



New Reality for Insurance: China

**Insurance value chain:
Commercial insurance**

KPMG International

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Insurance value chain

Throughout COVID-19, the insurance industry — along with all business — has experienced a time of monumental challenge. The impacts of a health emergency have expanded into far-reaching economic and societal issues. It seems clear that as we emerge from this period, it will be into a new reality that will look very different to what existed before.

In preparing for the new reality, KPMG insurance professionals have set out the 11 key components of the insurance value chain and offer insights on the actions that insurers should be contemplating. Naturally, these actions vary according to sub-sector — Commercial, Personal lines, Life & health — as customer needs, preferences and reasons for buying are quite different in each.

Certainly, there is much for insurers to do. Rarely will the transformation agenda have been so pressing. However, through all of this, the industry should face the task with confidence. One of the great lessons that COVID-19 produced was that businesses, including insurance, are capable of doing much more, much faster than anyone probably ever believed.

This knowledge should be the inspiration for looking to the future. There is no doubt that insurers can rise to the challenges posed by the new reality.

Commercial insurance

The new reality | Actions to consider

Primary activities

	Definition	The new reality	Actions to consider
Product and service development	Using customer and market insights to design, develop and deploy products and services	<ul style="list-style-type: none"> — Core product suite and services are not expected to change greatly however agents/ brokers and insurers will need to explain cover and exclusions more comprehensively — There will be a drive from the client side for less complex terms and conditions, possibly in exchange for larger premiums — New product offerings may be developed focused on Covid19 	<ol style="list-style-type: none"> 1. The insurers will need to simplify product offerings and accelerate development of digital channels to enhance customer experience 2. Simplify terms and conditions and product disclosure statements and provide clarity on pandemic-related risks, coverage etc. to address customer concerns and reduce failure demand in relation to queries 3. Business interruption coverage was not a major focus of the property line, however post COVID19, such needs from micro and small businesses may increase
Marketing	Driving, monitoring and enabling sales and customer retention through brand management, advertising and customer engagement	<ul style="list-style-type: none"> — The insurers will need to focus on areas of social responsibility to improve the image of the company and the insurance industry at large — An increased awareness of marketing cost/ return will be required in an increasingly severe economic environment, requiring a better directed and empathetic message 	<ol style="list-style-type: none"> 1. Focus on building a positive image of the insurance industry. Examples include: <ul style="list-style-type: none"> — speedy channels for Covid-19 to efficiently and quickly settle claims — actively participate in public welfare activities to fight the epidemic, thus having built up good corporate images — assess changing voice of the customer/ broker to reshape branding and advertising — consider reputation risks and adapt business and product approach accordingly, while also taking into account social responsibility to build or enhance a positive image
Distribution and sales	Understanding and strategically penetrating the addressable market to deliver products and services and to generate revenue	<ul style="list-style-type: none"> — For large commercial business we do not expect significant changes due to COVID-19 — However, for small and medium enterprises (SME), there is expected to be an increased trend of direct-to-consumer sales if more standard products can be offered for SME with lower pricing — Direct-to-consumer technology-enabled processes will be required where such products are pursued 	<ol style="list-style-type: none"> 1. Insurers will need to assess the cost and benefit of direct-sale/broker for standard package products for SME 2. Investigate whether the current system capabilities can handle changes or if a new platform needs to be built 3. Refresh sales and distribution key performance indicators (KPIs) to reflect changes in sales strategy due to increased adoption of digital channels for distribution

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Underwriting	Analyzing risk profiles and premium pricing models to bind and issue policies	<ul style="list-style-type: none"> — Underwriting will be further digitized across all segments focused on: <ul style="list-style-type: none"> — portfolio management at the SME/lower middle market end — curated risk selection and decision taking in the middle market — information rich expert underwriting management for multinational business — Expect to see insurers adapt and develop improved service offerings to enterprises, for example an office package product to small and micro businesses — The underwriting process should not be overcomplicated for SME for standard package product — For large commercial underwriting no significant change is expected, however the contract wordings may be clearer in regards to pandemic inclusion 	<ol style="list-style-type: none"> 1. Assess the current portfolio from a distribution and pricing perspective to determine key exposures and opportunities for growth. Understand the cancellation, renewal and retention expected outcomes to determine the potential exposures and opportunities 2. Based on the above analysis and new/enhanced product design assess the new premium pipeline 3. Review digital strategy to assess the move to virtual digital working across products and segments, include a review of business that could have been acquired on digital platforms but has not
Policy administration	Managing the administrative activities required by the inforce populations (e.g. inquiries, cancellations, changes, billing and collections)	<ul style="list-style-type: none"> — Operating models will require review and upgrading: <ul style="list-style-type: none"> — to ensure they are more 'battle-tested' — by identifying ways to ensure better performance even in times of disruption — to mitigate risks — to enable resilience while driving efficiency 	<ol style="list-style-type: none"> 1. Assess the current operating model and assess where control needs to be enhanced 2. Review automation strategy and accelerate automation projects for lines of business where policy administration may be automated 3. Assess the effectiveness of current KPI on policy administration staff
Claims management	Evaluating and settling claims, including payment, reinsurance recovery and litigation, when applicable	<ul style="list-style-type: none"> — If there is a significant increase in policies written for SME business under standard packages, then the claims process also needs to be automated to a certain extent to reduce the manual burden on claim staff — Early fraud warning indicators can also be designed in order to minimize claim leakages — New risks will be presented associated with remote processes which require new control procedures 	<ol style="list-style-type: none"> 1. Scale the operating model for remote claim handling for the current book, including where remote processing will and will not be leveraged 2. Understand leakage areas and where potential exposures reside for those package products for SME. This process must be technology-enabled, yet subject matter expert anchored
Asset and investment management	Leveraging and investing assets from policyholder surplus and reserves to generate revenue and provide solvency for liabilities	<ul style="list-style-type: none"> — Cash and asset management strategies will evolve by increased focus on real-time scenario modeling — Insurers will closely monitor credit issues and impact of commercial real estate and loans given the possible shifts in those asset classes 	<ol style="list-style-type: none"> 1. Evaluate exposure to potentially high risk investments (e.g. commercial real estate and loans) 2. Enhance monitoring of credit risk 3. Assess investment strategies given challenging yield environment and shifting views of economic recovery patterns

