

# Addressing top-of-mind insurance issues



## Modernizing claims handling: From legacy to leading edge

### Modernizing claims through purpose-driven technology strategies

The insurance industry is undergoing a significant transformation in claims handling, driven by technological advancements, evolving customer expectations, and a renewed focus on purpose-driven outcomes.

The future of claims will include trends and practices such as the following:

1. **Unbundling the core** by stripping traditional systems to basic functionalities and enabling "modu-light" systems in an integrated IT ecosystem
2. **Enhancing the claims experience** by modernizing claims processes with significant investments in technology stacks (which can reduce complexity and cost by 25 percent to 30 percent) to improve document issuance, analytics and reporting, digital claim tools, fraud detection, and more
3. **Utilizing data and automation to right size claims expenses** by handling routine tasks such as data entry, validation, and initial claims processing and providing customer service and fraud detection capabilities
4. **Increasing accuracy and speed** through a modern ecosystem underpinned by algorithms, machine learning (ML), and artificial intelligence (AI)-driven insights automates routine decisions and processes, enhancing claims accuracy and speed
5. **Changing ways of working and capabilities** where automation will handle routine tasks, but skilled professionals will remain in demand but upskilling and cross-training claims professionals on new technology is essential for maintaining a personalized customer experience.

Insurance executives recognize modernization's importance but cost concerns can hinder progress. Presenting a compelling case with detailed cost-benefit analysis and data-driven insights is crucial for decision-makers.

By embracing these principles, insurers can create a purpose-driven claims function, fostering impactful relationships with customers and ensuring operational excellence and profitability.

#### Thought leadership:

- [From legacy to leading edge](#)
- [Modernizing payments: A new era](#)



## Artificial intelligence-driven transformation

AI has been part of the insurance industry for some time, but its adoption varies significantly based on insurance type, geography, and the distinction between legacy insurers and insurtech disruptors. The emergence of generative AI (GenAI), along with the next wave of autonomous and agentic AI systems, is unlocking entirely new possibilities for innovation across the sector.

### Three-phase framework for AI-driven transformation

To navigate these challenges, KPMG offers a structured three-phase framework for AI-driven transformation:

1. **Enable:** Build foundational capabilities for AI adoption, including appointing a responsible executive, developing an AI strategy, identifying high-value use cases, and increasing AI literacy
2. **Embed:** Integrate AI into wide-ranging workflows, products, and services to transform how work is performed; emphasize ethics, trust, and security
3. **Evolve:** Transform business models and ecosystems using AI and frontier technologies like quantum computing and blockchain to solve large, industry-wide challenges.

### Key considerations

Four key considerations to guide no-regret action that helps insurers build flexibility and responsiveness to adapt to an AI future include:

- Design an AI strategy that aligns with core competencies and unlocks value
- Build trust into the transformation roadmap
- Create sustainable technology and data infrastructure for AI adoption
- Build a culture that uses AI to uplift human potential.

### Thought leadership:

- [Intelligent Insurance](#)
- [KPMG AI Quarterly Pulse Survey: 2025 is the year of agentic AI](#)
- [When trust in AI matters, system cards keep score](#)



## Regulatory and tax update

### Regulatory

This is a time of great uncertainty for regulatory agencies. With a new administration and shifting regulatory and enforcement priorities being announced daily, speculation continues about the future direction and intensity of financial regulation. Amid the flurry of actions of the new administration, the financial services industry (inclusive of banking, capital markets, asset management, fintech, and insurance) looks to track indicators of likely regulatory changes.

Incoming and acting agency leadership as well as initial executive orders (including those on "regulatory freeze" and digital assets/crypto) provide preliminary signals for potential regulatory shifts in the areas of agency mission and operations as well as regulatory focus areas.

### Tax

Several expiring tax provisions make 2025 a year that tax legislation could likely be addressed. It is unclear what tax and spending changes will be proposed to offset costs associated with the Republican tax agenda. Possible ideas include the repeal of Inflation Reduction Act energy incentives, an increase in the stock buyback excise tax rate, limitations on corporate deductions for state and local tax, increases associated with Base Erosion and Anti-Abuse Tax, Global Intangible Low-taxed Income, Internal Revenue Service (IRS) funding cuts, tariffs, and controversial spending reductions. Draft bills that may contain some of these provisions are already being written.

