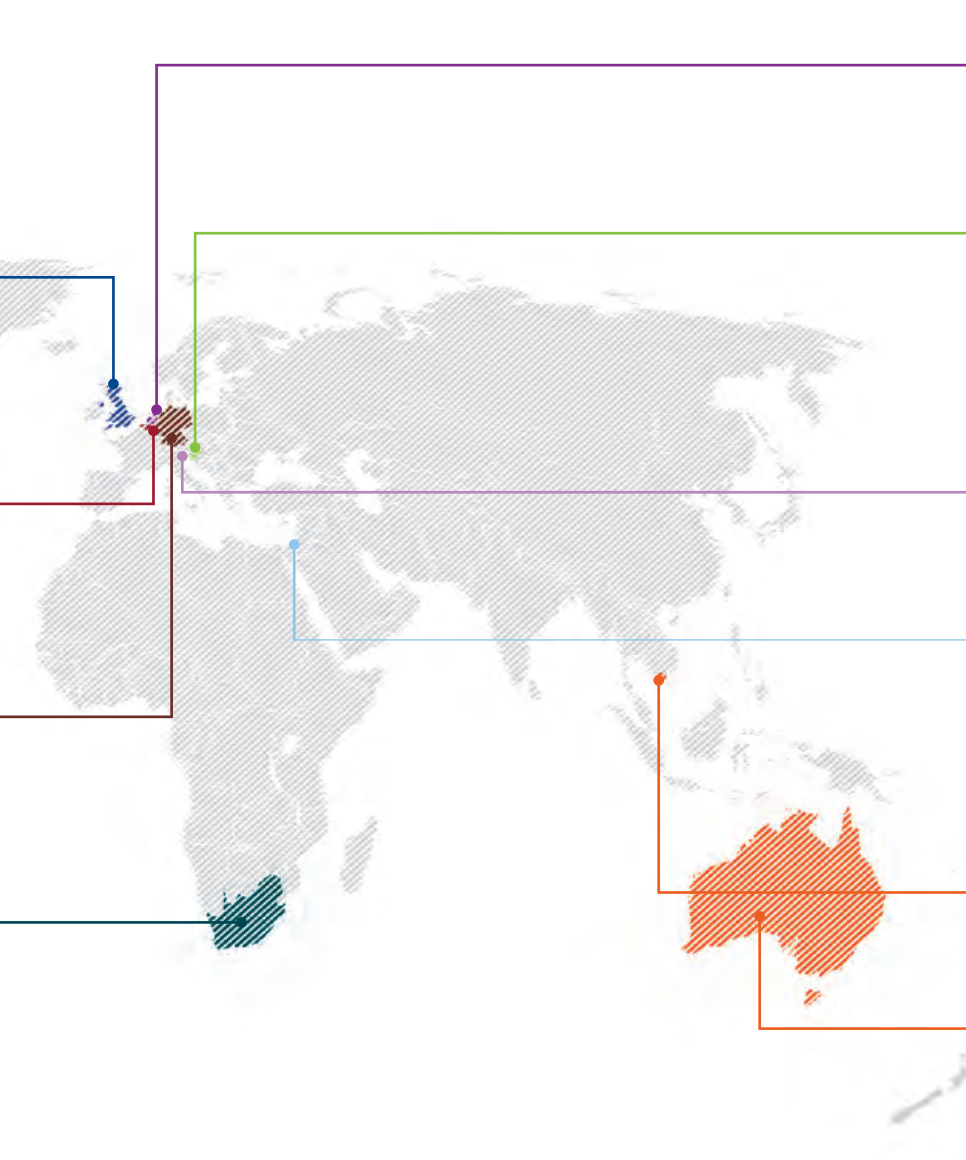
In Germany, apps have developed to satisfy ad hoc needs for ‘on-demand’ micro-insurance — like accident insurance to cover a single carpooling journey or a single day’s skiing, or providing a ‘virtual safe’ to deposit copies of personal documents like passports, credit cards and airline tickets alongside providing travel insurance.



It is accepted in the South African market that a customer-centric approach is the common denominator amongst insurers regarded by their peers as truly successful. These insurers understand, or even anticipate their clients’ needs and build their business model around this understanding. Having insight into what a customer wants in South Africa is not only developed in the boardroom, but requires a thorough understanding of customers’ needs at a grassroots level.

As more South African insurers expand into the rest of Africa, survival dictates that they attract the right customers, provide personalized solutions and continuously strive to satisfy customer needs for simplicity, transparency and convenience. What customers value varies from country to country but some principles remain constant — customers are no longer considering just price and product features when deciding to select an insurer or stay with their current provider. Customers now focus on the entire service offering, from the quality of advice received through to the level of after-sales service.”

Gerdus Dixon, National Practice Leader, Insurance, KPMG in South Africa



Damage but no worries, click here! In the Netherlands, veteran insurers, AEGON and the Achmea Cooperative, have launched, respectively, a facebook-based insurer, Kroodle,² and an online-only insurer, In Shared.³



Apps to warn of impending weather events engage customers — and cut the cost of claims

In Slovenia, Triglav Tocã⁴ is a mobile application warning against hail throughout the country, detecting the insured's location through GPS.



"Insurance companies and intermediaries have to be clearer on their specific USP. Sustainable success and profitable growth depends on this — focusing solely on productivity and cost is not sustainable in the long run. Everybody can cut cost — and will do so — but not everyone has a USP. And that is critical to thrive rather than merely survive."

Marc Goessi, Partner, KPMG in Switzerland



Effective use of mature technology satisfies customer needs if well designed with the customer in mind

In Israel, Davidshield⁵ offers medical insurance for Israelis abroad with payment at the point of need through the use of a magnetic card packaged as a passport.



Moving from products to propositions to help customers reach their goals

In Australia and Singapore, Asia Pacific regional champion, AIA has launched AIA Vitality,⁶ a science-backed wellness program that rewards policyholders for getting engaged in a healthier lifestyle. Policy owners' health status, goals and rewards are tracked allowing their life insurer to interact actively with them as they accomplish specific activities to earn rewards.



KPMG Insight

Driving value from data and analytics initiatives



David Brown
Partner, KPMG in the UK



Gary Richardson
Director, Data and Analytics Engineering, KPMG in the UK



Jörg Günther
Partner, KPMG in Germany

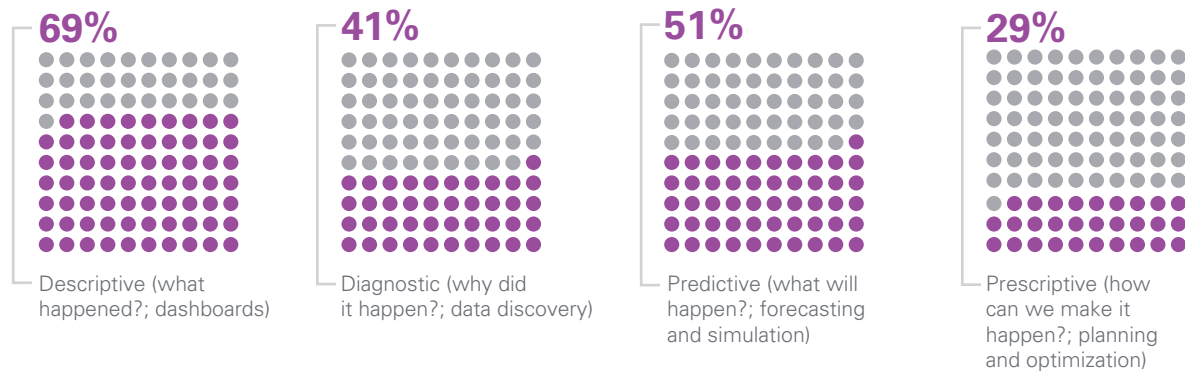
While data and analytics is a key capability for insurers and intermediaries, with the volume, variety and velocity of data now available, we see many organizations struggle to put strategy into action. **David Brown**, Partner, **Gary Richardson**, Director, Data and Analytics Engineering, from KPMG in the UK, and **Jörg Günther**, Partner, KPMG in Germany provide insight into the challenges faced and how organizations can create competitive advantage through data.

How are companies using data and analytics today?

Gary Richardson: Almost two-thirds of insurance respondents are still focused on the past, either focused on applying data analytics to work out what happened or why it happened. Just 29 percent of

respondents say their company uses prescriptive data analytics capabilities. By using prescriptive analytical capabilities, insurers can go beyond predicting future outcomes. Insurers can use predictive models to drive action and capture observations resulting from the actions to fine-tune their predictive models.

What type of data analytics capabilities do you currently use?



Source: *Transforming Insurance*, KPMG International, 2014

Why are some players in insurance markets slow to embrace the potential of data analytics?

David Brown: Insurers and intermediaries are already very data-driven places: capital modeling, pricing, reserving and claims management, and even marketing, are all highly data intensive and all of these tasks have analytics at their heart. Surprisingly though, while many players find themselves able to collect and store large volumes of their own internal data, they are unable to extract the full insights available. With antiquated technologies and legacy systems, they struggle to achieve a happy marriage between new analytical capabilities and the vast amounts of data from digital sources. Deep rooted cultural norms also stifle progress. In a highly regulated market, insurers and intermediaries are wary of risk and have built very conservative IT groups with highly structured data governance and rigid project management disciplines. These constrain the ability to access and experiment with their own data and also the increasing volumes of external data now available. This means they have to overcome cultural barriers, and the fear of the unknown or failure, before being able to transform their use of data.

Gary Richardson: It is also partly based on the historically high costs of integrating systems and migrating data. Many insurers and brokers have been through acquisitions and they saw the huge cost and complexity of making technology change to enable data migrations. However, at the same time, we see new entrants willingly embracing new technologies and saying, "Let's use open-source solutions and use the tools that are emerging." They are able to get over the fears about security, legal and regulatory risks, and they are having great success.

So what has changed?

Gary Richardson: It's now commercially viable to build a data strategy focused on the customer. We have mobile, telematic devices and advanced sensors to collect new behavioral data from source and web streaming capability to gather data in real-time. We have cloud computing, which creates the scale, elasticity and economic models to store and manipulate data, and open-source data software, which makes it possible to build big data collection engines economically and bring together company data stored in separate silos without large upfront investments in hardware or software.

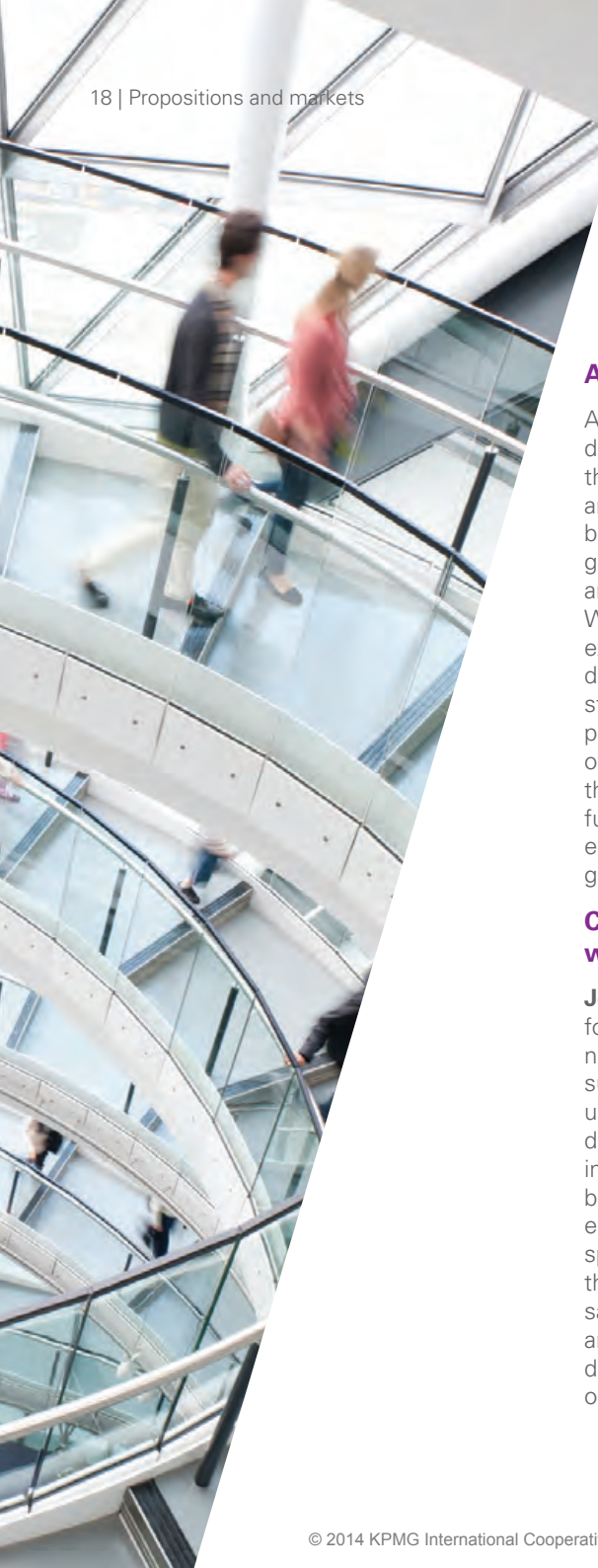
Constructing a data innovation approach

Many data strategies fail to deliver as the focus has traditionally been on costly process and technology changes. Now insurers can do these complex projects very economically and build an affordable proof of concept. We propose an evolutionary approach to data innovation. This starts with a full understanding of the business outcomes that are driving the need for a data strategy and assessing the data landscape to understand the potential observations that can be used. This enables organizations to identify and incorporate data innovation across their current business strategy and operating model. The goal is driving actionable insights from observing the business process that bring competitive advantage in a controlled and sustainable way.

