Addressing top-of-mind insurance issues

Artificial intelligence

Evolving business needs are driving the adoption of breakthrough technologies such as artificial intelligence (AI). Organizations are heavily relying on AI-driven solutions to achieve higher operational efficiencies and superior customer service.

With the advent of large language models (LLMs) such as generative AI, prompt engineering is critical to reducing inaccurate or irrelevant responses and extracting optimal outcomes. Financial organizations are increasingly prioritizing effective prompt writing, which involves creating high-quality training data and crafting well-structured prompts to guide the model's behavior.

While generative AI presents opportunities to create new value within the advanced analytics and AI landscape, it is crucial to establish literacy and governance of these solutions to ensure trustworthiness, customer privacy, and alignment with organizational standards. Instituting frameworks, controls, processes, and tools for ethical AI design and deployment can empower insurance organizations to accelerate value creation while maintaining integrity.

Financial institutions are developing use cases to assist with underwriting, contract generation, claims processing, and many others.

Potential actions:

- Develop well-crafted prompts that effectively guide the model's behavior, leading to accurate and relevant AI-generated responses.
- Regularly assess risk associated with the usage of AI-powered solutions and devise mitigation strategies to safeguard against potential issues, including data accuracy, privacy, security and ethical concerns.
- Establish proper governance and training to ensure AI outputs are not trusted blindly, as outputs may be unrealistic or inaccurate.

Thought leadership:

- Generative AI in the modern workplace
- 2023 KPMG Generative AI Survey Report
- KPMG generative AI survey report: Financial services
- Gen AI in Insurance

Insurance industry transformation

As the insurance industry continues to evolve at an unprecedented pace, firms are reviewing their front, middle and back-office functions to support growth strategies and deliver against business objectives. Insurance leaders acknowledge the important role of the actuarial function, as they look to improve processes, enhance risk strategies and deliver operational excellence.

The actuarial function is central to the insurance proposition. Actuaries not only allow insurers to properly assess and price policy risk, but also, they play a key role in helping insurance organizations manage their own enterprise risks and opportunities and optimize capital. In addition, leaders are looking to their actuaries to expand their support into evolving areas such as quantifying ESG risk, financial planning and analysis enhancements, artificial intelligence (AI) integration and identifying new market opportunities. insurers seek improved insights from their actuaries, spanning a broader range of topics that align more closely to the business.

Key considerations highlighted in the Insurance transformation:

- Set your vision and align with the business strategy.
- Master the data.
- Understand the technologies.
- Transform the people.
- Manage the change.

Thought leadership:

- Insurance transformation: Modernizing the actuarial function
- Insurance transformation: Modernizing the finance function

Digital transformation

Digital transformation is no longer optional for insurance organizations—it's a strategic must-have to thrive amid disruptive threats and evolving customer expectations. This transformation goes beyond technology, impacting the entire enterprise from strategy to culture. By strengthening their data foundations and building integrated ecosystems, financial organizations can streamline processes and position themselves for long-term success.

Insurance companies must prioritize modernizing processes, such as underwriting and claims, to accelerate digitization. By leveraging advanced technologies such as cloud computing and AI, insurance companies can innovate, enable real-time processing, stay competitive, and meet the demands of today's digital-first customers.

Moreover, digital transformation entails a massive change management effort. To be successful and sustainable, it is essential to focus on aspects beyond technology, such as governance and its impact on culture. Leaders must demonstrate value to all stakeholders and align organizational structures with new technologies to ensure adoption.

Potential actions:

- Prioritize strengthening foundational elements, including strategy, people, and culture.
- Focus on establishing an integrated ecosystem that supports collaboration and delivers consistent experiences across channels.
- Digitize core operations such as underwriting and claims processing to pave the way for a successful digital transformation. This is crucial for banks to enhance efficiency and meet the shifting demands of a digital-first marketplace.

