cutting through complexity

A New World of Opportunity:

The insurance innovation imperative

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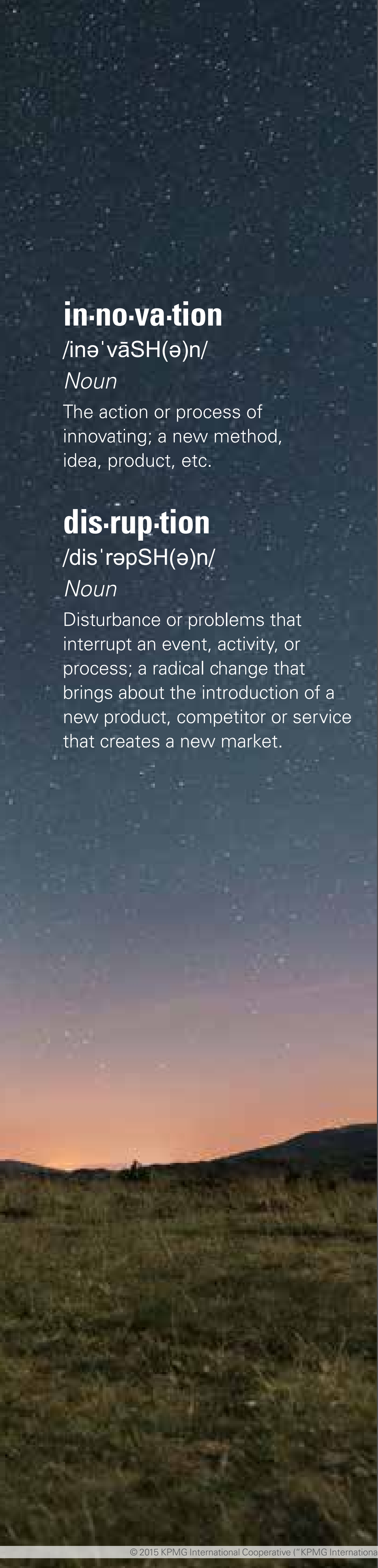
KPMG INTERNATIONAL



in·no·va·tion
/inəˈvāSH(ə)n/
Noun
The action or process of innovating; a new method, idea, product, etc.

dis·rup·tion
/disˈrəpSH(ə)n/
Noun
Disturbance or problems that interrupt an event, activity, or process; a radical change that brings about the introduction of a new product, competitor or service that creates a new market.

Foreword

The fact that technology and innovation have created a new world of opportunity for individuals, businesses and society is obvious. Only slightly less obvious is that the future will be shaped by those who are innovating today. For the insurance sector, this is not just a fact, it's an imperative.

The reality is that customers, investors and employees demand innovation. Indeed, they expect it, not only from technology providers and device manufacturers, but also from insurance organizations. Insurance providers can no longer do 'more of the same' and expect to grow.

This innovation imperative is not a simple equation. There is no 'silver bullet' to create a more innovative organization; no 'off the shelf' package that drives new ideas. Instead, insurers and intermediaries will need to navigate their own path through this new world of opportunity, developing new business and operating models and new partnerships in order to out-compete and out-innovate their peers and bold new entrants.

Striking a path for innovation needn't mean starting from scratch. Instead, it is about leveraging wins and experiences, including the ideas of others, to create new propositions and approaches to delight customers and create value. It's about learning from both traditional competitors and new disruptors. And it's about shamelessly borrowing best practices and new ideas from outside the insurance sector and its traditional allies.

At KPMG, our firms work closely with many of the world's most innovative and creative insurers and intermediaries. Our experience suggests that a world of opportunity exists for those bold and innovative enough to seize these opportunities to create competitive advantage.

This report follows on from *The Intelligent Insurer*, *The Valued Insurer* and most recently *Transforming Insurance*, exploring the drivers of exponential change in the world of insurance. In this report, we have gathered survey data from senior respondents in insurance markets around the world, augmented with deep insight from interviews with some of the world's forward-thinking insurers, reinsurers, intermediaries, start-ups and disruptors. Combined with insights from our network of professionals, this report offers pragmatic and actionable advice for those seeking to make the most of this new world of opportunity. We'd like to thank all the organizations and individuals who participated in our survey and interviews. Your vision has inspired us and added significant value to this publication.

To learn more about the ideas identified in this report – or to discuss your organization's unique innovation challenges – we encourage you to contact your local KPMG member firm or any of the contacts listed at the end of this publication.

Mary Trussell
Insurance Innovation and High Growth Markets Global Lead Partner
KPMG International

Gary Reader
Head of Global Insurance
KPMG International

Contents

Analysis

The innovation imperative	02
Feeling the heat of disruption	06
The appetite to innovate	10
Missing the mark	12
Facing common challenges	14

Focus Areas

Encourage change through cultural transformation	22
Be willing to disrupt existing business models	24
Apply agile and dedicated leadership	26
Understand why you are investing	28
Learn from others	30

The view from other industries	**32**
The innovation imperative: A world of opportunity	**34**
Contributing firms	**36**
About the survey	**39**
KPMG contributors	**40**
Country contacts	**41**

The innovation imperative

Insurers and intermediaries know that innovation has the potential to enhance their current business and operating models. They know that they need to innovate faster than their competitors to defend and grow their business. But with disruptors already banging on their doors, our survey suggests that too many in the insurance world are focused on operational innovation rather than strategic – growth-oriented – innovation.

> We can't wait for the structural changes to occur before we start moving; we need to address these changes now if we hope to offer the business new growth opportunities over the next 5 years."
>
> **Dr. Thomas Blunck**, Munich Re

That insurers and intermediaries understand the direct link between innovation and growth is undeniable. "In order for my business to be successful, in order to deliver increased value to my customers, in order to increase my top and bottom line, or to generate shareholder value, we need to do things differently. We need to be creative. We need to innovate," noted John Geyer, Senior Vice President of MetLife's Innovation Program.

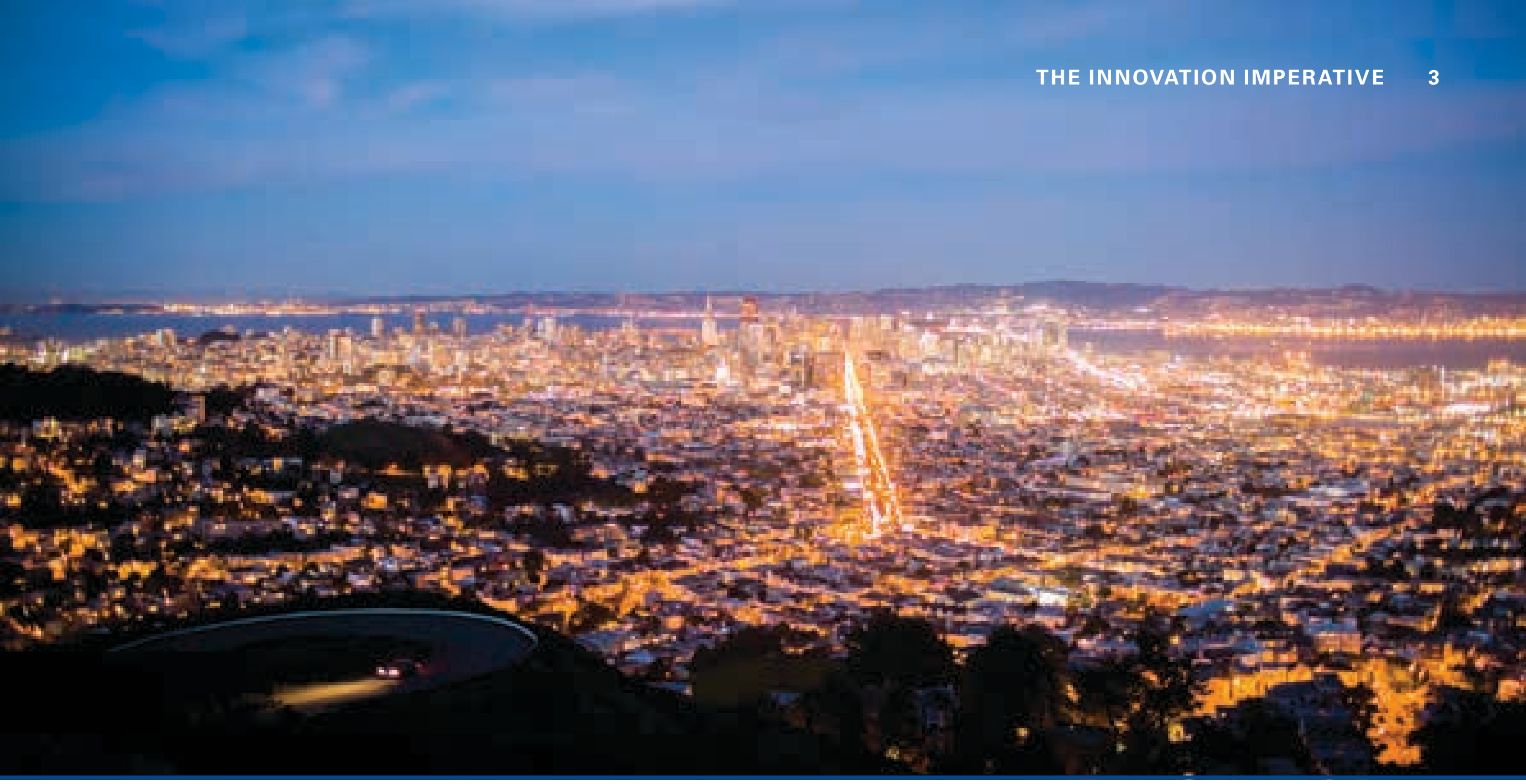
Most insurance executives agree. In fact, more than eight-in-ten respondents to our survey said they believe their organization's future success to be closely tied to their ability to innovate ahead of competitors. The potent combination of data and digital is also driving increased innovation within the sector.

"There has been a clear shift in mindset over the past few years. Insurance providers increasingly recognize that they need to be customer-centric rather than product-centric. They are realizing that customers don't come to them for a specific product, they come to them to help manage the risks they face. But you can't respond to that shift with a product-centric structure," said Mary Trussell, Global Insurance Innovation Lead Partner, KPMG International.

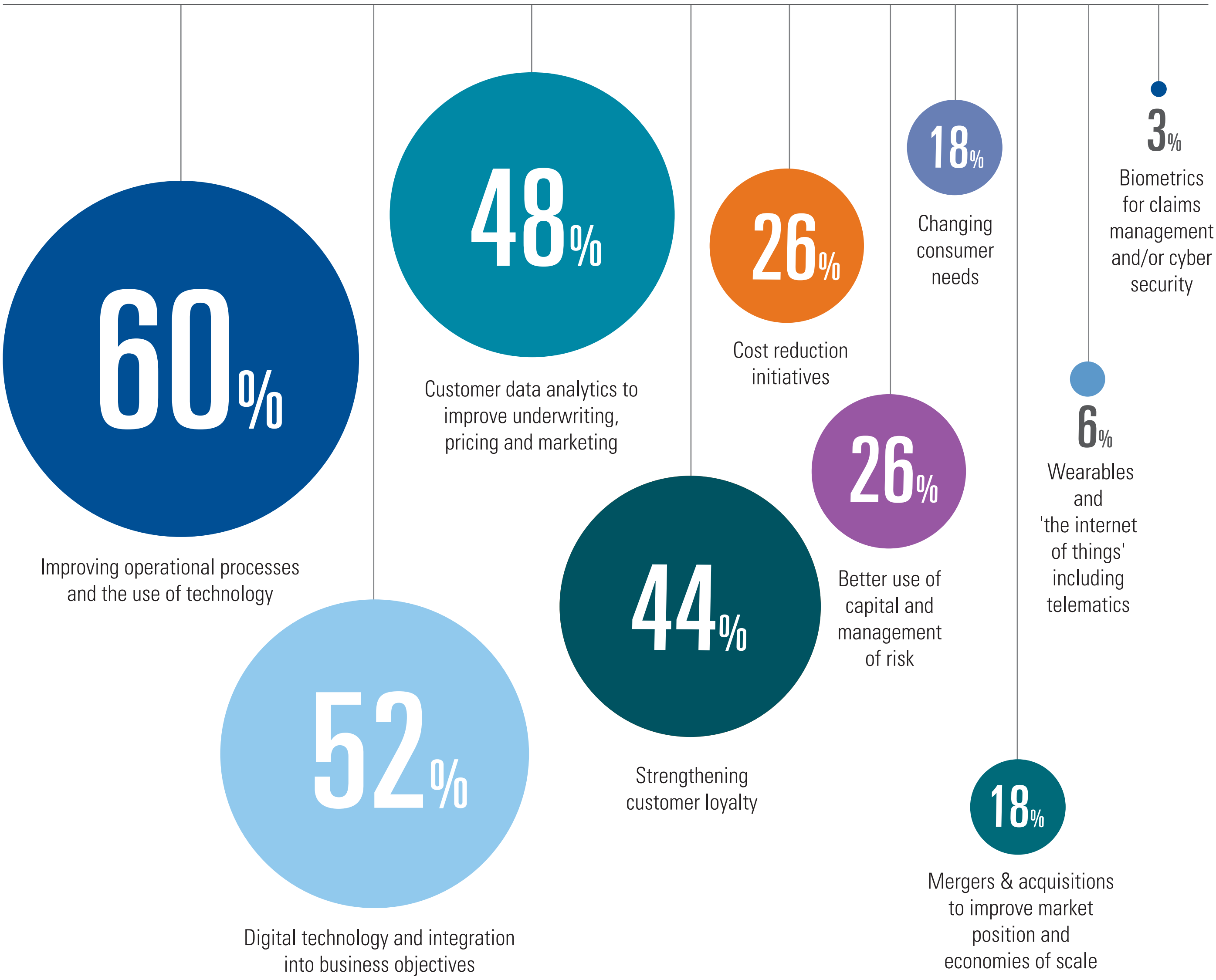
Interestingly, larger organizations (those with revenues of more than US$5 billion) were more likely than their smaller peers to link innovation to success in this new world of opportunity. And respondents from the Property & Casualty (P&C) sector and Composites reported being more focused on innovation-led growth than their Life & Health peers.

"It's already clear that the reinsurance market will undergo significant structural change over the coming decade due to technology and innovation. But we can't wait for the structural changes to occur before we start moving; we need to address these changes now if we hope to offer the business new growth opportunities over the next 5 years," noted Dr. Thomas Blunck, a Member of the Board of Management at Munich Reinsurance Company, one of the world's largest reinsurers.

Many organizations believe that improved use of technology will help drive greater innovation and growth. More than half of our survey respondents say that digital technology and its integration into business objectives is one of the three greatest opportunities for growth in their sector; a quarter of respondents told us that digital technology is the single biggest opportunity for growth over the next 2 years.



What are your organization's biggest opportunities in the next 2 years?



