Are you innovating your business or just testing your creativity?

A guide to leading practice transformation into an innovation-driven insurer

Minds made for transforming financial services

The better the question. The better the answer. The better the world works.
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td>4</td>
</tr>
<tr>
<td>Study design</td>
<td>7</td>
</tr>
<tr>
<td>1. A deeply rooted model for innovation – multi-pace layers</td>
<td>8</td>
</tr>
<tr>
<td>2. Adjusting to a changing climate – new customer expectations, new technologies</td>
<td>14</td>
</tr>
<tr>
<td>3. The soil, roots and trunk – identifying what to shed, what to keep</td>
<td>20</td>
</tr>
<tr>
<td>4. The branches and leaves – striking a balance between speed and reliability</td>
<td>28</td>
</tr>
<tr>
<td>5. Plant a seed today – where to start</td>
<td>36</td>
</tr>
<tr>
<td>6. Contacts</td>
<td>38</td>
</tr>
<tr>
<td>7. Sources</td>
<td>39</td>
</tr>
</tbody>
</table>

Are you innovating your business or just testing your creativity? – A guide to leading practice transformation into an innovation-driven insurer
The world’s third-largest (re)insurance center, Switzerland, is home to a number of insurers that have long played a pivotal role in the economy.

Insurance is about protection and resilience. It enables individuals to develop, businesses to grow and society to achieve prosperity. This great purpose drives nearly 50,000 people in Switzerland who are devoted to shaping the insurance industry, including us in the EY insurance practice.

In summer 2016, we responded to the turbulent phase the insurance industry was facing at the time by publishing our study “Dying, Surviving or Thriving – a strategic analysis of the future Swiss insurance market”, in which we pointed out the disconnection between the growth ambition derived from past success of the key players and the changing market environment. We pictured three scenarios for 2030, in which between 30% and 70% of the current Swiss insurance players would be squeezed out of the market if no actions were taken to reshape the prevailing strategies and business models, in other words, if no innovation were to take place.

Well, have insurers taken actions since then? Most definitely!

Incumbents have so far tackled customer-centricity, digitization and are beginning to invest significantly in innovation initiatives. Accumulated innovation efforts are on an upward trend that is set to accelerate in the coming years. There is indeed exciting momentum that has taken hold of the industry.

Is this momentum sufficient to catch up with customer expectations and new norms in other industries on the cutting edge of innovation? The answer is no.

Most innovation initiatives in the industry focus on products and services – “what we offer”. Yet there is another layer of innovation around the business model – “who we are” – which centers on people.

We see innovative people in the insurance industry, but we don’t see truly innovative organizations. A truly innovative organization embraces change at the core – empowering its people to develop business models and strategies that make a lasting impact. Innovative products and services are the result and not the objective. An inspiring culture is in itself a success factor as star performers reward innovative freedom with loyalty.

This fourth edition of our Dying, Surviving or Thriving study series takes a closer look at two key questions: Firstly, what are the unchanged elements in the insurance industry that build resilience in an ever changing world? Secondly, what does it take to shift the innovation focus from “what we offer” to “who we are”? We examine leading practices in other industries and synthesize actionable guidance for the insurance sector’s effective transformation. We hope you enjoy reading our insights. If you would like to discuss how any of our findings relate to your organization specifically, please get in touch with us.

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Are you innovating your business or just testing your creativity? – A guide to leading practice transformation into an innovation-driven insurer
Executive summary

Business fundamentals in the Swiss insurance sector seem robust with stable cash flows and returns. Thus far the sector has had little incentive to question the way it does business or its established structures. Yet, other industries that are ahead of the digital wave, among them retail, media and telecommunications, have demonstrated to customers new levels of simplicity, transparency and speed. So it is hardly surprising that those same customers expect a comparable experience from the insurance industry and become frustrated when they don’t get it.

Against this backdrop, most incumbents are beginning to introduce innovation initiatives in an attempt to catch up with the norm in other industries. In the course of our work across the global insurance market, we are observing two different types of players with distinctly different attitudes toward innovation:

- Those who are adopting a defensive stance as they feel compelled to invest in innovation as protection against disruption (surviving)
- Those who are going on the offensive, proactively driving innovation to shape their future (thriving)

In Switzerland specifically, we tend to see more defensive players than in other markets. Irrespective of whether players adopt a defensive or offensive strategy, innovation must be aimed at scalable and transformative outcomes. But how?

