

# Insurance Matters

## Five banana skins that could trip up Australia's insurers

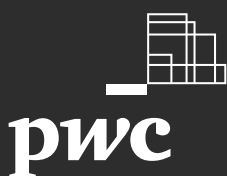


**By Bernadette Howlett**  
Financial Services Partner,  
Strategy&, PwC Australia.

**Contributors**  
Sanjay Pathak, Scott Fergusson,  
Paul O'Rourke

### Read more

PwC's strategic analysis of the current risks and future trends in the global insurance sector can be read in full in Insurance Banana Skins 2019.



Our new survey shows Australia's insurance leaders are grappling with an array of risks. To address these, a new strategic approach is required.

**We interviewed practitioners, regulators and observers in the global insurance sector about what they see as the biggest threats to their organisations and how they are addressing these.**

The results revealed an industry in transition, still coming to terms with an array of complex risks with several priority areas requiring attention:



### 1 Cyber risk

For the third consecutive year, **cyber risk** topped the list of concerns for industry leaders. While robotics process automation and big data are both vital for the transformations underway in many institutions, they come with new risks too.

To address these, leaders must ensure their people understand that cyber risk is a priority for the entire organisation – not just the IT department. They should also undertake a thorough examination of their institution so that they can prioritise the areas of highest cyber risk and target expenditure accordingly.

The to-do list includes:

- Assess the organisation's cyber risk capability (including industry benchmarking for both maturity and expenditure)
- Assess and implement cyber governance controls across the extended supply chain
- Undertake scenario planning to prepare for the likely event of a future cyber breach
- Complete a quantitative analysis of the organisation's cyber risk position to assess the financial impact from a cyber breach.



## 2 Political and reputational risks

Australia's insurance leaders placed **political and reputational risks** much higher on the agenda than their overseas counterparts.

That's no surprise, given the survey coincided with the federal election and the final report from the Royal Commission. Regulators such as ASIC and APRA are already ratcheting up their supervisory activity, while government super reforms are having material impacts upon the embedded value of life insurers who are writing group business.

To address these risks, proactive insurers are responding in several ways:

- Identifying historical issues and comprehensively rectifying these
- Ensuring learnings from rectification are embedded into business processes
- Strengthening risk management functions and practices - especially in the first line of defence
- Taking the initiative to adopt the principles of the Banking Executive Accountability Regime (even before it has been formally extended to the insurance sector)
- Updating their customer engagement strategies.



## 3 Strategic and execution risk

In a fast moving marketplace, the ability to set and deliver corporate strategy will be more crucial than ever for Australia's insurers;

making the strategy real has never been as important as it is today. That elevates the significance of **strategic and execution risks** including, perhaps most notably, 'digitalisation' risk.

Digitalisation refers to re-imagining complete systems and processes to transform user and customer experience. The opportunities here are extraordinary. Rethinking the relationship and interaction model with customers can enable greater control and flexibility in just about every facet of an organisation, including:

- User and customer engagement
- Product definition and presentation
- Operations
- Compliance and controls.

This has the potential to transform policy administration, claims management, risk management and ongoing customer lifecycle engagement. The risk for insurers is that if they fail to execute this strategic transformation, they will become less competitive. Conversely, those with the ability to execute will modernise and transform their value proposition and purpose. In doing so, they can extend their competitive territory.



## 4 Emerging risks

Our survey also revealed some possible blind spots and underrated risks for Australian insurers. Technology transformation may be an area of concern for insurers, but its full magnitude is often underestimated. Legacy platforms are unable to provide secure and reliable systems for customer engagement and data. This exposes insurers to risks including regulatory and compliance change, cyber security threats (e.g. identity, fraud, malware, etc.) and inherent platform failures arising from aged systems that are quickly running out of vendor support.

For insurance institutions, these risks are nothing short of existential and underinvestment could prove fatal. Yet insurers can demonstrate market leadership by adopting and leveraging modern core platforms and highly customisable business process management and workflow systems. These steps will increase resilience and adaptability to consumer demands and cyber threats as well as regulatory and compliance requirements. Insurers must also use 'pluggable' platform componentry in order to fully harness analytics, big data and AI. This will enable enhanced insights and decision-making capabilities, while maximising customer/end-user engagement.



## 5. Risk transfer

Every insurer aspires to iron out the imperfections in **risk transfer**. Depending on the institution, such imperfections might include:

- Products that don't fully meet consumer needs
- Products that offer poor value
- Surprises at renewal time
- Manual payments
- Cumbersome claims-handling processes
- Inconsistencies in customer experience.

More than ever, the current environment presents the opportunity to revisit product strategy and simplify product offerings to meet the needs of customers, as a means to manage risk transfer. This will help inform decisions about where to invest in continuous improvement and how to deliver cumulatively valuable change, whilst identifying and prioritising strategic must-win areas, allowing insurers to reduce unit costs, create the capacity to invest in change, and collaborate with the right talent to deliver this change.