The Trump administration recently fired approximately 7,000 IRS employees, and as many as 20,000 have accepted a deferred resignation offer. These personnel changes could potentially cause significant disruption for the upcoming filing season and have other implications, such as impacts on taxpayers' IRS exams and on tax guidance.

President Trump signed an executive order to provide that whenever new regulations are proposed or promulgated, 10 existing regulations must be identified to be repealed. The order also reinstated a framework that will result in further review of tax regulations by the Office of Information and Regulatory Affairs (OIRA). This could result in fewer tax regulations in the near future.

### Thought leadership:

- [First 100 Days: Upcoming Regulatory Signals for Financial Services](#)
- [Policy in motion: Insights for navigating the Trump administration with confidence](#)
- [TaxWatch Update: Legislative and Regulatory Insights \(Webcast Replay\)](#)
- [April 2025 Regulatory Recap](#)
- [First 100 Days: Where \(De?\)Regulation Goes from Here](#)
- [Podcast: Regulatory waves – Navigating the 2025 landscape](#)

# Addressing top-of-mind insurance issues (continued)



## Credit and commercial real estate trends

Commercial lending continues to receive heightened focus, with both commercial real estate (CRE) and commercial and industrial loan portfolios experiencing rising delinquencies and charge-offs, exceeding prepandemic levels. Office and multifamily CRE properties remain the most challenged, with values down significantly from their 2022 peaks.

### Persistent uncertainty around trade policies and global economic conditions add new layers of complexity to economic forecasting

Financial institutions are evaluating several key topics impacting CRE loan portfolios. The “maturity wall” concern persists, as record levels of CRE loan maturities in the next 18 months at low interest rates will require strategic decisions on refinancing at significantly higher rates, which may drive increases in nonperforming assets. Uncertainty remains on the direction of financing costs (currently much higher) and the impact of reduced property values. At the same time, there is a significant amount of “dry powder” on the sidelines, and potential investors are watching how and where this capital will be deployed. Banks are facing increased competition from the private credit market, as demand for nonbank lending soars. Many larger banks are leveraging the growth in private credit by partnering with nonbank lenders.

Delinquencies and charge-offs are increasing for most consumer loan types, with the effect on credit card and auto loan portfolios approaching prepandemic levels. Institutions with higher exposure to subprime auto, credit card, and student lending portfolios will likely experience the most significant pressure on asset quality metrics.

### Proactively identify risk through regular or enhanced portfolio reviews

Ensure loan modifications reflect sound credit risk management versus perception of delaying risk. Strengthen appraisal and valuation oversight processes. Ensure risk rating and credit decision documentation can withstand regulatory scrutiny.

#### Thought leadership:

- [CECL Pulse Check Q1 2025](#)
- [Credit Markets Update Q4 2024](#)



## Unequal odds: Addressing and mitigating bias in life insurance

The integration of AI and Big Data has revolutionized the life insurance industry, enhancing operational efficiencies and predictive accuracies. However, this evolution has also highlighted the issue of model bias, which can lead to unfair discrimination against various population segments. Actuaries are urged to champion ethical standards in the development and application of advanced analytical models.

### Assessing and mitigating model bias

Model bias occurs when predictive algorithms yield outcomes that systematically favor or discriminate against certain groups. Methodologies for detecting and rectifying model bias include:

- **Fairness metrics:** Tools like demographic parity, equal opportunity, and predictive parity are used to evaluate the equity of model decisions.
- **Sensitivity analysis:** Techniques like Monte Carlo simulations and bootstrapping help understand how changes in model inputs affect outputs.
- **Summary statistics:** Impact ratio calculations and confusion matrix statistics are used to summarize the overall results for a given model.

### Technical methods for mitigating model bias

Techniques for mitigating model bias throughout the modeling lifecycle include:

- **Preprocessing techniques:** Methods like re-weighting training data and using variational autoencoders to reduce bias in underlying data sets
- **In-processing methods:** Incorporating fairness constraints directly into the model training process and using explainable AI techniques like SHAP and LIME
- **Postprocessing approaches:** Adjusting model outputs to ensure fairness criteria are met.

### Regulatory developments

Recent regulatory developments in the United States and globally have focused on addressing model bias in the insurance industry. State regulators in New York, California, Illinois, and Colorado have introduced various regulations aimed at ensuring fairness and transparency in automated decision-making processes.