In this study we take a closer look at organizations that are leading the innovation drive in terms of scalability and transformative effects. We begin by refining our understanding of what we mean by innovation.

Innovation is the process of translating creativity into value creation. In that sense, creativity is not innovation, but rather the source of innovation. Products and services are not innovation, they are the result of innovation. So the success of innovation lies in factors concealed between the source and the result of innovation – factors that can shape an organizational environment in which innovation is business as usual.

Build resilience in the face of change by returning to the industry’s unchanged foundation

There is no question that the entire market is changing, particularly as regards customer expectations and the ways in which insurers and the insured interact. All players are working on agility in order to adapt to the new reality. Yet agility is only sustainable if it is firmly anchored in a stable foundation. In the insurance context, this stable foundation lies at the industry’s roots: protect the world, enable growth. Drawing from those roots, each company needs to identify with a compelling purpose that inspires its employees, gains the trust of its customers and thus delivers added value to its shareholders.

Align the future business model with customers’ preferred mode of interaction

Most players are prioritizing customer-centricity in their strategies. Accordingly, the majority of innovation investments flow into sophisticated products and carefully crafted experiences for customers. However, genuine customer-centricity means letting the customers decide what they want and how they want to be served (pull) rather than overwhelming them with new products and services (push). It is the customer who will determine the nature of future business relationships.
Consequently, it is the insurer’s perceived proximity to the consumer’s core need that will define the business model, which will range between two poles:

- The engagement model with insurers managing relationships with consumers and orchestrating related services
- The invisibility model (i.e., not directly visible to consumers) under which insurers become a risk product factory within an integrated solution that is orchestrated by their business partners (while still securing customer data through interactions with business partners)

Both alternatives are viable options and are not mutually exclusive for any particular player. For instance, an insurer might find it advantageous to pursue the engagement model in its health line but opt for the invisibility model to serve mobility customers. Again, it is the customer’s choice. Incumbents do not need to fear losing direct customer touchpoints as long as they can secure access to the customer data they need.

**Innovate the core business and have the courage to allow internal cannibalization**

Contrary to common belief, innovation has more to do with organizational structures and processes than creativity. It is neither a sustainable nor a credible strategy to leave the core business untouched. An in-depth transformation will eventually be inevitable and, the longer it is postponed, the more difficult it will be. By focusing on the outputs of innovation instead of the inputs, insurers are diminishing their chances of achieving continuous and lasting improvements.

Innovating the core means transforming the business model and organization – the way insurers provide protection, the way they interact with customers and the way they organize and develop people. So cannibalizing the traditional way of doing business is unavoidable. As Apple founder Steve Jobs put it: “If you don’t cannibalize yourself, someone else will.”

Innovating the core is a change process that takes time. It requires insurance leaders to measure success differently – based not only on financial outputs (e.g., premiums, costs, margins) but also on function-specific inputs (e.g., number of customer interactions, net promoter score, traffic on new platform, etc.). That said, even more important is using metrics effectively to set the right incentives. If KPIs are used to determine performance and compensation, people will always deliver the scores that maximize their short-term reward, even if it is at the cost of long-term value creation. In contrast, if KPIs are used to learn, to reflect and to improve the decision-making process, better decisions will be made collectively over time, enabling transformation at the core.

**Activate a virtuous cycle around organization, culture and people**

People are naturally innovative. What hinders their innovative capacity is their environment. Consequently, innovation adoption must start by focusing on organizational design. This will in turn enable the emergence of the right company culture, which will in turn attract the right people, who will then help shape and evolve the innovation-driven organization, thus turning full circle.

**Make IT the core competency**

Rather than relegating IT to the status of a support function, as is still common practice today, executives need to accept the changing nature of their business and the increasing relevance of IT as a core strategic capability.
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True customer-centricity means: it’s not your choice alone. Let customers decide whom they wish to deal with and how they wish to interact. Sometimes, that can mean letting go of a direct relationship.

Long-term and continuous innovation won’t be achieved by focusing all efforts on products and services. They are simply the output. Innovation is a process that results from a compelling purpose to serve customers’ real needs, the right organizational structure and an attractive culture for innovative people to work in.

The core business of insurance will be disrupted – not only the “how” (e.g., underwriting, claims or distribution) but also the “what” (e.g., simple products, services, risk mitigation advice). An in-depth transformation of the core will eventually be inevitable and, the longer it is postponed, the more difficult it will be.

