Insurtech Insights

ITI Europe Roundtable report

Strategies to accelerate innovation and stay ahead of the competition

In partnership with EIS

Introduction

The Insurtech Insights Europe conference in March 2022 featured a roundtable discussion supported by EIS on the topic of "Strategies to accelerate innovation and stay ahead of the competition."

The roundtables featured a distinguished group of senior leaders in innovation from across the insurance industry, representing some of the world's biggest carriers, reinsurers, and intermediaries, as well as insurtech founders.

In this report, we capture the main themes from the conversation. In reading this report, you will gain insights into the following critical questions:

- What are the goals of innovation in insurance?
- What are some of the barriers to innovation?
- How to overcome barriers and accelerate innovation?

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Foreword by EIS

Innovation in insurance has had mixed success. Some large-scale investment has not seemingly achieved the expected returns. What can insurers do to solve this problem, and what options are they exploring?

Insurance has perpetually been seen as:

- Boring
- Slow
- A grudge purchase
- Low touch
- Untrusted
- Over regulated
- Too complicated
- Putting the customer second to profit

These are all too often the excuses for why transformation or innovation fails or progress is slow, not the reality of the opportunity. We believe we need to focus on the great things insurance does:

- It can stop people and things from making a really bad mistake (even a fatal one)
- Make an extremely bad day better
- Help rebuild businesses and communities when they have been hit the hardest
- Allow economies to grow
- Bring people together to share risk – think about that!

All it needs is the ability to do this in ever-increasing ways, positively impacting ever-increasing amounts of people and businesses, and adapt to a world evolving at an ever-increasing pace – making insurance, its investments, and its suppliers fit for our planet to survive and even thrive in the future.

All distribution ecosystems (e.g., Amazon, Alibaba, etc.) ultimately share the same characteristics:

- Built around their customers
- Continuously evolving to the ever-increasing insight of the customer
- And acting with foresight, giving the customer the thing that helps them move forward in valuable ways they never expected

The key requirements of ecosystem-enabling platforms are:

- A deep understanding of how value is created in each business model
- An understanding of the customer experience, and potential to upsell or resell
- Resilience and agility
- Access to relevant third-party components/data-streams and product/data-processing
- Scalability in secure digital infrastructure

With the risk, consumption, and technology landscapes changing structurally, insurance industry incumbents need to respond through new customer and distribution propositions, an improved employee experience, and an agile and resilient operating model, all enabled by strategic technology partnerships.

Rory Yates
Head of Strategy, EMEA & Asia Pac, EIS

What are the goals of innovation in insurance?

Our Insurtech Insights Europe roundtable panel identified the following objectives for innovation:

- Better support the underserved
- Embrace new risks and new business models
- Move from reactive to proactive coverage
- Address ESG responsibilities

Better support the underserved

One of the most important goals for insurers is to provide coverage for those who traditionally have lacked access to effective insurance due to affordability (for the financially constrained), underwriting difficulty (such as people with medical conditions), or a combination of both.

As most of the world emerges from the Covid pandemic, many uncertainties remain in the short and long term. In a world that needs resilience more than ever, insurance has never been more important. With many billions of people across the globe lacking adequate protection from risks old and new, the industry has a huge social and moral responsibility. It is also a massive growth opportunity.

> "How do we write new types of business? How do we access new risk pools to make the world more resilient? Adding capital and insights to businesses to create more access and new products? Could it be via insurtechs and MGAs that have access to niche markets? Looking at non-traditional insurance providers to utilise their outreach? Can we use a telco company in Africa?"

Embrace new risks and business models

One of the most talked about trends in the reinsurance sector is the rise of captives within large organisations which are seeking to create in-house capacity and capabilities.

In a hard market with risk and product complexity on the rise, organisations are embracing the captive model as a more flexible and manageable route to meeting their needs.

> "We're seeing a sharp increase in [reinsurance] clients looking to increase their captives because they're not finding what they want on the market. Cyber is one area which historically never went into captive, whereas now because of the restriction in the markets we're seeing more and more companies taking it on in captive. Companies are beefing up their IT security because it's now critical to their own pockets. The captive model helps prevent claims."

In an article published in April 2022, Sergio P. Ermotti, Chairman of Swiss Re pointed out that the hardening market also meant that insurance clients are expected to "secure better protection and boost their preparedness before insuring a risk."[1]

According to Marsh, the number of captive formations doubled in 2020.[2] The growth of captives reinforces the need for new products which are supported by new sources of data and accessible analytics.

