Addressing top-of-mind insurance issues

Insurance Transformation: The New Agenda

This report outlines the evolving landscape of insurance transformation, drawing on insights from global industry leaders and KPMG LLP's network of insurance professionals.

Key Themes

1. Strategic Priorities Are Shifting

- Insurers are moving beyond traditional cost-cutting and digitization toward customer-centric innovation, ecosystem partnerships, and sustainability.
- Transformation is increasingly tied to growth, resilience, and regulatory alignment.

2. Technology as a Catalyst

- Emerging technologies like AI, cloud computing, and data analytics are central to transformation strategies.
- Insurers are investing in platform modernization and automation to improve agility and reduce operational friction.

3. Operational Complexity

- Legacy systems, siloed data, and talent shortages remain major barriers.
- Successful transformation requires cross-functional collaboration, change management, and governance frameworks.

4. Customer Expectations

- There's a growing demand for personalized products, real-time service, and digital engagement.
- Insurers must rethink their value propositions and delivery models to stay competitive.

5. Regulatory and ESG Pressures

- Compliance with evolving regulations and ESG commitments is driving transformation.
- Insurers are embedding sustainability and risk transparency into their operations and reporting.

Thought leadership:

- Insurance transformation: The new agenda
- Pulse of Fintech H1'2025 — Global insights

Private Equity and Insurance

The insurance industry, long defined by its ability to manage uncertainty, is now navigating unprecedented disruption. At the recent Insurance Industry Symposium hosted by KPMG, a key theme emerged: the accelerating influence of private equity (PE) across the insurance landscape.

1. Asset-Light Insurance Models

Private equity firms are increasingly targeting intermediaries—such as brokerages, MGAs, TPAs, and claims administrators—for their capital efficiency, recurring revenue, and scalability. These platforms are ideal for digitization and margin improvement.

2. Carrier-Side Innovation

Beyond intermediaries, PE sponsors are exploring full-stack carrier acquisitions and hybrid asset-light structures. These models allow firms to influence underwriting and asset management without assuming full regulatory burdens, leveraging data and analytics to optimize operations.

3. Private Credit Integration

The rise of private credit has created new opportunities for insurers and PE firms to collaborate. Insurance vehicles are being used to deploy structured capital, aligning investment strategies with underwriting goals and deepening PE's role in risk modeling and claims management.

4. Strategic Value Creation

PE-backed insurers are integrating claims data, applying AI to underwriting and fraud detection, and enhancing customer experience through fintech and insurtech. These efforts are driving faster, smarter, and more adaptive insurance ecosystems.

5. Navigating Complexity

Macroeconomic factors—tariffs, inflation, and regulatory shifts—are reshaping cost models. PE firms must adopt precision diligence, dynamic reserving, and portfolio-wide risk modeling to remain agile.

6. Looking Ahead

The convergence of insurance, capital markets, and technology is redefining the sector. Private equity is no longer a peripheral player—it's embedded in the core, driving the next wave of intelligence and integration.

Thought leadership:

- Private Equity, Insurance, and the Shape of What's Next | LinkedIn
- Q2'25 Pulse of Private Equity — Global insights
- M&A trends in financial services

Tax Update

The House of Representatives on May 22, 2025, passed H.R. 1 (House bill), the budget reconciliation bill known as the "One Big Beautiful Bill". On July 1, 2025, the Senate passed its version of H.R. 1 (Senate bill), which made various amendments to the bill, including changes to the tax subtitle that was included in the House bill. On July 3, 2025, the House passed the Senate bill without amendment, and the bill was signed into law by President Trump on July 4, 2025. Although, there are no insurance specific provisions, several key provisions in the legislation that could impact the insurance industry are included below.

- The bill would **reinstate and make permanent certain expired provisions of the Tax Cuts and Jobs Act** including domestic R&D expensing,100% bonus depreciation and favorable interest deductibility rules.
- The bill would terminate or phase-out **certain energy incentives** that were in the Inflation Reduction Act.
- The legislation limits a corporation's deduction for charitable contribution to **aggregate contributions that exceed 1% of the corporation's taxable income**. Total deductions for charitable contributions by corporation continue to be limited to 10% of taxable income, with excess in certain circumstances allowed to be carried forward up to five years.
- The legislation made **extensive reforms to the U.S. international tax regime**, including to foreign-derived intangible income (FDII), global intangible low-taxed income (GILTI), and the base erosion anti-abuse tax (BEAT), and permanently extended the CFC look-through rule of 954(c)(6)
- **Did not include new Section 899 from the House bill that would have retaliated against jurisdictions adopting Pillar II or DST Taxes** by increasing rates of withholding, increasing tax on effectively connected income of foreign corporations and instituting "Super BEAT". Although these provisions could be reintroduced in new legislation should efforts to align the US and Pillar II in a "side-by-side" system stall with the OECD.