Thought leadership:

- Corporate Controller & CAO Hot Topics: Digital Transformation Spotlight
- Future-Ready Insurance Leaders

Turn insights into action

KPMG Insights

Fresh thinking and actionable insights that address critical issues your organization faces.

KPMG Insurance Insights

We view our insurance clients' current challenges as possible breakthroughs that can transform their operations and create a sustainable advantage.

Financial Reporting View

Delivering insights to financial reporting professionals. Sharing our expertise and perspective. Informing your decision-making.

Board Leadership Center

Engaging with directors and business leaders on the critical issues driving board agendas—from strategy, risk, talent, and ESG, to data governance, audit quality, proxy trends, and more.

Addressing top-of-mind insurance issues (continued)

Accounting and tax change

The government of Bermuda has recently introduced a corporate income tax (CIT) that is applicable to specific Bermuda tax resident entities and Bermuda permanent establishments. This new tax regime is designed to align with the global anti-base erosion rules established by the Organization for Economic Co-operation and Development (OECD).

The primary objective of the CIT is to prevent base erosion and profit shifting by multinational companies operating in Bermuda. By implementing the CIT, Bermuda aims to ensure that multinational companies operating within its jurisdiction pay their fair share of taxes. This is in line with international efforts to combat tax avoidance and promote transparency in tax matters.

Key Provisions:

The CIT applies to multinational groups that have consolidated annual revenue of at least €750 million in at least two of the four preceding fiscal years. However, there are certain exemptions that may apply to eligible entities.

The CIT has a 15% statutory income tax rate and is effective for fiscal years beginning on or after January 1, 2025. However, certain groups with a limited international footprint have a five-year deferred effective date.

The calculation of taxable income under the CIT starts with financial accounting net income or loss (FANIL) determined in accordance with the acceptable financial accounting standard used in preparing the consolidated financial statements of the ultimate parent entity of the group. There are various mandatory and elective adjustments to mitigate potential distortions arising from the application of certain financial accounting standards.

The CIT introduces an economic transition adjustment (ETA), which allows for an elective increase or decrease in the tax basis of assets and liabilities held as of September 30, 2023, to fair value. It also provides for an operating loss carryforward and relief from double taxation, including a foreign tax credit based on the adjusted amount of foreign current and deferred taxes accrued by the group.

Thought leadership:

- Accounting for income taxes considerations for the implementation of the Bermuda corporate income tax

Risk and regulatory

Regulatory intensity has reached an unprecedented level which is driven not only due to the high-volume regulatory issuance, but also due to the complexity and breadth of regulatory supervision. These changes significantly impact organizations.

Given the continued economic pressures facing consumers, regulators also remain focused on customer and investor protections, looking for evidence that institutions are treating all customers/investors fairly and equally, and are being appropriately responsive to any customer/investor concerns or complaints.

Data governance protections (e.g., accuracy, transparency, recordkeeping, and privacy) remain a focal point of supervision and enforcement. Institutions must establish a robust program to evaluate exposures, mitigate risks, and enhance compliance as regulators prioritize efforts in these areas.

Potential actions:

- Anticipate increased scrutiny from the regulators, especially in areas such as enterprise risk management, capital, liquidity and concentrations, timeliness of remediation, regulatory reporting, and new products and technologies.
- In this interest rate environment, expect increased regulatory focus on operational resiliency, stability/composition of earnings, access to credit, consumer fraud/complaints/claims and adequacy of disclosures and including any use of models, algorithms, and AI applications.
- Monitor insurance regulations at the state level, particularly related to Cyber Risk, Artificial Intelligence, and climate

Thought leadership:

- Ten Key Regulatory Challenges of 2024
- Regulatory Intensity
- FRB Reports: Supervision and Regulation; Financial Stability
- SEC Fall 2023 Regulatory Agenda

ESG

In early October, California signed into law bills SB 352 and SB 261. The bills apply to companies with greater than $1 billion of annual revenues (**SB 352**) or $500 million of annual revenues (**SB 261**) doing business in California. SB 352 requires reporting of a company's Scopes 1, 2 and 3 emissions beginning in FY 2025 and would require limited assurance of scope 1 and 2 emissions beginning in 2026 rising to reasonable assurance in 2030. SB 261 requires biennial disclosure of climate-related financial risks and measures adopted to reduce and adapt to such risks with the first disclosure required on or before January 1, 2026.