Typically, we see insurers wanting a more intimate understanding of customers' behavior, needs, their price sensitivity, the cost of customer acquisition and what product features work for which segments. This can only be achieved by observing, in detail, how the customer interacts. The need for higher fidelity observations should drive their data strategy.

"Many companies are looking to invest in predictive propensity models and technologies to gain customer loyalty, enhance responsiveness and create opportunities for cross-selling. Several of the largest Chinese financial institutions have started to set up D&A departments focused on a more customer centric business model."

Egidio Zarrella
Partner, Clients and Innovation
KPMG in China



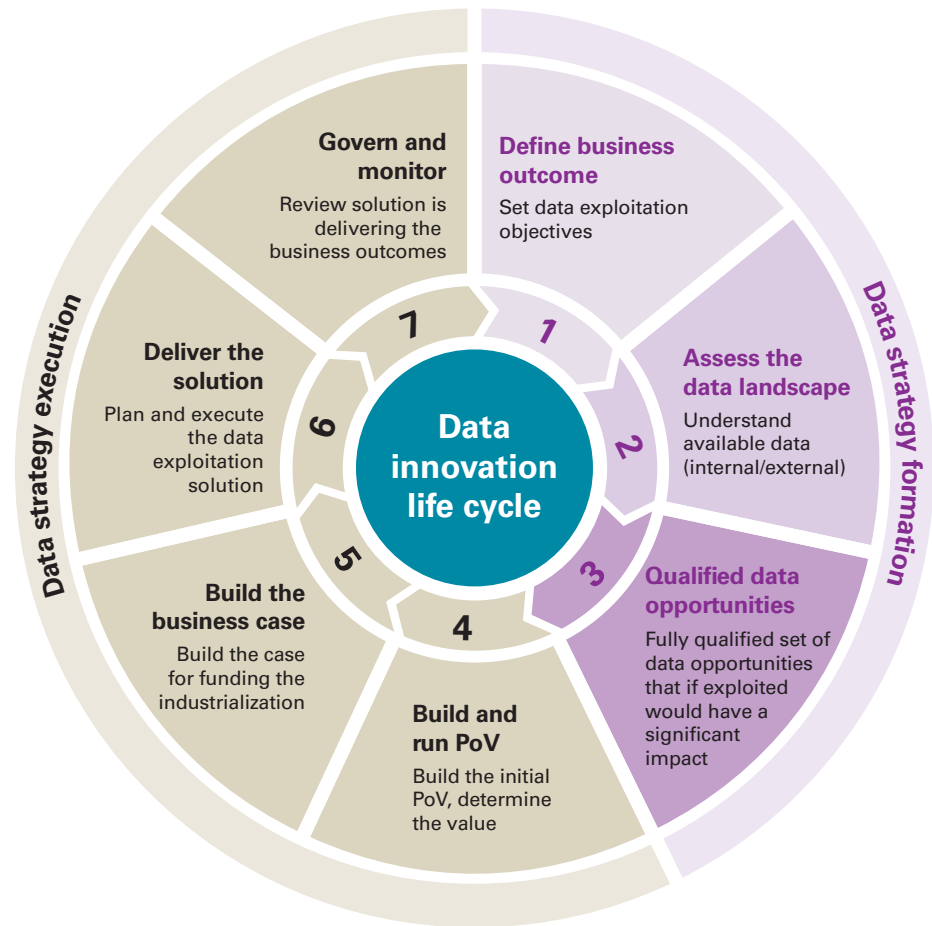
Assessing the data

Assessing the data landscape involves developing a detailed understanding of the data that is being collected, processed and stored so that it can be used to drive business outcomes. Understanding any gaps between the business outcomes and missing observations is critical. Without key variables, data science experiments reduce in value. A qualified data opportunity matrix links the business strategy to the data and technology platform, providing cost and time estimate of the likely benefits of proceeding and the downside of not. This helps prioritize further data and technology investments, ensuring that the right data is being generated to build customer intimacy.

Creating tangible value with data

Jörg Günther: Data analytics is decisive for future profitable growth, by informing new ways to ensure the sustained success of critical sales activities. By using data as the basis for the systematic development of sales capabilities, using innovation and technology, real value can be created. Providing data-driven triggers enables structured, geographically specific customer contacts far beyond the knowledge of the most effective sales agent. Using customer experience analytics is the ideal avenue to exploit data, as it can have an immediate return on investment.

Data innovation life cycle

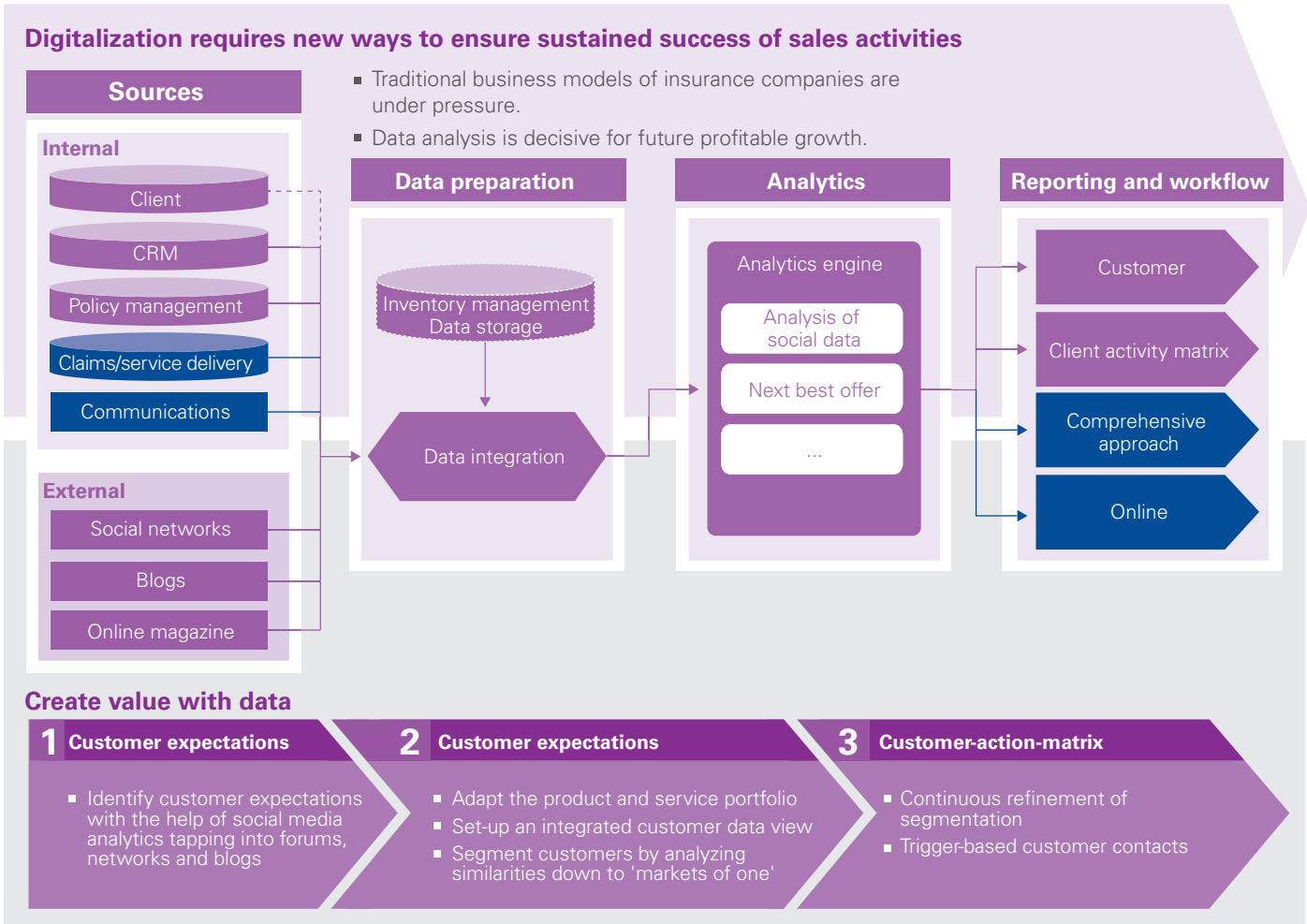


Source: *Transforming Insurance*, KPMG International, 2014

Leveraging external data, from social media or other sources, is a relatively new technique for some insurers, but they can enable a better understanding of attitudes to risk and personal preferences. Insurers have a mass of internal data but it is typically widely dispersed in a myriad of different systems making it challenging to address — however, using modern techniques, both internal and external data can be used to better understand customer needs, drivers and propensities, enabling products and services to be tailored, and making the offer more personal and relevant. This allows for more focused prompts and triggers to the sales force and provides call center staff with greater evidence to make informed decisions. Even using just the data that insurers already have on file, they could create immensely more value. So, it is a step-by-step approach: use your internal data first, make something great — and then turn to add external triggers as well.

Effective data analysis requires a broad range of assets: an understanding of technology platforms, access to data, social network analysis and the right algorithms and software. However, the 'secret sauce' is having a solid understanding of the business and an understanding of each of these factors to bring it all together and make it operational. This is the piece that is often overlooked, the need to bring it all together — technology on its own isn't enough.

Creating value with data



Source: KPMG in Germany, 2014

Industry Insights

Insurers leading the way



Roberto Felici
Head of Market Management
at Allianz SpA

Allianz Italy leads digital product invention and customer experience

For multinational, German-headquartered Allianz Group, “impressive digital innovation is emanating from Allianz SpA in Italy, where Allianz1 was invented by combining modular product technology and a digital customer experience” explained **Roberto Felici**, Head of Market Management at Allianz SpA in a recent interview with KPMG International.

Launched in January 2014, Allianz1 provides affordable, family protection via a single lifetime policy that can be customized to offer best in market protect against the most serious risks in health, accidents, life, property and mobility, without the hassle of separate contracts required in the traditional insurance approach.

The end-to-end customer journey starts by exploring the product and price via the web (traditional, mobile and social), and extends to

the agency for advice and to optimize the self-solution via a revolutionary sales methodology that aspires to non-insurance benchmarks – similar to Amazon - for usability and engagement. The Allianz1 ‘subscription to serenity’ can easily be evolved over time to adapt to lifestyle, lifecycle or customer preference.

“We invented Allianz1 to break the silos of traditional insurance into elemental components – ‘modules’ – and to focus the protection on the most serious risks, those that people cannot really self insure against. This way, the customer can configure easily and autonomously a single solution that combines the protection they want, the term, persons and properties insured, and then pay a really affordable monthly charge,” explains Roberto. He adds that the modules are each independent and can be easily and transparently changed.

To make Allianz1 a “wow experience” for the customer, big data and CRM profiling were applied to enable “FastQuotation” so that customers need only answer a few simple questions to begin interacting with the Allianz1 configurator and check the price in seconds. The normal insurance sales practice would instead require 13 separate quotation processes, each with an average of 20-40 questions, and usually without the ‘self modality’ of customer interaction due to the complexity.

Roberto reinforces that, “We made the process simple, quick and crystal clear – and almost entertaining – by focusing on smart use of technology like visual interfaces, touch-enabled devices, YouTube videos and gamification. The result is a customer experience that builds trust, confidence and a desire to investigate their protection needs in an unprecedented way.”

To date, Allianz1 is growing the company’s average premiums, sales productivity, cross-sales, and it is performing on a solid trend in terms of business growth, without cannibalizing traditional solutions. They are in the process of extending the product across other Allianz Group countries, while Italy is investigating the “release 2” and a smart replica for SME business.

“ We invented Allianz1 to break the silos of traditional insurance into elemental components – ‘modules’ – and to focus the protection on the most serious risks, those that people cannot really self-insure against.”

Roberto Felici, Head of Market Management, Allianz, SpA



What's the challenge?

As business models are transformed to reflect the changing, digital world, insurers and intermediaries must also transform their human capital and recruit and engage employees with the right skills and experience. Deeply ingrained company cultures may need to be changed to create an environment of innovation and collaboration. Indeed, some question whether they have the right skills to kick-start change within their existing organization. Others question whether they have the right leadership for tomorrow's world.

"In my experience, there are huge groups of people in insurance companies with the ability to gather and analyze data, but where they tend to fall down is drawing pertinent conclusions and in the communication of those conclusions. This gap will only get magnified with the exponential growth in data. The skills needed for insurers to be successful in the future are scarce."

Jerry Albright, Partner, KPMG in the US

"There is a widespread acknowledgment in Asia Pacific that there is a shortage of insurance talent and retention is a real issue. Business leaders realize the importance of improving their ability to attract and retain the best people in order to remain competitive in the face of new market entrants."

