

# GLOBAL INSURANCE TRENDS

**Gary Plotkin**  
**KPMG LLP**



CAYMAN  
CAPTIVE  
FORUM  
2018

# GLOBAL INSURANCE TRENDS

- 1 Macro trends
- 2 Insurance business model transformation
- 3 Technology and data
- 4 Shifting talent needs
- 5 What does it all mean?



HOW TIMES HAVE CHANGED...

1900



ONE HORSELESS  
CARRIAGE





# HOW TIMES HAVE CHANGED... AND FAST

1900

1913

ONE HORSELESS  
CARRIAGE

ONE HORSE  
AND CARRIAGE



# 30 YEARS AGO...

Less than half the world's population lived in big urban areas, whereas now it's **over 55%** (with projections saying 66% by 2050)



Starbucks only had **6 stores...** and they were all in Seattle Washington

Cell phones were available to the public, though **not very mainstream** (not until 1996)



No Google or World Wide Web.  
Just Uselists



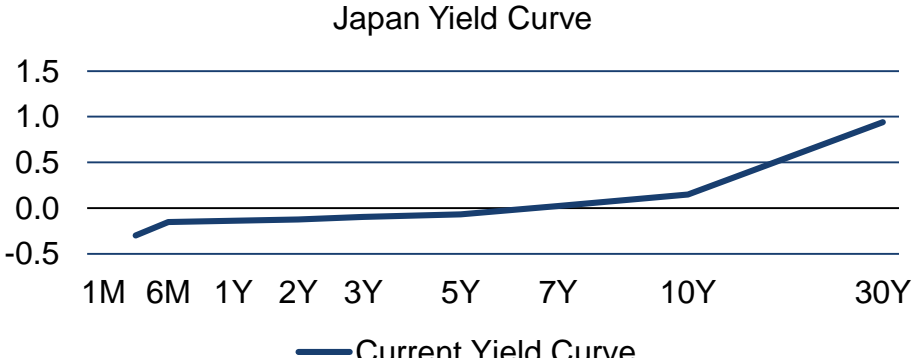
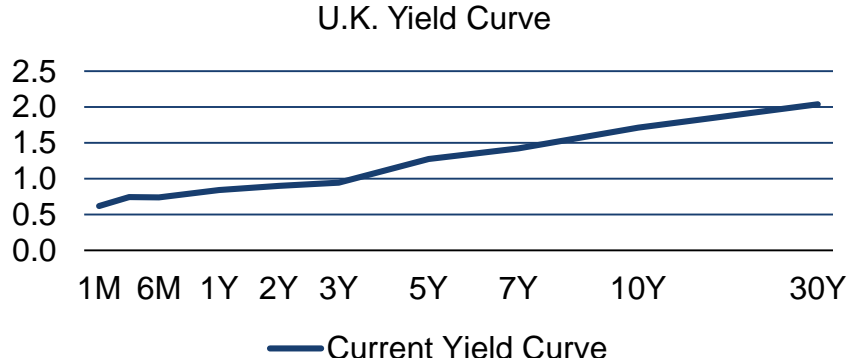
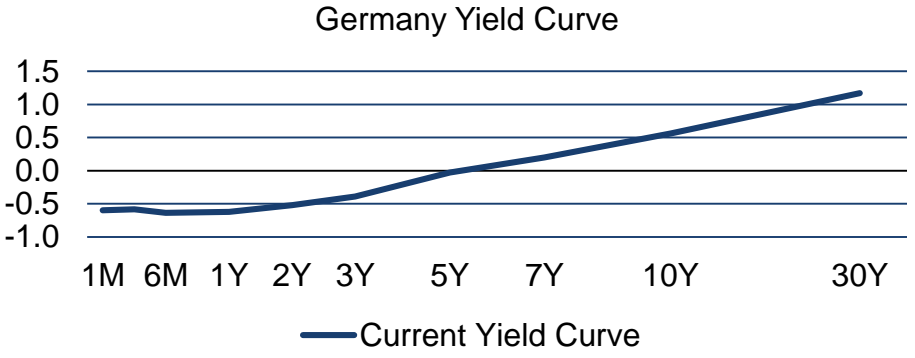
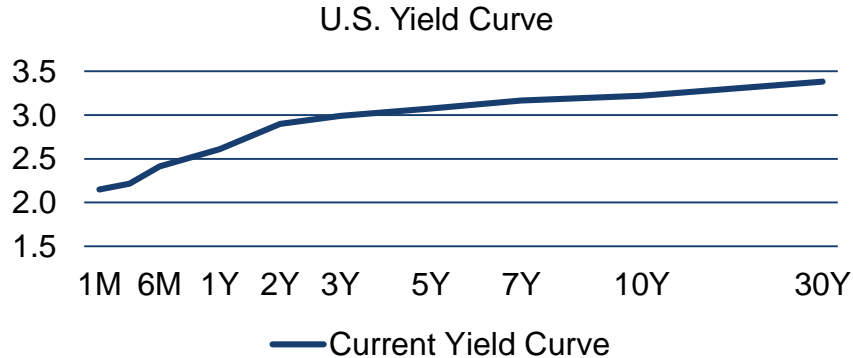
In 1998 the tallest building was 1,483 feet...  
whereas now the Arabia Jeddah Tower will be  
the first building to **surpass the 3,000 feet** mark



# Macro trends



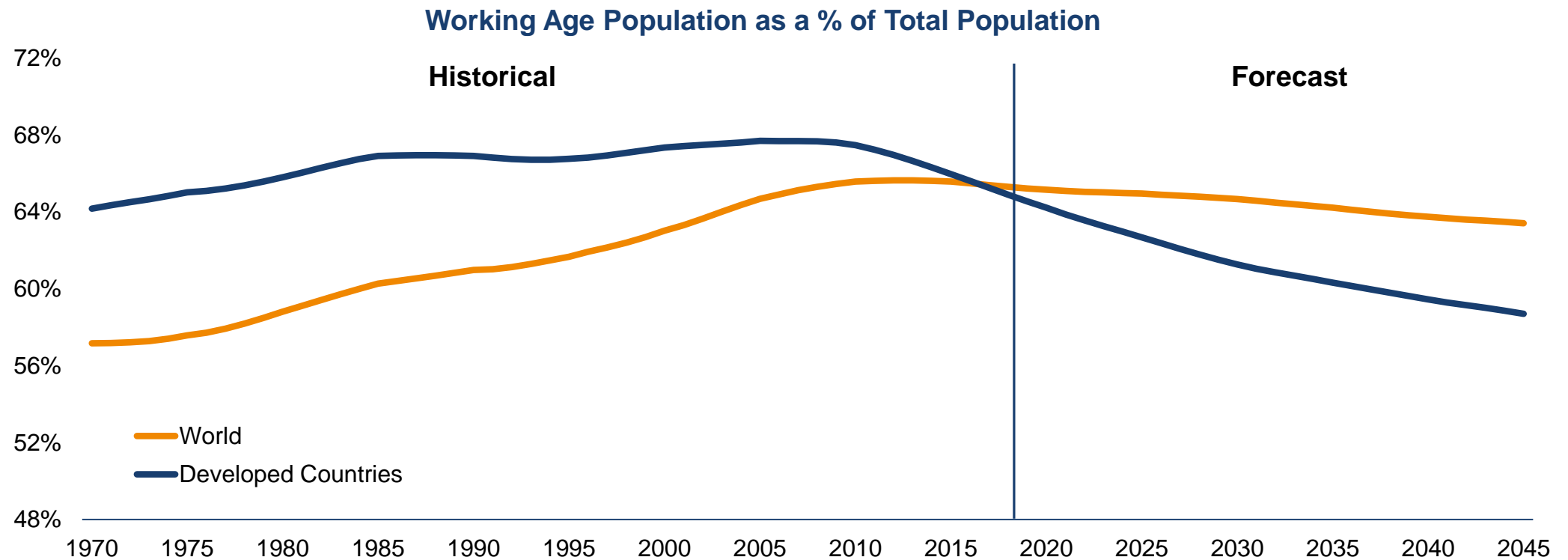
# GLOBAL STORY AS TOLD BY THE BOND MARKET