As part of California's suite of climate laws, the Voluntary Carbon Market Disclosures Act introduces annual disclosure obligations for the purchase or use of voluntary carbon offsets and emissions reduction claims made by companies operating in California. The disclosures necessitate information about the offset program and/or vendor, as well as the GHG emissions linked with claims, including the method used to determine the claim's accuracy and how interim progress is assessed.

The SEC also added climate change disclosures to its April 2024 agenda and in late October, the banking regulators issued the final principles for climate-related financial risk management for large financial institutions with over $100 billion in assets indicating that financial services regulators are actively issuing new guidance and expectations.

Insights from a recent ESG survey of large financial institutions:

- The majority of large financial institutions have a chief sustainability officer responsible for overall ESG strategy, and half of large banks have a dedicated ESG controller overseeing ESG disclosures.
- Large financial institutions are investing in climate data infrastructure and in technology to enhance ESG disclosure and reporting capabilities.
- Large financial institutions are prioritizing data management by standing up data governance structures, implementing processes and controls for data collection through disclosure, and contracting with external data management vendors.

Thought leadership:

- California introduces climate disclosures and assurance
- California imposes ESG reporting related to carbon offsets
- ESG in insurance: Supporting the energy transition to net zero
- Final Principles for Climate-Related Financial Risk Management

Addressing top-of-mind insurance issues (continued)

CEO outlook

The overall outlook for 2024 remains unclear, with factors such as uncertainty in future Federal Reserve interest rates, political uncertainty due to geopolitical tensions, and the emergence of disruptive technologies.
The following represents just a few of key concerns voiced by CEOs in the KPMG CEO Outlook (from October 2023) and in our research:

- Geopolitical tensions with Israel-Hamas War, Russia-Ukraine War, and US-China tension.
- Generative AI is top investment priority, but CEOs are wary of navigating ethical challenges and lack of regulatory guidance.
- CEOs are investing in new technology (60 percent of CEOs) with advancing digitization and connectivity as the top focus, along with improving customer experience, and the employee value proposition.
- Cost of living rising remains 79 percent of CEO’s top pressing concern for customers to be willing to take out insurance policies.
- CEOs demonstrate high appetite for transformational M&A but need more stable market conditions.
- CEOs envision a future with more workers coming into the office and will reward those who do.
- CEOs are continuing to prioritize talent and culture in fast-changing environment.

Thought leadership:

- The 2023 KPMG U.S. CEO Outlook

Insurance industry outlook for 2024

2023 witnessed a combination of challenges including a heightened loss cost inflation, historically high catastrophic losses, a challenging reinsurance market, and an escalated cost of living, all impacting the ability for insurance companies to expand to new customers.

- According to Inside P&C, all but seven insurance companies underperformed the S&P 500 in 2023 compared to 2022 when almost all insurance companies outperformed the S&P.
- The commercial sector of P&C companies is expected to face ongoing challenges throughout 2024.
- With a slowdown in inflation and the rate increases in premiums for 2023, there is potential for an improved performance in personal lines.
- As we enter 2024, Moody's has classified the US Life Sector as "stable", highlighting that the anticipated rise in interest rates will contribute to the growth of investment outcome and a robust sales pipeline for products such as fixed-rate annuities.
- Key topics within the U.S. life insurance sector includes challenges with commercial real estate portfolios, examination of private equity participation in life insurance, and a proposed fiduciary rule aiming to redefine an investment fiduciary and reduce fees for consumers purchasing retirement products. Notably, insurance trade groups are opposed to the rule.

Thought leadership:

- On the 2024 board agenda
- Insurance Insights 360: A KPMG podcast series
- KPMG 2024 Insurance Industry Forecast

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