Thought leadership:

- KPMG reports: Tax subtitle for "One Big Beautiful Bill Act"
- TaxNewsFlash
- Podcast: Catching up on Capitol Hill
- Podcast: OB3 Impact: Information Reporting Changes for Financial Institutions
- Podcast: Understanding ASU 2023–09 for Banks
- Webcast Replay: Income tax: New rate reconciliation disclosures
- Webcast: Quarterly Taxwatch Bank Update

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Addressing top-of-mind insurance issues (continued)

Tariff Considerations for Insurers

Tariffs will have a **direct** impact on several coverages (e.g. auto physical damage, homeowners, commercial property, workers' compensation, commercial auto) with increases in building materials, auto parts and medical supplies.

There will also likely be an **indirect** impact on several coverages (bodily injury, umbrella, workers' compensation, D&O, UM/UIM) with supply chain, labor shortages & wages, economic recession, insurance affordability, and inflation.

Recommended Actions:

While there are many unknowns (e.g. tariff %, business responses) immediate action is needed to estimate the impact, regularly monitor and update projections, and make strategic decisions to mitigate the impact, including the following:

- **Baseline Forecast:** Build and validate forecast model(s) to assess plan loss ratio and severity trend impact by coverage based on current exposures (e.g. vehicle vin and mix of policyholders); perform sensitivity testing by altering assumptions
- **Product & Underwriting:** Assess and refresh (as needed) current product guidelines and update dashboards with tariff related diagnostics
- **Pricing:** Update baseline pricing models with forecast trend assumptions; update predictive models with tariff related variables (e.g. for auto, vehicle symbol differentials by vin); prepare documentation supporting indicated rate changes
- **Actuarial Reserving:** Assess impact on unpaid claim liabilities and incorporate into IBNR estimates; monitor and adjust over time; document for auditors; and make appropriate disclosures in financials
- **Claims:** Assess and communicate any changes in claim costs and claim duration; develop claims handling action plan internally and/or with TPAs to make strategic decisions to mitigate cost impact (e.g. when to total a car)
- **Robust "Real Time" Monitoring:** Data-driven 'real time' monitoring to assess cost impact as trade agreements are negotiated and business responses are implemented by country and product; feed results into a Dynamic Forecast model
- **Policy language:** Consider revising policy language to account for tariff-adjusted valuations and potential exclusions related to supply chain disruptors
- **Policyholders:** Clearly communicate potential premium increases and coverage adjustments to policyholders, emphasizing the factors driving these changes
- **Tax Strategies and Optimization:** Assess impact of tariffs in tax forecasting models to ensure utilization of tax attributes; review cross-border business plans for global minimum taxes, transfer pricing, and indirect tax
- **Procurement:** Understand impact at granular level for third party vendor price changes and negotiations

Property & Casualty Insurance State Regulatory Insights

State legislatures and insurance regulators are responding to rising weather-related events/risks, rising prices/costs, and advances in technology by introducing or enacting regulatory reforms that aim to enhance transparency, affordability, and consumer protections.

The NAIC's 2025 initiatives are driving states to collectively focus efforts around "catastrophe resiliency" and pre-disaster mitigation, cybersecurity, and data privacy in addition to fraud prevention, market stability, and price transparency.

State Property and Casualty (P&C) insurance laws and regulation are undergoing a transformation. Numerous weather-related events—including hurricanes, wildfires, and floods—have raised public awareness of policy coverages, claims processes, valuations, and premiums/rates on a broad scale. Advancing new technologies, including AI, further focus attention on decision-making in the context of claims and rates.

In the 2025 legislative session, states have individually and collectively introduced and/or enacted legislation consistent with the NAIC's announced 2025 initiatives, including enhanced consumer protections across key areas related to losses/claims from weather events (referred to as "natural catastrophes"), technology/ cybersecurity/ data privacy, and rate setting. Their efforts are reinforced by enforcement activities undertaken by some state insurance commissioners and state attorneys general (AGs).

Notable state activity in 2025 includes:

- **Regulatory Transparency & Oversight** - Recent legislation (introduced and/or enacted) looks to provide consumers with more information about the costs of and changes to their policies.
- **Affordability & Availability** - State legislative activity in 2025 targets consumer protections, including issues of affordability and fair access, with measures directed toward risk factors in rate setting, premium relief, minimum coverages, and protections against cancellations in disaster zones.
- **State Coordination & Enforcement** - States are taking legislative and regulatory action individually and collectively to align with the NAIC's announced 2025 initiatives, which, at a high level, include strengthening state-based regulation, enhancing consumer protection, and monitoring industry solvency.