[1] https://www.swissre.com/risk-knowledge/risk-perspectives-blog/cyber-resilience-swiss-re-sergio-ermotti-blog.html
[2] https://www.marsh.com/us/services/captive-insurance/insights/captive-landscape-report-2021.html

What are the goals of innovation in insurance?

Move from reactive to proactive coverage

Already well established in life and health lines, the strategic shift from simply providing recompense toward helping prevent claims events is now taking hold across other lines, such as auto (using telematics to encourage safer driving), and property (using climate and geospatial data to forewarn of floods and other calamities).

"We call it going from reactive insurance to proactive insurance. The reason why we do it is because we believe the market is completely commoditised and we want to differentiate."

"If you look at share of GDP, insurance has been steadily declining. And if we go more towards preventative, that's going to continue the decline. That's why increasing the pie and identifying new ways to underwrite new risks is so critical."

"I think the problem is the insurance industry sees prevention as purely loss mitigation. I believe that people will pay for prevention."

Address ESG (environmental, social, governance) responsibilities

Closely linked with the move from protection to prevention are the broader ESG responsibilities owned by insurers. As new types of risks emerge, awareness grows of the benefits of good corporate citizenship.

"I believe ESG is a powerful way to stay ahead of the competition. Addressing ESG responsibilities by itself improves ESG exposure and reduces business interruption. Business interruption isn't just at the level of the company itself. It's also the level of the communities at which that company is operating in a district, which are also impacted."

"ESG is the big emerging subject, the one that's coming up the fastest. And it is absolutely about moving into the prevention space and risk mitigation."

"Insurance is not a polluting industry in itself. The industry has been moving into sustainable investing and looking at portfolio emissions, despite no notion of ownership."

Insurers have a clear role to play in ESG, and the industry has offered a commitment to climate actions (e.g., UN Sustainable Development Goal No. 13). It is vital that all organisations, and financial institutions in particular, not take an exclusively risk-management view to the climate crisis but also use their portfolio influence to drive climate action and consider scope 1, 2, and 3 in carbon emissions. This is especially important as the pressure from regulators and shareholders mostly focus on risk management.

Furthermore, insurers, in their primary role as underwriters, can make a significant societal contribution through climate-friendly incentives (pricing, exclusions), insights, and new risk-transfer products (e.g., carbon capture and sequestration liability insurance, advanced telematics) – as well as during the claims process (recover better, choice of vendors). And "green insurance" offerings are very much on the rise.

What are some of the barriers to innovation?

There are many reasons why innovation is difficult to achieve, both within individual insurance organisations and across the industry as a whole.

- Risk aversion
- No burning platform
- Outdated organisational thinking
- Misaligned incentive structures
- Lack of resource

Risk aversion

It's not surprising that insurance companies exhibit risk-averse mindsets and behaviours. This has served them well for years but is now a problem. Corporate culture and fear of failure create further disincentives to try new things.

"The industry is completely stuck in a risk-adverse position. We need to better use what is available, to find solutions to bring insurance to seven billion people."

"Is there a danger that if we do try and innovate too widely, it creates risk and uncertainty for the shareholders and therefore we're happy enough just plodding along and giving shareholders a bit of certainty?"

"Insurers talk about failing fast. But they're never going to fail fast. We actually can't fail. All we do is learn fast and fail never."

No burning platform

If insurers continue to generate healthy profits based on the status quo, where is the impetus to do things differently? Rather like climate change – it is far easier to kick the can down the road for the next generation to worry about.

"Sometimes I wonder how much of it is lip service and how much of it is real. We always talk about being forward-looking in our shareholder packs. But what we're actually doing is probably not enough to be material over a long period of time."

Challenger insurers who differentiate based on innovative products and experiences have certainly created a groundswell – but the industry overall continues to lag others in terms of pace of change. Insurance has yet to meet its tipping-point moment, whether that be from competition as in retail banking or macro factors such as climate change, which has created the burning platform for the energy sector.

"E-ON, Europe's largest energy provider is now fundamentally a data ecosystem. Its biggest growth product is smart-city solutions, and its goal is to reduce the consumption of energy, not to increase the use of energy. That's comparable to insurance moving to risk mitigation. What shifted the transformation was the fact that we can no longer allow carbon-intensive energy."

"The view in this room is skewed towards making a killing without having to innovate, right? But 80% of the panellists at this conference come from companies that have raised a fair amount of capital. So the market is actually innovating. I think things are really moving."