Source: KPMG Economics, Bloomberg as of October 5, 2018



# WORLD HAS REACHED THE PEAK WORKING AGE POPULATION SHARE



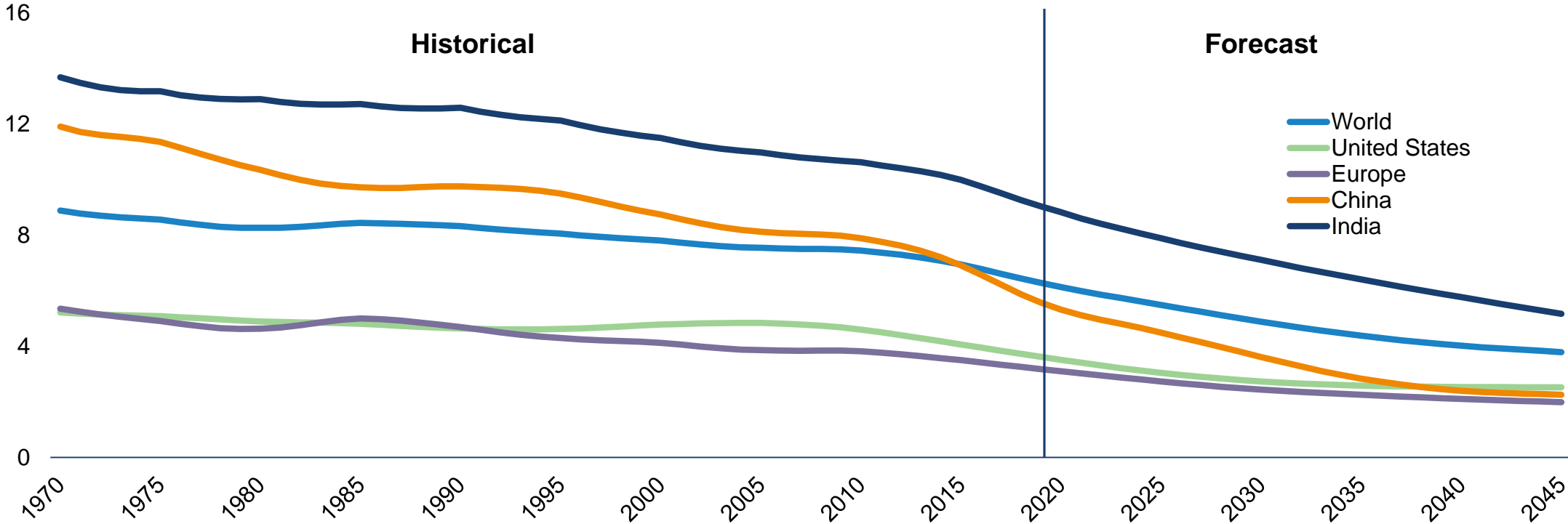
Source: KPMG Economics, U.N. Population Statistics, Haver Analytics





# FEWER WORKERS PER ELDERLY PERSON AROUND THE WORLD

Ratio of Age 20-64 Population to Age 65+ Population



Source: KPMG Economics, U.N. Population Statistics, Haver Analytics

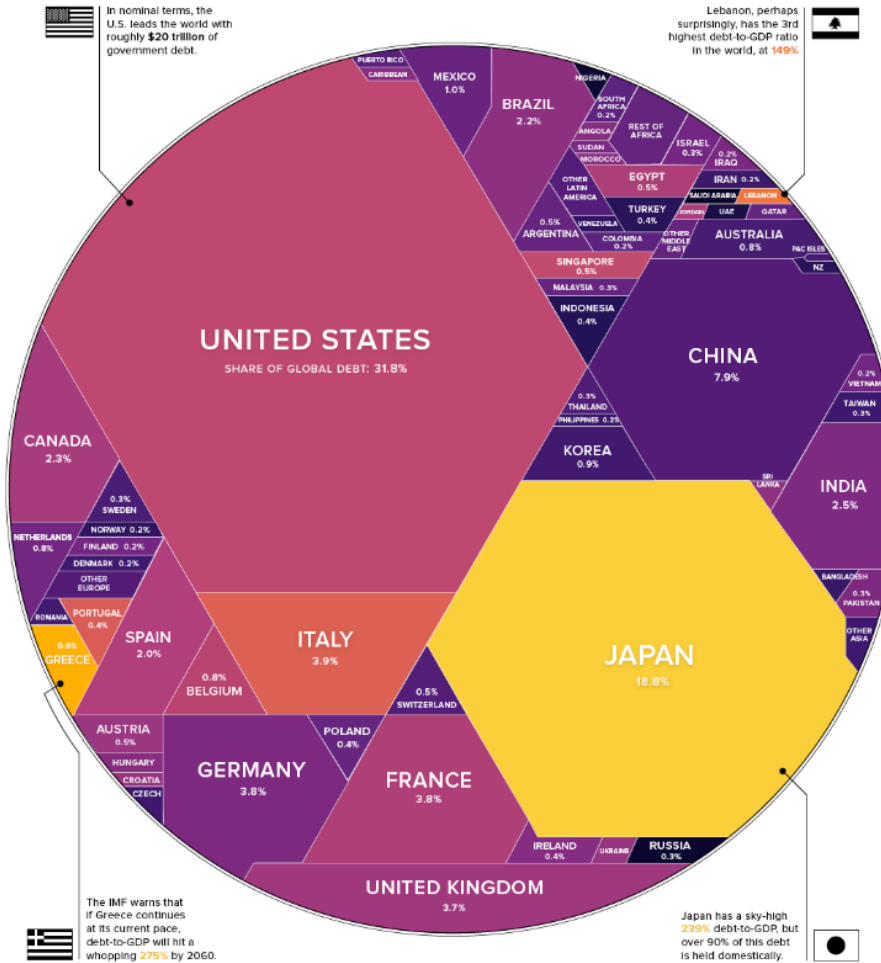


# PERCENTAGE OF WORLD DEBT

The United Nations of Debt

## Percentage of World Debt

BY COUNTRY



In normal terms, the U.S. leads the world with roughly **\$20 trillion** of government debt

The IMG warns that if Greece continues at its current pace, debt-to-GDP will hit a shocking **275% by 2060**

Lebanon, perhaps surprisingly, has the 3<sup>rd</sup> highest debt-to-GDP ratio in the world, at **149%**

Lebanon, perhaps surprisingly, has the **3<sup>rd</sup> highest debt-GDP ratio** in the world at **149%**

Japan has a sky-high **229% debt-to-GDP**, but over 90% of this debt is held domestically

The IMF warns that if Greece continues at its current pace, debt-to-GDP will hit a whopping **275%** by 2060.

Japan has a sky-high **229%** debt-to-GDP, but over 90% of this debt is held domestically.

Debt as a Percentage of GDP



# GEOPOLITICAL

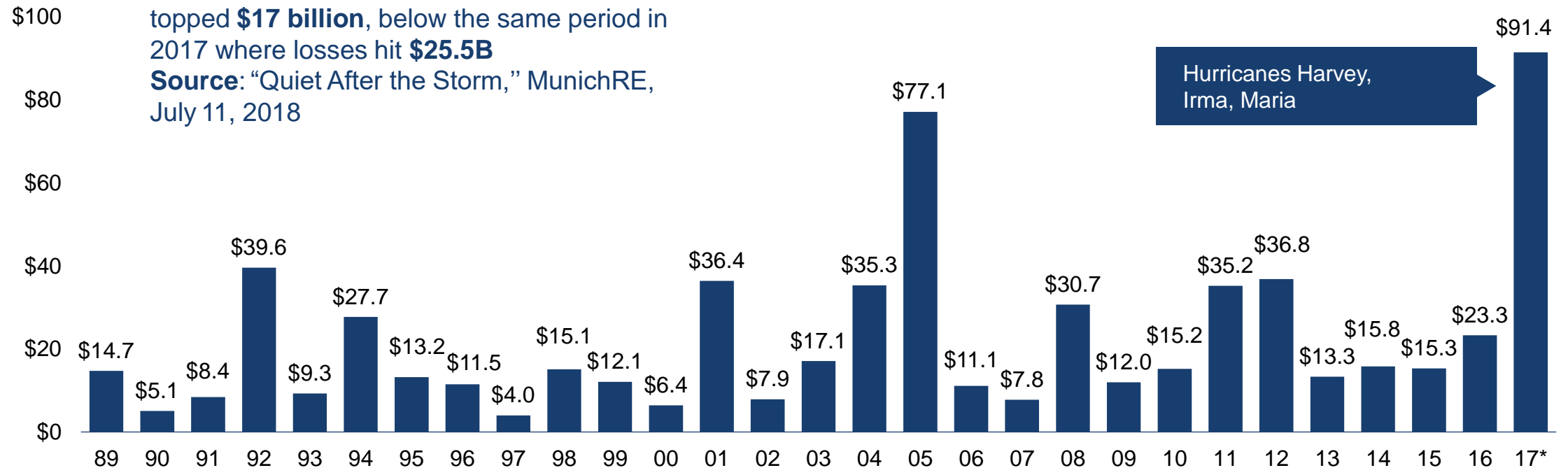
- Sharpening tensions and heightened **doubts concerning the U.S. role** in the world will continue for several years.
- The **Brexit vote** two years ago has damaged the UK economy, as a **weaker pound** has squeezed household incomes and **uncertainty** has hit investment
- The **European Union** will need to implement badly needed reforms to **maintain its legitimacy**.
- In **Northeast Asia**, growing tensions around the Korean Peninsula are continuing
- **Populism and dissent** will spread across **Latin America**.
- Increasing assertiveness from **Beijing and Moscow** as both governments seek to lock in **competitive advantages**.
- Persisting **volatility** in **Southeast Asia** with the presence of multiple nuclear powers .
- **Sub-Saharan Africa** will struggle with **authoritarian regimes**.
- Threats from **terrorist and insurgent groups** will likely persist and some hypothesize that this will lead more **decentralization**.