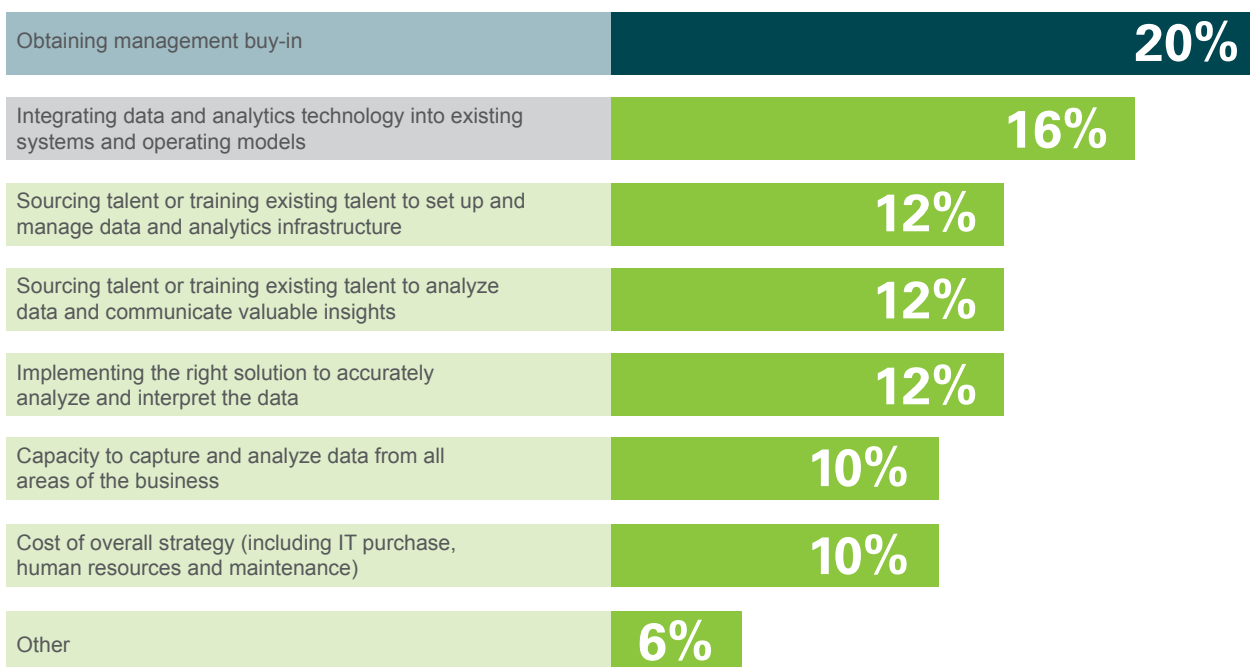
Kam Yuen Lau, Partner, KPMG in Singapore

Survey results

Over half of our respondents identified human barriers to change, whether questioning the leadership from the top of the house, the availability of the talent to manage and analyze data or the ability to get the whole organization working together.

"44 percent identified technical barriers, such as the ability to integrate existing systems, finding the right solution to analyze the data, the cost of the exercise or data privacy issues."

What do you perceive to be the biggest barriers to implementing a data and analytics strategy across your business?



Source: *Transforming Insurance*, KPMG International, 2014

“The war for talent is a growing issue for insurers — in 2014, 18 percent of US insurance executives identified lack of a qualified workforce as a barrier to growth compared with only 5 percent in 2013.”

Source: 2014 US Insurance Outlook Survey, KPMG in the US, August 2014

How well is the insurance industry facing up to change around the world? The overall picture of the sector is still very product-based, stifling the ability to modernize and get closer to customers. On the following pages, we explore how to break down silos and catalyze change.

Governance and people: around the world



"In my experience, insurance companies that use third-party distribution have been reluctant to acknowledge the product holder as the real customer, while the intermediaries are really business partners. A meaningful shift in thinking will both enable transformation and truly benefit all parties, providing customers with a broader range of choices, intermediaries with more attractive propositions and allowing insurance firms to focus on their strengths."

Louis Régimbal, Partner, KPMG in Canada



"For some companies, talent may be the starting point for reinventing their business model. There is no single pattern for reinvention right now. But you have to start somewhere."

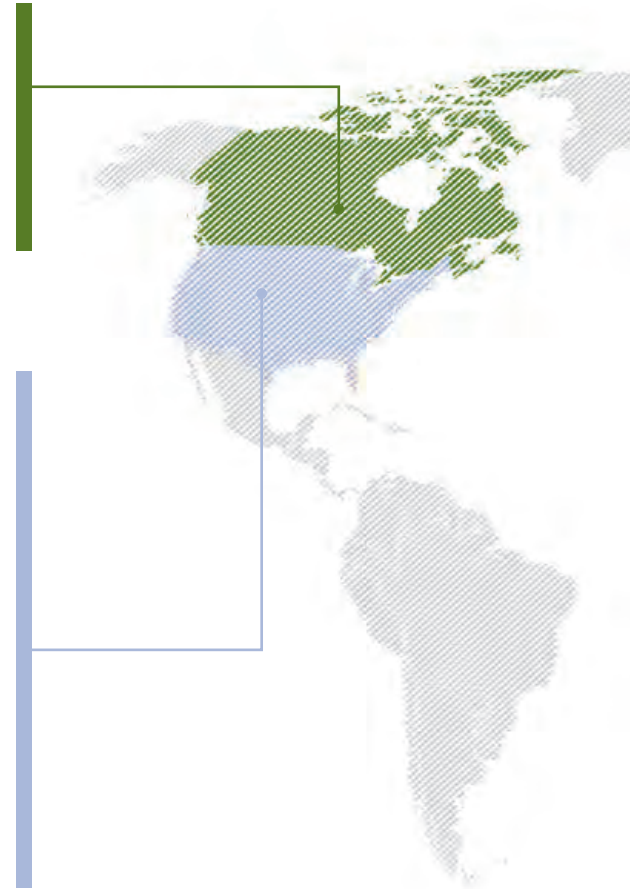
Laura Hay, National Practice Leader, KPMG in the US

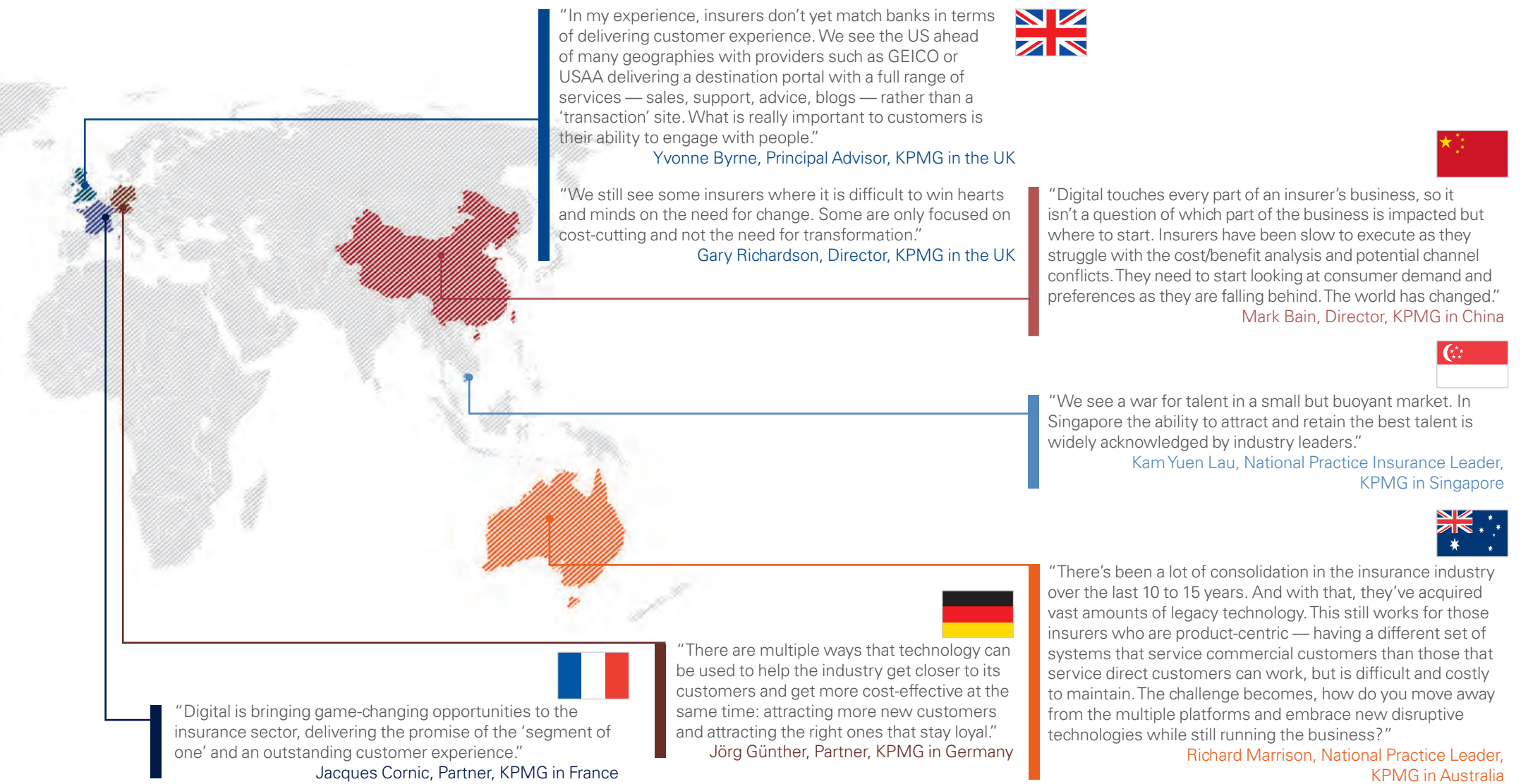
"What many insurance CIOs are missing are scientists, those who will say, "I'm willing to experiment. We may fail, in which case we will learn and move." Insurers need engineers to fix today's problems, but also they need to invest in science and innovation groups that are free to experiment and challenge the possible."

Gary Plotkin, Partner, KPMG in the US

"The operating model and architecture must be living documents as they are manifestations of business strategy. With many insurers still siloed by product, they are not yet organized to achieve this and manage customer interactions in a consistent way across all channels."

Jason Freedman, KPMG in the US





"In my experience, insurers don't yet match banks in terms of delivering customer experience. We see the US ahead of many geographies with providers such as GEICO or USAA delivering a destination portal with a full range of services — sales, support, advice, blogs — rather than a 'transaction' site. What is really important to customers is their ability to engage with people."



Yvonne Byrne, Principal Advisor, KPMG in the UK

"We still see some insurers where it is difficult to win hearts and minds on the need for change. Some are only focused on cost-cutting and not the need for transformation."

Gary Richardson, Director, KPMG in the UK

"Digital touches every part of an insurer's business, so it isn't a question of which part of the business is impacted but where to start. Insurers have been slow to execute as they struggle with the cost/benefit analysis and potential channel conflicts. They need to start looking at consumer demand and preferences as they are falling behind. The world has changed."



Mark Bain, Director, KPMG in China

"We see a war for talent in a small but buoyant market. In Singapore the ability to attract and retain the best talent is widely acknowledged by industry leaders."



Kam Yuen Lau, National Practice Insurance Leader, KPMG in Singapore

"There's been a lot of consolidation in the insurance industry over the last 10 to 15 years. And with that, they've acquired vast amounts of legacy technology. This still works for those insurers who are product-centric — having a different set of systems that service commercial customers than those that service direct customers can work, but is difficult and costly to maintain. The challenge becomes, how do you move away from the multiple platforms and embrace new disruptive technologies while still running the business?"



Richard Marrison, National Practice Leader, KPMG in Australia

"There are multiple ways that technology can be used to help the industry get closer to its customers and get more cost-effective at the same time: attracting more new customers and attracting the right ones that stay loyal."



Jörg Günther, Partner, KPMG in Germany

"Digital is bringing game-changing opportunities to the insurance sector, delivering the promise of the 'segment of one' and an outstanding customer experience."



Jacques Cornic, Partner, KPMG in France

KPMG Insight



Klaus Woeste
Partner and Head of Financial
Services People Change,
KPMG in the UK

20 percent of respondents say the greatest barrier to implementing a data and analytics strategy is obtaining management buy-in.

Organizational talent and culture play a pivotal role

We talked with **Klaus Woeste, Partner and Head of Financial Services People Change**, KPMG in the UK, about the cultural challenges insurers face and the path to creating the right talent and work environment for success.

Klaus Woeste: I see the industry facing several central human resources challenges. It's all about changing culture and behaviors.

- **Finding the right talent** to help insurers succeed in the digital world, as the technical and softer skills required are very different. When the insurance industry thinks about innovation it tends to think in terms of product innovation rather than some of the changes to business model that will be needed.
- Insurers need to **manage the change from the current to the future state**, as they structure their business models around their customers. Digital channels will likely require fewer people, but will require people with a very high quality skill set. At the same time, they need to preserve and transfer the critical expertise of seasoned actuaries, underwriters and other experts so that it is not lost. An **effective communication strategy** and considerable change management support will be essential.
- **Top management must guide the organization through a major cultural shift.** At the highest levels of the organization, insurers need culture change to develop a clear, effective digital strategy and the capability to implement it. We often see the most senior leaders, including the board and the executive team, needing support to understand and move their thinking along the digital spectrum.
- Create a corresponding behavioral culture throughout the organization to **encourage innovation and collaboration** across deeply siloed business lines and divisions.

