



Insurance sector overview



Tightening regulation, escalating cost inflation and rising premiums are leading to declining consumer trust. These point to a difficult road ahead for the UK insurance industry.

Organisations are having to concentrate on Consumer Duty and ESG

Following the FCA's publication of their final rules and guidance in 2022, the coming months will see a ramping up of activity by organisations and the regulator. The Duty came into force on 31 July 2023 for new and existing products and services that are open to sale or renewal.

Dear CEO letters¹ issued by the FCA to general and life insurance providers in February sent out a strong message that the Consumer Duty is its key priority, and it has a low appetite for organisations missing the mark. The regulator also made it clear that Consumer Duty should be CEOs' 'top priority' and said that they'll monitor organisations' progress, via surveys, proactive engagement, and further multi-firm reviews in the coming year.

Consequently, insurance providers are examining processes and procedures to ensure compliance, as well as examining end to end

customer journeys to ensure customers do not experience poor outcomes. There is an opportunity for organisations to use adherence to Consumer Duty as a force for good and as a key part of customer led growth.

Over the last 20-plus years, ESG sustainability programmes have grown from voluntary and free-form corporate social responsibility initiatives to more mandatory, regulated, and structured frameworks across a growing number of global jurisdictions.

Mandatory EU CSRD regulations – as part of the double materiality assessment - will be compelling insurers to understand the impact of ESG on their consumers.

Looking beyond climate risk, these programmes are moving ahead with new requirements for organisations. As such, insurers need to demonstrate how their climate risk and ESG programmes reflect concerns and increase customer trust, build business resilience, and protect against reputational damage.

¹ <https://www.fca.org.uk/publications/good-and-poor-practice/cost-living-good-and-poor-practice-general-insurance-market>

Firms that are capable of capturing ESG issues within their wider risk management will be well-placed to embed reliable strategies and controls to mitigate ESG risks. Making ESG meaningful for customers is also a challenge. LV= and others have pioneered the reconditioning of parts to limit wastage – but more needs to be done.

Cost of living crisis

Inflationary pressures are driving up claims costs as third parties have to increase wages, deal with increases in replacement parts prices and see their own costs escalate.

Consequently, car insurance premiums have increased by almost 50 per cent over the past year, with millennials and older drivers hit hardest².

Data from the analyst Consumer Intelligence, which looks at quotes from Confused.com, Go Compare, Compare the Market and MoneySuperMarket, reveals that average premiums rose by 48 per cent on average in the 12 months to June 2023. Premiums are now at their highest since the start of 2018.

Car insurance is fast becoming one of the most expensive household bills, adding more financial pain at a time of high inflation and surging mortgage rates and rents.

Reductions in mortgage approvals and constrictions across the housing market are, in turn, reducing the sale of life and pensions products.

² <https://www.independent.co.uk/money/why-has-car-insurance-risen-so-much-b2391334.html>

Digital transformation and the customer experience

The insurance industry is witnessing a profound digital transformation, as insurers embrace cutting-edge technologies such as artificial intelligence (AI), machine learning (ML), and automation. These innovations are revolutionising various aspects of the insurance ecosystem, including underwriting, claims processing, fraud detection, and customer service.

AI-powered chatbots and virtual assistants are being deployed by insurers to provide 24/7 customer support, answer inquiries, and assist with policy-related queries. These intelligent systems offer real-time responses, reducing the need for human intervention and enhancing customer satisfaction.

Machine learning algorithms are utilised to analyse vast amounts of data collected from various sources, such as social media, IoT devices, and customer interactions. Insurers can leverage this data to gain valuable insights into customer behaviour, preferences, and risk profiles. With these insights, insurers can tailor personalised product recommendations, create targeted marketing campaigns, and identify potential fraud patterns.

Automation is another key trend reshaping the insurance industry. Insurers are automating repetitive tasks and workflows, improving efficiency, and freeing up valuable resources for more complex and strategic activities. Claims processing, policy renewals, and document management are being automated, leading to faster turnaround times and enhanced operational effectiveness.

Insurance providers are embracing data analytics and predictive modelling as key trends in the industry to drive informed decision-making. For instance, they utilise these techniques to assess risks accurately, optimise pricing strategies, detect and prevent fraud, and gain deeper insights into customer behaviour.

These trends are transforming how insurers operate, enabling them to optimise underwriting processes, improve customer experiences, and enhance overall business performance.

However, the much-heralded arrival of autonomous vehicles will bring a new set of risks for the insurance industry such as liability, hacking and cyber-crime. As more and more vehicles are endowed autonomous capabilities the industry will need to be able to accurately assess technical risk as well as human risk.

Insurance providers in the UK top 100

Given the above trends it is not surprising that this year only 2 insurance providers have made the top 100:

76 the AA

83 LV=



LV= were early adopters of AI and have developed its usage across the business in very specific and tightly defined use cases. The intention is to learn about the issues and opportunities with AI, whilst identifying use cases that can be scaled and operationalised.

LV= utilises its AI expertise across its general insurance arms, focusing on car, home, pet and travel insurance. Each of these use cases has differences, but the underlying template to build each of these models is reusable. For example, LV= General Insurance created a scalable machine learning solution to more easily solve the 20% of car insurance claims where liability is a grey area and claims can take up to 12 months to resolve³.

For the AA, innovation has meant keeping pace with the changing nature of the automobile. Electric vehicles, hybrid vehicles, hydrogen fuel cell technology and the increasing use of sophisticated software has meant constant training and updating of their 2000 strong patrol team.

“With the commoditisation of products and less room for pricing differentiation, the post sales experience will become more of a battleground. Insurance firms will have to focus on innovation and differentiation if they are to achieve competitive advantage.”

James Henderson, Director, Customer and Operations – Insurance Sector Lead

³ <https://www.artificialintelligence-news.com/2019/04/03/pardeep-bassi-lv-on-data-science-best-practices-and-ai-for-insurance/>

kpmg.com/uk

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

CRT149410 - December 2023