KPMG

From coverage provider to risk adviser

Insurers serving large businesses can add value via unbundling services

The recent events surrounding the COVID-19 pandemic are radically changing operational conditions and imperatives across the commercial insurance industry. This crisis is a crucible that challenges everyone's way of thinking, way of working, and it almost certainly will transform the way we will do business in the future.

For insurers serving all businesses from small to large, capabilities relating to digitally enabled (and remote) work functions have become paramount to maintaining business operations and serving commercial insurance customers at this crucial time. There is a paradigm shift that will change the way insurers engage and deliver to meet the evolving expectations of customers.

Insurers seeking to more fully serve the large business market segment have an opportunity to enhance their market relevance as well as boost fee income by offering risk advisory services.

The largest corporations have always operated in an interconnected world of complex risk. These circumstances have required the very large businesses to develop capabilities to understand and manage risk, which has enabled them to self-insure a meaningful portion of their risks. As large corporations focus on managing their risks, they also have begun to purchase certain insurance risk management services on an unbundled basis in order to select what they believe are best-in-class capabilities. That scenario is now especially true, as insurtechs and new competitors seek to participate in and disrupt the risk management services value chain.

Insurers competing successfully in the large corporate market must understand the buying objective of risk managers at most very large businesses, as they bifurcate the purchasing decisions of fee-for-service offerings and insurance capacity. For insurance companies that are accustomed to delivering their services as part of the insurance premium for overall coverage, they will find their offerings are less relevant to the large corporates buyer.

To keep pace with the changing customer demands and the new competitor landscape, insurers must look inside and identify the core competencies that make them effective risk managers. These competencies are likely the same capabilities large corporate customers are seeking on an unbundled basis in order to manage their risks. The challenge and opportunity for insurers is to join the competition by providing their own unbundled, fee-for-service offerings to the large corporate market. They would need to build and enhance direct relationships to market those unbundled capabilities to large corporate businesses. Such stand-alone, fee-generating services would offer the possibility of not only creating new revenue flows but also helping smooth out earnings volatility.

Further, it is important for insurers to understand the new technologies and the new competitors who are participating in the competition for fee-for-service business. Some insurers establish strategic venture funds to stay abreast of new capabilities being developed; to invest in businesses that could disrupt their own business model; and to broaden their solution set to the large corporate market. In many ways, insurers need to embrace thinking more like innovators than traditional insurers.

Complexities create opportunity

We believe that carriers must be more relevant in today's market through a better understanding of customers' needs that are beyond traditional protection coverages. Through focusing more on certain types of services, carriers can thoughtfully help companies manage their total cost of risk more effectively while also changing their perceived value to the client from coverage provider to risk adviser.

Taking this step will require carriers to initially drive advanced services in the following key areas:

Always-on risk exposure analyses

A large business's risks, and its total cost of risk, are constantly changing due to external and internal forces. With the ability to harvest real-time data into powerful predictive models, business executives increasingly are becoming better informed about changing risk profiles and costs. Insurance carriers now are in a position to offer "always-on" services because of relentless advancements in artificial intelligence capabilities. With those advancements, carriers have gained very valuable experience, enabling them to understand complex risk management variables.

Utility services

For a time, traditional carriers that have not adjusted or optimized their service capabilities to meet specific large business insurance servicing needs could argue that they did not seek the opportunities because of cost and scale challenges. However, given the advancements in digitally based operating models and capabilities, those answers are no longer valid. We see more opportunities for carriers to recapture service business and build a shared service model ecosystem that delivers localized client-based expertise while offering scalable capabilities across multiple client segments.

Prevention

The best solution, from a risk mitigation perspective, is prevention and avoidance. Carriers can play a leading role in helping companies establish a prevention infrastructure. Leveraging existing and new capabilities and assets (sensors, behavioral analytics, for example), organizations can create the capability to greatly reduce potential loss costs while freeing up capital for a number of business needs. In our view, carriers can realize the value of prevention-as-a-service and leverage it as a natural adjacency to utility services.

The unbundling effect has continued to establish a market for these services over the past several years. We estimate that this service market for large companies is generating approximately $3.5 billion in fee revenues and growing by 7 percent annually. As the trend continues, along with advancements in technology and data capabilities, carriers need to redefine their role for such clients.

KPMG helps you think before you act. Our team of former industry executives, which include underwriters, claims handlers, actuaries, risk managers, and engineers, will help you think through how you can take advantage of this changing marketplace. Areas of for considerations include.

1. Helping the insurance company understand where it could be operating in the large account segment, based upon the insurer's current capabilities and business strategy. Our team can bring to insurers specific perspectives on the large business market opportunities that can be leveraged by a particular insurer after evaluating that insurer's current business model and capabilities and future opportunities if the models and capabilities were modified and enhanced. KPMG can offer advice on the types of investments required if an insurer seeks to shift its position in the large business market.

2. Evaluating an insurer's capabilities and resources if the insurer had an intention of identifying how those capabilities and resources could be commercialized as separate product offerings. Some insurers, for example, could unbundle their claims services from their claims departments and offer claims services as stand-alone offerings. Doing so would require a business to create, for example, a separate marketing strategy, a separate sales team, and separate risk identification capabilities for such a stand-alone service or product.

3. Assistance in segmentation of brokers with whom insurers want to build deeper business relationships. Assistance could come in the form of identifying specific brokers based on an insurer's business model—or future business model—and on plans for distribution.

4. Helping insurers create a dialogue with large, risk management customers, many of whom will want to leverage an insurer's risk management expertise after working with KPMG to build a strong business relationship. That work would require insurers to train relationship leaders and a sales team that can coordinate with brokers and build an accompanying content marketing campaign.

5. Leveraging KPMG Innovation Labs as meeting locations for insurers and insurtech companies to find common ground and mutually beneficial avenues to go to market and increase their relevance to large commercial businesses.

With our guidance, insurers can reshape their go-to-market model and help large businesses realize two high-value results:

— Having less volatility in their P&Ls because they are building a service and fee business along with their premium business.

— Being viewed by clients and potential clients as differentiators: They will be well placed to compete for services that they are not offering now.

In our view, insurers that do not move more aggressively and change their go-to-market model will risk irrelevance in the marketplace in the near future.

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April 17, 2020