Thought leadership:

- State Series: Property & Casualty Insurance

Artificial Intelligence

Insurers are committed to integrating GenAI into their long-term vision despite ongoing debates about return on investments. And challenges remain – security, compliance, legal, and regulatory concerns are at the top for the heavily regulated insurance industry.

Consumers have mixed feelings about the use of GenAI in financial transactions. They are concerned about the possibility of increased scam attempts, fearing that AI could lead to more frequent incidents of fraud. This makes the insurer's fraud and cyber protection capabilities a crucial factor in their decision-making process. On the other hand, many recognize the advantages of GenAI in enhancing fraud detection and prevention. They trust its ability to accurately identify and prevent fraudulent activities in their accounts and value AI-generated advice for financial transactions, acknowledging AI's potential to offer valuable, personalized financial guidance.

AI-powered fraud detection, utilizing feedback data to enhance algorithms, is crucial. Most financial institutions prioritize fraud prevention as the top GenAI application, combating sophisticated tactics such as deepfakes and synthetic identities.

The future of AI is transforming business operations by automating tasks and delivering predictive analytics, allowing finance teams to focus on strategic decisions. However, as organizations adopt AI agents and assistants they face challenges such as complex systems, rapid technological changes, technical skill gaps. Increased investments in AI pilot programs highlight importance of risk management, trust, and workforce readiness.

Potential actions:

- Focus investments on high-impact areas such as fraud detection, financial forecasting, customer experience
- Accelerate GenAI adoption by embedding tools into daily workflows, piloting AI agents for scalable use cases
- Upskill finance and risk teams to work alongside GenAI tools for strategic decision-making and innovation

Thought leadership:

- AI: Looking for ROI, moving toward agency
- Future of Financial Planning: Smarter EPM with AI | KPMG
- State Series: AI Legislation

Addressing top-of-mind insurance issues (continued)

Credit Market Observations

Commercial lending continues to receive heightened focus, with both commercial real estate (CRE) and commercial and industrial loan portfolios experiencing steadily rising delinquencies, exceeding prepandemic levels. In the first quarter of 2025, charge-offs reversed their recent trend and declined since the fourth quarter of 2024. Office and multifamily CRE properties are beginning to show some signs of stabilization, as new construction has slowed due to concerns over increased construction costs and the continued higher rate environment. Vacancy rates continue to improve.

Financial institutions are evaluating several key topics impacting CRE loan portfolios. The “maturity wall” concern persists, as high levels of CRE loan maturities in the coming 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 and the impact of the recent decline in 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, such as insurance companies, as demand for nonbank lending soars.

Potential actions:

CRE: Proactively identify and address risk through ongoing or enhanced portfolio reviews. Conduct robust stress testing to reflect sustained interest rate pressure and diminished refinancing capacity. Ensure loan modifications are grounded in sound credit risk management, not the deferral of issues. Reinforce appraisal scrutiny and ensure valuation assumptions align with current market conditions.

Private credit: Despite frequent changes in tariffs and moderated recession concerns, leverage multiples have remained steady. Private credit providers, still benefiting from substantial fundraising in recent years, are now vigorously competing for assets.

While participants in the private market are mindful of macroeconomic factors, the substantial amount of available capital and reduced deal flow have kept private lenders assertive.

General uncertainties: Stay current. Don’t overreact or underreact. Understand the impacts and plan accordingly.

Thought leadership:

- CECL Pulse Check Q2 2025
- Credit Markets Update Q1 2025

Compliance Amidst Regulatory & Policy Changes

KPMG discusses the role of Compliance with Chief Compliance Officers (CCOs) amidst the uncertainty of ongoing regulatory and policy changes. CCOs consider both short- and long-term actions for Compliance to mitigate and anticipate business impacts.

Key themes and insights shared include:

Policy & Regulatory Focus

- **Process and Operational Controls:** Tracking changes and triaging (e.g., implications to supply chains/vendors, government contractors).
- **Executive and Agency Orders/Actions:** Evaluating impacts to culture/ethics, framing of compliance programs, access/changes to funding, pricing, etc.
- **Areas of Focus:** Including tariffs, third party, data privacy, and state and global divergence.