Organizations need to break down these silos, share and cooperate across functional groups and reward performance that adds value to the business.

- **Drive a transformation** among the people who will interact with customers day-to-day, including the front-line customer service staff. In the past, insurers often outsourced customer service and support to call centers or third parties, in some cases weakening their customer experience and hurting the brand. There is also the added complexity for many insurers of the hand off between agents and intermediaries and the company itself. Today we see that top digital retail firms have instilled **customer-oriented philosophies among sales and service staff**. This could encompass considerable training and skills development across all distribution channels.

We suggest a four-step communication process to help insurers bring about change of this nature, so that their people collectively know **WHY** change is needed, know **HOW** change is to be achieved, know **WHAT** is to be done, and collectively are energized and enthused and **WANT** to change. This needs to be a red thread that runs through all aspects of the organization from setting vision and direction to performance and accountability. This isn't a magic formula but undoubtedly provides a structured approach to move the organization forward. See Digital governance chart, page 27.

Digital governance



Source: KPMG in the UK, 2014

A view on digital governance

Depending on the organization, digital capabilities could be governed by marketing, IT or the business units. For example, a large infrastructure company, such as a telco, which lives and dies by its ability to maintain a network, it is most likely to position its digital capabilities in its IT function, whereas an organization that is very consumer-focused is more likely to position digital capabilities in marketing. Whereas if you are very product-driven then it could be positioned in the specific product or portfolio business unit.

In a digitally mature organization it can be dispersed, with a Center of Excellence to establish best practices, a common approach and internal thought leadership. Whoever owns the P&L needs to also own the capability so that they can ultimately make these decisions. If not, there is a risk that individual groups will dis-intermediate whatever centralized best practices and capabilities are established by going externally and disconnect the desired customer experience which can create significant tensions.

For an effective transition to the digital future, insurance firms need the following:

Know why...
 A strong and engaged workforce which understands the digital vision and is part of working through the solutions for the customer. This co-creation takes time and effort, but it is the foundation of an effective strategic transformation.

Know how...
 A capable organization that has the skills to operate in the new environment. This includes the technical skills to manage the technological change and the customer-service skills to deliver to the higher standards that customers will come to expect.

Know what...
 Clarity of roles and responsibilities for everyone in the organization, articulating what is changing from the current world to the future world. This requires decisiveness from leadership and alignment on what is expected from each team.

Want to...
 Employees need to be engaged and excited by the change, which requires them to have a clear understanding of 'what's in it for me?' Performance management and reward must consistently reflect the transformed expectations.

“Tomorrow insurers will measure their success based on the relevance of their customer contacts and the value that customers attach to them – technology is allowing them to tap into unparalleled insight to reach their ambition to become trusted advisors.”

**Anne-Sophie Lendrevie,
 Director,
 KPMG in France**

Industry Insights

Insurers leading the way



Tim Rozar
Senior Vice President and
Head of Global Research
and Development
RGA Reinsurance Company

RGA adds value for clients via data-driven insights

For Reinsurance Group of America, Incorporated (RGA), innovation has long been ingrained in its culture, as indicated by the tagline: “The security of experience. The power of innovation.” The company’s introduction of electronic underwriting and data analytics more than a decade ago has enabled this leading global reinsurance provider to excel in underwriting, and to help its clients develop products, lower risk and underwrite more effectively.

“We provide value through risk transfer, but we look for additional ways to create value for our clients,” explains **Tim Rozar**, Senior Vice President and Head of Global Research and Development at RGA. “We do that through data-driven research solutions that combine internal and third-party data assets, to help improve the customer experience, product and risk selection, and enhance the underwriting process speed.”

One of RGA’s flagship technology-based offerings came to fruition originally as a solution for a client

with a complex underwriting challenge. RGA adapted the reflexive application questions and decision-making rules to build AURA (Automated Underwriting Risk Analysis), a technical platform for real-time underwriting that RGA now offers as an e-solution to insurers.

Tim’s global research team performs predictive analytics, biometric risk research and client experience studies. The team also supports an in-house innovation lab for new product ideas, either to commercialize them or to advise clients. RGA has won international praise for its studies, including research that produced an underwriting methodology to score thousands of prescription and over-the-counter drugs, which now helps life insurers efficiently assess applicants’ Rx histories.

Tim notes that innovation is viewed as a core competency at RGA, and is maintained through top-level buy-in, talent acquisition and communication, including internal and external competitions. For example, in 2012, the company launched the RGA

Market Innovation Challenge, with a US\$25,000 grand prize, and invited all US citizens 18 years or older to suggest ways to promote individual protection insurance products to young people.

Tim adds that there is also vast potential, for RGA and the industry, to use data to enhance the value of in-force books of business. Analytics are being used to study the drivers of emerging profitability, model policyholder behavior, develop optimal renewal rate structures and deploy successful policyholder retention programs.

“ Innovation is just as important for corporate insurers and reinsurers, as for those focused on retail markets. ”

Tim Rozar, Senior Vice President
and Head of Global Research and Development, RGA



Risk, regulation and capital management

What's the challenge?

Cybersecurity is a rising concern for insurers in light of their increased vulnerability via digital channels to theft or attack on the personal customer data on which they depend. Although the threat is not new, the frequency of high profile, disruptive and damaging security breaches is increasing and insurers have to respond. Around the world, regulators are becoming more interested in understanding controls to ensure data privacy is respected and customers are fairly treated.

"How can I collect and use client data?' and 'How can I protect client data?' are two questions insurers and intermediaries are asking themselves around the world. Some have a clear view of their digital and technology developments, but the consideration of law and regulations and data protection show a high degree of uncertainty."

Thomas Rauschen, Senior Manager,
KPMG in the UK

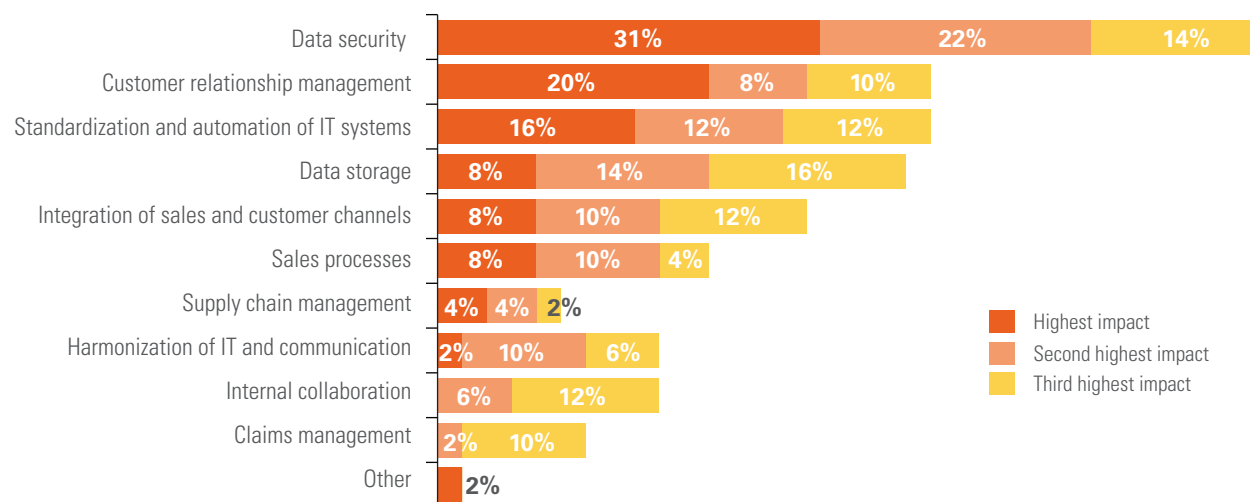
"Supervisors are not against innovation but they are still very cautious as a result of the financial crisis. Insurers will have to make a case for their proposals with regulators, demonstrating that they understand the risks and that they have the systems and controls in place to manage them. The maturity of supervision continues to differ from country to country which will impact what insurers can do."

Rob Curtis, Global Head of Insurance Regulation,
KPMG in Australia

Survey results

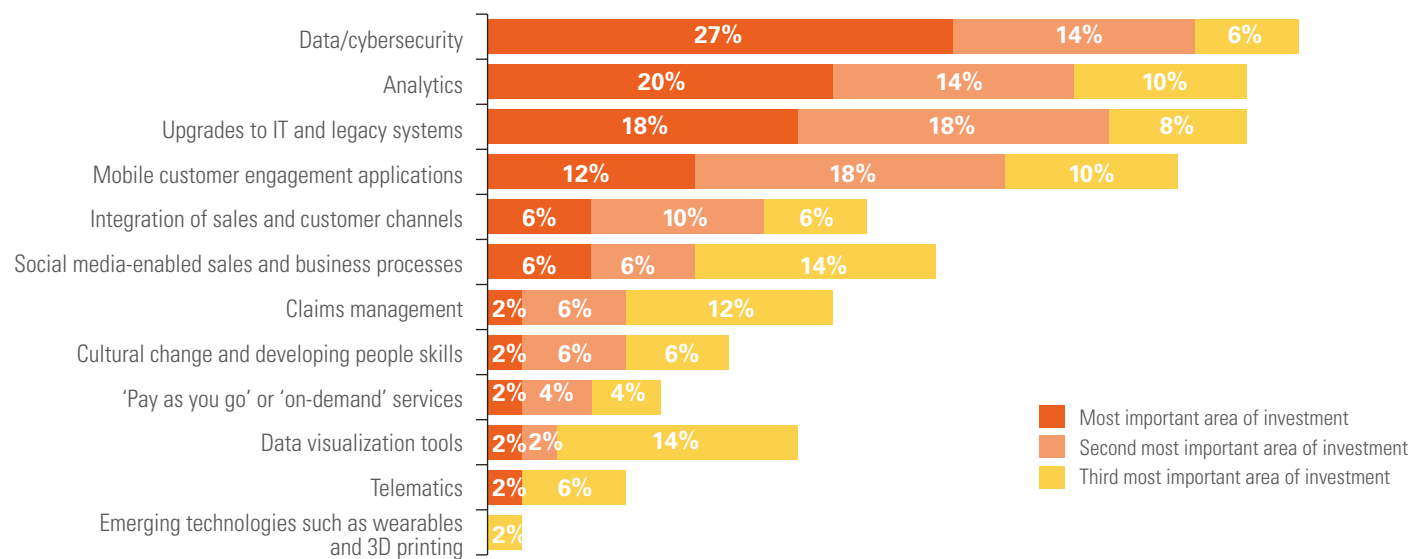
Sixty-five percent of respondents consider that the regulatory environment does not yet support product and channel innovation. Overwhelmingly, insurers and intermediaries are focused on managing risk, with the greatest proportion of our respondents seeing data security as one of the top three business areas impacted by digital, followed by customer relationship management. Not surprisingly, this drives investment, with more of our respondents identifying investment in data and cybersecurity than any other area of the business including analytics and investment in upgrading IT and legacy systems.

What areas of your business do you see as being most impacted by digital?



Source: *Transforming Insurance*, KPMG International, 2014

Where do you see relevant investments being made in digital?



Source: *Transforming Insurance*, KPMG International, 2014

“While regulators play a key role in promoting transparency and ensuring financial strength, they have typically been slow to recognize emerging needs and customer preferences, slowing the ability of insurers and intermediaries to innovate.”

Louis Régimbal,
Partner,
KPMG in Canada

65 percent of respondents believe the current regulatory environment does not support product and channel innovation. However, we do see pockets of innovation around the world.

For more information on regulation globally, please see KPMG’s 2014 Evolving Insurance Regulation.

Risk, regulation and capital management: around the world



Canada is known to have weathered the financial crisis with **conservative regulation at a federal and a provincial level**. But even in a country where there are restrictions on banks’ ability to market insurance products, grocery retailer President’s Choice⁸ offers its customers insurance products.



