

A tall, ornate building, likely the Flatiron Building, stands prominently in the center of the frame against a deep blue twilight sky. The building's facade is detailed with classical architectural elements, and several windows are illuminated from within, casting a warm glow. In the foreground, a city street is captured with long-exposure light trails, showing streaks of red and white light from moving vehicles. The overall scene conveys a sense of urban activity and modernity.

Thriving in the coming insurance  
industry transformation

**Five practical actions insurance  
companies can take to thrive**

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**KPMG**  
cutting through complexity

# Recent Insurance Industry Forecasts

## REDUCED LOSSES AND PREMIUMS

### AUTO INSURANCE

Premiums consumers pay could drop as much as 60 percent in 15 years as self-driving cars hit the roads. (<http://www.bloomberg.com/news/articles/2015-07-30/can-the-insurance-industry-survive-driverless-cars>)

The “accident-less” car will arrive far before the driverless car. Cars with new accident avoidance technologies are already experiencing 40 percent reductions in accident rates. (Highway Loss Data Institute)

Auto losses will decrease by 9 percent by 2017 and 35 percent by 2022 due to technology. (AMBest)

There will be a 15–25% reduction in auto losses as part of a sharp contraction in non-life premiums. (Morgan Stanley & BCG)

### HOME INSURANCE

Home losses will ultimately decrease 40-60 percent due to technology. (Morgan Stanley and BCG)

### LIFE INSURANCE

The number of individual life policies purchased per year has halved since 1960. Since 2004 the number has decreased 21 percent. (America Council of Life Insurers)

Reductions in accidents and advanced medical technologies are predicted to greatly increase longevity, lowering life insurance premiums and increasing annuity liabilities.

New treatments will allow humans to remain healthy and productive to the age of 120 or more. (Pew Research Center, National Geographic)

## LOWER COSTS

By automating processes, providing digital and online sales and using big data to improve pricing and limit fraud, technology will reduce combined ratios by over 20 percentage points. (Morgan Stanley, BCG)

There is a greater than 90 percent probability that most jobs within insurance will be replaced by technology. (Frey and Osborne, Oxford University)

## GROWTH IN DIGITAL CUSTOMER INTERACTIONS

Customers increasingly expect to be served through all channels. Digital interaction within financial services is predicted to grow 46 percent per year through 2020. (IDC)

The direct channel is expected to at least double by 2020 while the agent channel declines (SNL, Market Intelligence, Forrester)

## INCREASED RISKS FROM CYBERSECURITY BREACHES AND NEW BUSINESS MODELS

High profile security breaches: These frequent events cause enormous damage to customers, companies, and brands ([databreachtoday.com](http://databreachtoday.com))

## NEW BUSINESS MODELS (KPMG)

### USAGE BASED INSURANCE (UBI)

Sensors in autos and homes allow companies to charge for specific risk exposures, challenging the fundamental “pooling” actuarial model behind traditional insurance

### AGGREGATORS

The (direct) aggregator model has eclipsed the traditional agent model in other countries, and Google and others are now driving this model in the U.S.

### PREVENTION

Many insurers now seek to help their customers to avoid accidents rather than merely pay them when they have losses

### DATA MONETIZATION

Insurers increasingly realize that the unique combination of customer information they possess can be leveraged both internally and externally

## CONSOLIDATION

Some smaller competitors could quickly fall behind as premiums and costs fall, driving industry consolidation. We have already seen a significant increase in U.S. Insurance M&A activity in 2015 versus 2014 and we expect this trend to continue.

**No one knows exactly how all of these transformations will play out, but we have never seen predicted changes of these magnitudes within insurance and, it would seem reckless to assume that they will not come to pass. If even only some of them do, massive change is near.**

**The U.S. Insurance industry is facing unprecedented change. Driven by Moore's Law (the halving of computation costs every 18-24 months), new technologies are reducing losses and costs and driving digital customer interactions while increasing risks and driving new business models in the industry. To thrive through this transformation, companies must align on how these changes will impact them and develop clear strategies to evolve and win.**

**Recent insurance industry forecasts (see chart at left) make clear that unprecedented change is under way.**

## Five practical actions insurance companies can take to thrive

**There are five things that insurance companies can do to thrive as their industry transforms:**

**1** Develop their own view of when and how technology will impact their companies

**2** Develop new strategies to thrive as the industry transforms

**3** Leverage new technologies in their current business as appropriate

**4** Mitigate key risks by investing in cybersecurity and experimenting with new business models

**5** Decide what role they will play in industry consolidation



### 1. Developing their own view

The immensity of the coming changes, justified pride in past successes, and lack of confidence about their organization's ability to adapt have caused some leaders to resist change. In this rapidly changing environment, this is a potentially fatal mistake. In our experience, companies go through three phases in their journey to adapt to technological transformation in the insurance industry.

#### Phase 1: Denial

Statements of existential risks (e.g., that the direct model will challenge the agent model, or that technology will reduce losses going forward) can be threatening to existing businesses and their leaders and even perceived as disloyal in some business cultures. There is also a legitimate need not to upset the current business before new strategies are developed. Together these factors can stop necessary change even before it starts.