Source: 12 Predictions of Global Geopolitics for 2018 and Beyond April 22, 2018

# U.S. INSURED CATASTROPHIC LOSSES 1989 – 2017

2017 – Worst ever for U.S. insured catastrophe losses. Average insured loss per year for 1989 – 2017 is \$22.4B.

U.S. insured losses in first half of 2018 topped \$17 billion, below the same period in 2017 where losses hit \$25.5B  
Source: “Quiet After the Storm,” MunichRE, July 11, 2018



Source: Insurance Information Institute, July 2018



# TOP FIVE EMERGING CAPTIVE INSURANCE RISKS BY 2020



Source – Aon Global Risk Management Survey 2017

# EXTREME WEATHER EVENTS ON THE RISE



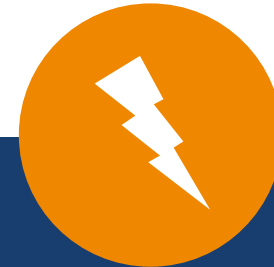
Sweden has become the latest nation to confront a wave of wildfires as far north as the Arctic Circle.



Drought, bush fires and heat waves account for the 2<sup>nd</sup> largest insured loss for Global Catastrophes in 2017



Many parts of Asia are experiencing increased tsunamis, flooding and resulting landslides.



Deadly earthquakes have impacted many parts of Asia (e.g., Japan, Indonesia and China), as well as Central and South America.

**Source:** 1 "Heat Wave Scorches Sweden as Wildfires Rage in the Arctic Circle." The New York Times, July 19, 2018

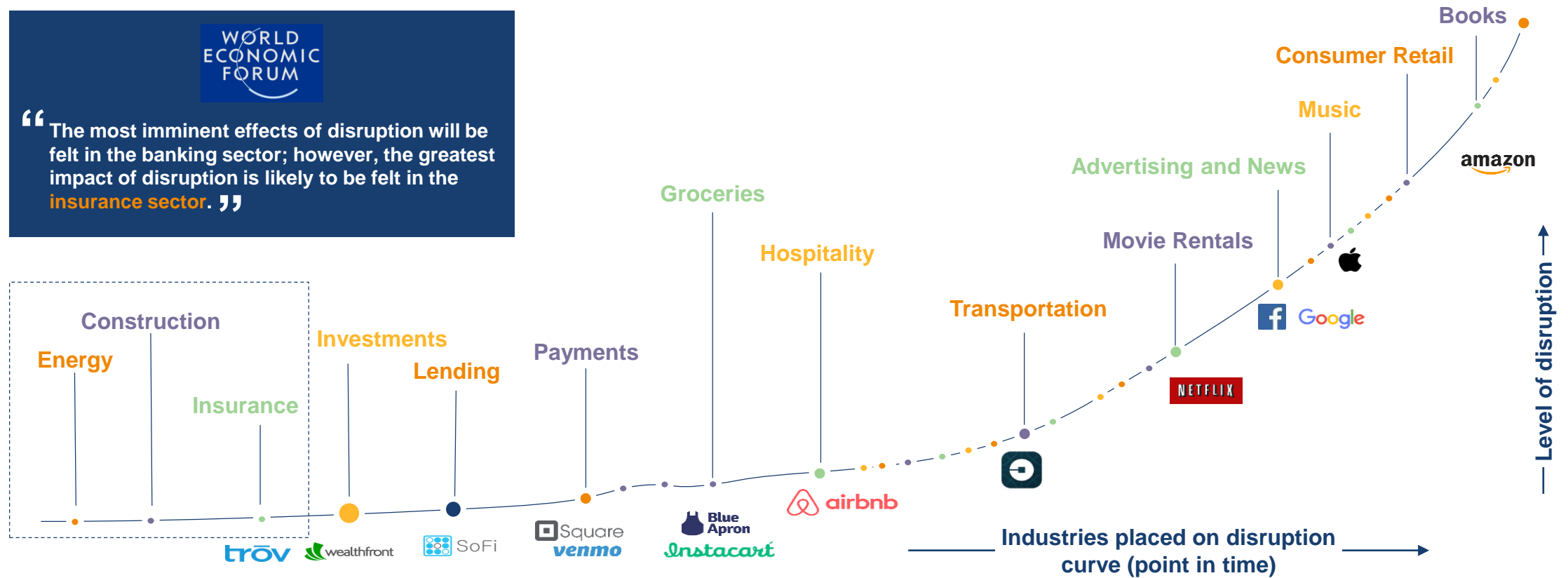
**Source:** 2 "<https://www.iii.org/fact-statistic/facts-statistics-global-catastrophes>



# DISRUPTION CURVE – INSURANCE IS AT THE BEGINNING



“The most imminent effects of disruption will be felt in the banking sector; however, the greatest impact of disruption is likely to be felt in the **insurance sector.**”



Source: (1) KPMG Analysis

# WHAT ARE CEO'S SAYING?

In a recent global survey of insurance CEO's conducted by KPMG International it is clear that Insurance CEO's are feeling rather bullish.

91% Said they were confident in their company's **3-year growth** prospects

83% Voiced confidence in **industry's overall growth** prospects

## However .....

2/3 Feel overwhelmed by **lead time required** to achieve significant progress on transformation

1/3 Admitted their organization is **struggling to keep pace** with the rest of technological innovation in their sector

47% Noted **technology investment is tactical**, focusing on solving today's business challenges, rather than strategic

28% Had a clear enterprise-wide **digital business vision**

It's clear that Insurance CEO's need to **strike the right balance**

Sources: <https://home.kpmg.com/xx/en/home/insights/2018/09/the-search-for-balance.html>



# IT'S ALL ABOUT THE CUSTOMER

“All insurers need to **engage in dialogues** around changing your business models not based on your own views but based on the **views of your customers**.

We have to move faster to meet the changing needs that are coming at us every day. Our **customers are driving** us toward different solutions, methods and offerings.”

*Terrence Williams,  
Nationwide Chief Marketing Officer  
& President of Emerging Businesses.*



“We all need to improve our **offerings & experiences**, our customers are going to hold us to **higher standards** including moving towards more **transaction-like interactions** with our customers.”

*Steven Shebik, Allstate Vice Chair*



There are really four basic strategic options for insurers – all the winners major in **‘customer intimacy’** but in today’s market, you have to be good at everything.

*Bill Pieroni, ACORD President & CEO*



# CUSTOMERS ARE DRIVING CHANGE

Customers are **empowered** through social media, giving them more **information**



**High cost** of legacy policy origination and claims services turn off many customers



**Customers** continue to look for an insurer that has their best interests in mind



**InsureTechs** will continue to take more customers from traditional insurers



**Newer generations must be targeted:** They will be the largest age cohort in spending in the next five years and will inherit \$30T in assets over the next 20 years<sup>1</sup>