Source: KPMG International 2015

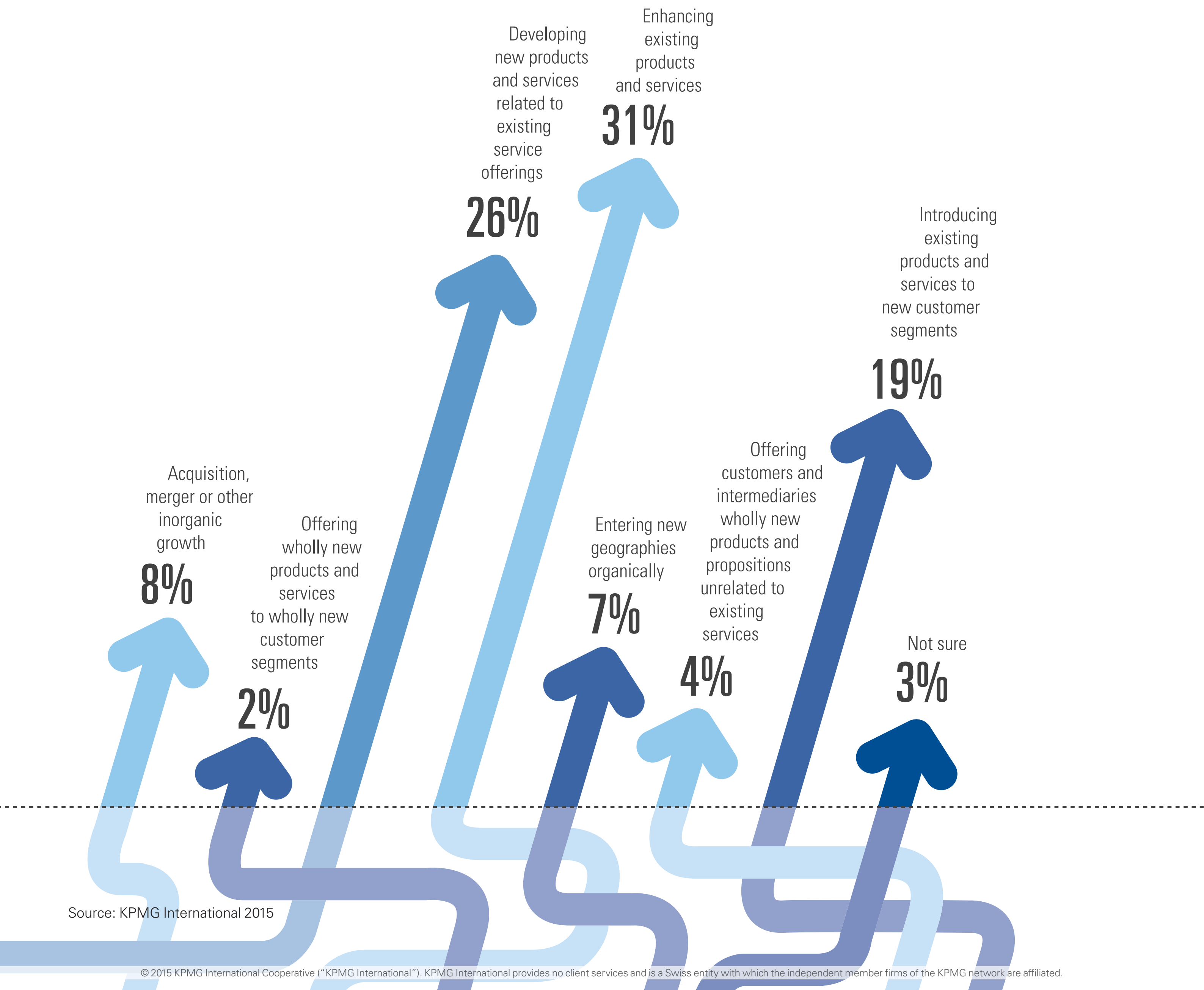
> … driverless cars, machine learning, home sensors, and 'robo-agents' empowered with artificial intelligence offer a world of opportunity for insurers."
>
> **Gary Reader,** KPMG International

"New technologies are reducing losses and costs while saving lives and increasing customer satisfaction, increasing risks and driving new business models and consolidation within the industry. New advances such as driverless cars, machine learning, home sensors, and 'robo-agents' empowered with artificial intelligence offer a world of opportunity for insurers," added Gary Reader, Global Head of Insurance, KPMG International.

However, our data suggests that North American organizations lag behind their European and Australian peers when it comes to digital. Just 38 percent of North American respondents say they see opportunity in digital, versus 61 percent of Australian respondents and 55 percent of those from Europe.

As well as an enabler of growth, most see technology as an enabler of better service and greater efficiency. Sixty percent of all respondents said that improving the use of technology was a 'top three' opportunity for their organization. Perhaps not surprisingly, mid-sized firms (those with between US$500 million and US$5 billion in revenues) were most likely to see opportunity in the improved use of technology, suggesting that many are only now starting to get their technology house in order.

What is your organization's primary growth strategy in the next two years?



Source: KPMG International 2015

However, our research and experience suggest that some respondents may be overly-focused on incremental, operational innovation rather than more strategic, market-shaping innovation. Just six percent of respondents said their growth strategy over the next 2 years focused on offering ‘wholly new’ products and services to existing or new customer segments. Instead thirty-one percent said their primary focus was on enhancing existing products and services.

“I don’t see incremental changes to products as ‘innovation’ per se,” argued Martin Mueller, Head of Group Strategy and Development at Swiss Re, one of the largest global reinsurers. “To me, innovation is about making larger changes – new products, new ways to interact with customers, new channels and agile responses to new technologies and advances – that’s real innovation.”

A number of insurers and intermediaries have, however, recognized that they need to evolve more radically to defend against new competitors and continue to grow their business. Slightly more than a quarter (26 percent) of respondents globally said their primary growth strategy focused on developing new products and services, albeit related to existing service offerings.

> Innovation is about making larger changes — new products, new ways to interact with customers, new channels and agile responses to new technologies and advances — that’s real innovation.”
>
> **Martin Mueller**, Swiss Re

KPMG Insights:

- The objective of innovation should be to drive growth by delighting customers, either through improved efficiency, more customer-centric products and services or through new channels and approaches.
- Advances that improve operational efficiency are ‘table stakes’. To create true competitive advantage through innovation, insurers and intermediaries need to rethink – from sales channels and marketing through to business models and partnerships.
- Today’s digitally-enabled customers (both B2C and B2B) demand continuous innovation and improved access and service. Those unable (or unwilling) to meet shifting customer demands will quickly be surpassed by more nimble and innovative competitors.
- Digital channels are challenging existing value propositions, resulting in new battles to retain existing customers and attract new ones.

Actions:

- Think carefully about what you hope to achieve from innovation. Then plan how to combine resources, data, technology and capabilities to achieve those objectives.
- Go beyond operational improvements to focus on growth. Often the two go hand-in-hand, enhancing online applications for example, can improve efficiency.
- Consider how best to combine longer-term and higher-risk projects with shorter-term initiatives that deliver quicker wins.
- Think about how you can make insurance simple for your customers (however sophisticated) and make your organization easy to do business with.
- Stay ahead of trends in the markets and with customers you serve. This can enable better use of new technologies which, in turn, can help enable the development of new products and services.

Feeling the heat of disruption

Disruption is bringing ever-fiercer competition for the insurance sector. New entrants, new technologies and new business models are emerging at an increasingly rapid pace. Insurers need to focus on both short-term and longer-term opportunities, scanning the horizon for potential risks and disruptions while focusing on innovation to deliver long-term value.

> "We firmly believe that the insurance sector is ripe for disruption. But we're much more of a friend to the insurance sector than we are a foe."
>
> **Steven Mendel**, Bought By Many

For the time being, it seems unlikely that Apple or Google will make a dramatic entry into the insurance game in a significant way. But other – equally nimble – FinTech competitors are trying to undermine and disrupt the status quo. Many insurers are already feeling their impact.

With almost half of all survey respondents saying that their business models are already being disrupted by new, more nimble competitors many are clearly concerned that innovation may bring more disruption than value. "Many firms spend an inordinate amount of time simply defending against potential disruptors rather than using their energy to create value for their customers and shareholders by becoming disruptors themselves," noted Louis Régimbal, Partner, KPMG in Canada.

Interestingly, respondents from North America were significantly more likely to say they had experienced disruption than their European peers and somewhat more likely to do so than their Asian peers.

Our survey suggests that larger organizations may be more prone to disruption with just 39 percent of smaller organizations saying they had experienced disruption versus 54 percent of large organizations. Life & Health organizations reported lower levels of disruption compared to P&C.

Some perceived disruptors, however, may actually be partners for insurance organizations seeking to innovate. "We firmly believe that the insurance sector is ripe for disruption; the vast majority of insurance across the world is still sold through face-to-face meetings with brokers doing exactly the same job they've done for the last 100 years," noted Steven Mendel, CEO and Co-founder of Bought By Many, a UK-based start-up leveraging social media to target niche insurance segments. "But while we want to disrupt and change the current process, our real focus is actually on partnering with insurance organizations to drive new business and help them build longer-term relationships with their customers. We're much more of a friend to the insurance sector than we are a foe."

Increased competition – both from new entrants and from the more agile incumbents – is creating challenges for insurers around the world. Four-in-ten respondents to our survey said that increased competition from known competitors would create challenges over the coming 2 years. Twenty-eight percent said they expected non-traditional providers to start providing significant challenge.

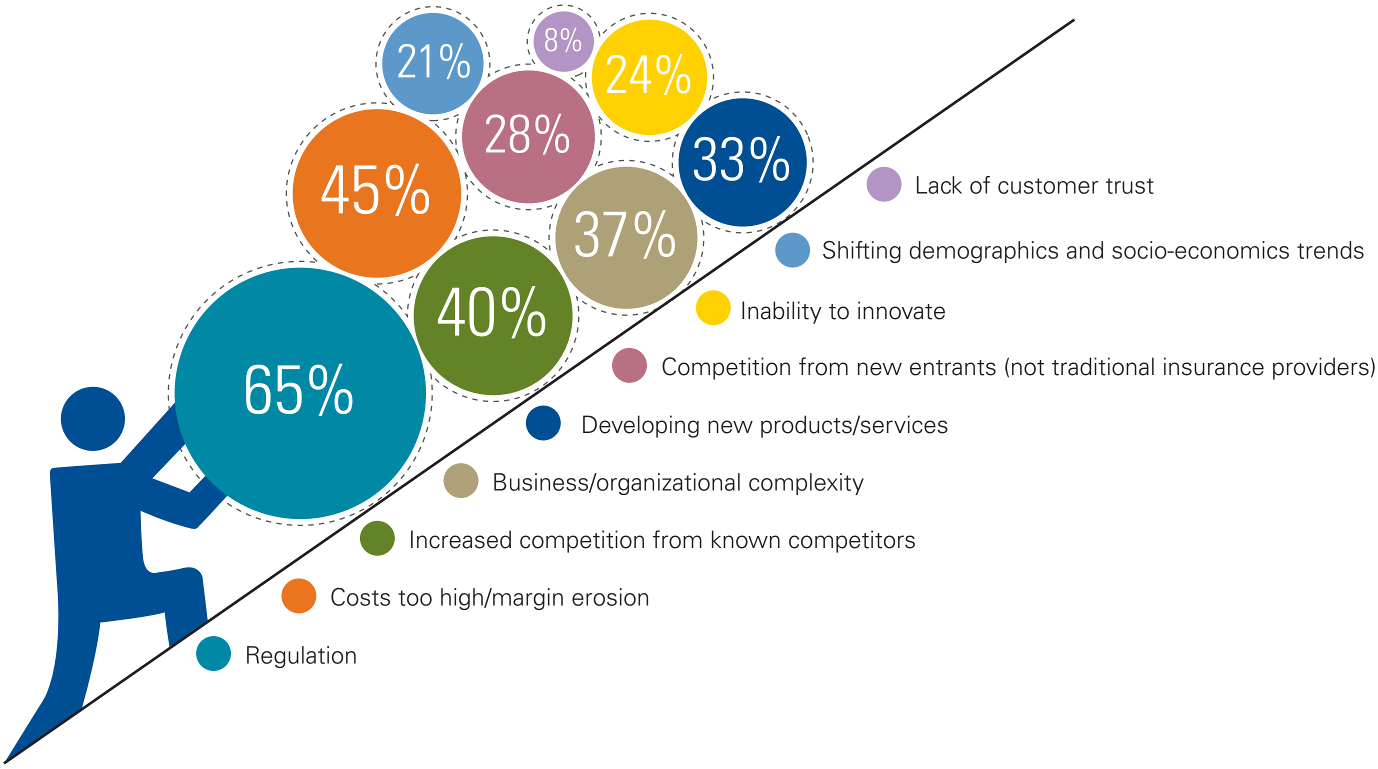
North American respondents seem particularly worried about the threat of new competitors with respondents more than twice as likely as their European-based peers to cite new competitors as a major challenge. Similarly, respondents from the P&C sector were more than twice as likely as their Life & Health peers to suggest they would face disruption from new competitors.

"Our leadership has their eyes wide open about what is at stake here. But we firmly believe that – if somebody's going to disrupt our industry – it might as well be us," noted John Geyer, Senior Vice President of MetLife's Innovation Program.

While North American respondents seem also very concerned about increased competition from their existing competitors (versus new competitors), Australian organizations are more concerned that current competitors will overtake them. And, once again, P&C industry respondents were the most likely to say that increased competition from existing competitors would create short-term challenges, compared with both Life & Health and Composite respondents.

> If somebody's going to disrupt our industry, it might as well be us."
>
> **John Geyer**, MetLife

What are your organization's biggest challenges in the next 2 years?



Source: KPMG International 2015

KPMG Insights:

- Innovation can't be viewed in a vacuum. As your organization is fighting to innovate, so too are your competitors. Strategies must be flexible to quickly respond to shifts in the competitive landscape.
- We see exponential change in business models as digital technologies and mobile payments lower marginal costs and weaken competitive advantages associated with scale.
- There is no avoiding the fact that disruption is coming. As John Geyer from MetLife aptly noted, if somebody is going to disrupt your business, it might as well be you.
- While larger organizations may have more resources to invest in innovation, most suffer from legacy systems and have deep silos inhibiting agility. Larger organizations may face a short-term disadvantage compared to smaller or newer competitors.
- Similarly, more globally diverse organizations may face challenges from disruptive competitors on multiple fronts. Multinational P&C insurers, in particular, may face fierce competition.

Actions:

- Build flexibility and agility into innovation strategies and processes to quickly respond to new competitive threats and opportunities.
- Analyze your organization's weak points that could be attacked by new entrants. Develop strategies to defend and protect these lines of business first.
- Rather than resisting every new competitor that emerges, consider how you might work with or acquire innovators to improve competitive positioning.
- Consider alliances with partners outside of insurance. For example, developments in automotive, technology and telecommunications are changing the nature of auto insurance; working with these sectors could accelerate customer benefits and expand the value chain.
- Continually scan the horizon for new competitors and FinTech players that you may want to partner with.

The view from the disruptors

The good side of disruption

By **Steven Mendel**, CEO and Co-founder of Bought By Many

Over the past few years, I've often been quoted as saying that the insurance industry is due for an overhaul. This isn't a threat; rather, it's a practical observation.

The fact is that the insurance sector has changed very little over the past hundred years. For the most part, products, price points and channels have not changed; insurance is still most often sold through face-to-face meetings with brokers.

But with the rise of social media, the availability of advanced analytics capabilities and the introduction of new technologies, it seems clear that the insurance sector must change. Customers no longer want to go meet with brokers and they no longer want generic products. What they want is a tailored experience and product offerings that reflect a deep understanding of their needs and risks.

That's where Bought By Many comes in. We bring together groups of people that share 'niche' risks – such as medical insurance for entrepreneurs or people with Crohn's Disease who want to travel – and then we work with insurance organizations to find products that respond to those needs. We've already got more than 250 groups that we serve and we have hundreds more in development.