#### Phase 2: Resistance

In this phase, leaders open to considering these risks find themselves at odds with those that do not, causing significant internal strife. These battles often become highly personal and political and are often "won" by those resisting change. Without intervention, proceeding through the first two phases can easily take two to five years while necessary changes are paralyzed by political strife.

#### Phase 3: Alignment

The final phase involves aligning your team on how various technologies will impact your customers, your losses and your operations. Fact-based analysis is used to cease internal conflict and create alignment. Only when the entire management team aligns on the magnitude of change facing their company will innovation and new business models receive commensurate focus and funding.



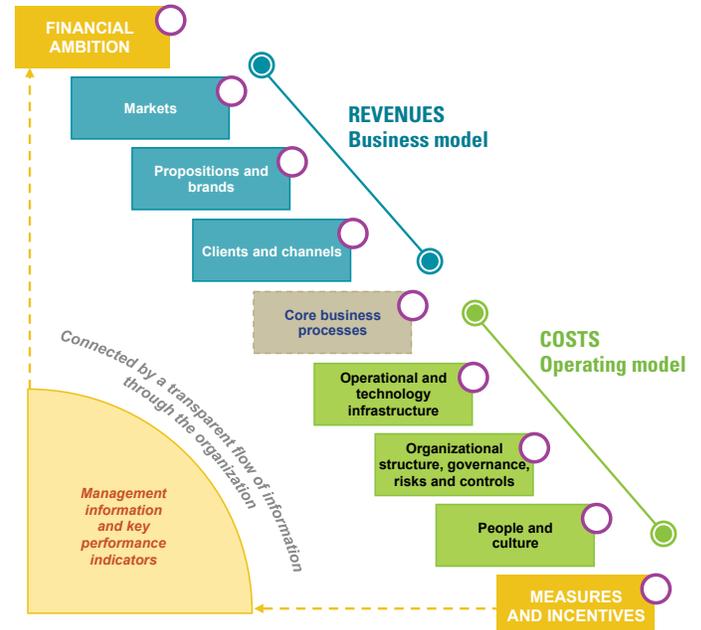
## 2. Developing new strategies to thrive

Once the need to act is clearly perceived, companies must decide what to do. Since the expected industry evolution is so fast and extensive, it would be surprising if past strategies were still optimal. At minimum, strategies now need to address the unprecedented changes facing the industry and describe whether each company will lead, follow, or attempt to preserve the status quo as these changes come about. The answers can be as varied as the companies themselves. KPMG uses the “Nine Levers of Value methodology to help companies define winning strategies.

Recently a major US P&C carrier used this process to conclude that it must lead the industry in technology transformation while continuing to support its agent-based, premium service brand promise. A smaller regional carrier concluded that it was facing a once in a lifetime opportunity to disrupt its larger competitors by leading a specific area of technology to drive dramatic growth while fast-following in a range of other technologies.

With a refreshed understanding of where your company stands versus competitors on key bases of competition and an updated strategy that addresses coming industry changes, your company will have a solid plan to thrive going forward.

### The 9 Levers of Value Methodology



## 3. Leveraging new technologies

All too often, insurance companies devote the majority of their technology spend to fix and upgrade core technology infrastructure (such as policy administration and claims systems). However, cloud and other technologies are in the process of making these legacy systems obsolete. This is doubly strange given the high costs, long time lines, and high failure rates of legacy system upgrades.

New technologies are so critical to increasing customer satisfaction and reducing costs that those who delay leveraging them in their current businesses risk quickly becoming uncompetitive. Numerous technologies are ready now including mobile apps, virtual agent support and agents, claims by photo, sensors for cars, homes and people, gamification and a suite of data analytics and artificial intelligence capabilities. If you have not identified when and how these technologies can help your company, now is the time to do so.

Still, this process is not “one size fits all.” It usually starts by producing a current technology heat map that shows where new technologies are currently employed across your company. This often reveals opportunities to coordinate efforts and capabilities across the company. Then, the next step is to create a future technology heat map by identifying where each new technology could add the most value based on your company’s unique competitive strategy. Once the future technology heat map is developed, it can be used to write a detailed road map for implanting the right technologies in the right places at the right times.



## 4. Mitigating risks by investing in cybersecurity and new business models

Motivated by high profile data breaches, almost all insurance companies are pursuing cybersecurity capabilities. This often involves establishing security operations centers (SOCs) and implementing new security protocols. However, in this highly uncertain risk environment and in traditionally conservative insurance company cultures, it is easy to over-invest or invest in the wrong areas. Leading companies have discovered ways to link their cybersecurity investments to the expected frequency and severity of risks to help ensure they are matching investment to expected risk appropriately.