34 percent of US insurance executives identify the impact of new regulations and legislation to be the biggest threat to their business model, more than any other issue. The second biggest threat, losing market share to lower cost producers, was cited by 31 percent of respondents.⁹



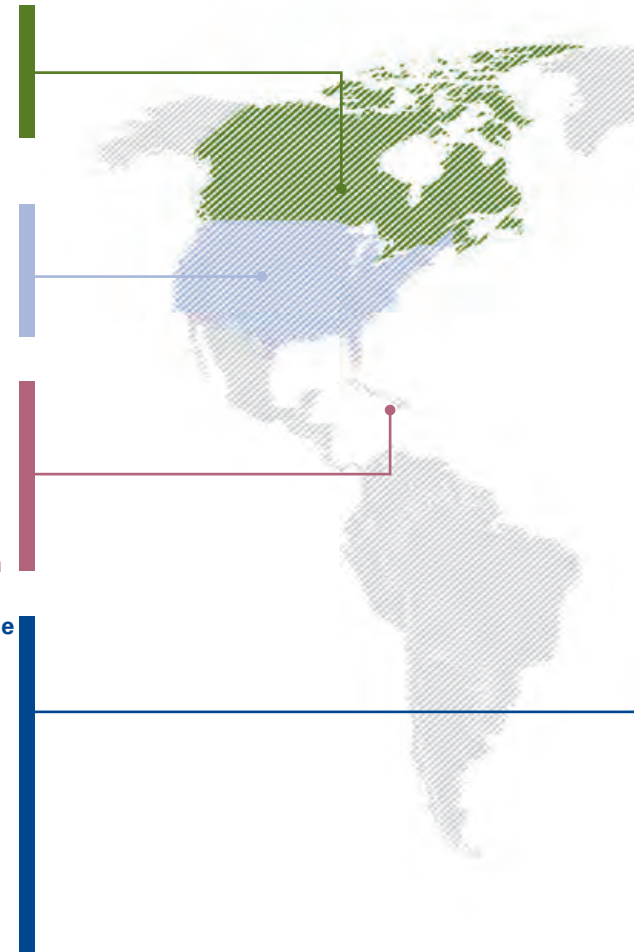
“Bermuda has a unique offering for (re)insurers as data can flow and be stored on the island in a tax neutral environment. This, combined with the direct fiber optic cables to Canada, Brazil, the British Virgin Islands and the United States, positions Bermuda at the forefront of the digital age.”

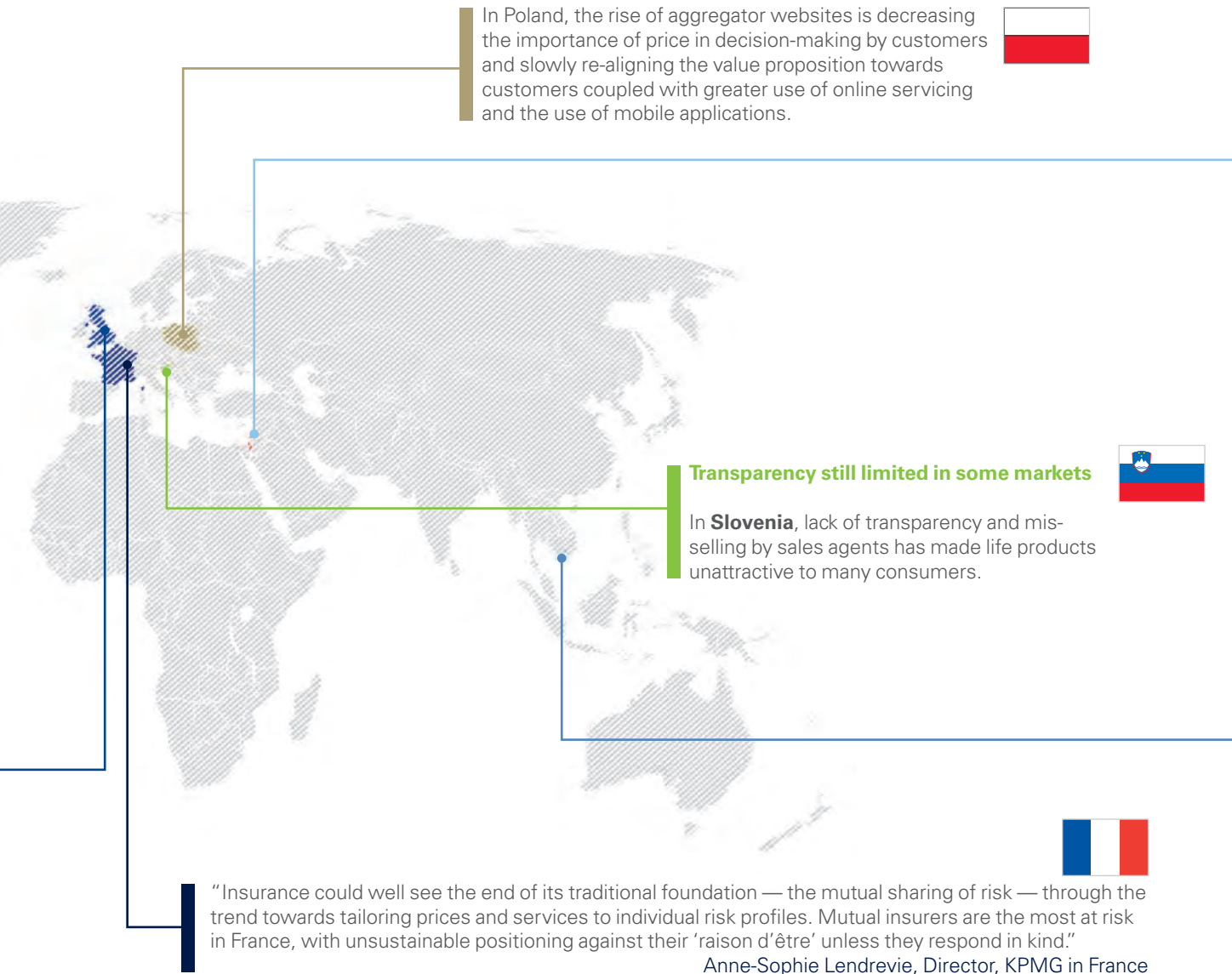
Richard Lightowler, National Practice Leader, Insurance,
KPMG in Bermuda



In the UK, insurers and government collaborate to provide affordable insurance for homeowners at high risk of flooding

An agreement in principle seeing collaboration between UK insurers and the Government is leading to the development of a not-for-profit flood fund — known as Flood Re¹⁰ — to ensure that flood insurance remains affordable and available to homeowners at high flood risk — which has become an increasing issue in a small crowded island and replaces a temporary agreement between insurers. Many details still remain to be worked through.





In Poland, the rise of aggregator websites is decreasing the importance of price in decision-making by customers and slowly re-aligning the value proposition towards customers coupled with greater use of online servicing and the use of mobile applications.



Transparency still limited in some markets

In **Slovenia**, lack of transparency and mis-selling by sales agents has made life products unattractive to many consumers.



“Insurance could well see the end of its traditional foundation — the mutual sharing of risk — through the trend towards tailoring prices and services to individual risk profiles. Mutual insurers are the most at risk in France, with unsustainable positioning against their ‘raison d’être’ unless they respond in kind.”
 Anne-Sophie Lendrevie, Director, KPMG in France

In some markets transparency is a right



Israel: The Capital Market Insurance and Savings Division of the Ministry of Finance has established websites¹¹ enabling retail customers to compare a variety of parameters relating to pension funds, provident funds and compulsory motor vehicle injury insurance rates, where the criteria include a claims index calculated by the regulator thus enabling consumers to compare the claims uphold rate. Despite this, price comparison websites such as WOBI¹² automate decision-making further still.

Constant change is the new normal



In Singapore, the local regulator, the Monetary Authority of Singapore (MAS), has been keeping pace with international regulatory developments to introduce regulations on areas such as enterprise-wide risk management and the ORSA, public disclosures, fair treatment of customers and Risk Based Capital 2 requirements. Regulatory and capital requirements are being tightened as the world shifts toward more risk-based regimes like Solvency II.

MAS has been leading the way in terms of technology risk management, recognizing that against the backdrop of an increased reliance on complex IT systems and operations in the financial sector is the heightened risk of cyber-attacks and system disruptions. As a result, financial institutions, including insurers, are expected to continue to deepen their technology risk management capabilities and be ready to handle IT security incidents and system failures. All regulated firms, including insurers, must identify critical systems and establish a recovery time objective, and notify the MAS no later than 1 hour after the discovery of a relevant incident.

“As the digital revolution is transforming insurance, multiple stakeholders will need to be involved to embrace the changes. The fear of managing new risks and working to meet relevant regulations should be addressed early and should not be used as an excuse to avoid innovation.”

Paul Brenchley, Director, KPMG in Singapore

KPMG Insight



Kevvie Fowler
Partner,
KPMG in Canada

31 percent of survey respondents said data security will be the most impacted area of their business by digital.

Preparing for an era of cyber insecurity

Modernization within the insurance industry is leveraging digital technology to connect clients with data more so than ever before. The utilization of technology, however, places insurers in the cross-hairs of cyber criminals targeting sensitive client information. We talked with **Kevvie Fowler**, Partner, KPMG in Canada, about the insurance industry's state of readiness and what actions can be taken now.

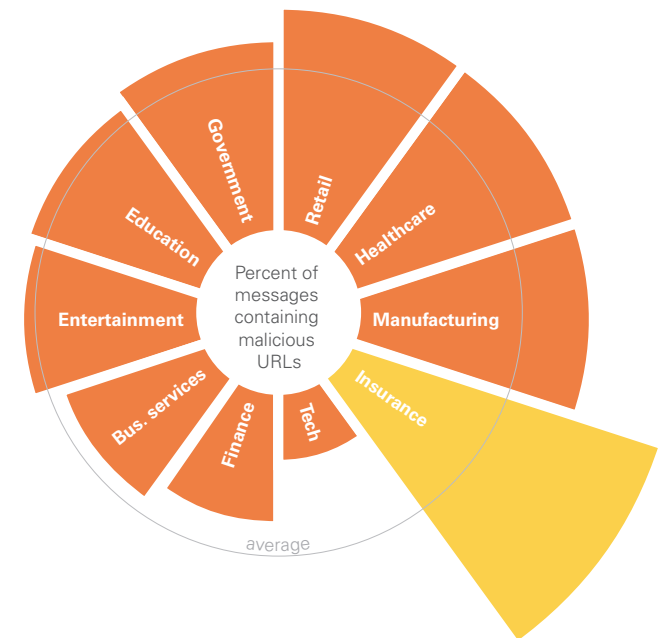
How are insurers positioned to protect themselves?

Kevvie Fowler: Insurers maintain large databases of sensitive client information and are facing increasing pressures to share this information to empower clients with self-service policy management and internal stakeholders with access to drive data analytics. Despite the risk associated with increased connectivity of this sensitive data many insurers don't yet see themselves as targets.

They also face many challenges, including legacy systems that are not well connected, with few automated processes and manual workarounds. These create breaks in the chain, making it more difficult to secure a system. It's also harder for insurers to identify cyber intrusions than other financial institutions since they don't have the same frequency of customer transactions as do retail banks, making it harder to spot abnormal or suspicious client behavior.

It's important to emphasize that these new threats should not prevent insurers and intermediaries from taking advantage of today's digital opportunities. All of these risks can be managed, as the banks have demonstrated. You must simply manage the cybersecurity issues like any other risk that insurers are highly accustomed to handling.

The insurance industry faces a higher number of email-based threats



Source: www.proofpoint.com/threatinsights

What can be done?

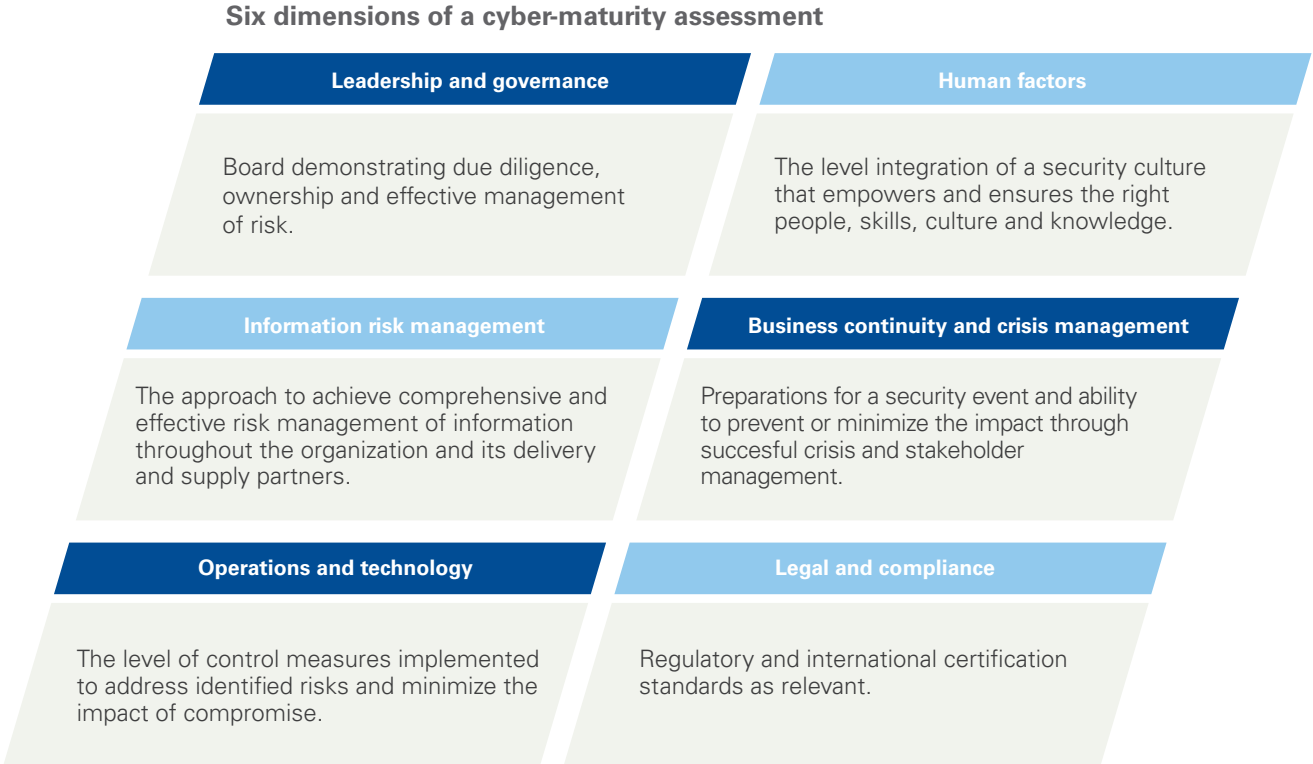
Instead of rushing out to buy a technology solution to plug security gaps, it's better to address your cybersecurity maturity, to identify your key risks and to ensure the controls you have implemented are actually effective in mitigating risk. Many organizations purchase tools but struggle in effectively operationalizing them, resulting in a false sense of security.