"Look at how good the apps of all the established banks have become. Barclays, HSBC's apps, Starling's app, they're all similar now. Out of necessity and competition, innovation does happen. I think we're about to see that in insurance."

"Esure is owned by Bain and has a turnaround remit. It will transform much more aggressively than an insurer that doesn't have that kind of imperative. Ageas have just restructured and they've been very open about their fundamental need to transform. If you've got that kind of ambition, it will create the right imperative. But the question is: how do you create that ambition?"

What are some of the barriers to innovation?

Outdated organisational thinking

Large insurance companies are organised around product lines. The silos created by such structures are far from conducive to meeting customer needs or sharing expertise and data. It is imperative that insurers find ways to improve internal collaboration and unlock value that is at least equal to the sum of the organisation's parts.

"The word ecosystem has come up a lot during this conference, but when you talk to most insurers, they don't really know what an ecosystem is. In an ecosystem, relationships with customers are driven by knowledge and data. But most insurers are structured around policies. Data is held in one entity against one policy risk. It becomes very hard to treat that customer as a single customer and then cross sell to them."

"For us, a product is just a manifestation of a data instruction. That's why we can go multiline better than our competitors: because we've got that fluidity. It does require the insurer to behave differently. In most insurers, having life on the same platform as car and home is a challenge. They continue to choose different technologies and hold their data in different ways. But that's not how an ecosystem would behave."

Misaligned incentive structures

To gain traction, innovation projects require a concerted and consistent push from the top. Our panellists were unanimous: innovation starts with a clear and compelling agenda set at the executive level, which is then aligned with incentives and goals at all levels of the organisation.

The further down the organisation hierarchy, the more people are focused on the day-to-day and the more difficult it is to devote time and attention to projects which do not deliver immediate results unless they are specifically incentivised accordingly.

"In our individual business units, we have mostly shorter-term targets. But if you have executive committees driving the narrative and culture, then we might have different outputs."

"The ideas that do best are the ones that are sponsored most heavily. If the execs aren't sponsoring, they don't happen. The people I need to sponsor these ideas are incentivised in year. If I'm incentivised to hit the year-end plan, I might be about operational efficiency. I'm getting costs down short-term. I'm not about new products, I've got to deliver this year's numbers."

Lack of resource

The reality of life in large corporations is of resource constraint and of competing priorities battling for time and attention, both within business units and within support functions such as IT.

Within business units, the people responsible for delivering innovation typically are also looking after BAU (business as usual). With pressing BAU tasks demanding attention every day, it is extremely difficult to devote the time and energy for innovation projects which may not deliver visible returns in the near term and, as such, may be considered a drain on resources.

"To change the technology structure and the organisation...the cost to do that! The time to do that! Is it a priority to do that when we can continue trundling along?"

"I was at a meeting the other week which was all about who has the bandwidth to actually take it forward. We're all doing 110% in our day jobs. You can say it's 10% of your time. But in reality, it's 50/50. There's no way we can do two and a half days on one, and two and a half on the other. One has to just fall by the wayside."

How to overcome barriers and accelerate innovation

The barriers to innovation are widespread and challenging to overcome. However, our panel were able to identify several powerful strategies to promote change.

- Acknowledge the problem
- Create focus
- Acquire capability and absorb
- Establish an innovation narrative
- Think in terms of multiple time horizons
- Change the incentives
- Embrace learning
- Open the drawbridge

Acknowledge the problem

Starting at the executive level, openly recognise that incumbent businesses that do not innovate quickly enough are akin to the slowly boiling frog.

"Talk about culture. Acknowledge that our business right now is healthy. We make money right now without needing to innovate, but in 20 years, we'll be dead if we don't innovate."

Create focus

Rather than forcing people to lead both BAU and innovation with its conflicting priorities, ensure that roles are focused on one or the other, not both.

"I need 90% of our resources invested in running the business. Everybody in the team knows if they are in the 90% or in the 10%".

Acquire capability and absorb

As an incumbent insurer it is often quicker to buy in capability and talent than develop it organically – assuming of course that the acquisition can be effectively absorbed into the organisation.

"Start small. Super intense innovation hotspots. Heavily invest in them because capital enables them to go, and then be ready to absorb them. M+A is the cheapest way of innovating."

Establish an innovation narrative with common language and goals

Start by identifying pain points which are real and relevant to different levels and functions in the organisation, which innovation can solve.

