Navigating complexity and uncertainty

How insurance boards can adapt in 2025

The 2025 Board Agenda highlights nine issues that boards should consider addressing in their 2025 agendas. The outlook for the year ahead for oversight and corporate governance is filled with unprecedented complexity and uncertainty. Driving factors include everything from the new administration policy positions and ongoing wars in Ukraine and the Middle East to ongoing risks associated with cybersecurity, climate change, and artificial intelligence.

For insurance boards, the issues outlined in the 2025 Board Agenda apply but with one addition worth noting. Managing capital and maintaining the strength of the balance sheet remains a top priority for all insurers. From the issues identified, Environmental and Social Issues impact insurers uniquely in a multitude of ways and Disruption, including supply chain issues, could impact insurers in ways not seen before. Issues noted within Risk Oversight and Board Composition could result in reshaping board subcommittees and identifying topics to be incorporated into board agendas.

As we approach 2025, insurance boards must pivot from traditional governance models to dynamic, resilience-focused frameworks. The ability to synthesize complex, rapidly changing data into actionable strategies will be paramount. Insurance boards that master this can not only survive but thrive in the face of emerging risks and regulatory landscapes.

— **Scott Shapiro**, US Sector Leader, Insurance

Capital management, and the balance sheet

With a 2025 agenda centered around uncertainty, insurance boards need to continue being risk-focused on capital allocation and the relative strength of the balance sheet. Insurers need to efficiently and prudently manage capital, which can be challenging when insurers may be faced with pressure to issue dividends, execute share buybacks, or pursue a capital-intensive strategy like an acquisition. The board must remain focused on the strength of the balance sheet despite these pressures and ensure that insurers maintain compliance with regulatory and capital requirements. As a result, it is critical that board members understand the models involved, which add complexity and increase expectations for board members.

Insurance boards must prioritize rigorous risk assessment in their capital allocation to safeguard the balance sheet's integrity. It is crucial to manage capital judiciously given the challenges ahead.

— **Kyle Ten Pas,** Audit Sector Leader, Insurance

Questions to consider:

- Does management have appropriate processes and controls to consider all relevant stakeholders when making capital decisions?
- Does the board have the right level of knowledge of models used by regulators, ratings agencies, etc. to challenge and understand the impacts from capital strategies or transactions?

Disruption

The 2025 Board Agenda mentions that geopolitical and economic risks, combined with the potential for political and social disruption posed by disinformation and cyberattacks will continue to drive volatility and uncertainty. Additionally, the reconfiguration of supply chains and the shifts toward more centralized and local supply chains creates the potential for volatile and increased costs. Assessing the impact risk events have on operations should include understanding the underlying structural shifts occurring, including geopolitical, demographic, technological, economic, climate, global energy transition, and societal.

Insurance board perspective

Supply chain disruption, while not traditionally considered to be a significant insurance company issue, could cause the cost of insurance claims to rise as the materials associated with property and casualty claims or devices used in medical procedures for health claims may become more expensive. Imagine a scenario where parts are delayed due to port congestion, or key products or raw materials are assessed tariffs. This and other supply chain disruptions, like other inflationary pressures, may impact insurer profitability through increased claim costs and require changes in underwriting and premium calculations.

Questions to consider:

- Does management have an effective process to monitor changes in the external environment and provide early warnings that adjustments to strategy might be necessary?
- Is the company prepared to operate in a higher cost (of capital, green tech/energy, labor) environment?

Environmental and social issues

The 2025 Board Agenda encompasses several environmental and social issues and reminds boards to monitor management's preparations for new state, United States, and global climate and sustainability reporting requirements. While the pushback against Environmental Social and Governance (ESG) requirements or strategies may be causing some companies to reassess their ESG initiatives, especially in light of the change in administration and certain regulators, the need to actively engage on this topic and prepare for known or anticipated requirements remains unchanged.

Insurance board perspective

Insurance boards may encounter many of the same issues as other boards in 2025 related to ESG and many insurers are already preparing to comply with sustainability reporting requirements in the European Union (EU). Other insurers may find that understanding EU guidance provides useful insights into what reporting requirements could look like and, for some, understanding what competitors are disclosing could cause the insurer to evaluate whether similar disclosure or strategies may be prudent to maintain competitive advantages and meet investor or customer expectations. The Sustainability Accounting Standards Board identified the following sustainability disclosure topics, including certain metrics, for insurance companies.