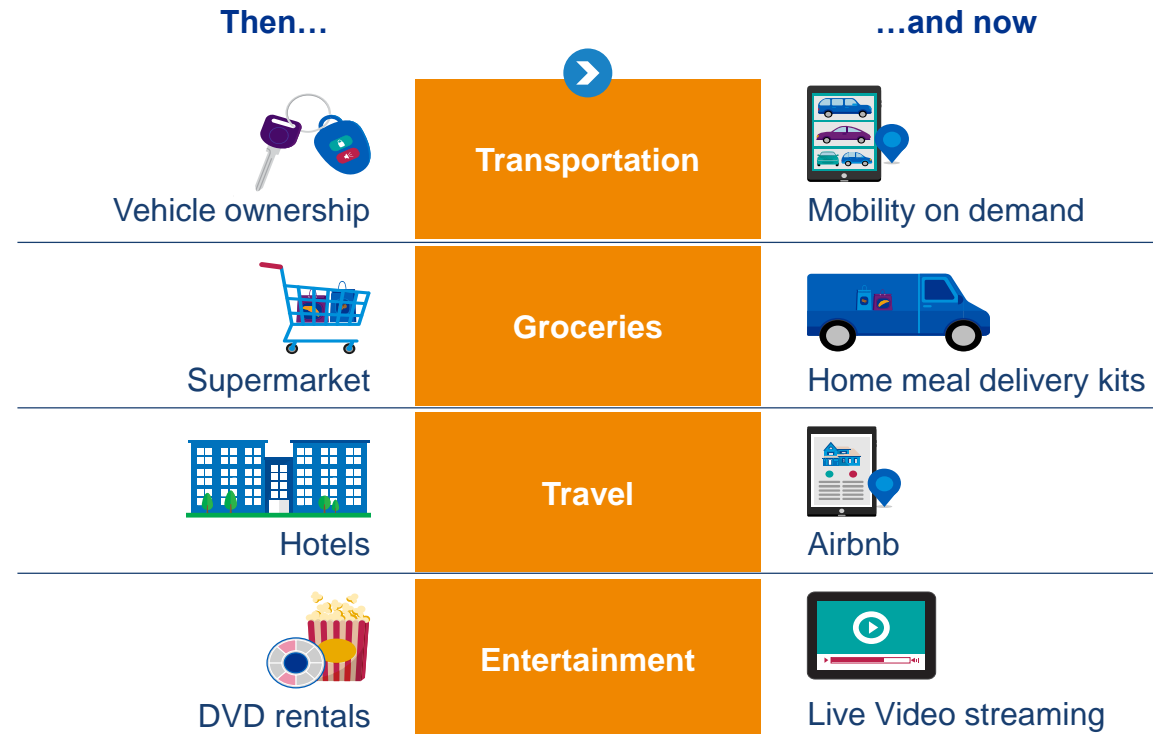
**Insurers must tell a better story** in order to offset commoditization



# CUSTOMERS ARE DRIVING CHANGE (CONTINUED)

Customers best experiences become their **expectations**

Today, disruptive technology lurks behind every aspect of customers' experience



What are insurers changing in a big way?



# Insurance business model transformation



# DR. MING ZENG, ALIBABA, CHAIRMAN OF THE ACADEMIC COUNCIL



We are all experiencing a Paradigm Shift away from the “industrial age economy” and towards the “data economy”

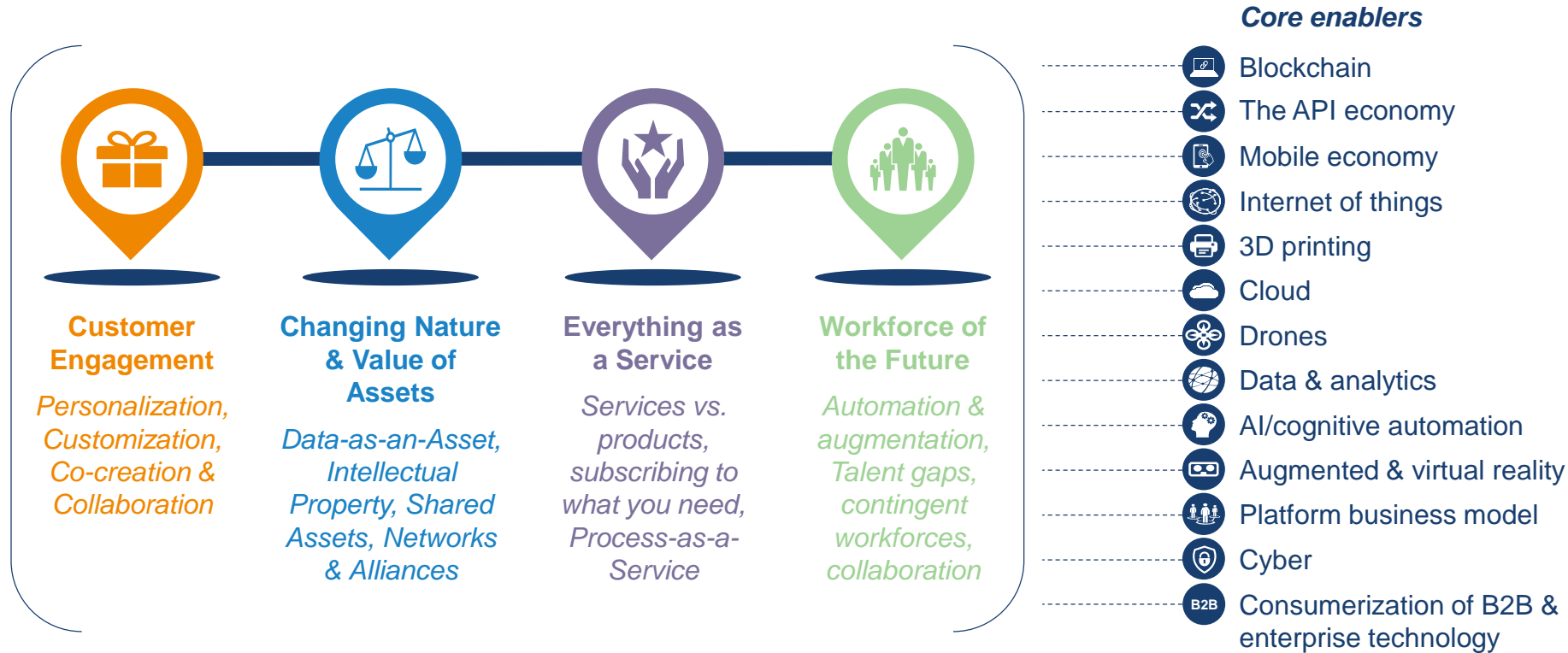
We are in the first generation of “smart business”, which encompasses two areas (1) Network Coordination and (2) Data Intelligence.

Gone are the days of B2B or B2C ... the future is all about **C2B**. Customers demand scale, pace and personalized service.

The role that humans play in the future workforce revolves around innovation, creativity & companionship or empathy.

# PILLARS OF THE 21ST CENTURY ENTERPRISE

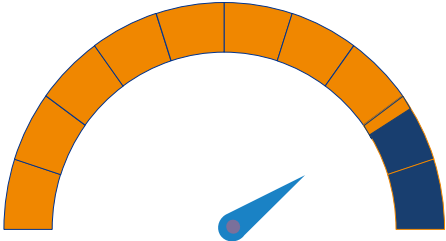
Given the scope of change occurring across industries and functions, it is important to understand and respond to four key pillars of the enterprise. These pillars and list of enablers were developed in interviews and lab sessions with our extended team.



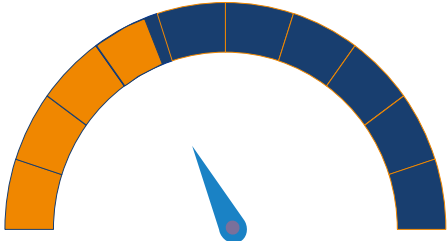
# STRATEGIC IMPERATIVE OF M&A

## Insurers are looking to M&A to catalyze their transformation objectives

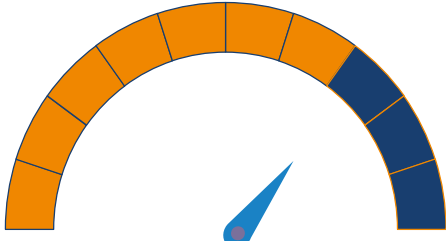
With capital and surplus levels at record highs across the industry, nearly three-quarters of insurers expect to seek acquisition opportunities and two-thirds expect to seek partnership opportunities over the next 3 years