"I'm a big fan of starting from 'why.' Solving the problem from a client perspective and then solving the right problem. A lot focuses on distribution, but is that what the client is really asking for?"

"Having a definition of what innovation means is important. If you're sitting in finance or in HR, what does it mean for you? Encourage people to bring ideas forward, to say how innovation makes a difference for me and my business."

"Really trying to change the narrative of why innovation matters. For the love of solving something, and not just because it's in my KPIs or somebody talked about innovation. What can I do that will make a difference?"

How to overcome barriers and accelerate innovation

Think in terms of multiple time horizons

By its very nature, the outcomes of innovation are not guaranteed and can take a while to realise. Insurers must become comfortable with a certain degree of ambiguity.

"In a previous company we hired somebody from one of the global technology players to be our chief innovation officer. He was given a budget and asked 'what return will you deliver for that money?' The CEO said 'I want to know exactly what I'm going to get from you.' He said 'I don't know, because we want to try things that we haven't done before.' He lasted two months."

"Horizon one is the products and services I have today. Innovations in horizon one come from solving problems, whether it's an efficiency problem or a competitive problem. In horizon two, I'm exploring new opportunities. It's a different mindset. You're more certain in the first horizon because it's stuff you already know."

Change the incentives

KPIs and incentives for people and teams with a responsibility to innovate include 'softer' goals such as launching proof of concept or learning milestones, not just revenue, profit, or efficiency gains.

"Everybody is incentivised in that first horizon. Even people in innovation roles."

"Allianz X, for example, will pay you if you start a new concept. You can pitch an idea as an Allianz employee or not. They give founders 49% of the company and Allianz gets 51%. There's still a heavy incentive in the founders, there's a lot of independence, but there's a strong ownership from the company."

Embrace learning

Fear of failure is a reality in large insurance organisations. Making it acceptable to fail, and re-framing failure as a learning opportunity, is a crucial pillar of culture change.

"Celebrate failure, which is not something we do much. What goes up to the top is all about all the success we've had. Why not say that we failed, but here are the learnings that we take into the next initiative."

"Insurance is the last industry that wants to experiment, because success criteria are always set around financials and not at all around learning. The true secret to an R+D organisation is a learning culture."

Open the drawbridge

Another cultural pillar is transitioning away from silos and protective instincts to become more collaborative and open to external ideas, talent and data. This applies equally to working across teams within an organisation as well as bringing in third parties.

"This is where the reinsurance universe has a big part to play, because we have access to so much data. We need to play a bigger part in aggregating all that data and giving it back to society and communities."

"The brokers have lots of data, but they don't share."

How to overcome barriers and accelerate innovation

"In one of the conference panels they were comparing other industries such as healthcare and aviation with insurance. In our industry everyone's super protective of their data, even if they don't know what to do with it. There's a lot of value especially when it comes to concepts like ESG or catastrophe or big risks to share data to unlock innovation."

"I think the insurance industry gets the idea of collectively moving the industry forward as a concept. People are at different paces and understand it differently. But there are global forums. There's the World Economic Forum. Willis Towers Watson has climate resilience hubs. There's a lot of discussion going on."

"In the U.S. there's a consortium going across insurers and brokers on the reinsurance side developing a common blockchain-based platform."

Concluding thoughts from EIS

As Srikanth Madani, Industry Advocate, Worldwide Financial Services at Microsoft puts it, "With the risk, consumption, and technology landscapes changing structurally, insurance industry incumbents need to respond through new customer and distribution propositions, an improved employee experience, and an agile and resilient operating model, all enabled by strategic technology partnerships."

Technology, and access to technology, is key here. Mr. Satya Nadella, Microsoft CEO, explained this in a recent blog post. "The way people interact with businesses is fundamentally shifting, and there is no going back. Digital technology is the most malleable tool ever created, and we believe that businesses that use it to build their own digital capability will recover faster and emerge stronger. At Microsoft, we call this dynamic *tech intensity*: adopting best-in-class digital tools and platforms for the purpose of building new, proprietary products and services."[3]

This is about moving at pace, scaling efficiently, and doing all of it by driving an ever-increasing relevance to the customer, their lives, their businesses, and communities. Protecting them, preventing them from risk – and when that fails – looking after them on some of the worst and most challenging days of their lives.

The fact that we can enable that is a real privilege, and the innovation potential is endless.

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[3] https://www.linkedin.com/pulse/our-opportunity-define-world-we-want-live-satya-nadella/

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