Short-Term Actions

- **Communication:** Reinforcing ‘doing the right thing’ (notifications on compliance importance, corporate ethics).
- **Monitoring:** Ensuring that events/changes do not negatively diminish ethics and compliance; conducting expanded hotline analytics.

Mid-/Long-Term Actions

- **Supervision/Inspection/Enforcement Process:**
  - Anticipating elongated approval processing due to regulatory capacity constraints.
  - Adapting to potential changes to areas of supervision, investigation, and enforcement focus.
  - Identifying opportunities for more open dialogue.
- **Uncertainty Preparedness:**
  - Using prior lessons learned to enhance compliance controls (e.g., scripts, exception controls).
  - Actioning potential impacts (e.g., geographic locations, use of providers, changes to supply chains, etc.).

Thought leadership:

- CCO Insight: Compliance Amidst Regulatory & Policy Changes
- CCO Insight: 2026 Compliance Planning
- Ten Key Regulatory Challenges of 2025: Mid-Year
- Insurance Regulatory Atlas
- Regulatory Recap: August 2025

Cybersecurity Considerations for 2025

Chief information security officers (CISOs) in financial institutions play a crucial role in balancing technological advancements, regulatory compliance, and risk management. They oversee digital transformation initiatives and ensure robust cybersecurity frameworks are in place.

Building cyber resilience is a business imperative. Financial institutions must design systems and processes that can withstand and quickly recover from cyber incidents. This involves implementing robust incident response plans, regular stress testing, and fostering a culture of security awareness throughout the organization.

To meet these needs, financial institutions are increasingly adopting Zero Trust frameworks, focusing on strict identity verification, continuous monitoring, and microsegmentation to defend against sophisticated cyber threats. This approach requires thorough vetting of every access request to minimize potential breaches.

As AI systems become integral to financial services cyber programs, developing transparent processes for assessing these systems is crucial. This includes rigorous data classification and quality management to address privacy concerns and build trust among stakeholders.

Potential actions:

- **Platform consolidation:** To streamline operations and reduce costs, many financial firms are consolidating their cybersecurity tools and services onto unified platforms. While this can enhance efficiency, it also introduces risks such as single points of failure and vendor lock-in. Careful assessment and risk management strategies are necessary when consolidating platforms.
- **Integrating AI/ML to automate security operations:** The integration of AI and machine learning (ML) into Security Operations Centers is revolutionizing threat detection and response. By automating routine tasks, these technologies allow cybersecurity teams to focus on complex threats, enhancing overall efficiency and effectiveness.
- **Embedding security into AI development lifecycles:** Incorporating security measures throughout the AI development lifecycle is vital to prevent costly retrofitting and potential regulatory or reputational damage. Adopting a "secure by design" approach ensures that security considerations are integral from the outset.

Thought leadership:

- Cybersecurity considerations 2025: Financial services sector
- The leadership guide to securing AI

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 methodologies to help them navigate the dynamic world.

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Artificial Intelligence

- KPMG 2025 Futures Report
- The leadership guide to securing AI
- AI: Looking for ROI, moving toward agency
- Future of Financial Planning: Smarter EPM with AI | KPMG
- State Series: AI Legislation
- Creating value with AI agents
- The trifecta for Agentic AI Success: KPMG, Mulesoft, and Agentforce
- Webcast Replay: Transforming audit with tech and AI – June 2025
- Webcast Replay: Navigating AI Trust and Adoption: US Survey Findings – June 2025
- Webcast Replay: The Future of FP&A with AI – May 2025
- Podcast Series: You Can with AI

Upcoming Webcasts and Replays

June:

- Insurance Industry Symposium – June 2025
- SEC mid-year update 2025 – June 2025
- The Future of the CFO – June 2025
- Mid-Year Risk and Regulatory Outlook – June 2025
- American Perspectives – June 2025

July:

- Strategic Workforce Planning for Organizational Success – July 2025
- Summer 2025 SOX update – July 2025
- Navigating transformation: Strategies for internal audit leadership in a changing landscape – July 2025

August:

- Unlocking the Power of Data for Finance Leaders – August 2025
- Private entity reporting – Mid-year insights – August 2025
- Unlocking the Full Value of Climate Risk Assessments – August 2025

September:

- National Banking Symposium on Digital Assets – September 2025
- The evolving landscape of prediction markets – September 2025
- Q3 2025 Quarterly Outlook – September 2025
- The evolving landscape of SOX: Survey results and the agentic shift – September 2025
- The Future of AR & AP with AI – September 2025
- Global Economic and Geopolitical Outlook webcast (Session 3)

October:

- California climate laws – the draft regulations
- SEC comment letter trends 2025

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