

# Securing the future

## Exploring risk in the insurance industry



### ■ Assessing emerging risks

In a fast-paced world marked by technological advancements, evolving customer expectations, ever present climate change, and regulatory shifts, insurers must have robust processes in place to continuously monitor and assess emerging risks. The process starts with a detailed, bottom-up analysis using data from various sources, including scientific publications, legal documents, media mentions, and industry trends. Advanced technologies like natural language processing and machine learning help risk teams quickly identify patterns and potential risks that might otherwise go unnoticed.

The risk assessment process increasingly also involves forming AI working groups focused on specific sectors to understand how AI is being used, potential risks, and implications for underwriting decisions. However, technology alone is insufficient. Risk assessment teams need to collaborate closely with business units to get a holistic view of the risk landscape. They need to consider factors such as coverage implications, potential exposure, and the effectiveness of existing risk mitigation strategies.

Some companies encourage cross-functional teams to engage in creative exercises to uncover potential blind spots. One example: ask finance and investment team members to pair up and imagine a hypothetical scenario that could cause the company's failure, and then present their idea in the form of a news article describing what happened. Such creative exercises encourage broader out-of-the-box thinking that help risk teams to identify potential risks and assess mitigation strategies. Risk assessment continues to be an ongoing process. As new risks emerge, companies must adapt and refine their approaches. To help with this, they need to invest in advanced analytics, tools, and encourage an open culture.

Even with the slew of advanced tools available, risk assessment and management ultimately rely on dedicated professionals who bring their skills, expertise, and passion to the table. By combining technology, human insight, and creativity, they create a resilient framework that enables insurers to understand and prepare for an uncertain future.

### ■ Technology: Challenges, opportunities, and resilience

Today, technology has become both a transformative force and a potential source of new risk. As companies eagerly adopt tools like artificial intelligence (AI), blockchain, and cloud computing, they must also navigate a complex maze of challenges and uncertainties.

Many insurers are currently investing heavily in AI capabilities. By providing comprehensive training to employees and establishing robust governance frameworks, these companies seek to harness the power of AI-driven models and decision-making processes. However, the path to AI adoption is not without obstacles.



According to a 2024 KPMG survey on GenAI across industries, cybersecurity (79%) and data quality (66%) are key areas of risk mitigation<sup>1</sup>. From a technology risk perspective, insurance companies are investing in governance, risk, and compliance (GRC) platforms to be used across the first, second, and third lines of defense. This enables identifying risks quickly across the company.

One of the most daunting challenges in this context is the risk of systemic cyber catastrophes. The growing consolidation of technology services and platforms means that a single cyberattack or outage can have cascading effects across sectors. Insurers must therefore understand and mitigate the potential aggregation risk stemming from interconnected systems. This requires managing not only third-party risks but also “nth party” risks associated with the extended network of third-party relationships.

The rapid growth of the cyber insurance market presents both an opportunity and a challenge for insurers. While this market offers growth potential, insurers need a thorough understanding of the underlying risks and exposures. They must balance the need to provide comprehensive coverage with the necessity of managing the risk exposure in the face of constantly evolving cyber threats.