This means understanding what your key assets actually are. Often executives don't realize how critical their digital channels have become to the organization and they don't spend enough time thinking about how to protect those channels. They may also not realize how their extended supply chain, including third-party software suppliers and outsource providers, require equal attention.

As a result, business leaders may not provide their IT people with enough direction on what parts of the business contain the most critical information and processes to protect. To build these links, an insurer requires clear responsibility and accountability at a senior level to understand and explain the risks and drive decision-making.

Another critical part of building cyber maturity is recognizing that some types of incidents are inevitable. Prevention must be balanced with mechanisms to detect attacks and contingency plans to respond effectively.

A cyber-maturity assessment provides an in-depth review of an organization's ability to protect its information assets and its preparedness against cyber-attack. Our experience tells us that best practice cyber maturity should address six key dimensions, namely leadership and governance, human factors, business continuity and crisis management, legal and compliance, operations and technology, and information risk management. As shown in the following chart, assessing the varying levels of maturity against each of these dimensions together will provide a comprehensive and in-depth view of an organization's cyber maturity.



Source: *Transforming Insurance*, KPMG International, 2014



What's the challenge?

Across the insurance industry, legacy systems are the gateway to unlocking data from the entire value chain. Addressing deeply embedded technology challenges is critical for insurers to reap the potential benefits of digital forces. Of course, digital can impact the customer-facing touch points, and the tools to enhance service and support. It can equally transform operational processes, by applying data and analytics to price products with greater sophistication, and reap cost savings, process improvements and efficiencies in claims handling and administration. Many find that fixed costs actually go up as they need to maintain traditional methods of communication while building and maintaining digital channels.

"Most of the digital projects fail because of middle to back office problems. Many insurers have a polished digital surface but the business model surrounding it is weak and not adjusted. In rebuilding the target operating model, an insurer's business model needs to be flexible and agile for future changes."

Matt McCorry, Partner, KPMG in the US

"Insurers want to use data to better understand their customers but there are just too many potential data points that could factor in and these are scattered far and wide across separate legacy systems. Most global insurers are just trying to figure out what data they have. They are not ready to consume the data or use it to tailor customer strategies."

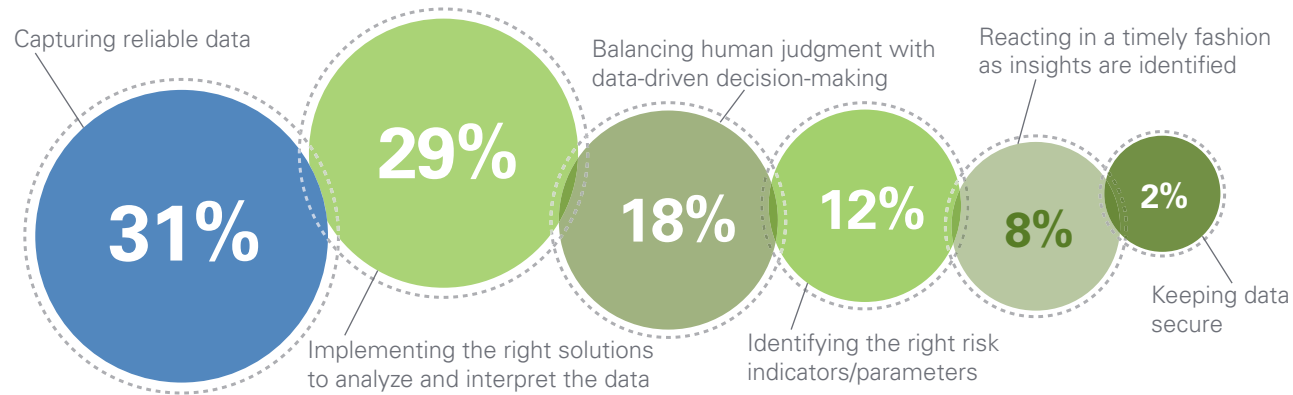
Gordon Lunsford, KPMG in the US

Survey results

Our survey results identify that insurers and intermediaries face some intensely practical challenges — the leading challenge regarding data analytics identified by almost a third of respondents is capturing reliable data. And when asked why this is challenging the reason cited by 35 percent of respondents is the difficulty of integrating data technology into existing systems and operating models.

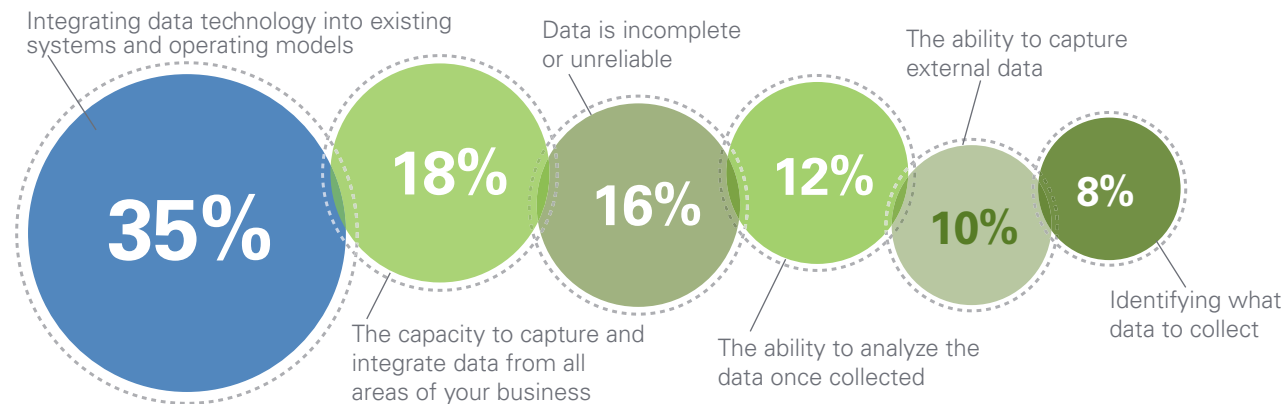
Trends in distribution vary significantly from country to country and from market to market and so, in this global study, we focus on the operational challenges that the insurance industry shares in common around the world.

What is the biggest challenge your company has faced regarding data analytics specifically?



Source: *Transforming Insurance*, KPMG International, 2014

What is the biggest challenge your company has faced in capturing data?



Source: *Transforming Insurance*, KPMG International, 2014

Addressing deep-seated technology challenges is critical for insurers to adapt to a changing world.

Distribution and operations: around the world



"Banks are going digital to cut costs out of the system. Insurers are taking a broader view and saying we have to improve customer experience because we have commoditized products. The barriers to connecting IT to the customers tend to be the legacy systems. Data is not in one place, it's fragmented and it's not complete."

Tracey Ah Hee, Managing Director, KPMG in the US

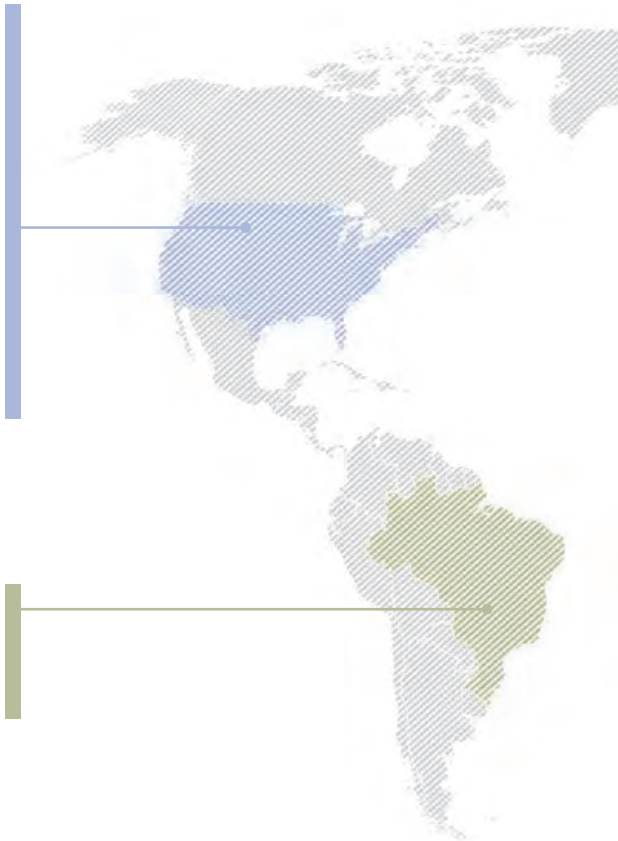
"Even the commercial lines and specialty insurers in the class of 9/11 have legacy issues. They needed to grow their business, adopt new systems and get policies and premiums on their books very quickly — now they are waking up with a significant legacy issue, never mind those who might have systems up to 40 years old."

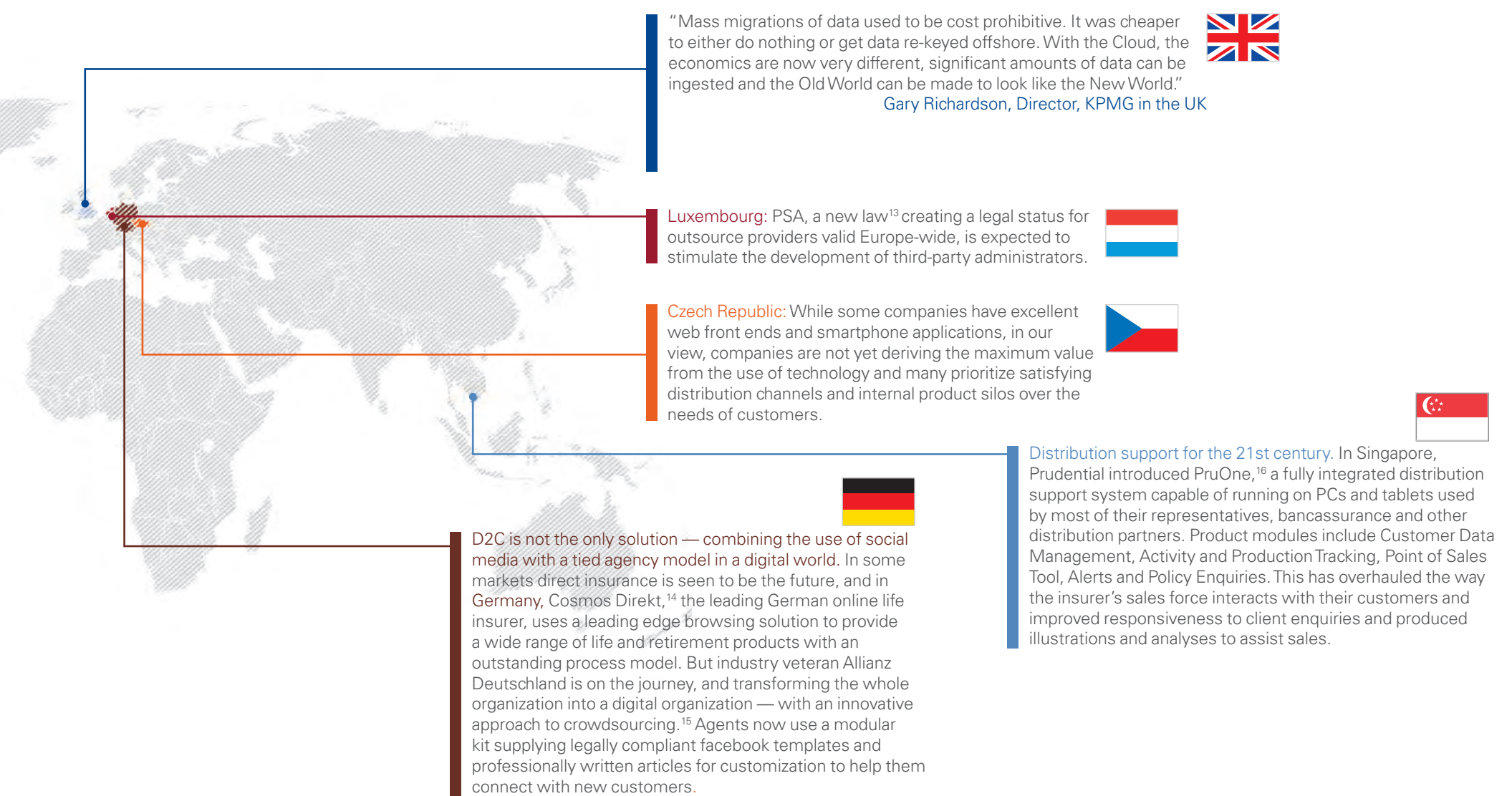
Gary Plotkin, Partner, KPMG in the US



"To date, technological advancement in Latin America is at a nascent stage. Consumers are using the internet more and more for research and to obtain quotes but not for sales fulfilment or customer support."