**81%**  
of these hope to seek up to three acquisitions in the same period



**37%**  
hope to divest at least one asset over the next 3 years

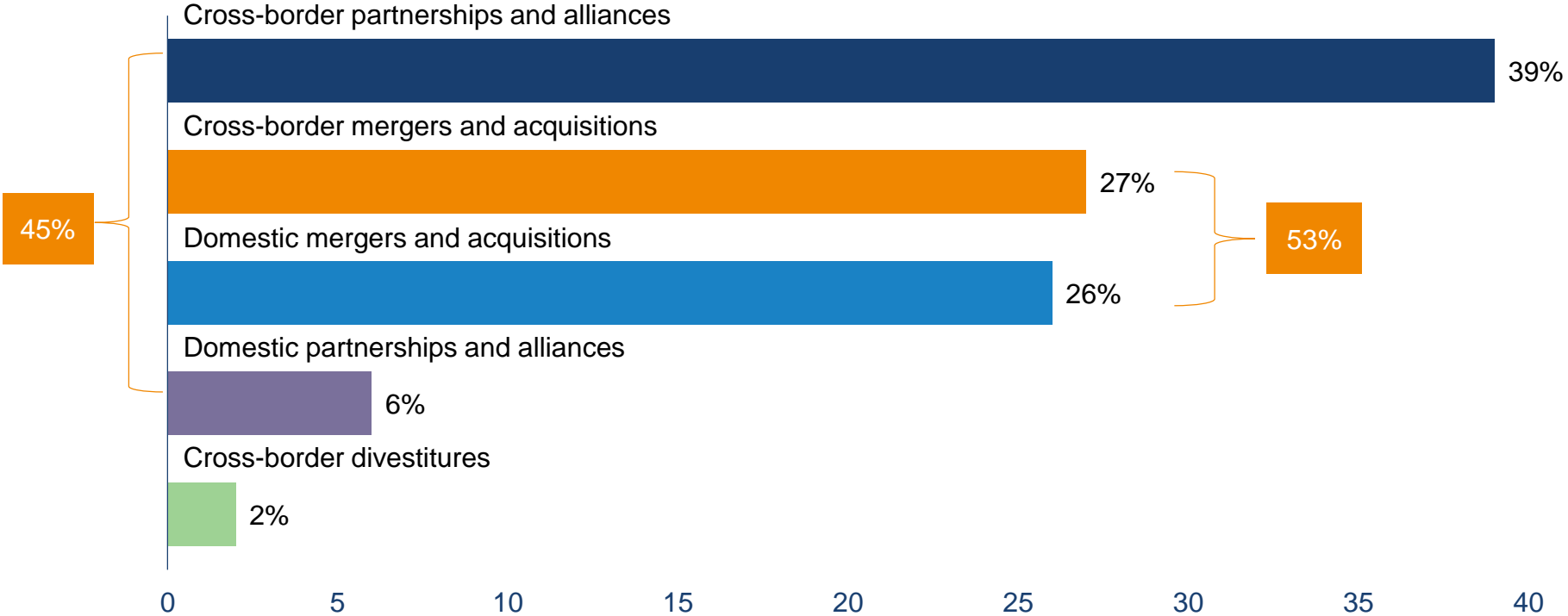


**70%**  
And more than hope their deals will transform their organization in some way

Source: "Accelerated Evolution: M&A, transformation, and innovation in the insurance industry," KPMG, 2018

# M&A DIRECTION IN THE NEXT 3 YEARS

Over the next 3 years, which types of M&A transactions do you expect your company to undertake?



Source: "Accelerated Evolution: M&A, transformation, and innovation in the insurance industry," KPMG, 2018

# ZHONG AN



- Jointly backed by **Alibaba, Tencent**, and Chinese insurer **Ping An** in 2013
- China's **first and largest** online-only insurer
- **First offering:** Policies to cover **return postage** on e-commerce items
- Then offered **quirky policies:** e.g., – During the 2014 World Cup, it offered a “watching football, drinking too much” plan, (cost \$1); covered medical expenses for self-inflicted injuries incurred due to “**midmatch stupidity**”<sup>1</sup>
- Moving into **health and auto**
- The company has sold more than **7.5 billion policies** to around **535 million customers**.<sup>2</sup>
- Premiums in 2017, **U.S.\$943M**<sup>3</sup>
- Wayne Wu, Zhong An's COO, previously worked as a **product manager at Google**

**Source:** 1 “China's Zhong An sees scope for offbeat insurance” Financial Times., November 17, 2016; 2, “Me, My Life, My Wallet,” KPMG, 2018, 3: “Zhong An See Premiums Soar by 75% in 2017 to Nearly U.S. \$B,” Asia Insurance Review, Jan. 26, 2018

# BLUE... HONG KONG'S FIRST ONLINE LIFE INSURER



CEO, Charles Hung Tak-chow

Source: Insurance Asia News September 13, 2018

- First **purely digital** life insurance company in Hong Kong
- Will focus on its **direct selling** ability to offer **lower rates** to customer in a market that is almost already saturated
- Owned by **Tencent** (20%) and **Aviva** (40%)
- Offers a **life** and a **critical illness policy** through the internet



# WHEN LIFE GIVES YOU LEMONS...

- Began in **2015**
- Injects **technology** and **transparency** into insurance
- Sold **\$10 million** in renters and homeowners insurance in 2017.
- Drew tech-oriented investor **SoftBank Group Corp.** (\$120M).
- Only **41% of renters** have insurance
- Has the unique feature of **Giveback** that **donates leftover money** to causes policyholders care about



CEO, Daniel Schreiber

*InsurTech companies have already changed the way some insurance products are sold, but “you ain’t seen nothing yet.” Start-up insurers using digital technology and artificial intelligence are gathering vast amounts of data that will revolutionize the way risks are assessed and priced.*

Source: Insurance Asia News September 13, 2018

# BEAGLE STREET

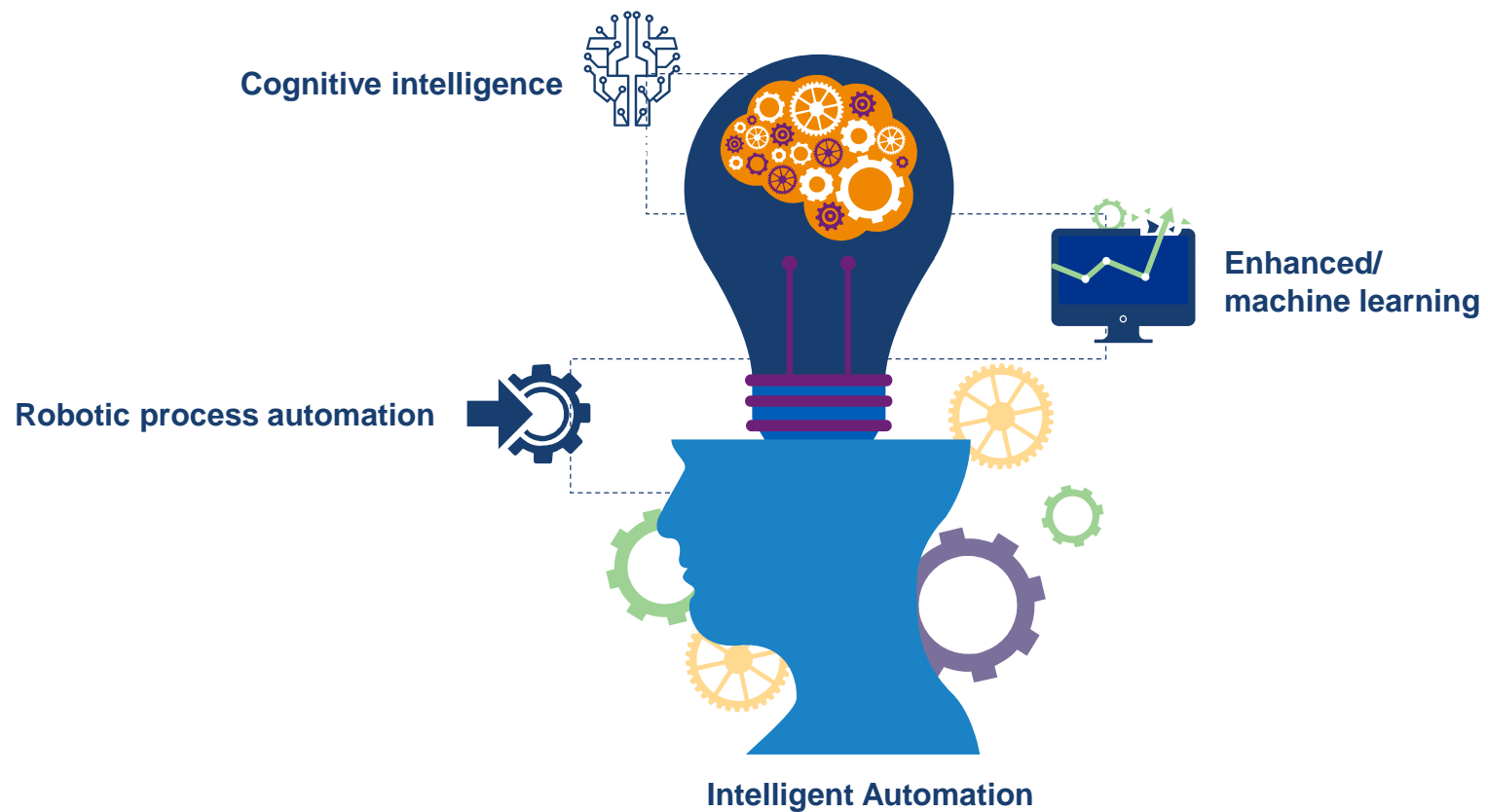


- Online life insurance company targeting people who have experienced a **major life moment** (e.g., buying a house, getting married, having a baby, etc.) to get **insurance quickly**
- Part of BGL Group which is one of **UK's largest consumer insurance** groups
- It started trading in **2012** and is in its **6<sup>th</sup> year** as an online life insurer
- It has **grown rapidly** and tells customers they can get coverage in **10 minutes**
- Beagle Street started trading after Managing Director Matthew Gledhill went through a **six-week ordeal trying to get life insurance** and thought there must be a simpler, quicker way