## Changing customer demands

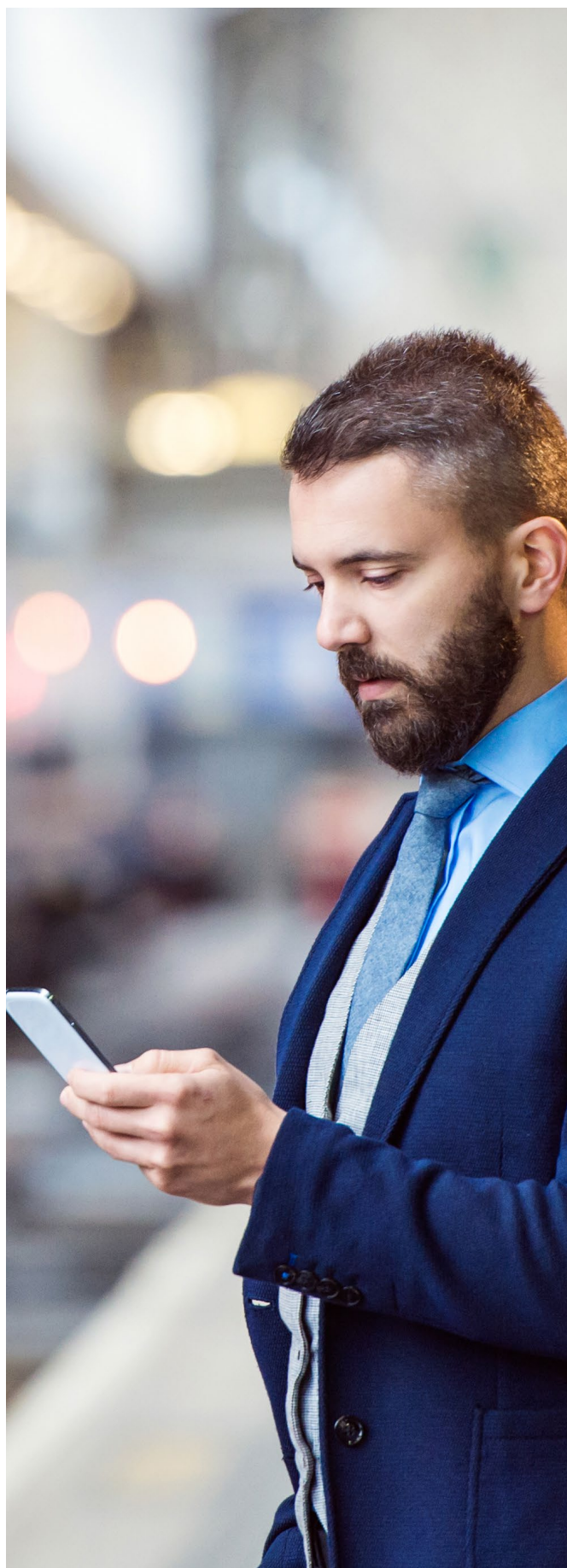
Customers are expecting more when it comes to their digital experiences. Changing customer demands are leading to disruption in captive agency distribution models as carriers go multi-channel. Evolving customer preferences in the current higher interest rate environment is creating asset-liability management challenges for insurers as life and annuity customers surrender older products for newer ones with higher benefits.

To stay competitive and meet evolving needs, insurers are heavily investing in digitizing their processes, leveraging data analytics, and developing innovative products and distribution models. One of the key challenges is the potential disruption from insurtechs that are successfully implementing direct-to-consumer models.

Balancing the need for customer data with the desire to provide a seamless, user-friendly experience continues to be a challenge for insurers. To address this, insurers are exploring ways to leverage external data sources and public information to minimize the burden on customers to fill out forms while still obtaining the insights needed to offer personalized products and services.

## The evolving role of risk management

The role of risk management in the insurance industry is undergoing a remarkable shift, transitioning from a primarily compliance-oriented function to a strategic partner in decision-making. This transformation is driven by the increasing recognition that effective risk management is essential not only for meeting regulatory requirements but also for driving business success.



<sup>1</sup> [KPMG GenAI Survey – 2024](#) (August 2024)

To achieve this strategic role, risk management teams are working to gain senior management buy-in by demonstrating their value in enabling informed decisions. This involves developing lean but influential teams with direct reporting lines to the CEO and translating complex risk concepts into business-friendly metrics that resonate with senior management.

Keeping pace with the constantly evolving regulations across multiple jurisdictions is a crucial challenge. Regulatory compliance is the second-highest rated risk for insurance companies after cyber/data privacy. Even seemingly immaterial countries/jurisdictions can cause an exponential increase in regulatory compliance workloads. However, by leveraging technology and streamlining processes, risk teams can efficiently meet these requirements while also focusing on strategic initiatives.

Climate risk has emerged as a critical area of focus, with insurers assessing and mitigating both physical and transition risks, which are the risks related to the global shift towards a low-carbon economy (e.g., regulatory risks, reputational risks, etc.). On the asset side related to climate risk, insurers have differing views on investing in fossil fuel assets vs. divesting. US insurers are still lagging in this area compared to insurers in Europe and Asia. Risk management teams play a vital role in helping businesses build climate resilience through innovative insurance solutions and expertise in risk mitigation strategies.

As the risk management function evolves, insurance companies are recognizing the importance of embedding a risk-aware culture throughout the organization. This means a proactive approach to risk identification, assessment, and

management. The function continues to play a key role in insurance M&A—assessing risks of entering new markets/products, evaluating risk correlations, understanding concentration or diversification risks of acquisitions, and integrating risk frameworks of acquired entities.



**The culture of making decisions with the right data and metrics needs to be embedded across the organization. This will greatly help the risk management function”**

– David DiCristofaro,  
Financial Services Line of Business Leader

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