While this may make us seem like 'just another aggregator' or a potential competitor, the reality is that we are actually a keen collaborator and partner with the insurance sector.

Our objective is not to find a group of underserved people and then brow-beat insurers into low price points. Our objective is to help insurers find and develop customer segments that fill specific areas of business that they want or need to write, and then we develop the right communities to achieve those goals.

For example, many of our insurance partners are currently looking to deal with the new Solvency II requirements that influence how diversified an insurer's book of business must be. They come to us with lists (sometimes lengthy) of areas where they feel they are currently under-exposed and then we leverage social media and internet searches to build, encourage and deliver the right customer segment to fill that exposure requirement.

And since we have a deep understanding of what makes our groups so special, our business model also allows insurers to build real and lasting relationships with their policy holders. That's not something that direct insurance or aggregator websites can do, but we can.

What we have found is that those insurers who take the time to understand our offering and value absolutely love us and – very quickly – come to realize that some disruption in the insurance sector may not be all that bad.

www.boughtbymany.com

Bolting-on innovation

By **Shaun Williams**, CEO of Life Insurance Made Easy (LIME)

Let's face it: life insurers are not well-suited to disruptive innovation. Most are so saddled with legacy systems, compliance processes and engrained ways of working that – even if they wanted to – it would take serious and committed effort to drive any real change, let alone 'disrupt' their existing models and strategies.

That is why, when we first established LIME, we knew we had to start from a blank piece of paper. We wanted to strip away all of the preconceived notions about how life insurers are supposed to act and how life insurance is supposed to be sold. Simply put, we wanted to completely reimagine the insurance life-cycle.

But rather than focusing on improving the status quo for insurers, we looked at the process from the customer perspective. What do customers really want? What type of experience are they looking for? What drives value for them? And how can we use technology to utterly redesign the system to meet these changing demands.

It took us almost three years of continuous development, testing and refinement. But, today, our platform is essentially a full end-to-end life insurance process 'in a box' that represents an entirely new model for insurers. It is more automated, more controlled, faster, more efficient and more scalable. And consumers love it; what used to take months now takes minutes and – since we gamified the front-end application process – it's also rather fun.

Many see us as an upstart; a potential disruptor to the sector. And that is somewhat true. But it's not LIME that you will be competing against. Instead, it will most likely be your traditional competitors using a LIME platform.

We're already working with some of the world's leading traditional insurance organizations to turn our platform into a new channel and source of innovation. Requiring only light integration into existing systems and technology, our platform can be bolted on to even the most unwieldy of legacy systems.

We're also working with large financial institutions eager to set up a life insurance business but who lack the skills, funding and resources to manage it. Our system can be 'stood up' in a new market in a matter of months and at a fraction of the cost of developing a full-scale traditional end-to-end insurance process.

The bottom line is that, rather than being the disruptors ourselves, we partner with other insurers and financial institutions to help them become disruptors. And, in doing so, we are helping the insurance sector innovate, evolve and – ultimately – become more customer centric.

www.lifeinsurancemadeeasy.com/au

Giving customers what they want

By **Matthew Gledhill**, CEO of Beagle Street

At Beagle Street, we don't just want to disrupt the life insurance industry, we want to utterly transform it. The fact is that today's traditional life insurance process is fat, poorly-aligned to customer needs and overly-complicated.

So we put our entire focus into giving today's consumers what they want by delivering simple, affordable and more accessible life insurance. Our strategy is clearly working; we've only been around since 2012 and we already have more than 8 percent of the UK life insurance market; *The Times* named us #1 for Life Insurance in the UK. And – more importantly – our customer reviews say we are 'excellent', awarding us a 9.3 out of 10 for customer service.

How did we become so successful so quickly? Simple: by focusing on the customer. And delivering on what customers want – simplicity, accessibility and value. That's why our products can be bought online within 10 minutes, usually at prices 30 percent lower than traditional players, and with a basket of value-added services included free-of-charge.

Our customers rave about us because – unlike other insurers – we make an emotional connection with our policy holders rather than a rational connection. Ultimately, we know that buying life insurance is an act of love, not an act of fear. And so we design our products and our value-added services to reflect that altruistic motive.

For example, we offer free will writing services and family counselling services to our policy holders and their families. We email policy holders' benefactors to make sure they have the right cover details, just in case something should happen. We even conduct regular searches on official death registries to ensure that loved ones receive their pay-outs even if they haven't got the right details to submit a claim.

In part, our success is the result of our people's deep commitment to the customer. In fact, when we receive a serious complaint from a policy holder, we often bring them (first class) to our offices to sit down with the individuals who design and manage those products so that can we learn – first hand – how to improve and redesign that product to better meet customer needs in the future.

The larger part of our success, however, comes down to our single-minded focus on innovation. We recognized early on that major change was coming in the way life insurance was being distributed and so we focused our attention onto innovating at the distribution level and investing heavily into improving the way that life insurance is sold.

Obviously, our goal isn't to amass the largest profits. Our goal is to provide the best service and the best proposition to the customer. And our experience shows that – if you get that right – profits will quickly follow.

www.beaglestreet.com

The appetite to innovate

With the forces of innovation and disruption all around, many more forward looking insurers and intermediaries are hoping to shift their innovation engine into a higher gear. Those with ring-fenced budgets and innovation frameworks suggest that a new era of change is already upon us.

If one were to assume that organizations with innovation budgets and well-articulated enterprise-wide strategies for innovation represent the 'leading edge' of insurance innovation, then the signs suggest that more advanced organizations are already preparing for the innovation-driven competitive battle that is to come. Of our respondents, those with a formalized innovation strategy were more than twice as likely to say that their primary focus was in developing new propositions to appeal to new customer needs and segments, versus improving their operational processes.

In addition, our survey suggests that those already investing in innovation will further step up their efforts. In fact, 93 percent of those who already have budgets for innovation say they expect to see these increasing over the next 2 years versus just 7 percent who expect their budgets to decrease. Our data shows that larger organizations have greater expectations for budget increases than their smaller competitors.

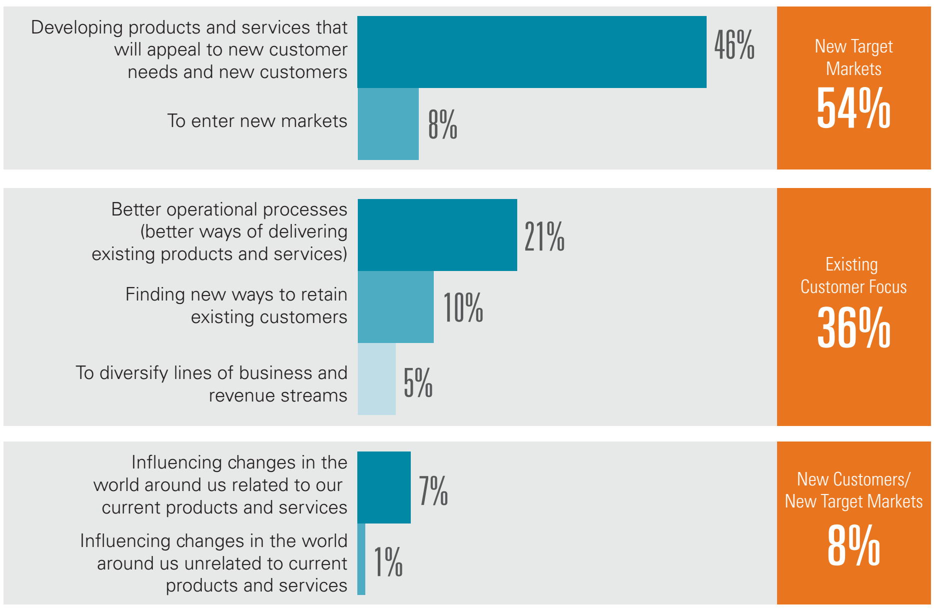
Respondents from Australia seem somewhat less optimistic. Scale may be part of the challenge. As Eric Wang, Director AMP Portfolio Office at AMP, an Australian-based financial services and insurance organization notes, "Our market size in Australia makes innovation challenging because it's often difficult to get the type of concentration of customers you would need to justify major investments into new products and services. More often than not, I suspect Australian organizations will try to leverage something that has already been developed overseas."

> Once things like cognitive computing become more mainstream, I think we'll start to see some pretty radical new approaches to managing the in-force book of business."

Susan Holliday, Swiss Re

What is the primary focus of your innovation strategy?

Among insurers who have a formalized innovation strategy N=129



Source: KPMG International 2015

However, some would argue insurers and intermediaries may be better served at this stage in their evolution applying innovation to back-office processes than developing new products and distribution channels. According to Susan Holliday, Head of Reinsurance Strategy at Swiss Re, "Everyone loves new channels and distribution options and offering customers the option to purchase products on the web or through an app is fantastic. But in my view, the industry hasn't really addressed many of the back-office challenges that come with having a huge amount of in-force business. Once things like cognitive computing become more mainstream, I think we'll start to see some pretty radical new approaches to managing the in-force book of business."

Mid-sized respondents were significantly more focused on developing new products than both their smaller and larger peers. Given that these organizations may enjoy the scale to invest in new developments while remaining more nimble, this suggests that mid-sized firms may have an opportunity to disrupt their larger and smaller competitors.

KPMG Insights:

- Those with an early lead in innovation are fighting hard to sustain their trajectory. Those yet to start may be left behind as the pace of innovation accelerates.
- Future competition will be less about 'the large defeating the small' and more about 'the fast defeating the slow', creating a once-in-a-lifetime chance for more agile players to gain momentum, and for traditional players to reinvent themselves.
- A dedicated budget for innovation – or, at least, liberating innovation projects from short-term profit objectives – and an over-arching innovation strategy are key foundations for driving innovation-led growth.
- Investment will need to increase over the short to medium-term. As with most transformational projects, you need to spend money to make money.

Actions:

- Develop a formal strategy for innovation that includes clear governance, goals and objectives.
- Ensure that budgets, whether managed at the business unit or the Group level, have a long enough runway to allow longer-term ideas to evolve.
- Encourage a 'fail often, fail fast, learn safely' culture with appropriate incentives and metrics across all key roles.

The impact of regulation

Not surprisingly, insurance organizations believe that regulation will create the greatest barriers to innovation over the next 2 years.

Our interviews suggest that this is partly because – given the antics that led to the most recent global financial crisis – regulators may take a dim view of 'innovation'. "From a regulatory perspective, it's not always necessarily seen as a positive to invest into more innovative solutions, innovative products or innovative ways to distribute products," noted Martin Mueller of Swiss Re.

Others feel that overly arduous regulatory requirements are narrowing the room for innovation in the sector and may lead to unintended consequences. "In most markets, the very onerous and detailed nature of regulatory requirements often puts a brake on innovation and that can force disruptors to operate outside of the regulated industry," worries Susan Holliday of Swiss Re. "That being said, regulation is always behind innovation, so I have no doubt that the regulators will eventually catch up."

At the same time, our survey data suggests that many feel that increasing regulation and compliance requirements will soak up all of their available attention and capacity, leaving little to allocate to innovation.

While many see regulation as a challenge, some consider it has somewhat protected insurers from disruption. "There are components of issuing insurance that deal with regulation, that deal with compliance, product design, actuarial assumptions, underwriting and so on that are core capabilities that exist within the insurance industry," noted Tim Rozar of RGAx, a subsidiary of RGA. "It's not like a new startup can just jump into the insurance industry and completely ignore compliance or regulation and risk requirements."

Missing the mark

While many insurers recognize the new world of opportunity that innovation brings, many seem reluctant to be first out of the door. This is not entirely surprising; most organizations responding to our survey reported that they lack the hallmarks of an innovative organization such as dedicated budgets for innovation, formal strategies, executive-level support and performance metrics.

"To us, this is a matter of survival and success; those that are fastest to adapt to these trends will have the competitive edge."

Antonio Huertas, MAPFRE

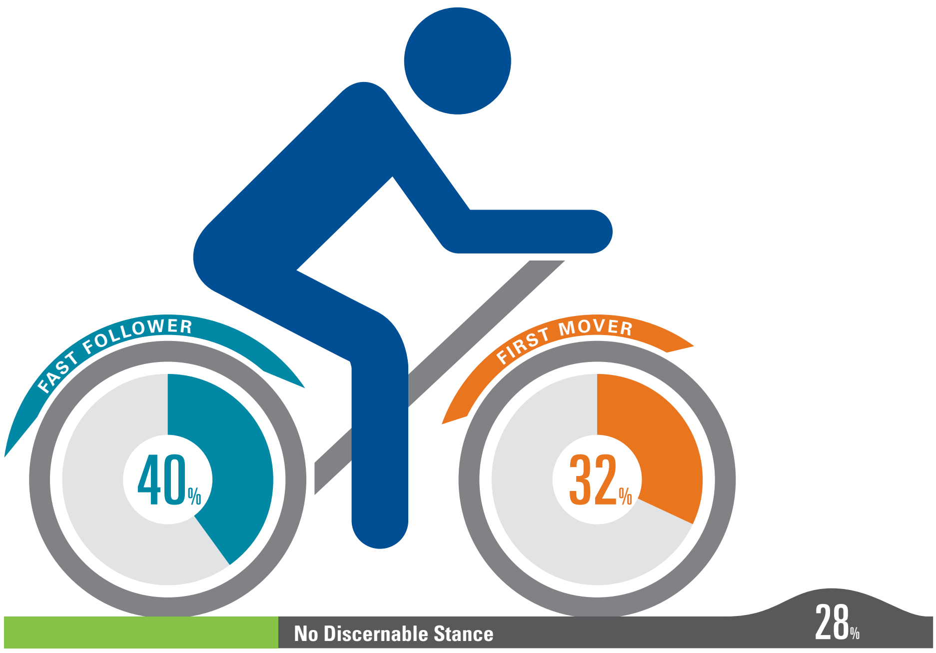
Given that most insurers and intermediaries recognize the link between innovation and growth – and that the majority of respondents seem increasingly concerned about the threat of new entrants and more innovative competitors – it is somewhat perplexing that few seem willing or interested in seizing the 'first mover advantage'.

In fact, just 32 percent of respondents said that they consider their organization to be a 'first mover' when it comes to innovation, while 40 percent seemed content to be 'fast followers'. More than a quarter of all respondents reported that they had no discernable philosophy.

"To us, this is a matter of survival and success; those that are fastest to adapt to these trends will have the competitive edge," noted Antonio Huertas, Chairman and CEO of MAPFRE, a fast growing, multi-national insurer headquartered in Spain. "New generations expect new products and new distribution channels so our challenge is to satisfy their expectations quickly."

However, our interviews suggest, some organizations are intentionally commercializing innovations at a more measured pace. According to David Akers, Transformation Director at AMP in Australia, "The sector has historically been held back by the objective of scale and commercializing new ideas in order to meet

First Mover vs. Fast Follower for innovation



Source: KPMG International 2015

internal profitability requirements or development deadlines. At AMP, we think it's more important to get the right depth of innovation, the right mindset across the business and, most importantly, the right focus on the customer than outright speed to market or rushing to scale."

Once again, mid-sized firms demonstrated a keener appetite for innovation; mid-sized firms were about 25 percent more likely than their smaller peers to categorize themselves as first movers. Respondents from Australia suggested they were more willing to claim first mover advantage than their peers in other regions.