Support activities

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Human resources management	Managing the organization's workforce to engage people effectively (e.g. recruiting, hiring, training, compensating, terminating)	<ul style="list-style-type: none"> — Both employers and employees see the benefits of greater flexibility, and resultant productivity benefits. This also presents increasing opportunity for collaboration across organizational boundaries — The acceleration of automation and digitization will impact many roles — With a shift away from "presenteeism", traditional performance management assumptions are up for review, with a focus on outcomes, and empowerment of individuals — Leaders will need to be equipped and a suitably enabled HR function to lead the transformation 	<ol style="list-style-type: none"> 1. Design and implement a more agile talent management and operating framework to support the new reality and provide clear guidelines and training to staff 2. Define the cultural attributes and behaviors of the agile working environment and assess the talent capability necessary to support it 3. Define the new role of the leader, with clear competency requirements and KPIs and create new leadership development programs that reflect the new reality. Coach and equip leaders so that they are able to drive transformation
Finance, actuarial and tax	Managing and reporting on finances, including controllership, financial planning and analysis (FP&A), accounts receivable/ accounts payable (AR/AP), tax and actuarial (reserving, capital liquidity and asset liability management (ALM))	<ul style="list-style-type: none"> — Finance, actuarial and tax will continue to be valued business partners within the executive leadership team, providing insights for real time solvency reporting, including: <ul style="list-style-type: none"> — meaningful internal management reporting — evolving cash management strategies — understanding tax opportunities — finding opportunities to reduce costs/losses (including within the finance function) — Growing focus on internal management information and ensuring there is efficiency in protecting customer value — Focus on new business and managing earnings is key given dent in the new business sales 	<ol style="list-style-type: none"> 1. Real-time monitoring of solvency positions and balance sheet optimization 2. Identify opportunities for bringing in cost efficiencies through digitization of finance and actuarial processes 3. Continue to manage regulatory changes such as emerging solvency regulations and IFRS 17 and optimization of financial position on multiple bases
Risk management	Developing and implementing strategies to assess, manage and mitigate losses due to risk exposure across the entire organization	<ul style="list-style-type: none"> — Insurers may need to focus more on exposure risk as the first line of defense, such as the contract coverage and new product development — Continued focus on capitalization and any areas of trapped capital — Risk management teams must adjust to new and different risks presented by planning for dual operating models (physical versus virtual) — Continued focus on cyber and data privacy risks with a more remote workforce — Revived attention on business continuity and resiliency where scenario planning becomes the norm 	<ol style="list-style-type: none"> 1. Risk management could build up a strong team with people who understand insurance risk and monitor the insurance risk exposure more closely 2. Understand and provide a view on the macroeconomic environment and political risks emerging. Review and enhance risk monitoring systems (e.g. solvency and capital), risk limits, and risk calibrations to reflect the new reality 3. To mitigate inherent risk, including increased cyber and data privacy risk 4. Assess new ways of working to evaluate risks and the associated controls in place (or required) and evaluate the business continuity plan procedures
Data and technology	Managing, monitoring and securing an enterprise's entire collection of hardware, software, networks, data, facilities and related equipment	<ul style="list-style-type: none"> — Digital and data will combine to transform end-to-end processes for claims, underwriting, servicing and sales and distribution — Accelerated move to cloud provisioning of front office distribution and client interaction services and staff flexible working arrangements — Dual operating models have a high reliance on state-of-the-art technological infrastructure to support remote working, while still aiming to cut operating costs for the long term 	<ol style="list-style-type: none"> 1. Move to regional data consolidation, enabling analytics and insights 2. Accelerate cloud adoption to support flexible work arrangements and client servicing 3. Adoption of digital and application programming interface (API) platforms to accelerate go to market with end-to-end digital customer journeys

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