Erik Bleekrode, KPMG in Brazil





“Mass migrations of data used to be cost prohibitive. It was cheaper to either do nothing or get data re-keyed offshore. With the Cloud, the economics are now very different, significant amounts of data can be ingested and the Old World can be made to look like the New World.”



Gary Richardson, Director, KPMG in the UK

Luxembourg: PSA, a new law¹³ creating a legal status for outsource providers valid Europe-wide, is expected to stimulate the development of third-party administrators.



Czech Republic: While some companies have excellent web front ends and smartphone applications, in our view, companies are not yet deriving the maximum value from the use of technology and many prioritize satisfying distribution channels and internal product silos over the needs of customers.



Distribution support for the 21st century. In Singapore, Prudential introduced PruOne,¹⁶ a fully integrated distribution support system capable of running on PCs and tablets used by most of their representatives, bancassurance and other distribution partners. Product modules include Customer Data Management, Activity and Production Tracking, Point of Sales Tool, Alerts and Policy Enquiries. This has overhauled the way the insurer’s sales force interacts with their customers and improved responsiveness to client enquiries and produced illustrations and analyses to assist sales.



D2C is not the only solution — combining the use of social media with a tied agency model in a digital world. In some markets direct insurance is seen to be the future, and in Germany, Cosmos Direkt,¹⁴ the leading German online life insurer, uses a leading edge browsing solution to provide a wide range of life and retirement products with an outstanding process model. But industry veteran Allianz Deutschland is on the journey, and transforming the whole organization into a digital organization — with an innovative approach to crowdsourcing.¹⁵ Agents now use a modular kit supplying legally compliant facebook templates and professionally written articles for customization to help them connect with new customers.



KPMG Insight

Addressing deeply embedded technology challenges offers competitive advantage for insurers and brokers



Lisa Heneghan
Partner,
KPMG in the UK



Gary Plotkin
Principal,
KPMG in the US

We discussed the issue with **Lisa Heneghan**, Partner, KPMG in the UK, and leader of KPMG's CIO Advisory Group and **Gary Plotkin**, Principal, KPMG in the US.

Why have insurance IT departments been unable to lead innovation across their organizations?

Lisa Heneghan: IT departments have become bogged down in managing ageing, costly legacy systems and an increasingly complex IT supply chain. IT departments have also become overwhelmed by high-risk regulatory demands and tactical delivery rather than strategic business support. We see six common pain points around the world grouped around the themes of service quality, cost and risk management.

As a result of these pressures, IT often provides unreliable, poor day-to-day service quality, lacks transparency, and is unable to support the strategic business agenda. Company boards and business leaders see IT as an operational cost rather than a center of value creation or innovation. By identifying the specific pain points we are able to identify solutions to help our clients move their business forward.

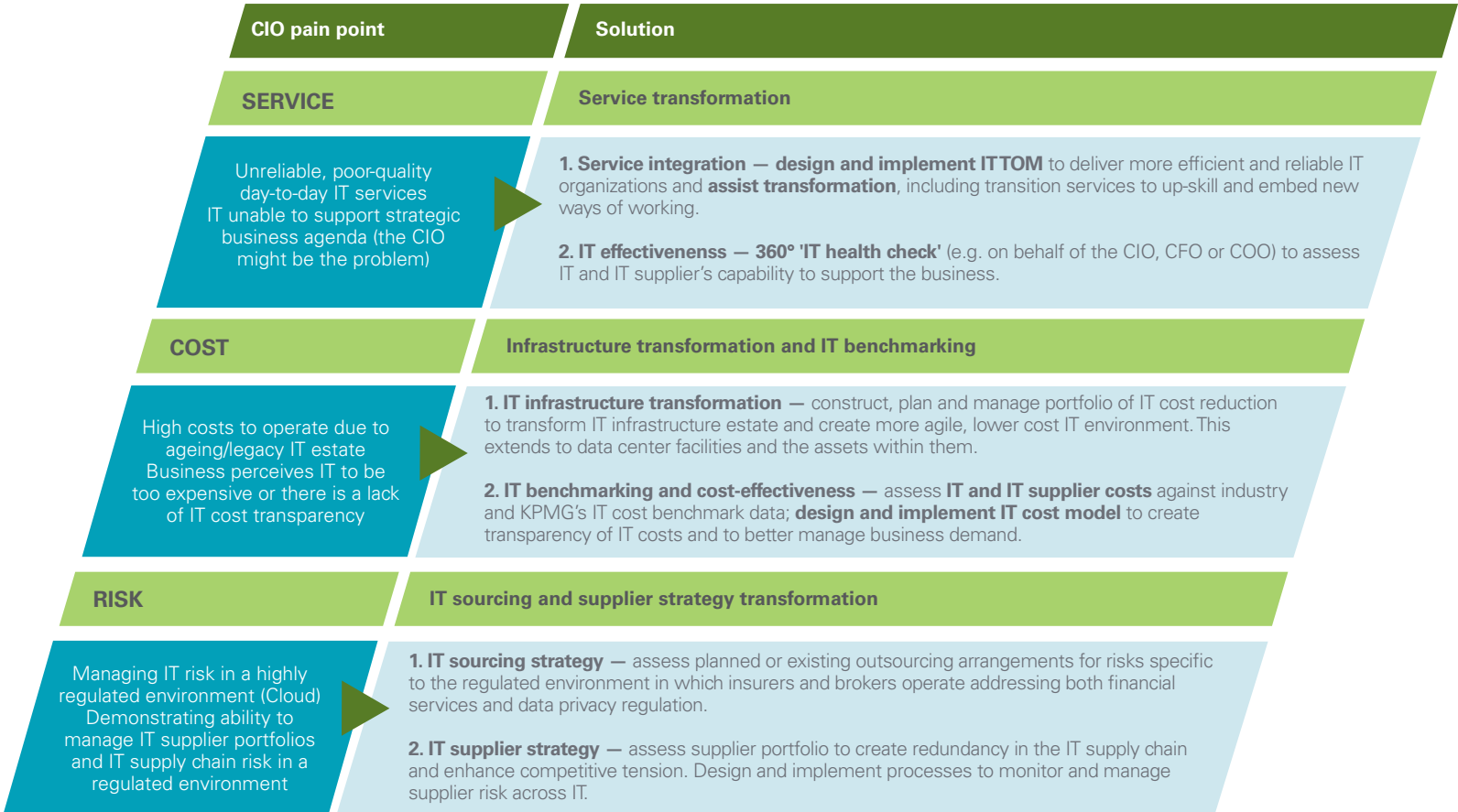
Gary Plotkin: Issues of this nature mean that company CIOs have diminished influence and are not as well connected to business planning as they could be.

How can the IT function reverse this situation?

Lisa Heneghan: The IT department must take practical steps to create transparency and rebuild credibility with leadership by improving, measuring and reporting on service delivery and quality. This means refocusing on their core capabilities and becoming a business enabler. They must rebuild skills and expertise, reassert consistent methodologies, define and mandate standard processes and demonstrate service and financial transparency to internal clients and suppliers. We have identified six practical tactics to address each of these pain points. See chart, page 41, Developing an IT road map.

Gary Plotkin: Some organizations may need to bring about more radical, transformational change. In many insurance organizations, CIOs must move the IT group from purely tactical to strategic functions, in part by helping the business articulate their strategy and then developing an IT road map to support it. IT must be an active participant with the business and become an enabler of technology solutions to address business challenges.

Developing an IT road map



Source: KPMG in the UK, 2014



When implementing strategic IT change, there are five mistakes that are vital to avoid

1. Inadequate focus on the challenges of change, which can lead to passive-aggressive — “I’ll say I’ll do it, but I won’t really try” behaviors and unanticipated barriers to success.

2. Absent or unsophisticated governance. Lack of strong governance — which continues to be frequently given lip service yet often neglected in practice in many transformational programs — can result in failure to drive the right accountabilities and pace of execution. At its core, an organization’s governance model defines how decisions are made and enforced, consistent with clearly defined policies and expectations.

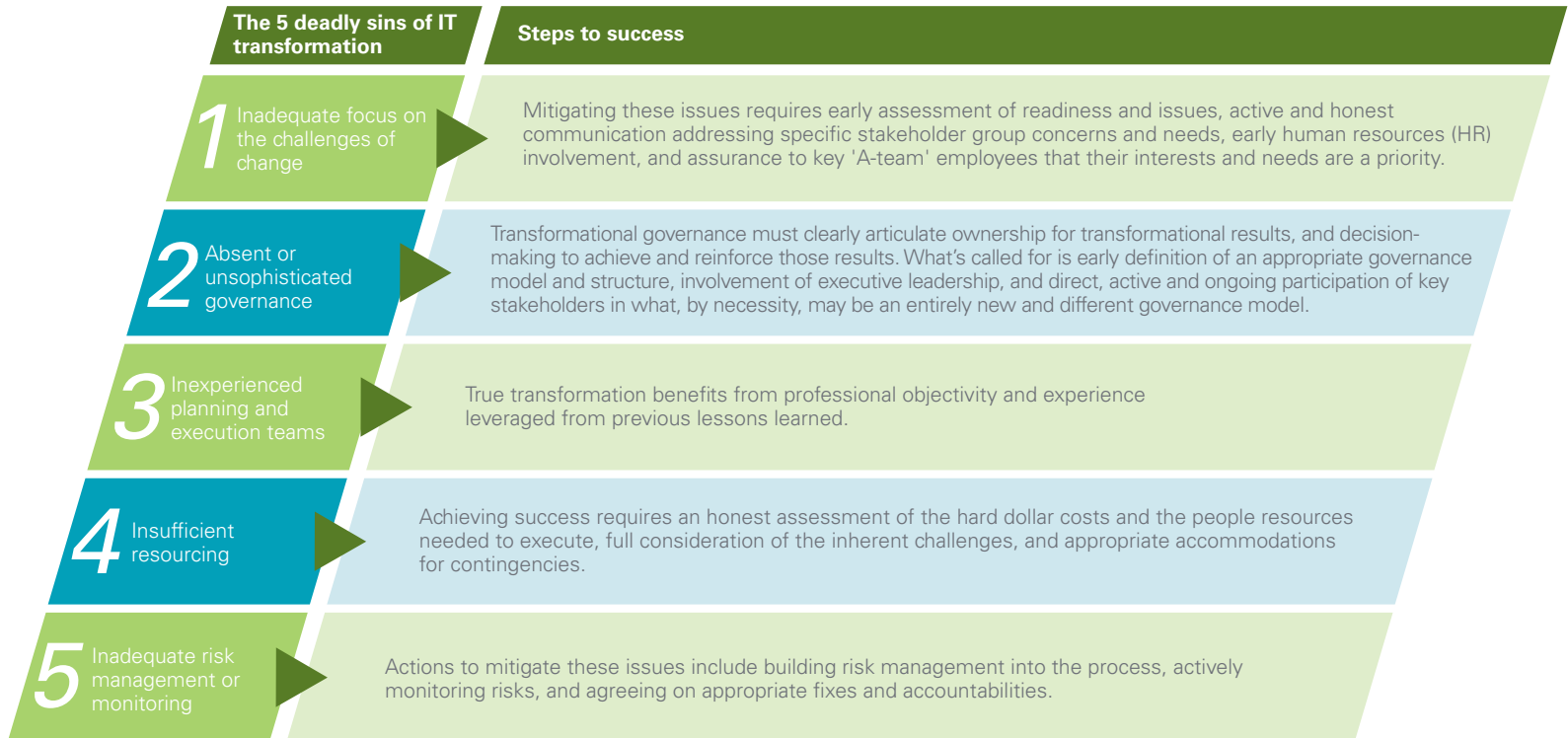
3. Inexperienced planning and execution teams. A major IT transformation is a once-in-a-career experience for most executives. Expecting people who have led successful careers delivering IT systems and services to also plan and execute a

transformation is frequently a flawed approach. Too often, future designs end up looking quite similar to past designs, with some adaptations and updates.

4. Insufficient resourcing. The time and cost to achieve a successful IT transformation is often underestimated, be it due to bravado, inexperience or ambitious third-party provider claims. Once underestimates lead to underfunded programs, people are often loathe to raising the flag, and instead try to push their way through.

5. Inadequate risk management or monitoring. This can quickly lead to potentially irreversible and costly errors, loss of key stakeholders’ confidence, and substantial business disruption.

Sins and success of IT transformation



Source: KPMG in the US, 2014

Securing competitive advantage: The path to transformation

At its simplest, insurance provides financial protection for what we value and so insurers have differentiated themselves on the keenness of their pricing, their financial solidity and superior service — in practice a recipe for commoditization. Tackling legacy systems is the gateway to unlocking data across the entire value chain, including vast unstructured data housed in various systems which has long been accumulated without consistently harnessing it for business benefit. Successful players have applied technology to better segment, rate and price risk more accurately.