According to our experience, interviews and research, few insurance organizations demonstrate the hallmarks of an innovative organization and, as such, few may currently be ready to sustain innovation over the long-term.

Consider, for example, that less than half of all respondents (47 percent) said they had an existing enterprise-wide innovation strategy and that only 39 percent said they have a budget for innovation.

Many respondents appear to struggle with executive support for innovation programs – a key ingredient for success – with fewer than a quarter saying they have a Chief Innovation Officer or other executive-level position dedicated to driving innovation.

Other signs of a sophisticated innovation strategy frequently seem absent. Less than a quarter of our respondents say they use Big Data and Data Analytics to help drive their innovation programs and decisions; one-in-five admits they have no formal way to measure their return on investment for innovation.

But the importance of innovation is understood at the top of the house – only 20 percent of respondents were unaware of how often their Boards discussed innovation.

> We think it's more important to get the right depth of innovation, the right mindset across the business and, most importantly, the right focus on the customer than outright speed to market or rushing to scale."

David Akers, AMP

KPMG Insights:

- Organizations need to make an informed decision on whether to be first-movers or fast-followers based on risk appetite, values and capabilities.
- Insurers without the right foundations for innovation – such as executive support, ear-marked investment dollars, formal strategies and new capabilities – will struggle to compete in an era of exponential change.
- Those operating in smaller markets or with constrained investment budgets may want to focus on improving their adoption of emerging technologies in order to quickly capitalize on change.
- While some insurers are experimenting with creating innovation 'hubs' or 'labs', our experience suggests that – while the approach can accelerate individual ideas – it won't help create a firm-wide culture of innovation on its own.
- There is a misconception that innovation requires 'blue sky' thinking and that great ideas will follow after creating the right environment for innovation. In reality innovation is a process, and providing tools and infrastructure is more likely to lead to success than simply providing 'white space' for people to occupy.

Actions:

- Assess your organization's capability to innovate faster and more consistently than your competitors. Be realistic about whether you should aspire to be a first-mover or a fast-follower.
- Focus on improving the foundations of a strong and sustainable innovation program, such as formal strategies, dedicated budgets, metrics and clear objectives.
- Continuously scan the horizon in order to be proactive in meeting new customer demands or potential competitive threats from FinTech or other disrupters outside the industry.

Facing common challenges

While most insurers know that they need to innovate, the vast majority face complex innovation dilemmas related to capability, capacity and cost. While many say they have already taken steps to drive greater innovation, our experience suggests that few are sufficiently bold.

"Many insurers know what they need to do in order to drive innovation, but recognize they lack the skills to achieve it."

Mary Trussell, KPMG International

With so much change already underway across the sector – not just from innovation but also from new regulations, new customer demands and new expectations – few insurers seem to have the time or bandwidth to take on new projects. In fact, 79 percent of respondents across the globe told us that they were already running at full tilt just keeping up with their core requirements.

Interestingly, larger organizations and Composite insurers both report facing fewer capacity challenges than their peers while P&C insurers more frequently report capacity constraints.

Talent challenges also seem to be holding back insurers from greater innovation. Lack of skills and capability was ranked by 74 percent of respondents as a top three barrier to innovation, particularly for smaller and mid-sized organizations and those based in Europe.

"Simply put, insurers know what they need to do in order to drive innovation, but recognize they lack the skills to achieve it," noted Mary Trussell.

Given that few respondents said their organizations had a dedicated innovation budget, it is perhaps not surprising that respondents across the board cited a lack of investment and rising cost pressures as key barriers to innovation.

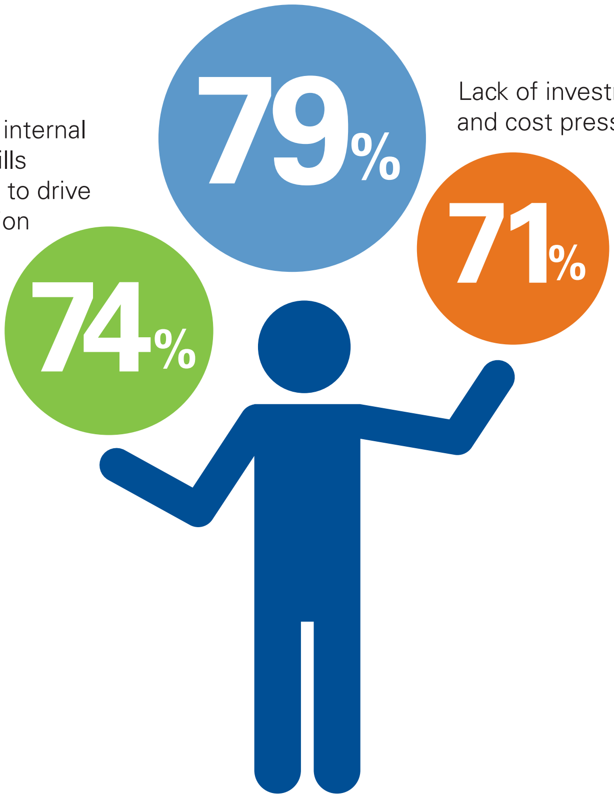
In response, insurers seem to have tried a wide variety of strategies and initiatives to help improve innovation across the enterprise. Many have focused on up-skilling or training their organizations to be more innovative; 51 percent said they have taken on cultural change programs to foster innovation while 36 percent say they have introduced training programs focused on idea generation and innovation skills.

"Over the past few years, we've dedicated new resources and new investment into innovation but we've deliberately decided against running new cultural change programs preferring instead to follow a more 'fact-based' approach to communication and employee engagement around innovation," noted Dr. Thomas Blunck with Munich Re.

Some have focused on widening their innovation ecosystem. Forty-three percent say they have engaged in partnerships with academics, FinTech organizations and other third parties to drive innovation; 34 percent have hired an outside firm or outsourced their innovation function. Others have changed their business models and organizational structures to drive change, including creating 100 percent dedicated innovation teams.

However, our experience suggests that while all of these steps are valid initiatives few organizations are bold enough in their vision or their execution to truly drive change.

What are your organization's three greatest internal innovation challenges?



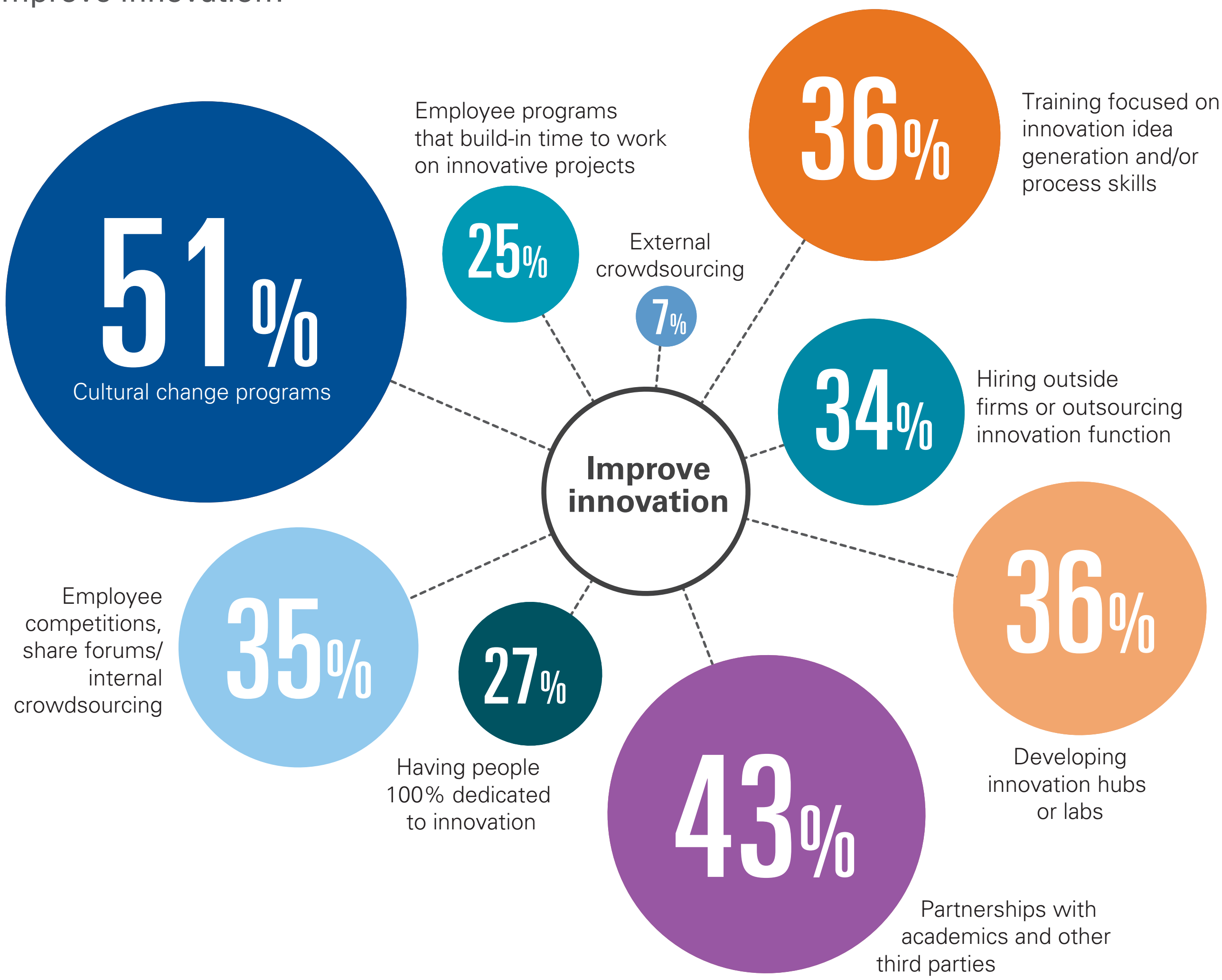
Source: KPMG International 2015

> We've deliberately decided against running new cultural change programs preferring instead to follow a more 'fact-based' approach to communication and employee engagement around innovation"

Dr. Thomas Blunck, Munich Re

"My group is not an R&D lab, it's a catalyst organization. We don't get funding to do experiments and pilots but instead are focused on working with business units on specific business challenges where we can apply our tools and methodology to their diversity in order to come up with creative ideas that deliver value to the customer," added John Geyer, Senior Vice President of MetLife's Innovation Program.

Over the past five years, which of the following initiatives has your organization undertaken to improve innovation?



Source: KPMG International 2015

KPMG Insights:

- Insurers and intermediaries need to focus on ensuring the right mix of capabilities, capacity and capital to drive innovation over the long-term. This will involve finding new ways to improve agility and innovation despite legacy systems and data management processes.
- Partnerships will be key to future success but need the right structures, models and infrastructure in order to create value.
- Simply conducting cultural change programs may not lead you to your desired results – programs need to be ongoing and outcomes built into the fabric of the organization, rather than a 'flavor of the day', soon to be forgotten.
- Promoting diversity of thought is one key to unlock innovation.

Actions:

- Conduct a thorough assessment of your available infrastructure, talent and capabilities to maximize the resources at your disposal.
- Consider how you might adapt your IT architecture and employee incentive programs to improve both hard and soft capabilities.
- Explore a wide array of potential partners and partnership models to maximize investment in innovation while improving access to new ideas and talent.
- Legacy issues cannot be solved simply by outsourcing innovation to younger, tech savvy generations. Include them in the innovation process but, like any cultural change, innovation needs to be led from the top.
- Progressively digitize major processes and explore new business models that those technologies can enable.

A world of innovation

To learn more about what 'innovation' means to mature insurers and intermediaries, we explore the approaches at three organizations.

MAPFRE evolves its innovation culture through partners and processes

Long known for product and service innovation, global insurance company MAPFRE continues to adapt its culture of creativity to today's challenges, including regulation and disruptive new entrants.

"With 'Innovation for leadership' being a core value at MAPFRE, we have always focused on serving customers in a different and better way," remarks Antonio Huertas, Chairman and CEO of MAPFRE Group.

For example, MAPFRE was the pioneer in Spain in developing an insurance model based on customer service and have routinely launched products for new needs, such as pet insurance that covers both animal health and owners' civil liability, or new channels such as vending machines and department stores.

While MAPFRE's past innovation was often 'spontaneous', Huertas notes that, "With today's strict supervision frameworks, we must devise processes to incentivize, develop and control our efforts, to keep progress going in an orderly manner, without jeopardizing our creativity, fluidity or flexibility. The reinforcement of innovation in the design and launch of new products and services and the dissemination of best practices was one of the key pillars of our new organizational structure which took effect at the start of 2014."

The company follows a hybrid innovation strategy, with core insurance services provided by MAPFRE, to protect client relationships, while next generation services often emerge through collaboration with smaller external companies and distributors.

This balanced approach has enabled MAPFRE to build a direct insurance brand, Verti, to compete with digital rivals and increase client choice, without impacting its core brand, customers and intermediaries. Today, Verti is top ranked in online motor insurance sales in Spain, providing MAPFRE with synergies and greater efficiency.

Partnerships have also helped MAPFRE succeed among Brazil's emerging middle class, by launching insurance sales through vending machines and department stores in conjunction with a major bank and local retailers.

Innovation also comes from trusted relationships with suppliers and network partners, from tow-truck drivers to doctors. MAPFRE offers their partners tools and technology to serve their customers better, and in return they share ideas that spark innovation, such as Spiga, a software application to manage small vehicle dealers that MAPFRE is now rolling out worldwide.

"We have always known that our future lies in service," observes Huertas. "It is more difficult to do things creatively now that we are larger and regulation is biting deeper, but we can't stop the tide and there is plenty of innovation to be unlocked if we leverage new sources of inspiration and follow our innovation processes notwithstanding our growing scale and complexity."

IAG partners in open source innovation to tackle global disasters

In 2011, Australia experienced an unprecedented number of natural hazard events (floods, cyclones, hailstorms, and bushfires) with total losses of around $A12bn. "So we decided to build a coalition of businesses which have a direct business exposure to natural hazard events and their impacts and share an interest in developing sustainable long-term solutions that can better protect lives and property", notes Leona Murphy, IAG's Chief Strategy Officer and Co-Chair of the Principles for Sustainable Insurance (PSI) Board.

Insurance Australia Group (IAG) initiated the formation of the Australian Business Roundtable for Disaster Resilience & Safer Communities in December 2012. The Roundtable is a seminal private-public coalition covering diverse industries: insurance (IAG); banking (Westpac); telecommunications (Optus); property development (Investa); reinsurance (Munich Re); and not-for-profit (Australian Red Cross). The Roundtable's vision is to work collaboratively with the Australian government to effect change in public policy and increase investment aimed at building safer and more resilient communities and; to actively improve the capacity of people and businesses to better withstand future natural disasters.

After the Roundtable's work garnered significant attention, IAG turned its efforts into global thinking and action, by sponsoring the Global Resilience Project (GRP) under the UNEP FI PSI in 2013.

The GRP is taking a phased approach to helping build more disaster resilient communities and economies. The

Phase I report 'Building Disaster Resilient Communities and Economies', which focuses on appropriate and cost-effective disaster risk reduction measures, was launched at a major PSI event in London in June 2014.

Like the Australian Business Roundtable, the GRP is focused on data and partnerships to help build understanding about natural disasters. The second phase of the project was a comprehensive digital, open-source Global Risk Map of natural hazards, developed in partnership with NICTA, Australia's Information Communications Technology Research Centre of Excellence. "The development process worked well because we set clear objectives and chose a complementary technology partner with a strong track record in software development and mapping capability," notes Ms Murphy.