Source: Insurance Asia News September 13, 2018

# Technology and Data

# WHAT IS INTELLIGENT AUTOMATION



# WHY ARE SO FEW INSURERS FOCUSING ON INTELLIGENT AUTOMATION?

**KPMG  
perspective:**

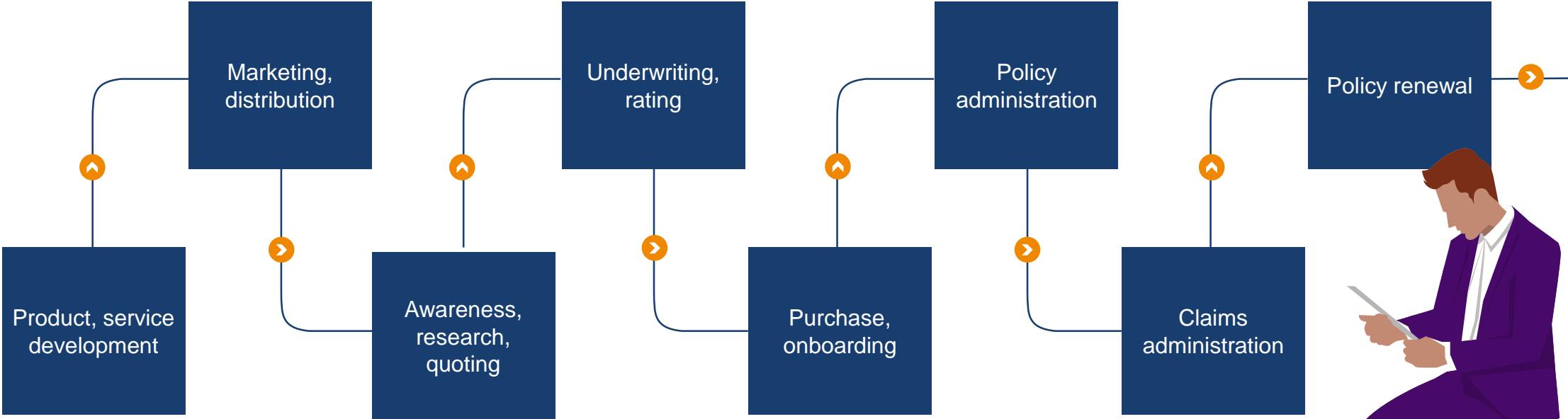
There are **four broad challenges** related to innovation that haven't been adequately overcome by insurers as they work on across-the-board, holistic transformation:

- 1 Managing the extraordinary pace of change
- 2 Understanding and choosing among hundreds of technology options
- 3 Implementing effective data and analytics processes
- 4 Prioritizing automation, and understanding the impact on their future workforce

Innovation **at scale** remains an aspiration for insurers today, but that will change in the future

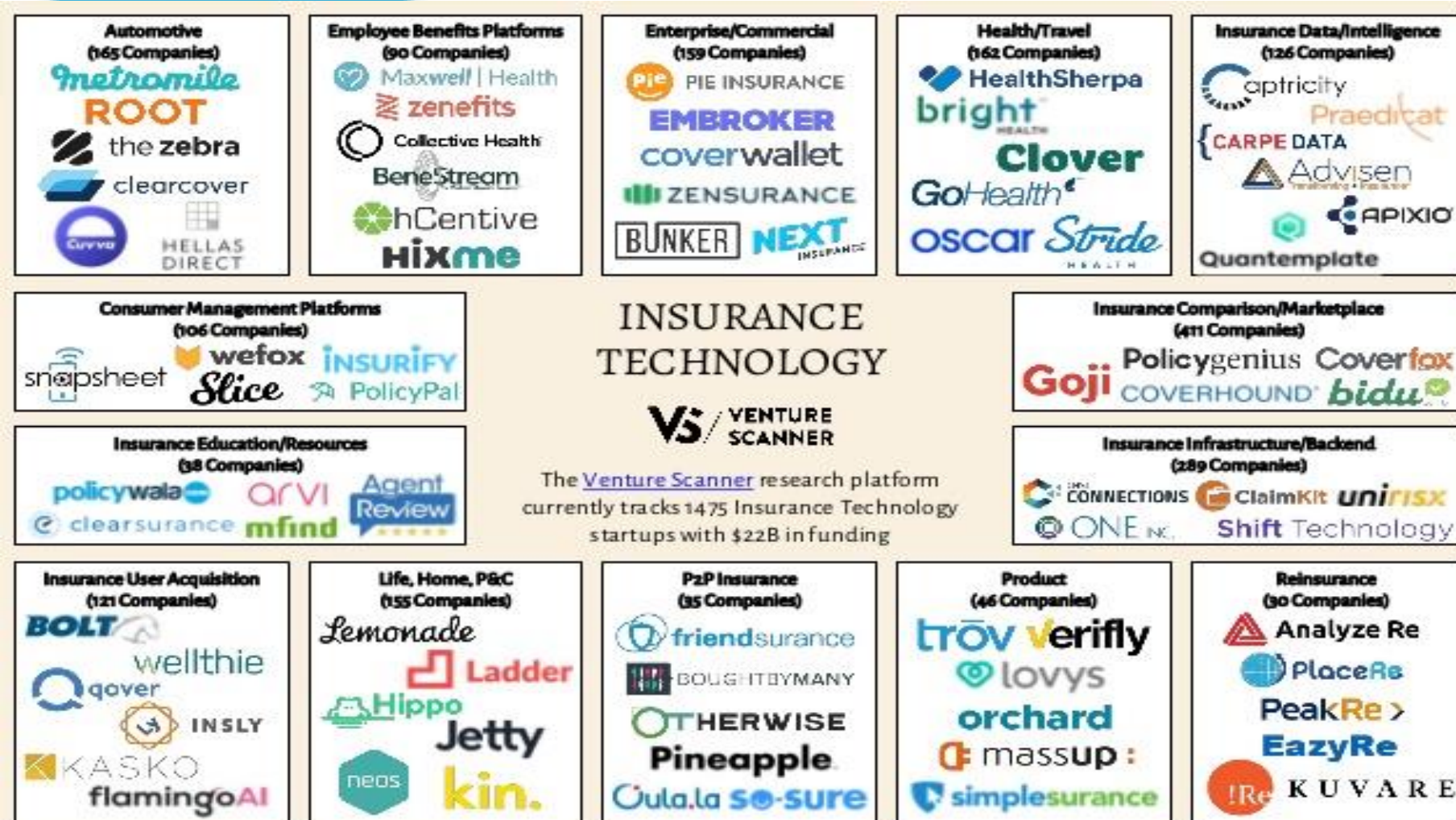


# IT ISN'T NECESSARY TO TRY TO PERFORM EVERY STEP IN THE VALUE CHAIN





# INSURTECH



# INSURERS ARE FOCUSED ON REMOVING FRICTION POINTS IN THE UNDERWRITING PROCESS

Insurers can leverage data and analytics to improve antiquated underwriting processes.

