Crisis or opportunity? Navigating the insurance affordability challenge

KPMG insurance industry professionals share their insights on insurance affordability—and how leading insurers are addressing the challenge.

It’s no secret that the insurance industry is facing an affordability crisis. Companies are navigating the growing severity of adverse weather, rapidly rising repair and replacement costs, and skyrocketing healthcare expenses. They’re also dealing with the impacts of social inflation, especially a surge in litigation expenses. This convergence of factors has driven premiums to all-time highs. As insurers pull out of high-risk areas, it’s becoming a crisis not just of affordability but also of availability.

Few are immune to the effects. In fact, in a recent survey of insurance executives conducted by KPMG LLP, 93% said the increasing frequency and severity of extreme weather events has had an impact on affordability. Current US trade and tariff policies are also driving up costs: 98% of insurance executives said that tariffs were either expected to lead to premium hikes or had already done so.

This poses much more than an industry problem; it’s also a social and political one. The ability to diversify and reduce risk is critical to the functioning of our society. Without a healthy insurance industry, the exploration and risk-taking required to grow an economy cannot happen.

Improving exposure management

Although insurers don't have full control of the drivers of rising costs, they can improve their ability to model them.

Better data and analytics are essential to enhancing exposure management. In some cases, this can be a matter of repurposing existing models. For example, insurers are adapting catastrophe models that cover hurricanes and wildfires in traditionally hard-hit coastal regions. They're expanding and enhancing such models to address the severe convective storms that are increasing in frequency and intensity across a large swath of the United States. Improving data-driven insights can help not only in modeling these kinds of large-scale events, but also in innovating and optimizing across functions.

> **Insurers must be able to understand risk at a more granular level than before, literally down to the individual who's insured, to understand what they are or can be doing to protect their assets to potentially drive their premium down**
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> *–Ian Sterling, Principal, Actuarial, KPMG LLP*

Social inflation, or the increase in the cost of claims over and above economic inflation, is a significant factor in the cost of casualty insurance and is driven by the litigation environment. While tort reform may be the ultimate answer to social inflation, enhanced data, modeling, and AI capabilities are critically important here, too. What's the probability a claim is going to be litigated? Should internal counsel or external counsel be used? When tackling such questions, companies used to lean on the general counsel's expert judgment. Today they are increasingly looking to more sophisticated predictive modeling, including using AI and machine learning, for insights on likely outcomes.

Amid these advances, many carriers are realizing that the models that they've used for years are no longer sufficiently predictive or nuanced. As is often the case, such adversity creates opportunity—and new entrants are claiming to have models that are more sophisticated and more accurate.

Improving performance

Performance innovation has become essential to addressing the affordability challenge.

In the KPMG insurance industry outlook survey, 90% of insurance executives said their organization has somewhat or significantly increased its AI budget compared to the prior year. This finding reflects the potential of AI and automation to significantly enhance performance and efficiency.

Yet innovation can't simply be "automated." True innovation occurs throughout the value chain—in operations, in daily workflows, at the desktop, and within processes. Insurance companies can't install a piece of software and expect innovation to happen. It often comes down to the ability to execute.

> **The companies we're seeing succeed are the ones with focused discipline to timeless principles—underwriting, rate adequacy, expense management, customer and employee satisfaction. But under these tremendous pressures, it's easy to deviate. Our goal is to help our clients remain laser focused to be better performers, to make them more competitive, and make the product more affordable.**
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> *–Scott Shapiro, Global Lead Partner, KPMG LLP*

KPMG. Make the Difference

As the insurance affordability crisis unfolds, the need for innovation and data-driven insights has never been more critical. At KPMG, we empower insurers to adapt by leveraging advanced analytics, enhancing performance management, and staying true to industry fundamentals.

By prioritizing predictive models and AI-driven efficiencies, insurers can not only navigate rising costs but also strengthen their competitive edge. Together, let's secure a brighter future for the industry and the communities it serves.

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