Transparent information and fair advice for customers

Description of the insurer's approach to informing customers about products and metrics, including monetary losses from legal proceedings associated with marketing and communication to customers, complaints-to-claims ratio, and customer retention rate

Incorporation of ESG factors in investment management

Description of approach to incorporation of ESG factors in investment management processes and strategies

Policies that incentivize responsible behavior

Discussion of products or product features that incentivize health, safety or environmentally responsible actions or behaviors, including a metric of net premiums written related to energy efficiency and low carbon technology

Financed emissions

Description of methodology used to calculate financed emissions, including metrics of absolute gross financed emissions disaggregated by scope, gross exposure for each industry by asset category, and percentage of gross exposure included in the financed emissions calculation

Physical risk exposure

Description of approach to incorporating environmental risks into (1) the underwriting process for individual contracts and (2) the management of entity-level risks and capital adequacy, including metrics of Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes and total amount of monetary losses attributable to insurance pay-outs from (1) modelled natural catastrophes and (2) non-modelled natural catastrophes, by type of event and geographical segment (net and gross of reinsurance)

Systemic risk management

Description of approach to managing capital- and liquidity-related risks associated with systemic non-insurance activities, with metrics including total fair value of securities lending collateral assets and exposure to derivative instruments by category: (1) total exposure to non-centrally cleared derivatives, (2) total fair value of acceptable collateral posted with a central clearinghouse, and (3) total exposure to centrally cleared derivatives

Questions to consider:

- Which ESG issues are material or of strategic significance to the company?
- How is the company addressing ESG issues strategically and embedding them into core business activities (strategy, operations, risk management, incentives, and corporate culture) to drive long-term performance?

Risk Oversight and Board Composition

Considering the trend toward greater complexity and uncertainty, the 2025 Board Agenda notes boards are delegating more responsibility to various committees for the oversight of mission-critical risks. These risks include climate, cyber security, data governance, artificial intelligence, supply chains, and mergers/acquisitions. Many of these risks require more detailed disclosures. The challenge for boards is to clearly define the risk oversight responsibilities of each standing committee, identify any overlap, and implement a committee structure and governance processes that facilitate information sharing and coordination among committees and with the full board's approval. Additionally, given the changing environment and risks, boards are evaluating their composition and assessing whether the board is comprised of individuals that have appropriate skills, experience, and thinking for the evolving risks and operations of the insured.

Insurance board perspective

Risk oversight and board composition were discussed among audit committee members during a panel at the KPMG 36th Annual Insurance Industry Conference in September 2024. Panelists noted that certain topics like climate, cybersecurity, and generative AI (GenAI) are causing insurance boards to reevaluate the need for new or re-designed committees to assume more oversight duties.

Insurance conference panelists were asked whether insurance committee structures are fit for purpose in a world filled with increasing complexity and uncertainty. The panelists noted that this is a topic that is generating discussion and being actively considered or addressed, which is a promising development. Panelists also remarked that board members are addressing the need for enhanced skills in the changing world through board education, either through presentations to the board or by attending external training, to ensure boards members can engage in meaningful discussions on the increasingly complex topics on the agenda.

Questions to consider:

- Do current board committee(s) have the time, composition, and skill set to oversee a high priority risk outside their purview? Is there a need for an additional committee, such as a technology, sustainability, or risk committee?
- Is there a need for new directors with unique skill sets or experience to help the board oversee specific risks?

Save the date for the KPMG 37th Annual Insurance Industry Conference on September 16–17, 2025. Our conference will provide a day and a half of engaging dialogue, thought-provoking panel discussions, and inspiring keynote presentations across the life and retirement, property and casualty, and insurance distribution and services sectors.

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Boards counsel management, but who counsels board members? At KPMG, we do. We deliver insights to help insurance boards improve their oversight and guidance to management. We can align strategies and build competitive advantage during this period of complexity and uncertainty. Our goal: help our insurance clients grow, engage with customers, manage costs, minimize risk, and comply with regulators, all while leveraging the power of data and digitalization. Together, we make the difference.

To learn about the nine key issues that boards should keep in mind in 2025, read "On the 2025 Board Agenda."

Authors

Scott Shapiro
US Sector Leader, Insurance
KPMG LLP
sashapiro@kpmg.com

Kyle Ten Pas
Partner and National Audit Sector Leader, Insurance
KPMG LLP
ktenpas@kpmg.com

Shannon Powell
Audit Partner, Insurance
KPMG LLP
sepowell@kpmg.com

Sources:

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SASB Standards, "Insurance Sustainability Accounting Standard" (December 2023).

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