



New Reality for Insurance: China

**Insurance value chain:
Personal lines**

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.

Personal lines

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"> — A significant shift to remote work seems likely, and therefore will change the potential product suite of home, auto, second home and leisure craft policies — New product offerings, riders or changed terms will emerge around: <ul style="list-style-type: none"> — usage-based auto — home use for work purposes — travel insurance and coverage or exclusions for pandemics (maybe “coverage for any reason” will emerge) — The role of internet insurance during the epidemic has been affirmed by the regulatory authorities at a certain level, and the transformation of insurance online services has become a common trend — Many travel plans have been cancelled, and related insurance products such as aviation accident insurance, train accident insurance, and personal accident insurance also see decline in sales 	<ol style="list-style-type: none"> 1. The insurer will need to simplify the customer journey by using digital platforms in a much more pervasive way 2. Simplify product sets based on customer needs and perceptions to build fit for purpose products that resonate with target customers 3. As people become more aware of the importance of health, this will help expand the customer base and attract more customers in the long run 4. Clearer definition and triggers on premium returns based on losses or use and develop a process for assessing how and when to make such offers in the future 5. Identify any coverage changes or adjustments based on the increased use of home as an office for an extended period of time
Marketing	Driving, monitoring and enabling sales and customer retention through brand management, advertising and customer engagement	<ul style="list-style-type: none"> — Insurers will need to think about digital messaging and other customer touch points to deliver a consistent and reliable message — Operating models may require adjustment based on several key considerations for the future: <ul style="list-style-type: none"> — will the price of the marketing medium be worth the return? (large events cancelled, yet more may view them on TV/ media) — will agents be able to be the second wave of personal marketing? — how will the products be positioned going forward? — will the discount game (e.g. cheapest price) continue to resonate? 	<ol style="list-style-type: none"> 1. Update market messaging to reflect customer sentiment and product positioning as part of marketing campaigns 2. Adjust marketing mediums (e.g. print, mail, digital, TV, event sponsorship) and expected impact analysis to align with spend and return
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"> — Insurers should start to think of more digital solutions, so the insured can pick the product that is most suitable to them — The market is going to face motor pricing change (imposed by the regulator) this year which could shake up the landscape and the market will become even more challenging, clients’ stickiness and good client experience is essential in order to increase the portfolio while making an underwriting profit — Distribution and sales model will focus on obtaining a more optimal balance of direct/ digital and agent-force: <ul style="list-style-type: none"> — while also meeting the customer where they ‘want to be met’ — will present unique opportunities and challenges 	<ol style="list-style-type: none"> 1. Reassess the balance needed between agent and digital-assisted distribution models to evaluate the aspects of the model that need to be changed based on consumer requirements and new accepted ways of interaction 2. Enhance digitization of processes; move away from paper-based processes and increase integration of front-end processes 4. Update the stories, based on marketing messages, that distribution and sales will leverage to enable impactful interactions 5. Establish the 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"> — Significant increase in premium for annual health products, however there is large difference in claim experience from different distribution channels — For other lines pricing will be very competitive given that the pandemic significantly reduced exposure for many personal products such as fewer car accidents and earlier detection of event in the home, especially in a prolonged work-from-home world — Be able to price the product appropriately based on the data collected in order to achieve an underwriting profit for health products — More data-driven underwriting using enhanced technology. consumers are more willing to share personal and usage data via the IOT (internet of things) 	<ol style="list-style-type: none"> 1. Invest in innovation to make underwriting fully tech-enabled: <ul style="list-style-type: none"> — streamlining the process from quote through issuance (including enablers such as AI, machine learning and predictive modeling) 2. Continue identifying and incorporating non-traditional data into the underwriting process (e.g. data reading from auto and home sensors) 3. Investigate possible online platform underwriting to reduce use of agents or brokers
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"> — COVID-19 may push insurers to think of transformation to internet sales as this also may reduce their policy administration burden — Critical need to adapt all processes to enable a 'digital first' culture — 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 customers with more control 	<ol style="list-style-type: none"> 1. Investigate the cost savings level if assuming most of the policies could be issued online for the next generation (such as motor, travel, accident and health, even householders building and contents) 2. Review policy admin processes to identify opportunities to automate and enable self-service as means to increasing efficiency and decreasing costs 3. Understand the customer experience and the 'moments of truth' during the maintenance of their policy
Claims management	Evaluating and settling claims, including payment, reinsurance recovery and litigation, when applicable	<ul style="list-style-type: none"> — Digital claims settlement platform is the new norm. Insurers without this many may find it hard to survive in the future — For medical claims under the health product, must be able to partner with hospital networks for treatment and settlement of claims to enhance insured's experience and increase insured stickiness — Insurers need to prepare for the 'next wave' of claims by advancing technology-enabled processes 	<ol style="list-style-type: none"> 1. Assess where the improvement areas are in regards to claim experience from the insured's prospective 2. Automation, digitalization or even less paperwork would create much better claim experience for insured. Re-assess the claim process, partnership possibilities and also digitalization solutions
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

	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 application programming interface (API) platforms to accelerate go to market with end to end digital customer journeys

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