#### Thought leadership:

- [Unequal Odds: Addressing and Mitigating Bias in Life Insurance](#)



## Trends in technology

KPMG conducted an extensive study of 2,450 tech executives from 26 countries and 8 industries: financial services, technology, retail and consumer packaged goods, industrial manufacturing, life sciences and pharmaceuticals, healthcare, government and public sector, and energy. The study confirmed that the relentless speed of technology innovation is undeniable. When combined with a natural fear of missing out, ideas that may once have seemed like science fiction are rapidly converting into tangible reality. As technology innovation offers almost endless potential, many technology leaders are afraid of falling behind. From GenAI to quantum computing, the potential benefits are huge, and so is the risk of making costly mistakes.

### Key themes

- The tech industry is preparing itself for cost shocks.
- Technology firms plan to keep a democratized approach with AI experiments, with most sectors working toward a centralized approach to AI implementation.
- The technology industry plans to continue developing AI governance policies and democratizing its approach to AI experimentation as it builds more experience in that area.

### Potential actions

- **Build a strong data backbone:** Establish a robust data management framework that combines data, people, processes, and policies to help ensure information is reliable, relevant, and appropriately used.
- **Accelerate AI proficiencies through knowledge sharing:** Test your workforce competence and sentiment on AI, and use this to determine the best way to bridge knowledge gaps, facilitate continuous learning, and encourage cross-functional collaboration.
- **Prioritize trust and security:** Strive to ensure solutions are secure by design and embed trust and security assurance from the outset. Design, build, deploy, and use AI and emerging tech solutions in a responsible and ethical manner so your organization can accelerate value with confidence.
- **Be empirical about defining and delivering value:** Align stakeholders around a clear definition of success that cascades into a set of tangible metrics. Adopt an “always-on” approach to performance management and continuously monitor and adjust metrics in accordance with internal and external changes.

#### Thought leadership:

- [KPMG Global Tech Report: Technology Insights](#)
- [KPMG tech survey report: Financial services insights](#)
- [Maximizing SaaS value](#)

# Addressing top-of-mind insurance issues (continued)



## M&A trends in financial services

Among financial services companies, merger and acquisition (M&A) activity had a deceptively strong year in 2024. Despite concerns about inflation, interest rates, political partisanship, overseas conflicts, and the US presidential election, dealmakers were busier than in 2023. Total deal volume rose by 9.2 percent to 5,329, and deal value jumped by 39.3 percent to \$371.0 billion, with all main financial services subsectors seeing positive volume and value comparisons.

### Insurance sector outlook and observations:

The insurance sector is expected to maintain its upward M&A trajectory in 2025. Rising client interest and accelerating demand for acquisition readiness have led to an upgraded outlook for the sector.

The pace of activity should accelerate as more companies look for growth via acquisitions, while others choose to divest noncore businesses. Growth and scale are top priorities for carriers and brokers alike. Given the diminishing impact for organic growth, firms in both areas will likely keep looking to gain market share by purchasing competition.

### Risks and opportunities

- **Inflation:** Despite the Fed's efforts, inflation remains a significant risk, especially given the market volatility experienced during recent weeks due to potential tariffs and uncertainty on the long-term impacts on the economy.
- **Regulatory environment:** Expected loosening of regulatory scrutiny and lower interest rates are positive factors for M&A activity.
- **Technological advancements:** Increasing use of AI is anticipated to drive efficiencies and market advantages across the M&A lifecycle.

### Strategic recommendations

1. Define M&A strategy: Boards and CEOs should establish their M&A strategy early to gain a head start as the market accelerates.
2. Prepare for transactions: Companies should act now to prepare for buying or selling, ensuring their deal teams are adequately staffed.
3. Conduct thorough diligence: Scrutinize processes, integration approaches, and transaction performance closely.

### Thought leadership:

- [Onward and upward: Q4'24 M&A trends in Financial Services](#)
- [US Insights: Pulse of Fintech H2 2024](#)



## Top geopolitical risks in 2025

Understanding the intricacies of a world that is interconnected yet increasingly divided highlights the critical importance of recognizing and managing geopolitical risks for global businesses. KPMG identified the following risks for 2025:

1. **Tectonic shifts in power, economic centers, and trade** – New trade alliances and investment hubs are redefining global power dynamics. The US is imposing tariffs and eliciting retaliatory responses, while new economic nodes are emerging outside traditional investment centers.

*Opportunities:* Businesses can pivot to new regions, explore new investment sources, and reshape supply and value chains.

2. **A complex, fragmented regulatory and tax environment** – Regulations and tax policies are evolving at different speeds across geographies. Minimum global tax is being adopted by many countries while others are withdrawing from multilateral tax policy.