By combining data on exposure, historical events, vulnerability, disaster risk reduction efforts and insurance penetration, the Global Risk Map will now help PSI members advocate for policy makers to invest in disaster risk reduction measures in the most vulnerable countries – and help them identify markets where the case to provide insurance and risk management services is compelling.

"Insurers have an important role to play, as part of the solution across the whole risk management curve, beyond paying claims," concludes Ms Murphy. "We bring a lot to the table – in terms of understanding risk, risk transfer and developing affordable, accessible and scalable insurance solutions that help manage risk. But we can't do it alone. True systemic change requires us all to be pulling in the same direction and to do that we need to work with the best partners."

Applying science to AIG's DNA to sharpen customer focus

US-based AIG has an innovative spirit embedded in its DNA, as demonstrated by the multinational insurance company's entrepreneurial energy in each of the 100 countries where it operates, and recent projects to transform systems and launch new products.

While AIG's leaders exhibit an openness to change – both to improve today's customer experience and to revolutionize their business for tomorrow – they face the same headwinds as any global organization trying to coordinate multiple programs and focus innovation across business lines and borders.

"In the past five years, we've seen historical change by individual groups at AIG in products, claims, underwriting, finance systems and more. I think now we want to concentrate that innovation as close to the customer as possible," says Ashley Hirst, AIG's Head of Science, EMEA and Americas. "We're asking, 'What innovation will the customer value most?' This requires a different decision-making process from the reflexive way of thinking in which we all sometimes innovate within our own domains."

The company appointed a Chief Science Officer (CSO), reporting to the CEO, to help AIG become a leader at evidence-driven decision-making. The CSO's team mines and analyzes data to help executives make strategic decisions, by employing advanced visualization, predictive analytics and machine learning.

This team is also immersed in research partnerships with academia and Silicon Valley to test new technologies and business models that could be adopted by AIG. Hirst explains that, "We're learning how best to partner with academic institutions – to align interests, timelines and objectives – and how to work constructively with small, agile startups, to make win-win relationships. Either we become really good at working with these guys or the world will pass us by."

"Our industry is coming under substantial disruptive pressure, but there's a real opportunity for a global company like ours to source new ideas and best practices," sums up Hirst. "At the heart of it, innovation is driven by people, and, if we have a group of people who are focused on a really meaningful goal we can be disruptive too, and unlock entirely new ways of doing things."

[1] http://www.disaster-report.com/2013/02/natural-disasters-in-australia-2012.html

Forging ahead

KPMG subject matter experts from outside the insurance sector talk about innovation, the customer and cultural change – and reflect on what this means for the insurance industry.

Striking the right balance for innovation

Stephen Hill, KPMG's Global Head of Innovation

"A quick scan of Amazon's best-selling business books clearly illustrates that innovation is a hot topic for businesses across all sectors. But it's not a best-selling topic because everyone is good at it; it's a best-selling topic because everyone struggles with it. Everyone knows that something has changed, but few truly understand what to do about it.

In my opinion, innovation is about more than simply R&D. It's not good enough to just have an R&D department or an innovation hub. What today's organizations need is a fundamental change in the way they perceive innovation.

The reality is that – over the past 150 years or so – organizations have become masters of perfecting business efficiency, improving what I often call the 'production engine'. What they have spent very little time creating is the 'development engine' – the part of an organization that is structured to help create agility and drive change in the status quo. But for true innovation to occur, organizations need a careful balance of both.

This creates tension within the organization. The production engine likes consistency, adherence to rules, efficiency, reliability and speed. The development engine, however, prizes experimentation, disruption and the ability to fail quickly. The development engine wants to destroy the status quo and the production engine wants to protect it.

Obviously, striking the right balance between production engine and development engine will be a bespoke decision for each organization. Key issues such as appetite for change, cultural acceptance of change, risk appetite, regulatory requirements and external environment will all influence the pivot point for each organization.

I'd call out the following as core ingredients to foster innovation:

- Management must have an appreciation of the need for change. Boards and executive teams need to recognize that their organization's future growth depends on their ability to decisively respond to these shifts.
- Leadership and appropriate corporate governance: a more innovative culture requires an evolution of corporate governance that focuses on embedding the right capabilities to drive change and agility rather than laying out static fences around responsibility for innovation.
- Ensure you have a clear road map that articulates what levers can be pulled, what governance models are required and what investments are needed to bind together the development and the production engine into a single, well-oiled innovation machine.

If insurance industry executives want to continue being leaders in their segments and markets they will need to quickly start exploring these themes and then start acting on them vigorously and decisively."

Put the customer at the center

Julio Hernandez, KPMG's Global Head of Customer Centre of Excellence

"Many understand that – for innovation to lead to top-line growth – insurers will need to ensure that their customers sit at the center of their innovation strategy. But what does that really mean? And how can it be achieved?

First, insurers need to understand what it is that customers want. In part, this is about listening to feedback from current customers, following social media and scanning the competitive environment. It's also about listening to what your customers are telling you about other people and what prospective customers are looking for.

At the same time, insurers need to avoid looking only to their current customers and competitors for leading practices and potential disruptors. The fact is people transfer their expectations from one experience to another, regardless of industry.

If your airline can tell you exactly where your bag is throughout a series of overseas transfers, it stands to reason that your insurance company should be able to tell you where your claim is if your house has been flooded. And if you can communicate with your bank over Facebook, you will also likely expect to be able to talk to an insurer through the same channel.

But let me be clear: just because customers demand something doesn't mean they should always get it. In all cases, organizations need to start by deciding whether or not they are capable of delivering what the customer wants in an effective, safe, reliable way – it needs to make economic sense. And they need to decide if delivering on the customer expectation makes sense in their specific context.

In many cases, insurers may also want to consider whether a particular innovation is right for all their customers. An insurer may, for example, decide that claims from customers with lower risk ratings follow an automated claims handling process whereas a notification from a high-risk customer with multiple prior claims should follow a more involved, high touch, process. Once again, however, this will require insurers to truly understand their customers and their behaviors to properly segment what level of service each customer commands.

Insurers can be more customer-centric and should be doing more to involve their customers throughout their innovation cycle – from ideation through to development and commercialization – to ensure that they constantly focus on aligning their investment in innovation with customer expectations. At the end of the day, that's a good way to top-line growth."

Creating an innovative culture

Mark Spears, KPMG's Global Head of People and Change

"The challenge of creating a culture of innovation is not unique to the insurance sector – but it's certainly more pronounced.

Indeed, experience suggests that most organizations are perfectly structured to kill innovation through burdensome review processes, irrelevant quality controls, overly-restrictive compliance requirements and policies and procedures for every possible eventuality. There is very little about organizational structures that encourage people to think outside of the box. Innovation does not come from increased R&D budgets, in fact research has consistently shown that there is no statistically significant relationship between financial performance and innovation.* The most successful corporate innovation strategies are the ones that predominately focus on people and culture.

Our experience suggests that innovative cultures tend to emerge when individuals feel a sense of ownership and control over the innovation process - when people feel that change is happening 'to' them they tend to resist. But when hearts and minds are engaged and they are helping to 'make change happen', new ideas and opportunities often emerge.

This, however, must be led by the right tone from the top. The way executives and group leadership are incentivized often doesn't include metrics for innovation or cultural change; more often they are rewarded for risk reduction and control.

I believe that insurance organizations need to reconsider their broader talent strategy and culture – from the top of the organization to the bottom – in order to drive real culture change and encourage innovation.

Consider:

- Identifying and developing individuals within your current talent pool with the reputation for shaping new ideas, simplifying processes, helping drive change and looking to the future.
- When hiring be clear on the new skills and capabilities required and create a more diverse workforce that reflects the culture you hope to achieve
- Focusing on encouraging different ways of working, through reward, the culture of the organization, its talent strategy, and through performance management –that's a lot to balance and optimize.
- Accept the need to experiment and make it core to your culture. Understand there is a risk of failure but view honest failure as a learning experience.

*The Global Innovation 1000: How top investors keep winning. Booz and company, 2010

Encourage change through cultural transformation

Most insurance players recognize that employees represent their greatest potential source of new ideas. Many have tried to transform their culture to encourage greater innovation. But our experience and our interviews suggest that culture remains a key sticking point for the insurance industry to overcome.

With half of our respondents saying that the greatest number of new ideas are currently being generated by diverse working groups of cross-functional teams, it seems clear that insurers can drive enhanced innovation by creating a more collaborative culture.

"If we can find a way to get all 70,000 employees across MetLife's 50 geographical markets to collaborate together and start solving common problems, we can seize the competitive advantage for another 150 years," noted MetLife's John Geyer.

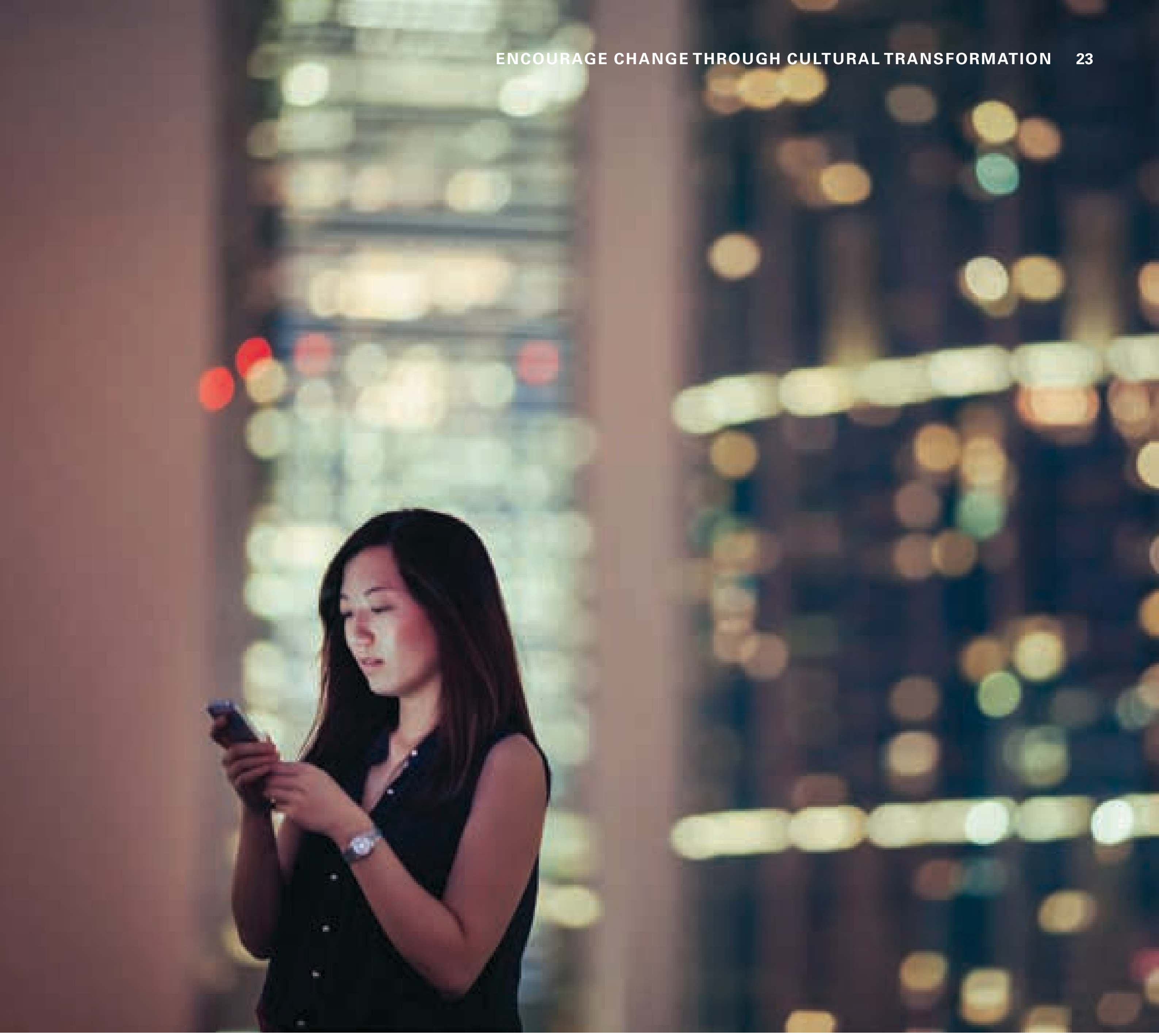
> If we can find a way to get all 70,000 employees across MetLife's 50 geographical markets to collaborate together and start solving common problems, we can seize the competitive advantage for another 150 years."
>
> **John Geyer**, MetLife

Insurers certainly seem focused on transforming their culture away from risk-averse, conservative and silo-ed ways of working towards a culture where experimentation is encouraged and new ideas and skills are thoughtfully deployed. Sixty-one percent claim they actively encourage employees to experiment. "One of MAPFRE's core values is 'Innovation for leadership', recognizing that our innovation must have a purpose and – for us – it is to be different and better than our competitors," added MAPFRE's Antonio Huertas.

While some are focused on creating a more innovative culture, others are creating a more 'customer-centric' culture that, indirectly, will drive innovation. "I would argue that the biggest culture change isn't around innovation in itself, but rather around the customer experience, and I'm not convinced that P&C insurers – or any insurers for that matter – are all that good at focusing on the customer compared to other industries," noted Henri Dolino, VP of Marketing and Corporate Strategy at Desjardins General Insurance Group, part of Desjardins, the largest integrated cooperative financial group in Canada. "It's all about listening to the voice of the customer, understanding the changes and shifts in expectations, and then using innovative approaches to answer those demands. Innovation isn't a strategy on its own, it's a means to an end."

> Innovation isn't a strategy on its own, it's a means to an end."
>
> **Henri Dolino**, Desjardins

Yet half of our respondents also tell us that their inability to break down internal silos is creating significant challenges to innovation. Not surprisingly, smaller organizations seem to face fewer challenges relating to internal silos, likely reflecting their less complex structures and greater opportunities for collaboration.



KPMG Insights:

- Incentivizing employees and creating structures that prioritize the success of customers – not products – will help drive cultural change and new ways of thinking.
- Systems, tools and technologies can be harnessed to help monitor the value of each customer interaction to the overall customer experience and help define the objectives of cultural change.
- Breaking down internal silos is a key success factor to create a more agile, collaborative and flexible organization.

Actions:

- Identify pockets of innovation and effective models already working within your organization to replicate.
- Review your broader talent strategy and culture. Focus on developing a diverse group of talented people in-house, identifying individuals with reputations for shaping new ideas, simplifying processes, helping drive change and looking to the future.
- Consider employee reward and performance management and consider whether metrics and targets encourage innovation and experimentation.

Be willing to disrupt existing business models

Doing more of the same, only faster, is not a recipe for long-term growth. Forward-thinking insurance players recognize the need to innovate not only product and service development, but also how they approach innovation itself. Insurers and intermediaries need to be willing to try new models and partner with new stakeholders to compete aggressively in a competitive marketplace.

"As a reinsurer, RGA has the benefit of seeing the entire market and, as such, we are often able to bring new ideas to our clients that they may not have encountered before."

Tim Rozar, RGAx

Recognizing they may not have the skills or capacity they aspire to on their own, many insurers are starting to embrace new models of innovation. Almost seven-in-ten respondents say that they believe partnerships, not in-house efforts, will characterize the future of innovation for their organization. Fifty-nine percent of respondents say they already work with external advisors and consultants to drive innovation; 43 percent say they are already engaged in partnerships with academics and other third parties.