### If your current business model is threatened, you might also explore new business models. Multiple new business models are currently being tested:

- **UBI (Usage Based Insurance)** allows companies to charge customers based on the actual risks incurred (vs. generalized “pooled” risks across similar customers and across time). Most major carriers using telematics for automobiles and sensors within homes to experiment with this model.
- **Aggregation** involves selling multiple brands of insurance on public Web sites, providing transparency of pricing and low cost of sales and service. Beagle Street was founded in 2012 and has now captured 8% of the UK Life Insurance market through this channel and Google and others are now pushing this model in the US.
- **Prevention models** leverage loss and customer data to help customers avoid losses. Most companies are exploring this model as a means of enhancing customer satisfaction and a few are experimenting with various models for charging for these services.
- **Data Monetization** involves combining customer and loss information with big data to drive increased renewals and cross-sales, while reducing costs and fraud. Most companies are pooling internal data with externally available data as part of “customer centricity” efforts and a few are experimenting with selling their data externally.

Since most insurance companies are not practiced at developing new businesses and business models, it is important to rely on the increasing body of knowledge on innovation both within and outside of insurance. Using your competitive strategy as a guide, you can focus innovation efforts on relevant areas, incubate them, and bring them to market efficiently. It is also critically important to set the right organizational structure and operating model for innovation activities to prevent them from being marginalized by efforts to support current business models.



## 5. Participating in consolidation

**We believe returns will accrue to competitors that “read the tea leaves” and actively participate in the transformation by becoming a consolidator, consolidatee, or a partner:**

- Consolidators can gain from scale and snap up “bystanders” that find themselves out-competed by companies that are able to adapt to the transformed industry.
- Consolidatees can benefit by saving themselves the significant investment necessary to compete in the transformed industry and selling “on their own terms” early in the transformation. The worst approach in our view is to invest in transformation with no clear path to success, incur all the costs of transformation, but fail to realize significant competitive advantages.
- Partners collaborate to develop new business models and share investment in new technologies. In fact, there is currently an explosion of partnerships between smaller insurers and technology companies. The insurers want to be the first to understand and leverage new technologies that are relevant for their competitive strategies and companies with new technologies are looking for insurance customers to test and improve their technologies and lend credibility to their brands and value to their companies.

**Insurance leaders must decide which combination of these activities makes the most sense for their companies. The answer will depend on their company’s current competitive position and strategy and other factors, including:**

**Their team’s assessment of the risk that transformation poses to their current business models**

**The company’s ability to identify and leverage new technologies**

**The strength of their balance sheet**

**The company’s core mission, beliefs, and principles.**

**There is little doubt that technology is dramatically transforming the insurance industry. In this environment, continuing with past technologies, processes, and business models will likely prove to be the riskiest strategy of all.**

## KPMG has the experience to accelerate your journey in several relevant areas:



### Develop your own view of when and how technology will impact your company

- Conduct a company-specific risk analysis of how and when technology and other factors will impact your current book of business and operations
- Create management alignment about what is “at stake”



### Develop new strategies to thrive as the industry transforms

- Apply the Nine Levers of Value framework to your business
- Conduct related analysis on the industry, trends, competitors
- Develop multiple potential strategies and help your team select the right one
- Develop specific initiatives and a roadmap to achieve the chosen strategy



### Leverage new technologies in your current business as appropriate

- Assess your company’s current technology capabilities and deployment
- Identify technologies that are ready to be deployed in your company now to create growth, enhance the customer experience and reduce costs
- Develop technology heat-maps and roadmaps
- Conduct proofs of concept for new technologies and assist with implementation



### Mitigate key risks by investing in cybersecurity and experimenting with new business models

- Develop pro-active cybersecurity strategies and establish Security Operations Centers (SOCs)
- Assess appropriate investment levels in cybersecurity
- Assess your company’s ability to profitably execute new business models
- Conduct proofs of concept on new business models and assist with execution



### Decide what role you will play in industry consolidation

- Identify the characteristics of ideal acquisitions or partners
- Assess the value and viability of potential acquisitions or divestitures
- Assist with transaction execution and integration

## How KPMG can help your business transform with focus and agility

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Helping clients arrive at the optimum value from their business transformation journey begins with an in-depth understanding of the industry in which they work. With our breadth of insurance and financial services industry experience, KPMG helps clients discover actionable insights across sectors and businesses of all sizes.

KPMG Strategy takes an enterprise-wide view to business transformation by assisting clients from strategy through results. Traditional strategy consulting services focus primarily on business model issues without giving adequate consideration to implications for the operating model and the complex journey companies must undergo to change and realize value. KPMG's Nine Levels of Value methodology connects business model design (strategy) and operating model implementation (execution). Further, KPMG holds a differentiated position in the marketplace offering clients a wide-range of implementation services through our deal advisory, management consulting, and risk consulting capabilities. The collaborative expertise of these practices is more than the sum of the parts. Together, they establish a platform to support transformation with deep industry experience and strong and differentiated proprietary methodologies and tools. The end result is a customer engagement where strategy, business model, and operations are all in sync.

**Learn more at [kpmg.com/us/strategy](http://kpmg.com/us/strategy).**

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