*Opportunities:* Companies can understand performance levers to embed capacity to adapt and respond, treat tax and regulatory compliance as a competitive advantage, continue to harvest the potential of the green transition, and monitor regulatory developments.

3. **A fast-moving and politicized technology landscape** – Shifting alliances and fragmented regulations add complexity, while new GenAI players challenge US dominance. National security concerns influence technology partner decisions.

*Opportunities:* Businesses can create modular, adaptable IT infrastructure that considers geopolitical risks to avoid regulatory and security issues; harness genAI; boost cybersecurity; and invest in energy-efficient AI solutions.

4. **Multiple threats to supply chains, assets, and infrastructure** – Geopolitical rivalries, trade protectionism, conflict, competition for resources, cyberattacks, and climate events strain globally exposed businesses.

*Opportunities:* Companies can rethink supply chains by developing alternative sourcing strategies, embrace green energy to reduce vulnerability to volatility in price and availability, and protect assets and infrastructure against climate change.

5. **Demographic, technological, and cultural pressures on workforces** – Aging populations, mass retirement, falling birth rates, and changing worker preferences create major workforce challenges.

*Opportunities:* Organizations can shape a dynamic and adaptable workforce through upskilling, virtual learning, and organizational redesign; create a balanced hybrid work environment; and integrate AI and humans to bridge the talent gap.

### Thought leadership:

- [Top geopolitical risks 2025](#)



## Los Angeles wildfires: Disaster, response, resilience

The Los Angeles wildfires in January 2025 destroyed over 12,000 structures and caused an estimated \$250 billion to \$275 billion in property damage. Graphic scenes showed charred and ruined neighborhoods after the fires swept down the Pacific Palisades, engulfing wide swaths of Altadena, Pasadena, and Hollywood Hills. Industry sources say insurers could be liable for up to \$50 billion in claims. In response, some insurers may choose to exit markets that have become increasingly unsustainable from a profit-and-loss perspective.

However, the lessons learned in the aftermath of the LA wildfires reveal opportunities for insurers, such as:

- **Investment in infrastructure** – Enhancing municipal resources, such as ensuring an adequate water supply and robust firefighting capabilities, is crucial. Implementing building codes for both new and existing housing to improve fire resistance is essential, and addressing socio-economic disparities in fire protection is necessary to support disadvantaged communities.
- **Private fire prevention and firefighting services** – Private fire prevention and firefighting services, hired by insurance carriers and individuals, have been effective in mitigating fire damage. These services include tactical prevention, such as cutting back trees and laying down fire-retardant foam, and strategic prevention, like using fire-resistant materials and installing sprinklers.
- **Role of the insurance industry** – The insurance industry can incentivize fire prevention and response by encouraging the use of fire-resistant materials and techniques. State-mandated discounts for property insurance, as seen in California, aim to reduce fire damage, but these discounts need to be based on adequate premiums to be effective.
- **Issues with current insurance practices** – Insurers need to enhance underwriting approaches to distinguish between well-built, fire-resistant homes and less protected ones. Improving public trust by rewarding prevention efforts and addressing the debate on individual versus municipal responsibility for fire protection is crucial.
- **Balancing risk and policyholder protection** – Balancing risk and policyholder protection involves encouraging responsible living in high-risk areas and communicating the importance of risk-based premiums. Successful risk management programs should differentiate good risks from bad on a policy-by-policy basis while ensuring financial stability.

### Thought leadership:

- [LA Wildfires: Disaster, Response, Resilience | LinkedIn](#)

# Additional insights and learning opportunities

## Explore more insights:

KPMG understands that staying at the forefront of innovation is critical for all insurance companies. We offer powerful insights and integrated solutions to help them navigate the dynamic world.

## Financial Reporting View

*Delivering insights to financial reporting profession. Sharing our experience and perspective. Informing your decision-making.*

[Subscribe](#) to our newsletter to receive timely updates on financial reporting topics.

## Board Leadership Center

*Engaging with directors and business leaders on the critical issues driving board agendas—from strategy, risk, talent, and ESG to data governance, audit quality, proxy trends, and more.*

[Subscribe](#) to receive Board Leadership Weekly, Directors Quarterly, and more.

