



New Reality for Insurance: China

**Insurance value chain:
Life and health**

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.

Life and health 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"> — Since the outbreak of Covid-19, Chinese insurers have followed 'Three Guidelines' required by China Banking and Insurance Regulatory Commission (CBIRC) to expand insurance coverages of existing policies, to remove restrictions on designated hospitals and to ensure convenient settlement of their clients — In Hong Kong SAR companies are taking a strong look at their product sets and looking at how to re-design or de-risk them in a world where rates are 'low and stay low' — A shift to protection was a theme before, but more urgency here in order to get away from the heavy investment risks in saving contracts with guarantees — More awareness of the importance of health while fighting the epidemic which may boost sales of health insurance products 	<ol style="list-style-type: none"> 1. Open up speedy channels for full and quick claim settlement. Increase the number of customer touchpoints to the insurer to remove the reliance on face to face sales 2. Expanded policy coverage and enhance production for front-line healthcare workers and volunteers 3. Strengthen sales management and safeguard the legitimate rights and interests of policy holders
Marketing	Driving, monitoring and enabling sales and customer retention through brand management, advertising and customer engagement	<ul style="list-style-type: none"> — Insurers must seamlessly transition to discovering and engaging consumers digitally. The pandemic may be driving more interest in life products — Online presence and easy-to-access educational materials are critical for maintaining brand awareness with an accelerated focus on health and preventative techniques — Changing work patterns are likely to influence how products are marketed such as pensions or retirement savings products — More proactive campaigns to retain customers and increase loyalty through 'emotional connection to the brand' demonstrating empathy and customer support during difficult times 	<ol style="list-style-type: none"> 1. Update market messaging to reflect customer sentiment and product positioning 2. Update and align marketing function to new needs, which must consider messages, campaigns, mediums, ways of working, capacity and talent
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"> — All insurers will rapidly move to develop more digital customer touchpoints. In addition the downturn in the job market has seen a surge in applications and recruitment of better quality agents — Discussions with the regulator are ongoing to modify insurance regulations to reflect the new reality including the removal of so called wet signatures on insurance application forms — For life insurance, premium growth will slow down due to the slowdown in agency growth and the short-term restriction on training and practices — Rapid development of the internet, agent training and practices can be partially carried out online. This reduces the reliance on face-to-face visits and offline communications and alleviates the adverse impacts to some extent 	<ol style="list-style-type: none"> 1. Update the stories, based on marketing messages, that distribution and sales will leverage to enable impactful interactions. Stories should be told consistently through the different mediums that are used 2. Establish new operating model for distribution and sales considering <ul style="list-style-type: none"> — how will they work — what physical (versus virtual) footprint is needed — what process and technology will be used to interact with clients or targets

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Underwriting	Analyzing risk profiles and premium pricing models to bind and issue policies	<ul style="list-style-type: none"> — Use of more non-conventional unstructured data sources will become more prevalent — Addition of value-added services to extract data for better underwriting — Some reinsurers have been making their underwriting rules publicly available to their clients for a period of time, which may help insurers with additional underwriting expertise 	<ol style="list-style-type: none"> 1. Review opportunities for improved structured data collection and use of AI to harness the power of predictive modelling 2. Assess ability to move toward more automated underwriting 3. Consider unbundling of insurance services for underwriting purposes
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"> — Reduction of policy servicing costs as consumers become more comfortable with digital interactions — Continued use of agents with more digital enablement and contactless processing for policy servicing — Contact centers will be reimagined, leveraging automation (voice, chat, etc.): <ul style="list-style-type: none"> — billing and payments will increasingly shift to contactless processing — self-service will provide consumers with more control (at lower costs) 	<ol style="list-style-type: none"> 1. Review policy admin processes to identify opportunities to automate and enable self-service as a means to increasing efficiency and decreasing costs 2. Understand the consumer experience and the 'moments of truth' during the maintenance of their policy 3. Assess technological capabilities and determine where external resources may be required (e.g. vendors, alliances, partners)
Claims management	Evaluating and settling claims, including payment, reinsurance recovery and litigation, when applicable	<ul style="list-style-type: none"> — Need to reimagine claims handling, even if claims paid do not end up being significantly higher as a result of the pandemic — Increased expense ratios will arise from growing volume and potentially limited new business — Insurers will race to create operating models that heavily rely on self-service and automation to process claims — Automation will focus more on back-end processing given claims is the most significant 'moment of truth' for customers 	<ol style="list-style-type: none"> 1. Evaluate exposure to pandemic-driven claims and include considerations for potential indirect effects (e.g. fewer accidental deaths, reclassification of other terminal illnesses) 2. Explore and develop automated claims processing capabilities with focus on developing operating model and staff capabilities to support a more automated environment
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"> — Shift towards protection products is a likely outcome given increasing consumer interest post pandemic and low interest rate environment — More sophisticated investment strategies including higher use of derivatives is possible — 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. Assess investment strategies given challenging yield environment and shifting views of economic recovery patterns 2. Identify investment opportunities for insurers with excess surplus as asset valuation is cheap at the moment 3. Evaluate exposure to potentially high risk investments (e.g. commercial real estate and loans) 4. Enhance monitoring of credit risk

Support activities

	Definition	The new reality	Actions to consider
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 and liability management)	<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. providing insights 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)
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 API platforms to accelerate go to market with end to end digital customer journeys

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