Not surprisingly, the top motivation for collaboration is the potential to access new talent and ideas. Almost a quarter of respondents hope that partnerships will help them improve their speed to market for new ideas. What is surprising, however, is that just 4 percent of respondents said they were entering into partnerships in order to either lower their cost of innovation or to reduce risk.

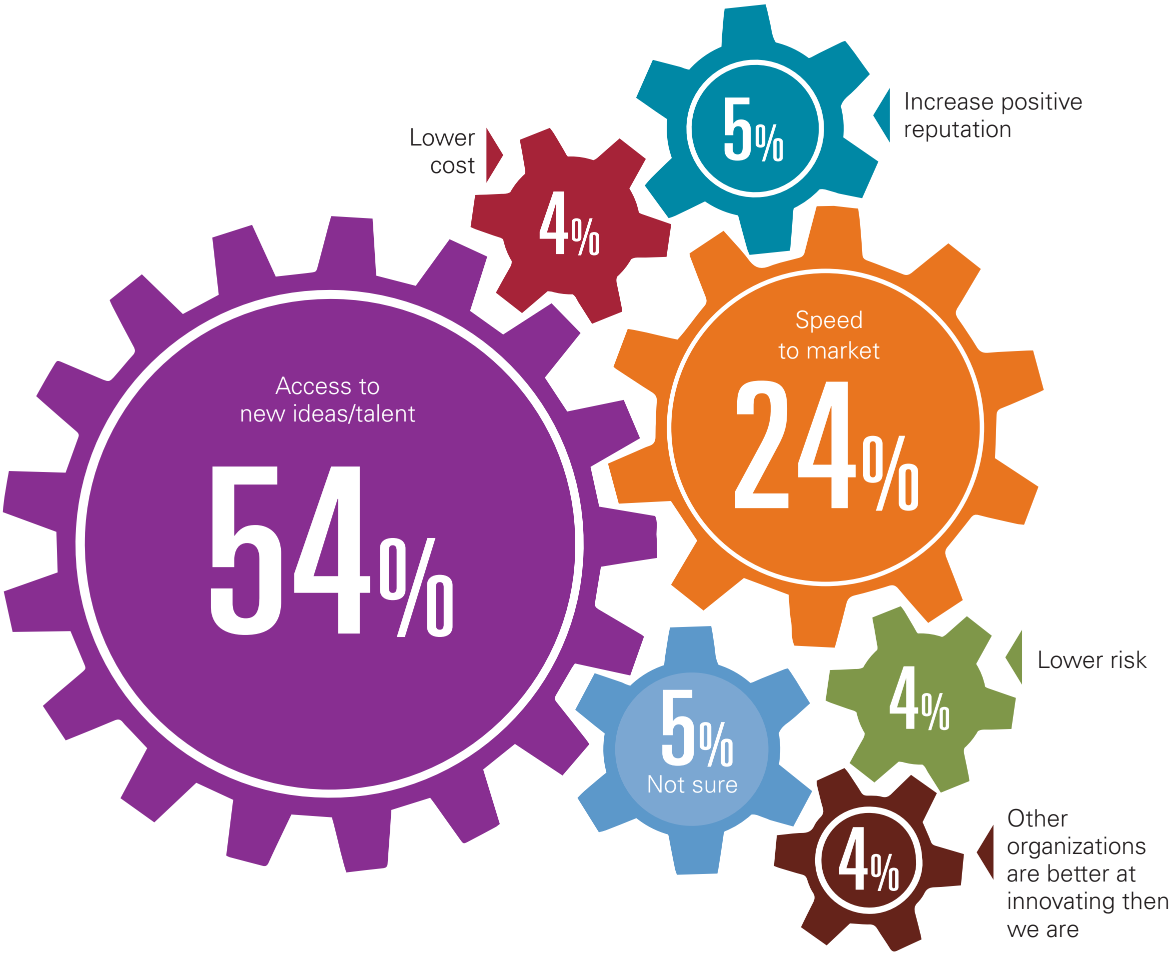
For reinsurers, innovation is highly focused on partnering with carriers. As Tim Rozar, CEO of RGAx, a subsidiary of global life reinsurer RGA, notes "To us, innovation is about bringing capabilities, knowledge, technology and services together to help our partners become more efficient and effective in the way they distribute, issue, underwrite and place risk on their books. As a reinsurer, RGA has the benefit of seeing the entire market and, as such, we are often able to bring new ideas to our clients that they may not have encountered before."

While many are looking externally for new ideas, others are taking a more proprietary approach. For example, more than a third (36 percent) said they had developed dedicated innovation 'hubs' or 'labs' over the past 5 years and more than a quarter (27 percent) say they have a team that is fully dedicated to driving innovation.

Some insurers have discarded this approach in favor of moving the responsibility for innovation into the wider organization. "Three years ago, we had a dedicated innovation group that focused on creating new models and products but we quickly realized that this approach meant that more than 90 percent of our employees were not really engaged in the innovation process. Today, innovation is driven by the various business units themselves and we share the stories of these 'heroes' across the organization to improve collaboration and drive engagement," noted Albert Spijkman, Chairman of Market Strategy Department at Achmea, a leading Dutch insurance organization.

Others have focused on reinventing and improving existing processes while creating new processes to support innovation. "Having processes to incentivize, develop and control innovation has become more relevant than ever," noted Antonio Huertas, Chairman and CEO of MAPFRE. "To deal with our greater complexity as we've grown, we've devised innovation processes to drive orderly progress, without jeopardizing creativity, fluidity or flexibility."

What is your primary motivation for partnering and collaboration?



Source: KPMG International 2015

KPMG Insights:

- Deriving value from partnerships requires thinking broadly about customers, stakeholders, distributors and suppliers – the whole ecosystem – and how partnerships deliver value to each party.
- While purpose-built hubs and labs may help catalyze innovation in the short-term, organizations need to find ways to integrate new ideas into their core business.

Actions:

- Engage with key stakeholders, suppliers and customers to explore opportunities to enhance innovation through partnerships and alliances.
- Continuously scan for potential new disruptors and catalysts of innovation and assess how you can either defend, absorb or partner to mitigate emerging risks and competitors.
- Create and support customer forums to build continuous innovation into your existing business and operating model.

Apply agile and dedicated leadership

Our experience and interviews suggest that strong, agile and dedicated executive leadership and accountability for innovation can be a defining factor for success.

> It's not about having the best game plan, it's about having a coach that knows which players to put in the field.
>
> **Stephen Hill,** Global Head of Innovation, KPMG International

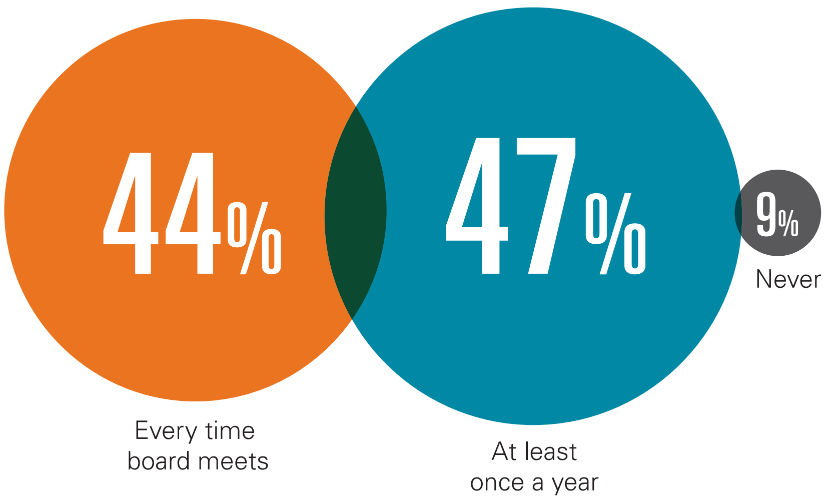
Innovation requires leadership, strong executive support and clear vision. Yet 40 percent of our respondents say that – rather than having clear governance over innovation – responsibility for innovation falls on the 'informal collective'. A further 31 percent believe that innovation is a more formal – yet still collective – responsibility. Only 11 percent say they have an executive team member (or group of members) responsible for innovation.

While 44 percent say that innovation is on the agenda every time their Board meets, more often it is an item that is discussed just once a year at Board level and 9 percent claim that it is never discussed.

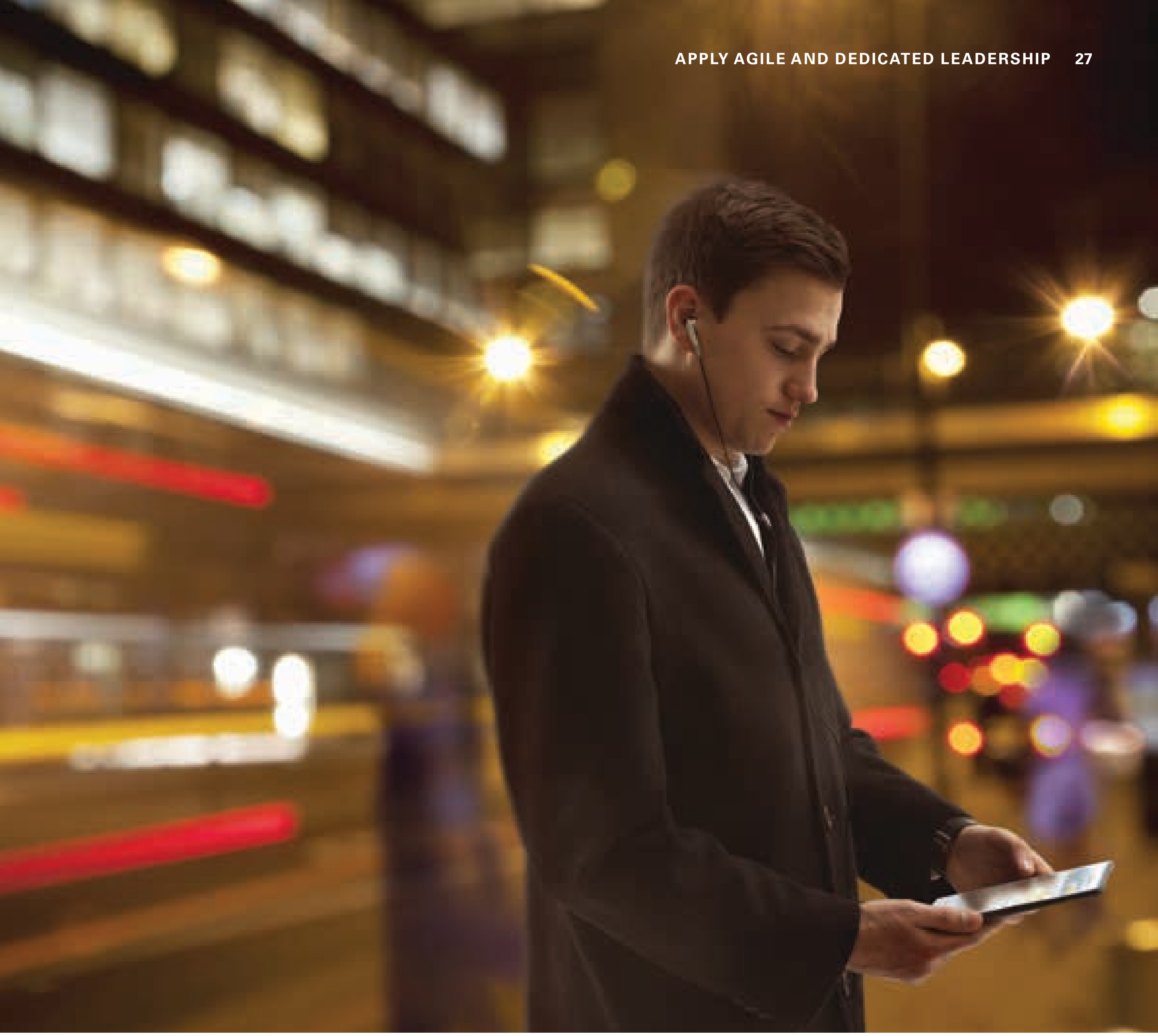
"There's no secret engine behind a door that creates innovative energy for an organization. That tone must come from the top," noted Stephen Hill, KPMG's Global Head of Innovation. "It's not about having the best game plan, it's about having a coach that knows which players to put in the field to execute on the game plan. That's how goals are scored."

Leadership training, development and incentivization will be key. "One of the common challenges to innovation by the insurance sector comes back to the way executives are incentivized. It's the people who don't rock the boat that get promoted in most organizations. Instead, organizations need to think about rewarding people for trying and experimenting as opposed to punishing them when they fail," added Gary Reader, Global Head of Insurance at KPMG International.

To the extent you are aware, how often does your board discuss innovation?



Source: KPMG International 2015



KPMG Insights:

- Assigning accountability to a specific board member or executive is not enough to drive transformational change. The board and the executive team must be engaged and active in driving the innovation agenda.
- Executive sponsors will need to balance the need for agility against the desire to maintain control in order to development a culture of innovation.

Actions:

- Make sure your executive team and the board understands the real impact of and imperative for innovation.
- Assign responsibility for innovation and support the role with appropriate resources, governance and a mandate to drive enterprise-wide programs and initiatives supported by the board.
- Focus innovation efforts on strategically relevant capabilities such as digitizing major processes
- Encourage all levels of the organization to participate in innovation challenges and contests; good ideas often come from employees at the front-line.

Understand why you are investing

As the old idiom goes, you can't manage what you can't measure. Yet less than half of our respondents say they have a formal innovation strategy to help guide their investment decisions and, as a result, most likely lack a clear set of objectives and metrics against which to measure their success.

> "For us, ROI also means that we acted in a way that improved customer service or enhanced loyalty within a customer segment."
>
> **Albert Spijkman**, Achmea

While most organizations report that they measure their return on innovation investments in some way or other, our experience suggests that few have the right alignment with business objectives to truly understand how their investments are driving growth.