## Additional insights:

### Financial reporting and controls:

- [Trends in Material Weaknesses for Non-IPO Companies](#)
- [Strengthening the CFO–Audit Committee Relationship](#)
- [Q1'25 CAO Corner](#)

### Upcoming webcasts:

- [May 14 webcast: Equity method investments refresher](#)
- [May 15 webcast: The Future of FP&A with AI](#)
- [May 20 webcast: Derivatives: Back-to-basics refresher](#)
- [May 21 webcast: The first wave of ESRS reporting](#)
- [June 17 or 18 webcast: Q2 2025 Quarterly Outlook](#)
- [June 23 or 24 webcast: SEC mid-year update 2025](#)

## Webcast replays:

- [National Banking Symposium – March 2025](#)
- [Banking Outlook Q1 2025 – March 2025](#)
- [Q1 2025 Quarterly Outlook – March 2025](#)
- [What does California climate risk reporting look like? – April 2025](#)
- [Future of SOX: Real world insights – March 2025](#)
- [Future of SOX: The Intelligent Close – April 2025](#)
- [The First 75 Days: An Assessment of Economic and Fiscal Policy Changes – April 2025](#)

## Insurance webcasts and events

### Insurance Industry Symposium

Occurred March 18, 2025

*Virtual event featuring timely updates on insurance industry issues from KPMG professionals.*

[Watch replay >>](#)

### Redefining the Customer Experience

Occurred April 10, 2025

*Virtual event discussing the power of empathy, AI, and employee experience.*  
[Watch replay >>](#)

### Save the date: Insurance Industry Symposium

June 10, 2025

*Virtual event featuring timely updates on insurance industry issues from KPMG professionals.*

**Registration coming soon**

### Save the date: 37th Annual Insurance Industry Conference

September 16–17, 2025

*This conference will provide a day-and-a-half of engaging exchanges, thought-provoking panel discussions, and inspiring sessions.*

[More information >>](#)



# Navigating Higher Tariffs in the Insurance Sector

Developing the right tariff mitigation strategy is crucial to **minimize costs**, **ensure compliance**, and **maintain operational resilience**.



## Immediate (Now) Initiatives

*Quick, tactical actions to minimize tariff costs with minimal disruption*

### 1. Lost cost modeling (Forecast, Reserve, Price)

- Direct and indirect inflation impacts to severity
- Tariff model scenario testing
- Enhanced Forecasting Models (FPA, Actuarial reserving, pricing)
- Provide actuarial justifications for reserving and pricing models including filings
- Independent model validation

### 2. Policy holder communication

- Clearly explain premium increases and coverage adjustments to stakeholders

### 3. Cost management in claims, underwriting, and service

- Execute/update post-Covid/Inflation playbook

### 4. Tax strategies & optimization

- Assess impact of tariffs in tax forecasting models to ensure utilization of tax attributes
- Review any changes in cross-border business plans to optimize global minimum tax, transfer pricing and indirect taxes

### 5. Market volatility impact on long-duration liabilities

- Review ALM, hedging programs, Fx volatility and scenario testing
- Assess capital stress testing and capital deployment efficiency



## Mid-term (Near) Strategies

*Strategic adjustments requiring planning and moderate investment*

### 1. Pricing and product strategy optimization

- Dynamic Pricing Models: quick adaptability to tariff fluctuations
- Review policy language for tariff-adjusted valuations and potential exclusions

### 2. Financial planning

- Data driven real time monitoring
- Dynamic forecast modeling

### 3. Manage public perception

- Proactively manage public perception of affordability and availability due to increasing costs

### 4. Strengthen Financial and Regulatory Compliance

- Update financial reporting, loss reserves, and compliance frameworks to account for increased claims costs and supply chain risks. This includes adjusting statutory accounting principles (SAP) reserve surplus calculations and making appropriate disclosures under FASB standards

### 5. Innovate & optimize operations

- Optimize sourcing operating model
- Holistic capital planning including reinsurance strategies
- Advanced analytics and Gen AI capabilities to transform cost and service model

### Primary Sample LOB Impacts

Direct (and indirect): auto physical damage, homeowners, UM/UIM, commercial property, workers' compensation, commercial auto

Indirect only: bodily injury, umbrella, workers' compensation, D&O

*\* Direct refers primary impacts due to cost increases to building materials, auto parts, and medical supplies; indirect refers to secondary impacts, such as recession and interest rates*

The KPMG approach to tariff modeling leverages the latest technology, including GenAI, while considering the data needed to navigate today's global trade disruption. Learn more about the [KPMG Tariff Modeler Tool >>](#)



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