Our research shows insurers and intermediaries around the world at a pivotal point in their development. In the past, technology has been primarily used to enhance existing ways of doing business, but ambition is increasing, with more than twice as many respondents planning to use digital technology to enter new markets in the next three years. The digital world also offers better access to loss prevention, greater convenience and the possibility of creating refreshed propositions reaching entirely new customer groups, including through increased collaboration and partnerships with other industries.

More than ever we believe that maximizing corporate value requires delivering great customer experience. Yet, around the world, we see many insurers and intermediaries still

focused on product and channel silos rather than orientated around creating value for customers. This suggests the need for more than digital transformation. Such a transformation represents a massive change.

In this publication, we shared with you our experiences to help overcome some of the most common pitfalls and barriers we encounter globally.

In conclusion, reviewing what we have learned from the research, and in what insurers and intermediaries can do to refocus and reframe to meet the challenge of transformational change, we believe will help them secure long-term sustainable competitive advantage.



Gary Reader
Global Head of Insurance, Partner,
KPMG in the UK
E: gary.reader@kpmg.co.uk

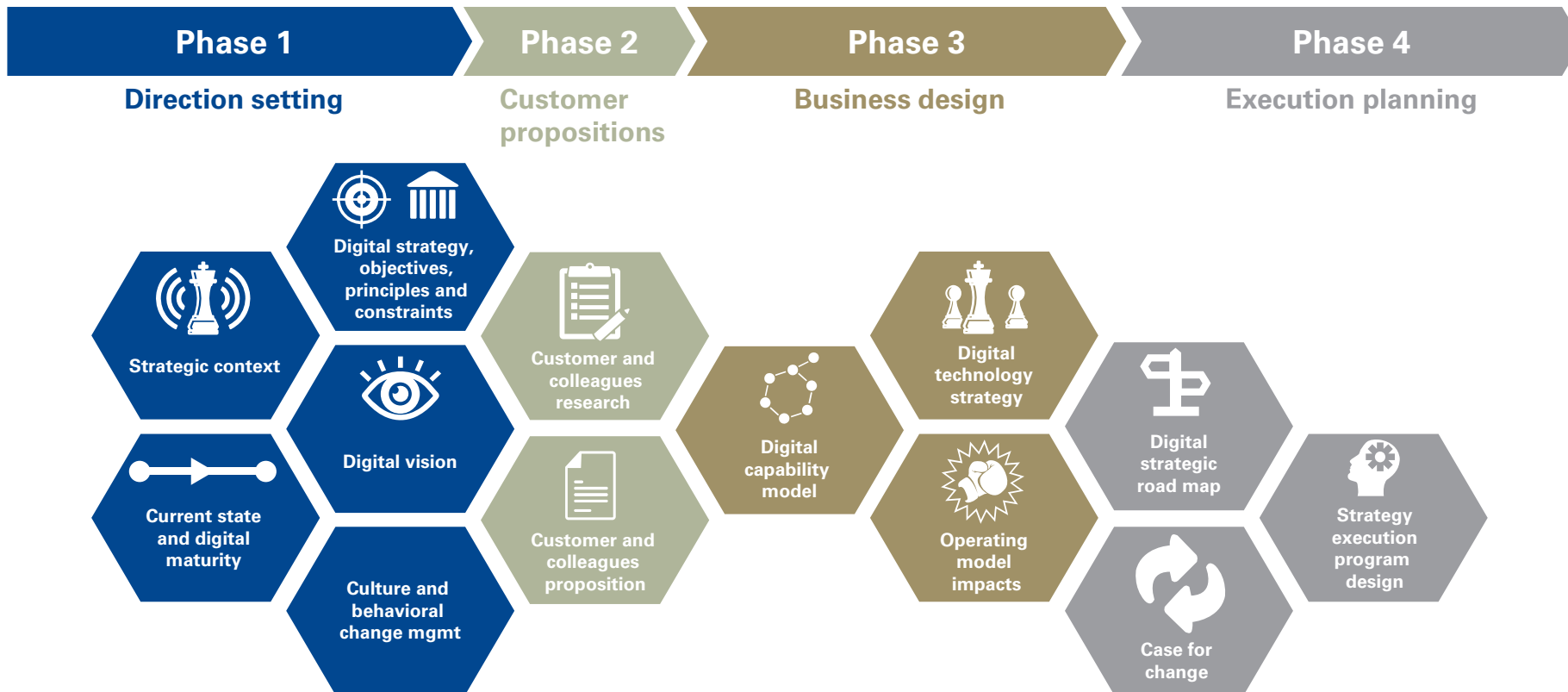


Mary Trussell
Global Insurance Innovation and
High Growth Markets Lead,
KPMG in Canada
E: mtrussell@kpmg.ca

The path to transformation

Transformation requires a focused strategy, an actionable plan and rigorous execution over four broad phases from direction setting to execution planning. These are inter-related and, depending on where you are starting from, you can plot your own path to guide you further along this transformational journey.

Digital strategy framework



Source: KPMG in the UK, 2014

Transforming Insurance: Insurance Transforming

At KPMG we are here to challenge your thinking, and to guide and support you along the way.

“As the business is driven more by data, the power will shift increasingly from underwriters to those who have access to customer lifestyle data. The future winners will be the organizations that control the data and can learn fastest from it.”

Navdeep Arora, Partner, KPMG in the UK

“The capital markets ensure that publicly traded insurers are focused on investor returns making it hard to draw a straight line between digital investments and short-term returns. But over the long term, an insurer without a digital strategy is an insurer without a business.”

Mary Trussell, Partner, KPMG in Canada

“The emerging markets hold considerable opportunity for insurers, both in terms of opportunities for growth and their ‘can-do’ attitude. Some call it reverse innovation when mature markets learn from emerging markets — I’d call it readiness to change.”

Wei Ng, Program Director, High Growth Markets Strategy,
Global Financial Services

“Asia Pacific generally has been an early adopter of mobile payments and e-commerce and may be more comfortable using digital, including digital currency. With the massive rise of the consumer in China, there are significant innovations taking place.”

Egidio Zarrella, Client and Innovations Partner,
KPMG in China

References

- 1 <http://adage.com/article/special-report-cannes-2013/netherlands-dela-wins-top-media-prize-cannes/242186/>
- 2 <http://www.kroodle.nl/>
- 3 <https://www.inshared.nl/>
- 4 http://www.triglav.si/mobilno/mobilna_aplikacija_triglav_toca
- 5 <http://www.davidshield.com/>
- 6 <http://www.aiavitality.com.sg> and <https://www.aiavitality.com.au/vmp-au/>
- 7 2014 US Insurance Outlook Survey
- 8 <http://www.pcinsurance.ca/>
- 9 2014 US Insurance Outlook Survey
- 10 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/265445/water-bill-flood-insurance-finance-accountability.pdf
- 11 <http://car.mof.gov.il>, <http://gemelnet.mof.gov.il/views/dafmakdim.aspx>, <http://pensyanet.mof.gov.il/Pensya/Pensya/UI/dafMakdim.aspx>
- 12 <http://www.wobi.co.il/>
- 13 <http://www.comassu.lu>
- 14 <https://www.cosmosdirekt.de/>
- 15 <http://digital-accelerator.com/>
- 16 <http://pruone.prudential.com.sg/pruone/> and <http://www.eabsystems.com/pdf/121.pdf>

“Insurance companies should naturally benefit from a move to digital: they are very comfortable handling massive amounts of data; the challenge is to complement the data and to consider it differently. However, it does put a whole new set of demands on the organization, in addition to the current pressures.”

**Louis Régimbal,
Partner,
KPMG in Canada**

Contact us

Global Insurance Leadership Team

Gary Reader

Global Head of Insurance and EMA Coordinating Partner

KPMG in the UK
T: +44 20 7694 4040
E: gary.reader@kpmg.co.uk

Laura Hay

Americas Coordinating Insurance Partner

KPMG in the US
T: +1 212 872 3383
E: ljhay@kpmg.com

Simon Donowho

ASPAC Coordinating Insurance Partner

KPMG in China
T: +852 2826 7105
E: simon.donowho@kpmg.com

Frank Pfaffenzeller

Joint Global Insurance Audit Lead Partner

KPMG in Germany
T: +49 89 9282 1027
E: fpfaffenzeller@kpmg.com

Frank Ellenbürger

Joint Global Insurance Audit Lead Partner

KPMG in Germany
T: +49 89 9282 1867
E: fellenbuerger@kpmg.com

Brian Daly

Global Insurance Tax Lead Partner

KPMG in Ireland
T: +353 1410 1278
E: brian.daly@kpmg.ie

Mark Longworth

Global Insurance Management Consulting Lead Partner

KPMG in the UK
T: +44 11 3231 3311
E: mark.longworth@kpmg.co.uk

Matt McCorry

Global Insurance Risk Consulting Lead Partner

KPMG in the US
T: +1 212 954 3945
E: memccorry@kpmg.com

Sam Evans

Global Insurance Transactions and Restructuring Lead Partner

KPMG in Switzerland
T: +41 58 249 55 63
E: samevans@kpmg.com

Mike Walker

Global Insurance Restructuring Lead Partner

KPMG in the UK
T: +44 20 7694 3198
E: mike.s.walker@kpmg.co.uk

Rob Curtis

Global Insurance Regulatory Lead

KPMG in Australia
T: +61 3 9838 4692
E: rcurtis1@kpmg.com.au

Ferdia Byrne

Global Insurance Actuarial Lead Partner

KPMG in the UK
T: +44 20 7694 2984
E: ferdia.byrne@kpmg.co.uk

Mary Trussell

Global Innovation and High Growth Markets Lead Partner

KPMG in Canada
T: +1 647 777 5428
E: mtrussell@kpmg.ca

Country Contacts

Richard Morrison Partner

KPMG in Australia
T: +61 2 9335 8156
E: rbmarrison@kpmg.com.au

Karel Tanghe Partner

KPMG in Belgium
T: +32 2708 4225
E: ktanghe@kpmg.com

Richard Lightowler Partner

KPMG in Bermuda
T: +1 441 295 5063
E: richardlightowler@kpmg.bm

Luciene T. Magalhaes LATAM Coordinating Insurance Partner

KPMG in Brazil
T: +55 11218 33144
E: ltmagalhaes@kpmg.com.br

Neil Parkinson Partner

KPMG in Canada
T: +1 416 777 3906
E: nparkinson@kpmg.ca

Walkman Lee Partner

KPMG in China
T: +86 10850 87043
E: walkman.lee@kpmg.com

Roger Gascoigne CEE Coordinating Insurance Partner

KPMG in the Czech Republic
T: +420 2221 23481
E: rogergascoigne@kpmg.cz

Francine Morelli Partner

KPMG in France
T: +33 1556 87177
E: fmorelli@kpmg.fr

Ernst Gröbl Partner

KPMG in Germany
T: +49 89 9282 1464
E: ernstgroebl@kpmg.com

Shashwat Sharma Partner

KPMG in India
T: +91 22309 02547
E: shashwats@kpmg.com

Elisabeth Imelda Partner

KPMG in Indonesia
T: +62 21 574 2333
E: elisabeth.imelda@kpmg.co.id

Liam Lynch Partner

KPMG in Ireland
T: +35 3141 01734
E: liam.lynch@kpmg.ie

Giuseppe Rossano Latorre Partner

KPMG in Italy
T: +39 0267 6431
E: glatorre@kpmg.it

Ikuo Hirakuri Partner

KPMG in Japan
T: +81 3354 85107
E: ikuo.hirakuri@jp.kpmg.com

Sung Min Cho Partner

KPMG in Korea
T: +82 2211 20499
E: sungmincho@kr.kpmg.com

Kam Hian Loh Partner

KPMG in Malaysia
T: +60 37721 3388
E: khloh@kpmg.com.my

Ton Reijns Partner

KPMG in the Netherlands
T: +31 030 658 2444
E: reijns.ton@kpmg.nl

Adrian Quinton Partner

KPMG in Russia
T: +74 95937 2960
E: aquinton@kpmg.ru

Kam Yuen Lau Partner

KPMG in Singapore
T: +65 6213 2550
E: kamyuenlau@kpmg.com.sg

Gerdus Dixon Partner

KPMG in South Africa
T: +27 21408 7000
E: gerdus.dixon@kpmg.co.za

Antonio Lechuga Campillo Partner

KPMG in Spain
T: +34 9325 32947
E: alechuga@kpmg.es

Hieronymus Dormann Partner

KPMG in Switzerland
T: +41 58 249 35 03
E: hdormann@kpmg.com

Alper Güvenç Partner

KPMG in Turkey
T: +90 216 681 90 00
E: aguvenc@kpmg.com.tr

Phil Smart Partner

KPMG in the UK
T: +44 20 7311 5134
E: phil.smart@kpmg.co.uk

kpmg.com/transforminginsurance

kpmg.com/socialmedia



kpmg.com/app



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 endeavor 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. The views and opinions expressed herein are those of the survey respondents and do not necessarily represent the views and opinions of KPMG International.

© 2014 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve. | Publication name: Transforming Insurance | Publication number: 131677 | Publication date: October 2014.