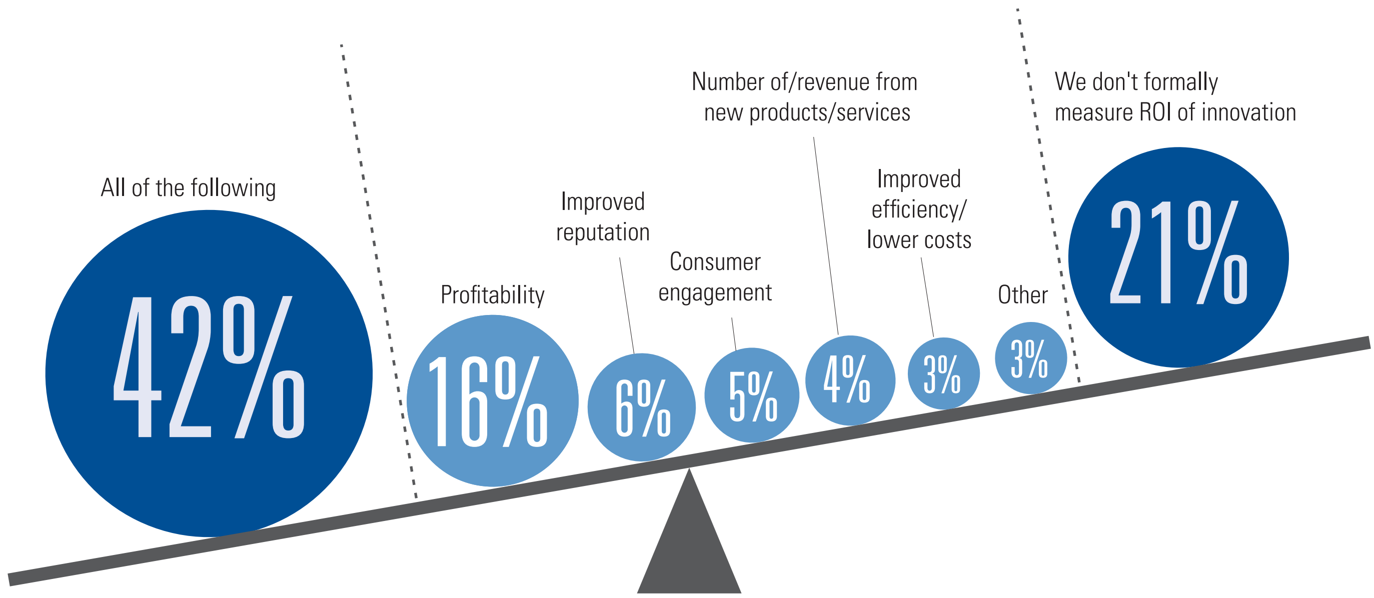
In our survey, more than one-in-five respondents admitted they had no formal way of measuring the value of their investment in innovation. When provided with a list of potential metrics, 42 percent simply ticked the 'all of the following' box, suggesting that there is a lack of clarity around how returns should actually be measured.

Those that did select a specific metric tended to gravitate towards financial benefits. Profitability was the top-ranked metric and revenue growth was ranked fourth. Others focused on more subjective metrics such as public reputation or consumer engagement (ranked as the second and third most common individual metrics). "ROI is not always about money and financial returns. For us, ROI also means that we acted in a way that improved customer service or enhanced loyalty within a customer segment. It's hard to predict what the ROI will be for certain initiatives such as improving social media contact or adopting WhatsApp in the call centers. We always need to be able to explain why we are doing the project, but we don't always have the ROI calculations up front in the business plan," added Mr. Spijkman from Achmea.

KPMG Insights:

- Innovation governance and metrics will become increasingly critical to insurers and intermediaries. The ability to measure and monitor innovation programs is key to understanding what actions deliver the best results which, in turn, should drive continuous improvement across the organization.
- While financial metrics are important, some innovations may take multiple budget cycles to commercialize. A balance must be struck between financial outcomes and long-term objectives.

How do you measure return on investment on innovation?



Source: KPMG International 2015

Actions:

- Convene a cross-functional team to help develop and articulate a robust and coherent innovation strategy throughout the organization.
- Ensure that innovation programs and initiatives are supported by clear, measurable and relevant objectives.
- Develop enterprise-wide innovation strategies that include clear roles, responsibilities, metrics and governance.

Learn from others

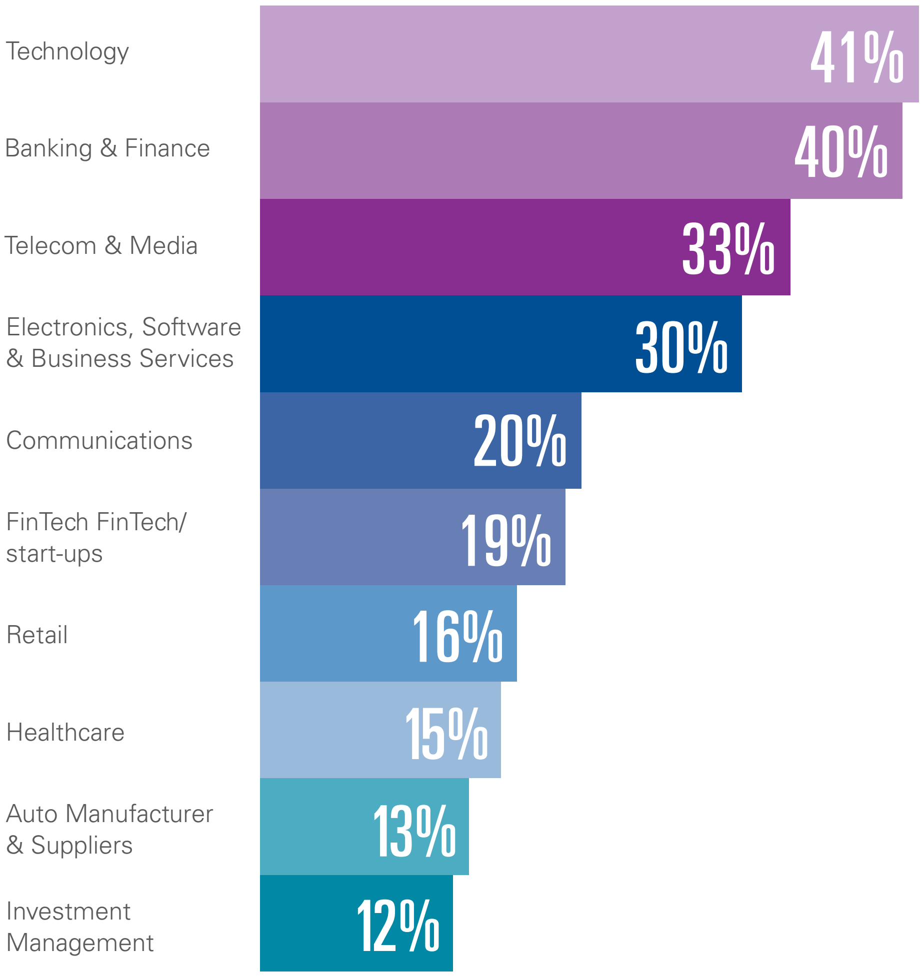
With so many self-confessed ‘fast followers’, insurers should be striving to learn not only from new entrants and early adopters, but also from those outside of the insurance sector.

> There are so many leading practices out there… that traditional insurers have not yet started to mine.”
>
> **Gian Paolo Meloncelli**, Generali

While two-fifths of respondents say they are fast followers and two-thirds say they already look to other industries for inspiration - only one-in-ten say that their greatest source of new ideas comes from this type of competitive intelligence.

Those looking at other industries tend to have a sharp eye on the Technology sector, not only as a potential source of leading practices, but also as a potential disruptor of the insurance value chain. Banking and Finance, Telecoms & Media and Electronics, Software & Business Services firms are also being watched closely as potential partners and future competitors.

Industries with leading practices



Note: Only showing top 10 selected industries (among total)

Source: KPMG International 2015

As our sector insights (see page 32–33) and our interviews illustrate, leading organizations can learn much from the successes and failures of other industries.

According to Gian Paolo Meloncelli, Head of Global Partnerships and Group Business Development at Generali, one of the largest global insurance providers, "There are so many leading practices out there that are already working for other industries or in other geographies that traditional insurers have not yet started to mine. At Generali, we are already pursuing disruptive initiatives and we strongly believe that we can be inspired by many industries, but we are most intrigued by those companies that have been able to create a unique relationship with their customer base through a simple way to interact with them."

KPMG Insights:

- Those that hope to 'break the mold' will want to look at less obvious sectors – such as retail or the airline sector – to find new sources of inspiration.
- We see insurers creating closer ties to technology companies and retailers, indeed thinking of themselves as technology companies and retailers, to share best practices and discuss innovation.
- Increasing 'co-operation' between mature players and potential disruptors will help to achieve bold innovation objectives.

Actions:

- Join or build consortiums bringing together a broad variety of players including those outside the insurance sector. In particular, join forums focused on creating standards for the use of new technologies.

"Those that are able to create the partnerships to develop the right products and services to meet future market demand will, ultimately, win the race."

Dieter Becker, Global Head of Automotive

The view from other industries

The technology sector

Gary Matuszak, Global Head of Technology, KPMG International

"While, clearly, the past two decades have brought massive technological change and value to businesses around the world, we believe that the next phase of technological advancement – driven by the growing adoption of the Internet of Things (IoT) – will make the past two decades seem like a 'warm-up'.

IoT is already having a massive impact on some insurers. Consider, for example, how telematics have transformed the auto insurance sector. Or the specialist segment of highly protected risks.

Our experience suggests that this is just the tip of the iceberg. As IoT becomes more mainstream, we expect to see massive opportunities unfold for the insurance sector. Wearable technologies will allow insurers unprecedented insight into the health of their policy holders. Home monitoring will provide home owners and their insurance providers with data – and control – over key risks in the house.

But IoT will also bring its own challenges. How will insurers partner with technology companies to drive competitive solutions? How will Big Data and unstructured data combine with existing legacy systems? Who will own the data?

In my view likely the greatest challenges facing insurers will relate to privacy, security and trust. Before they can take advantage of all the benefits IoT has to offer, insurers will first need to be very clear about what data they are collecting, how they are using it, and who ultimately owns it.

Getting the privacy and security right will be key to gaining the trust – and the loyalty – of customers and clients."

The retail sector

Mark Larson, Global Head of Retail, KPMG International

"While – 30 years ago – nobody would have suggested the retail sector was 'innovative', today's leading retailers have embraced innovation and are using it to drive significant competitive advantage. From my experience insurers could learn a lot from them.

One of the biggest transformations has been what retailers call the 'omni-channel' approach. This means providing a seamless experience for individual customers across multiple different 'touch points' – the storefront, the web store, the mobile app and the social experience (or, for insurers, the broker, the web portal, the customer service channels and the claims hot-line).

What retailers have quickly realized is that delivery of a true 'omni-channel' experience starts with a clear view of the customer and their unique needs, preferences and demands. The better the retailer knows their customer, the more individualized (and, hopefully, profitable) the offering can be and the better the experience for the consumer.

The good news is that developing a single view of the customer from mountains of siloed data is no longer all that difficult; the past few years have seen technology solutions that can be used to integrate data from across the organization and from outside sources – to help build a single, unified picture of the customer.

The bigger challenge comes in interpreting that data and turning those insights into tangible business decisions. That requires talent, strong leadership and a culture of innovation and collaboration – things that both retailers and insurers should continue to focus on for future success".

The automotive sector

Dieter Becker, Global Head of Automotive, KPMG International

"It's not surprising that car manufacturers are teaming up with insurers to drive innovation. As more and more safety systems are embedded into new vehicles, insurers are getting access to more detailed driver information which, in turn, should be helping them better understand and manage risk.

The real benefit for insurers will come from translating this data into a clearer understanding of each driver's behavior; essentially moving from a view of customers that is based on past actions, towards a more 'life-oriented' view that reflects individual patterns of behavior.

The challenge, however, is that insurers are rarely – if ever – driving innovation in the auto sector. It's the automotive manufacturers and tech companies driving this agenda (often, it must be noted, for reasons completely unrelated to safety and risk).

This has two immediate implications for not only auto insurance, but also the wider insurance market:

1) Start collaborating with new partners (not only automotive manufacturers, but also with tech firms and Telcos) if you hope to influence the agenda and participate in the benefits of new advances.

2) Develop a much clearer understanding of what risks customers will need to guard against in future. As cars become safer, for example, it seems intuitive that accidents and the cost of insuring them will decline. But as they become more automated and networked, customers may increasingly want to insure against a whole host of potential cyber risks.

In my view those that are able to create the partnerships to develop the right products and services to meet future market demand will, ultimately, win the race".

The US healthcare sector

Ash Shehata, Principal, KPMG in the US

"For better or worse, US-based health insurance providers have little choice but to innovate. The introduction of the Affordable Care Act (so-called 'Obamacare'), the creation of health insurance exchanges, the growing convergence between healthcare providers and health plans and the rising power of consumers to choose their providers based on quality ratings are all driving health insurance providers in the US to think very differently about how they deliver products and services in future.

Over the past two years, the number of acquisitions show insurers are serious about investing in technologies that help them prepare for a new business environment.

In some cases, these new technologies and capabilities are being embedded directly into their core business. In others, insurers are exploring how they might incubate and develop these technologies into services they can offer, either as a new revenue stream or as a stand-alone service organization.

Others are focused on building their own proprietary solutions and innovations using internal capabilities, advisors and services providers. Anyone who regularly attends the Consumer Electronics Show each year will have noticed that the number of insurance executives 'working the floor' has been growing exponentially over the past few years.

I believe that, given the market forces at play, the US health insurance sector will continue to see rapid innovation and fierce competition between players. As such, it should provide a wealth of new ideas, tools and leading practices for others around the world to watch and – possibly – emulate".

The innovation imperative: A world of opportunity

What should insurance leaders do?

Our research and discussions with established and start-up players suggests that – to make the most of this new world of opportunity – the insurance industry needs to pivot from a traditionally risk-averse culture to one that encourages experimentation while mitigating financial risk. To achieve this, insurers will need to tap into new sources of innovation, accessing fresh ideas from employees, customers, investors and partners which, in turn, will require progressive leadership at the top of the organization.

There are ten actions management can take to thrive.

1 Apply agile and dedicated leadership

Strong, agile and dedicated executive leadership and accountability for innovation is a defining factor for success – innovation must be on the leadership agenda. Leadership training, development and incentivization will be key.

2 Encourage change through cultural transformation

For many insurers cultivating innovation will require cultural change. Breaking down internal silos is a key success factor to create a more agile, collaborative and flexible organization. Incentivizing employees and creating structures that prioritize the success of customers – not products – will help drive cultural change and new ways of thinking.

3 Cultivate high-performing human talent

The people dimension is the most important part of making innovation happen – and there's a lot to balance and optimize. Identify and develop individuals within your current talent pool with the reputation for shaping new ideas, simplifying processes, driving change and looking to the future. When hiring be clear on the new skills and capabilities required and create a more diverse workforce that reflects the culture you hope to achieve. Focus on encouraging different ways of working, through reward, the culture of the organization and through performance management.

4 Understand why you are investing

Innovation requires discipline and governance, with portfolios risk and time balanced. Money flows and metrics matter – with teams rewarded for their input. Winning organizations budget for innovation and own it as a business.

5 Decide how your organization will thrive as the insurance industry transforms

Once the need to act is clearly understood, companies must decide what to do. This commonly involves updating competitive strategies and realigning models. A refreshed understanding of where your company stands versus competitors informs how it must compete and win in future.

"There is little doubt that technology will dramatically transform the insurance industry over the next 5 years. In this environment, continuing linearly with past technologies, processes and business models will likely prove to be the most risky strategy of all. Those who focus their innovation efforts on strategically relevant capabilities will prevail."

Tom Nodine, Principal, KPMG in the US

We believe the industry is at an inflexion point. Bold action is needed to seize opportunities and answer the innovation imperative.

Evolving customer needs – fueled and empowered by technology, individuals and insurance buyers – will continue to shift the demands customers make of their insurance providers. Those that are not quickly satisfied can simply change to a more nimble competitor who is willing and able to 'customize' and simplify their experience, and satisfy their needs. We have seen this in so many industries already, and insurance is not immune.

6

Learn from others

Disintermediation in the insurance industry means partnerships will be key to future success but need the right structures, models and infrastructure in order to create value. Large organizations need to learn to partner, and all organizations need to learn to partner effectively. Consider alliances with partners outside of insurance to accelerate customer benefits and expand the value chain.

7

Develop your own view of when and how advances in technology will impact your organization

The immensity of the current changes, together with pride in past success and lack of confidence about the ability to adapt have caused many insurers to resist change. This is a potentially fatal mistake. Avoid it and keep refreshing your views.