## Current (old) Model



Blood test



Medical Exam



G.P. Records

## Future Models



Clinical Data



Connected Device Data



Mobile Activity



Social Networks



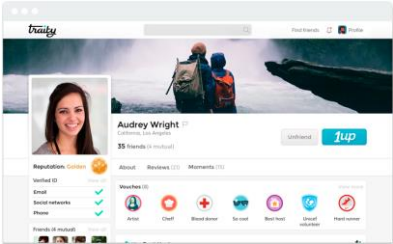
Transaction Activity



**APIXIO** Medical record and clinical data platform



**traity** Online Reputation



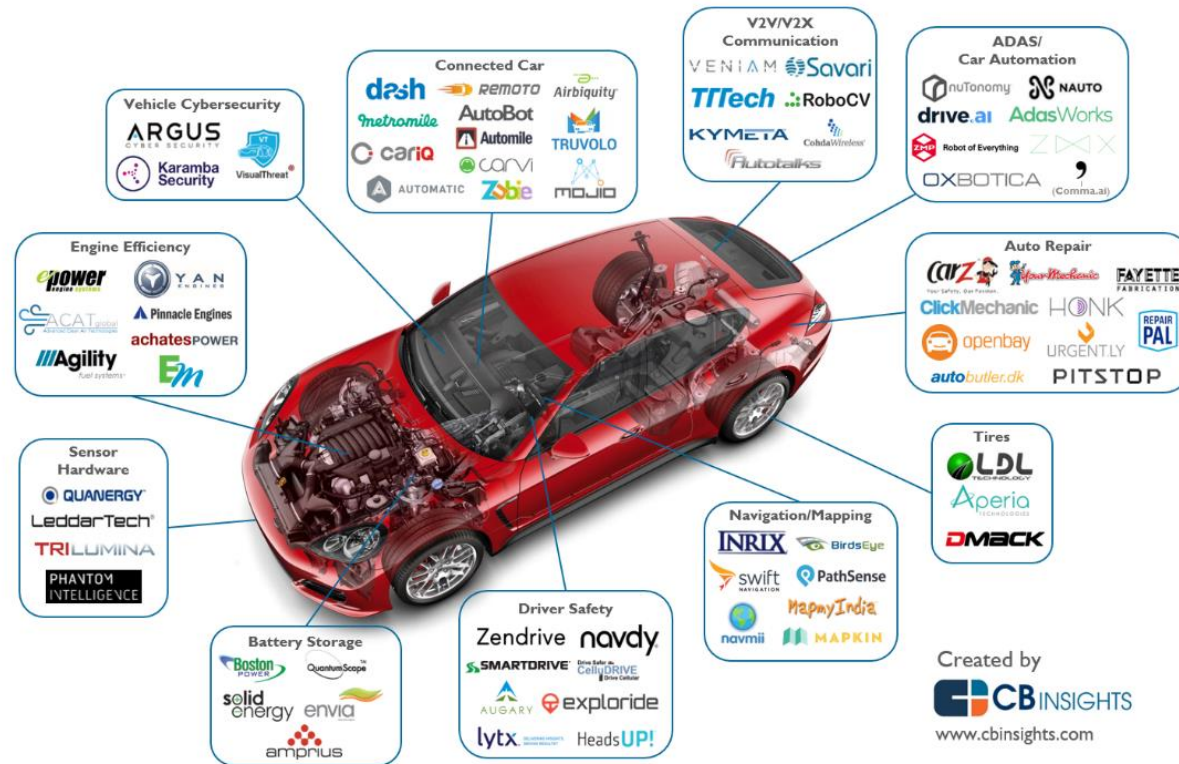
**EARNIX** Predictive Analytics



Source: Company websites

# JUST LIKE THE PHONE, THE CAR COULD BE TURNING INTO A CONNECTED COMPUTER

## Unbundling the automobile



### Implications for personal and commercial auto insurers

**Inevitable Risk Shift:** A shift in insurance recipient from driver to vehicle or OEM, with driver's own liability an increasingly smaller factor

**Better Data:** OEMs can own new driving data, potentially disintermediating the insurers

**Customer relationship:** Manufacturers will own the customer/driver relationship, and there will be opportunities for OEMs to extend into other facets of the customers lives.

Created by  
 CBINSIGHTS  
[www.cbinsights.com](http://www.cbinsights.com)

Sources: CB Insights, KPMG

# CYBER SOPHISTICATION

The number and types of cyber attacks **continue to grow**

- Attacks are characterized by sophisticated malware and ransomware, such as WannaCry and NotPetya
- **The threat to all business sectors is increasing**
- Example: Equifax Inc. said a few months ago that its costs related to its 2017 data breach hit \$275 million this year. Reuters reported that the incident at the credit reporting bureau could turn out to be the most costly hack in corporate history.\*
- **Human error** is one of the most significant factors in the **majority** of cyber claims

\* **Source:** "What Cyber Insurance Industry Learned from 2017 Hacks." The Insurance Journal, March 13, 2018



# CYBER SECURITY AND HUMANS

Disparate channels/distribution platforms makes identity the common denominator for evaluating and enforcing controls for insurers' functions. Security, therefore, relies on understanding what a person in your business "has," "knows," "is," and "does."

<p><b>has</b></p> <ul style="list-style-type: none"> <li>• Access badge</li> <li>• Smart card</li> <li>• Security token</li> <li>• Mobile phone</li> <li>• ID document</li> </ul>	<p><b>knows</b></p> <ul style="list-style-type: none"> <li>• Password</li> <li>• Passphrase</li> <li>• PIN/Account number</li> <li>• Sequence</li> <li>• "Secret" Questions</li> </ul>	<p><b>is</b></p> <ul style="list-style-type: none"> <li>• Fingerprints</li> <li>• Face image</li> <li>• Iris images</li> <li>• Palm Image</li> <li>• Speech Pattern</li> </ul>	<p><b>does</b></p> <ul style="list-style-type: none"> <li>• Writing Style</li> <li>• Gestures</li> <li>• Behavioral Biometrics</li> <li>• Key Stroke Pattern</li> <li>• Application use</li> </ul>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

+ as well as the **context** of the interaction

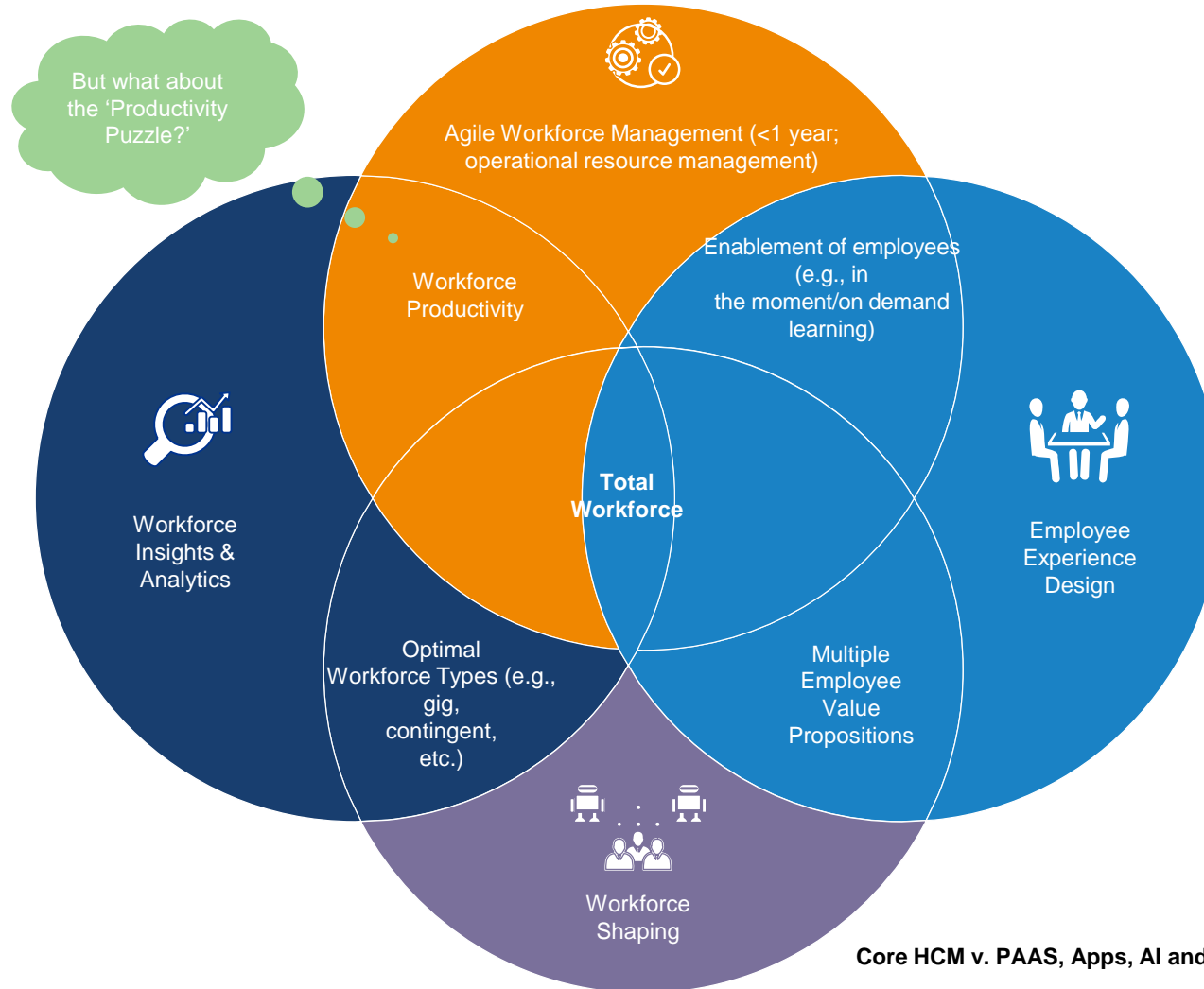
<b>For example:</b>	Geo Location	IP address	Channel	Device Used	Function
---------------------	--------------	------------	---------	-------------	----------

= to make them uniquely identifiable

# Shifting talent needs



# WHAT WILL IT TAKE TO MANAGE A TOTAL WORKFORCE?



# WORKFORCE SHAPING – OUR LEARNINGS FROM INSURANCE CLIENTS



Scenarios and probabilities are vital



It's all about data artistry... and then telling a compelling story



Boundaries start to break down between roles, functions and sub functions



It's not about driving to 'an answer' but aiming for directional accuracy



Workforce shaping is a Trojan horse for change across the employee lifecycle and HR



Regardless of differences between scenarios there are always some no regrets decisions

*And all of this needs to be delivered by multi disciplinary teams, supported by strong sponsorship and great stakeholder management*




# THE JOURNEY WE ARE ON

From:

-  Mapping people to jobs
-  Functional and sub functional silos
-  Employed core workers
-  “You are what you do”
-  HR seeks to categorise individuals

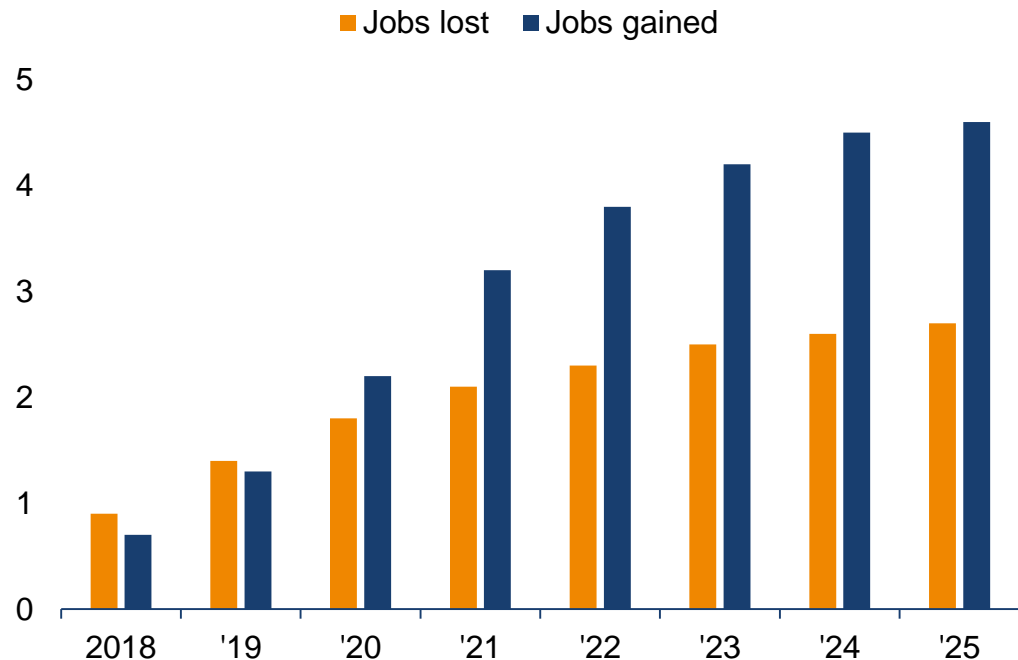


To:

-  Mapping skills to tasks
-  Boundaryless operation
-  Total workforce
-  “You do what you are”
-  HR seeks to shape culture and total workforce

# EVOLVE OR DISSOLVE

Artificial intelligence is expected to eliminate some jobs but create others. By one projection, jobs created will outpace jobs lost globally by 2020.

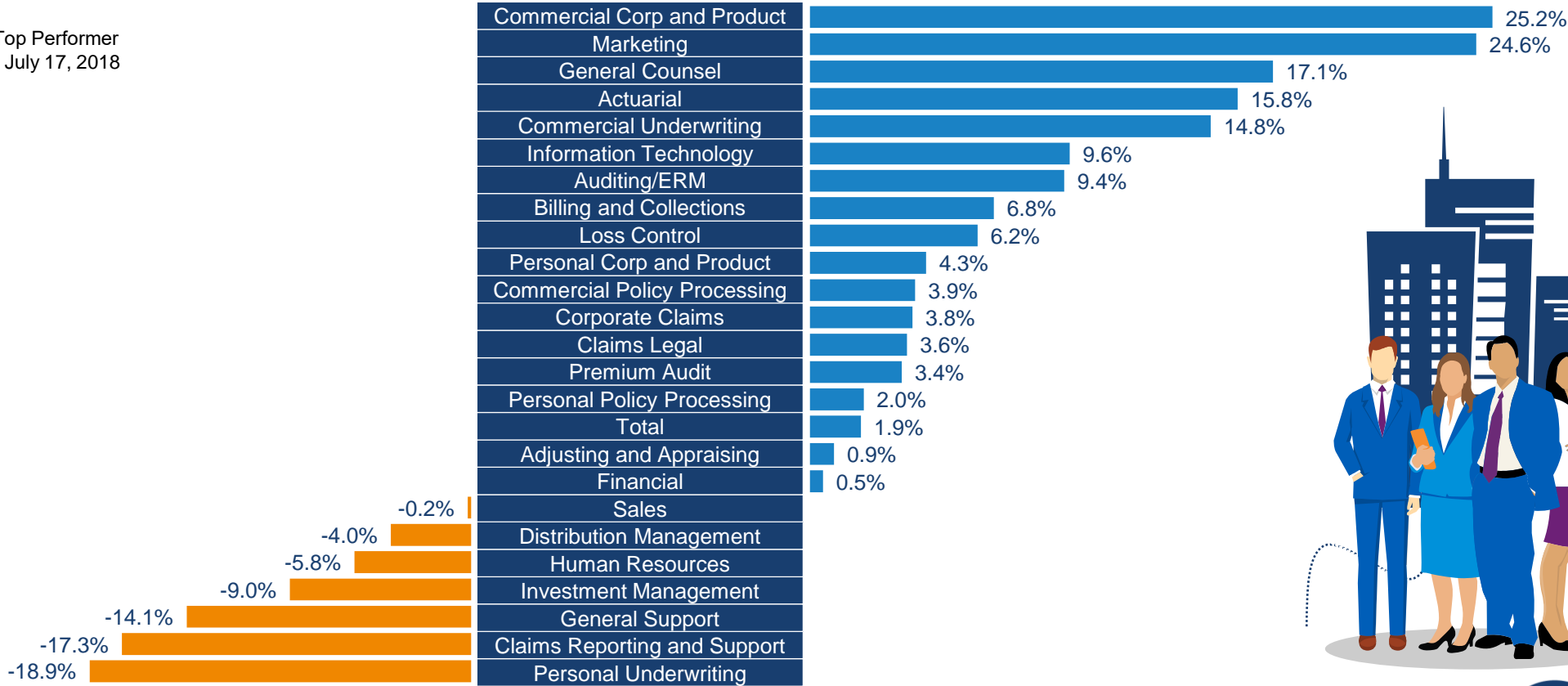


“ Humans are still going to be a vital part of the business. Due to the advancement of the AI technology, some people will fall behind and leave the industry. But for those willing to learn, there will be **great opportunities** to use AI-based approaches to obtain better analytics and recommendations. “

Source: Gartner

# HEADCOUNT CHANGES 2012 – 2016

Source:  
2018 Ward's 50 Top Performer  
Results Webinar, July 17, 2018



CAYMAN  
CAPTIVE  
FORUM  
2018

# THE FUTURE INSURANCE ORGANIZATION

The Insurance Organization needs to **disrupt** itself

## Extreme automation

Integrating and combining

- Cloud ecosystems
- Robotics
- Artificial Intelligence
- Blockchain
- Mobile



## Insights & analysis

New insights through

- Descriptive and Diagnostic Analytics
- Predictive and Prescriptive Analytics
- Integrated Business Plans
- Decision Support



## Organizational simplification

Changing way of work

- Less people
- Less hierarchy
- Fewer locations



## Skills & talent

Changing requirements

- Both subject matter and strategy skills
- Process and Control leaders
- Relationship and collaboration



- Fundamental economics behind disruption
- Approaching disruption at the organizational level
- Maintaining an innovation portfolio
- Disciplined innovation process and structure





# QUESTIONS?

**Gary Plotkin**  
gplotkin@KPMG.com  
860-209-3720

[www.caymancaptive.ky](http://www.caymancaptive.ky)