8

Leverage new technologies into your current business

While upgrading core technology infrastructure such as policy administration and claims systems to support new "customer centric" business models and address cyber-risks is important, doing so assuming the status quo is a missed opportunity to pivot to meet new challenges.

9

Mitigate risk by investing and experimenting

The best companies have discovered ways to link their investments to the expected frequency and severity of risks to ensure they are appropriately matching investment to risk. Experiment with new business models. Depending on your team's assessment of the viability of your current business model and the role of technology in your competitive strategy, you might also explore new business models and businesses as the profile of risk changes.

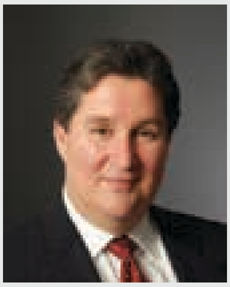
10

Be willing to disrupt existing business models

Decide what role your company will play in industry consolidation and change. Scale is no defence to 'bystanders' that find themselves out-competed by organizations that are able to innovate smarter. We believe the greatest returns will accrue to those organizations that are able to 'join the dots' and actively participate in the change, consolidation and disruption that is to come.

Contributing firms

KPMG International would like to thank the companies who participated to the development of this report. Their insights and willingness to share freely their views on innovation have been invaluable.



John Geyer
Senior Vice President of MetLife's Innovation Program

MetLife

MetLife is a global provider of life insurance, annuities, employee benefits and asset management. With operations in nearly 50 countries, MetLife serves approximately 100 million customers around the world.

www.metlife.com

Dr. Thomas Blunck
Member of the Board of Management

Munich Reinsurance Company

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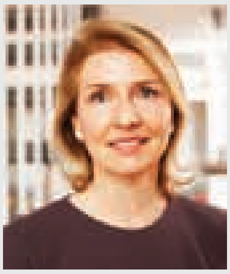
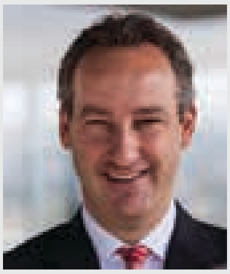


Susan Holliday
Head of Reinsurance Strategy



Martin Mueller
Head of Group Strategy and Development

Swiss Re

The Swiss Re Group is a leading wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Dealing direct and working through brokers, its global client base consists of insurance companies, mid-to-large-sized corporations and public sector clients.

www.swissre.com

Steven Mendel
CEO and Co-Founder

Bought By Many

Bought By Many is a free, members-only service that leverages social media to help consumers find insurance for niche and specialized risks. Founded in 2012 and based in Farringdon, London, Bought By Many's UK clients include RSA, John Lewis Insurance, and Petplan. Bought By Many was named FinTech Innovation of the Year in 2015, ahead of Transferwise and Zopa.

www.boughtbymany.com

Shaun Williams
CEO

LIME

'LIME' – an acronym for 'Life Insurance Made Easy' – is an all-Australian startup formed to break the current mold of how Life Insurance is sold in Australia, and in so doing, address the chronic underinsurance epidemic in that country. LIME has combined market-leading technology, telecommunication, and media experts, as well as leaders in online businesses to provide Life Insurance advice online.

www.lifeinsurancemadeeasy.com/au

Matthew Gledhill
CEO

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Eric Wang
Director AMP Portfolio Office

David Akers
Transformation Director

AMP

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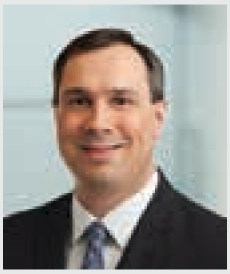
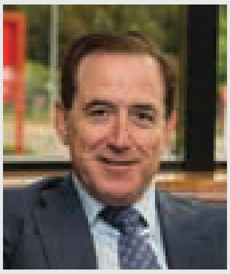


Tim Rozar
CEO of RGAx, a subsidiary of RGA

Reinsurance Group of America (RGA)

Reinsurance Group of America, Incorporated (NYSE: RGA) is among the largest global providers of life reinsurance. Worldwide, RGA has approximately US$2.9 trillion of life reinsurance in force and assets of US$39.5 billion.

www.rga.com



Antonio Huertas
Chairman and CEO

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www.mapfre.com

Leona Murphy
IAG's Chief Strategy Officer and Co-Chair of the Principles for Sustainable Insurance Board

Insurance Australia Group (IAG)

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Ashley Hirst
Head of Science, EMEA and Americas

AIG

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www.aig.com

Henri Dolino
Vice President of Marketing and Corporate Strategy

Desjardins

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Albert Spijkman
Chairman of Market Strategy

Achmea

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www.achmea.nl

Gian Paolo Meloncelli
Head of Global Partnerships and Group Business Development

Generali Group

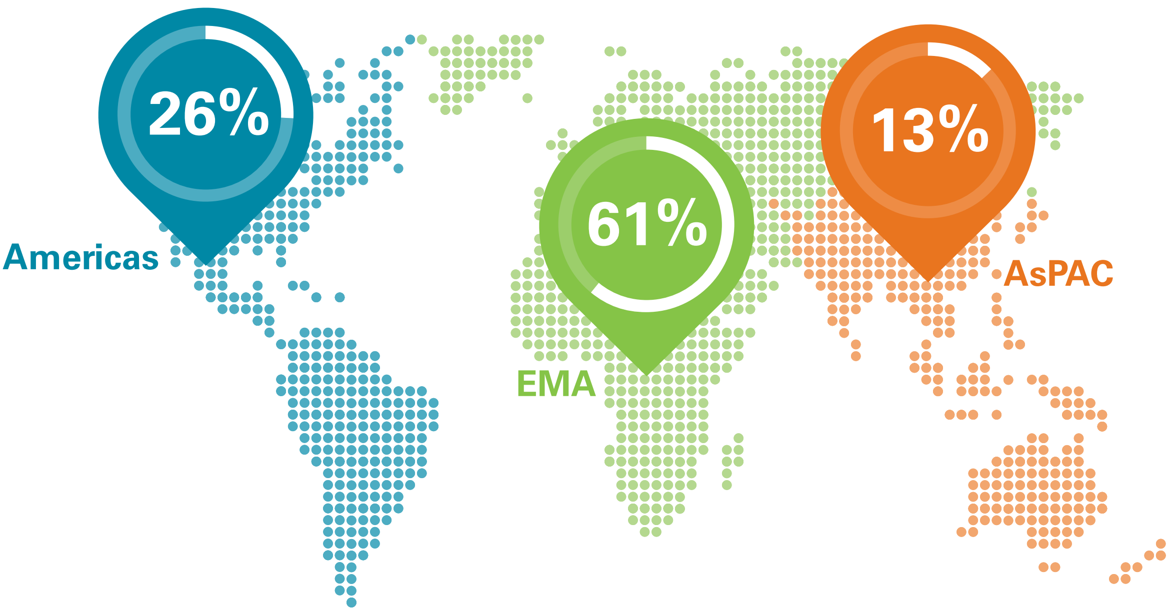
Over almost 200 years, Generali has become a multinational group present in more than 60 countries, with 470 companies and nearly 80,000 employees. It aims to become the standard bearer and industry leader in the European retail insurance market, building on its existing base of 50 million retail clients, out of an overall total of 72 million.

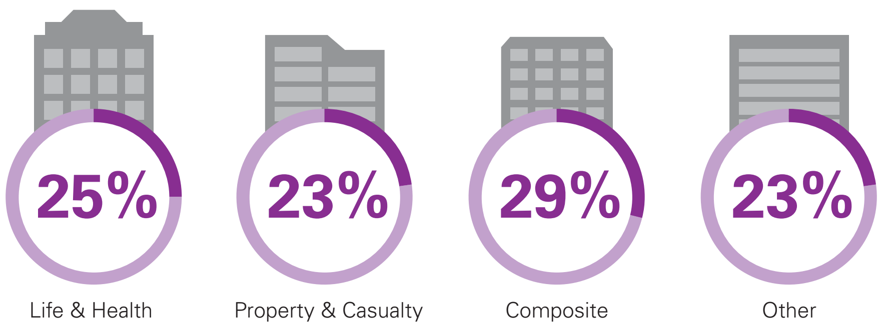
www.generali.com

About the survey

KPMG International surveyed **280** insurance executives across **20 countries** in April 2015.

Survey respondents





Source: KPMG International, 2015

KPMG contributors

In addition to the contributors featured in the report we would like to extend our thanks to the following KPMG contributors for their expertise and insight.

Navdeep Arora
Partner, Strategy
KPMG in the UK
E: navdeep.arora@kpmg.co.uk

Martin Blake
Partner and Chairman NSW
KPMG in Australia
E: mblake@kpmg.com.au

Jörg Günther
Partner
KPMG in Germany
E: joergguenther@kpmg.com

Laura Hay
Americas Coordinating Insurance Partner
KPMG in the US
E: ljhay@kpmg.com

Tom Nodine
Principal, Strategy
KPMG in the US
E: tnodine@kpmg.com

Marc Nourse
Partner, Strategy
KPMG in Singapore
E: marcnourse@kpmg.com.sg

Simon Phipps
Director, Business Performance
KPMG in Hong Kong
E: simon.phipps@kpmg.com

Murray Raisbeck
Partner, Audit
KPMG in the UK
E: murray.raisbeck@kpmg.co.uk

Louis Régimbal
Partner, Strategy
KPMG in Canada
E: lregimbal@kpmg.ca

Jan Reinmueller
Principal, Digital and Innovation
KPMG in Singapore
E: jreinmueller@kpmg.com.sg

Eleanor Winton
Director
KPMG in the UK
E: eleanor.winton@kpmg.co.uk

Christel Wolthoorn
Director
KPMG in the UK
E: christel.wolthoorn@kpmg.co.uk

Country contacts

Martin Blake
Partner
KPMG in Australia
T: +61 2 9335 831
E: mblake@kpmg.com.au

Karel Tanghe
Partner
KPMG in Belgium
T: +32 2708 4225
E: ktanghe@kpmg.com

Richard Lightowler
Partner
KPMG in Bermuda
T: +1 441 295 5063
E: richardlightowler@kpmg.bm

Luciene T. Magalhaes
LATAM Coordinating Insurance,
Partner
KPMG in Brazil
T: +55 11218 33144
E: ltmagalhaes@kpmg.com.br

Neil Parkinson
Partner
KPMG in Canada
T: +1 416 777 3906
E: nparkinson@kpmg.ca

Walkman Lee
Partner
KPMG in China
T: +86 10850 87043
E: walkman.lee@kpmg.com

Zdenek Tuma
CEE Coordinating Insurance
Partner
KPMG in the Czech Republic
T: +42 02 2212 3390
E: ztuma@kpmg.cz

Francine Morelli
Partner
KPMG in France
T: +33 1556 87177
E: fmorelli@kpmg.fr

Frank Ellenbürger
Joint Global Insurance
Audit Lead Partner
KPMG in Germany
T: +49 89 9282 1867
E: fellenbuerger@kpmg.com

Shashwat Sharma
Partner
KPMG in India
T: +91 22309 02547
E: shashwats@kpmg.com

Elisabeth Imelda
Partner
KPMG in Indonesia
T: +62 21 574 2333
E: elisabeth.imelda@kpmg.co.id

Liam Lynch
Partner
KPMG in Ireland
T: +35 3141 01734
E: liam.lynch@kpmg.ie

Giuseppe Rossano Latorre
Partner
KPMG in Italy
T: +39 0267 6431
E: glatorre@kpmg.it

Ikuo Hirakuri
Partner
KPMG in Japan
T: +81 3354 85107
E: ikuo.hirakuri@jp.kpmg.com

Sung Min Cho
Partner
KPMG in Korea
T: +82 2211 20499
E: sungmincho@kr.kpmg.com

Kam Hian Loh
Partner
KPMG in Malaysia
T: +60 37721 3388
E: khloh@kpmg.com.my

Ton Reijns
Partner
KPMG in the Netherlands
T: +31 030 658 2444
E: reijns.ton@kpmg.nl

Stacy Ligas
Partner
KPMG in Poland
T: +48 22528 1083
E: stacyligas@kpmg.pl

Adrian Quinton
Partner
KPMG in Russia
T: +74 95937 2960
E: aquinton@kpmg.ru

Kam Yuen Lau
Partner
KPMG in Singapore
T: +65 6213 2550
E: kamyuenlau@kpmg.com.sg

Gerdus Dixon
Partner
KPMG in South Africa
T: +27 21408 7000
E: gerdus.dixon@kpmg.co.za

Antonio Lechuga Campillo
Partner
KPMG in Spain
T: +34 9325 32947
E: alechuga@kpmg.es

Hieronymus Dormann
Partner
KPMG in Switzerland
T: +41 58 249 35 03
E: hdormann@kpmg.com

Alper Güvenç
Partner
KPMG in Turkey
T: +90 216 681 90 00
E: aguvenc@kpmg.com.tr

Phil Smart
Partner
KPMG in the UK
T: +44 20 7311 5134
E: phil.smart@kpmg.co.uk

Global Insurance Leadership Team

Gary Reader
Global Head of Insurance and EMA Coordinating Partner
KPMG in the UK
T: +44 20 7694 4040
E: gary.reader@kpmg.co.uk

Laura Hay
Americas Coordinating Insurance Partner
KPMG in the US
T: +1 212 872 3383
E: ljhay@kpmg.com

Simon Donowho
AsiaPacific Coordinating Insurance Partner
KPMG in China
T: +852 2826 7105
E: simon.donowho@kpmg.com

Frank Pfaffenzeller
Joint Global Insurance Audit Lead Partner
KPMG in Germany
T: +49 89 9282 1027
E: fpfaffenzeller@kpmg.com

Frank Ellenbürger
Joint Global Insurance Audit Lead Partner
KPMG in Germany
T: +49 89 9282 1867
E: fellenbuerger@kpmg.com

Brian Daly
Global Insurance Tax Lead Partner
KPMG in Ireland
T: +353 1410 1278
E: brian.daly@kpmg.ie

Mark Longworth
Global Insurance Management Consulting Lead Partner
KPMG in the UK
T: +44 11 3231 3311
E: mark.longworth@kpmg.co.uk

Matt McCorry
Global Insurance Risk Consulting Lead Partner
KPMG in the US
T: +1 212 954 3945
E: memccorry@kpmg.com

Danny Clark
Global Insurance Accounting Change Lead Partner
KPMG in the UK
T: + 44 20 7311 5684
E: danny.clark@KPMG.co.uk

Sam Evans
Global Insurance Deal Advisory Lead Partner
KPMG in the UK
T: + 44 20 76941326
E: sam.evans@kpmg.co.uk

Mike Walker
Global Insurance Deal Advisory Lead Partner
KPMG in the UK
T: +44 20 7694 3198
E: mike.s.walker@kpmg.co.uk

Rob Curtis
Global Insurance Regulatory Lead
KPMG in Australia
T: +61 3 9838 4692
E: rcurtis1@kpmg.com.au

Ferdia Byrne
Global Insurance Actuarial Lead Partner
KPMG in the UK
T: +44 20 7694 2984
E: ferdia.byrne@kpmg.co.uk

Mary Trussell
Global Innovation and High Growth Markets Lead Partner
KPMG in Canada
T: +1 647 777 5428
E: mtrussell@kpmg.ca

kpmg.com/socialmedia

kpmg.com/app

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