Combining the strengths of insurtechs and incumbents is a smart way to embrace innovation. But it won’t be enough to transform the core business. Today’s insurtechs are in fact merely tech players that provide incumbents with new technology and agility. In the future, leading incumbents will themselves become insurtechs, with IT as their core competency.

Methodologies alone don’t make a difference. People are naturally innovative. What hinders their innovative capacity is their environment – whether they are organized in silos, the extent to which their performance is measured using short-term metrics or how much they fear repercussions in the event of failure. What they crave is the ability to work autonomously, to improve their own mastery and to identify with a compelling purpose.

Going forward, productive collaboration between IT, the core business and new capabilities under a common purpose will mark the difference between the incumbents that will struggle in the new normal and the insurance leaders that will thrive. IT should be the core competency of future insurers. In extreme cases, some of tomorrow’s leading insurance companies will be technology companies that provide insurance.

**Identify and remove common barriers**

Insurers are already pursuing a growing variety of innovation archetypes (open innovation, labs, hub-and-spoke structures, VC funds, innovation centers, etc.). Yet they all repeatedly stumble over the same common hurdles that hinder innovation adoption:

- Failure to scale innovations within the core organization
- Exodus of star performers frustrated with an uninspiring culture and broken promises
- Struggle with fear of cannibalization that paralyzes organizational change
- Expert-driven complexity and dependence on legacy distribution networks
- IT legacy systems that hinder the development of a state-of-the-art infrastructure

Insurers need to systematically learn, adapt and apply innovation leading practice already demonstrated by forerunners in other industries. They need to reflect deeply and look beyond the myths commonly accepted as truths by many in the industry.

**MYTHS**  **BUSTED**

1. **Customer-centricity means engaging customers.**
   
   True customer-centricity means: it’s not your choice alone. Let customers decide whom they wish to deal with and how they wish to interact. Sometimes, that can mean letting go of a direct relationship.

2. **Our investment in innovation is paying off, as our first digital products and services showcase.**
   
   Long-term and continuous innovation won’t be achieved by focusing all efforts on products and services. They are simply the output. Innovation is a process that results from a compelling purpose to serve customers’ real needs, the right organizational structure and an attractive culture for innovative people to work in.

3. **Our core business should stay stable while we stack innovation on top to explore new paths.**
   
   The core business of insurance will be disrupted - not only the “how” (e.g., underwriting, claims or distribution) but also the “what” (e.g., simple products, services, risk mitigation advice). An in-depth transformation of the core will eventually be inevitable and, the longer it is postponed, the more difficult it will be.

4. **We have to collaborate with insurtechs to foster innovation – we need their technology competency and start-up mind-set; they need our scale.**
   
   Combining the strengths of insurtechs and incumbents is a smart way to embrace innovation. But it won’t be enough to transform the core business. Today’s insurtechs are in fact merely tech players that provide incumbents with new technology and agility. In the future, leading incumbents will themselves become insurtechs, with IT as their core competency.

5. **We need to have the right innovation methodologies in place so that our people can be innovative.**
   
   Methodologies alone don’t make a difference. People are naturally innovative. What hinders their innovative capacity is their environment – whether they are organized in silos, the extent to which their performance is measured using short-term metrics or how much they fear repercussions in the event of failure. What they crave is the ability to work autonomously, to improve their own mastery and to identify with a compelling purpose.
Study design

This study presents the results of hypothesis-driven market research and interviews conducted by EY consultants with 15 executives from leading insurance companies active in the Swiss market and industry specialists. A qualitative market research method was chosen to obtain deeper and more personal insights into current assumptions and struggles within the industry as well as future beliefs and expectations. We used a differentiated approach designed to deconstruct and analyze organizational layers that undergo transformation at different paces. The study also synthesizes field experience and observations made in the course of providing professional services to the world’s leading (re)insurance firms.

The study is structured as follows:

• In chapter 1, we present a model for deconstructing and analyzing organizational layers and apply it to the insurance industry. We conclude the chapter with a case study illustrating a successful transformation based on a multi-layered approach.

• Chapter 2 focuses on two of the main drivers of change in the industry: technology and customer expectations. We look at leading practice in other industries and consider what interactions between insurers and insured might look like in the future.

• Chapter 3 drills down deeper into the purpose-led insurer. We consider means of credibly aligning the interests of multiple stakeholders and illustrate leading practice with a case study. We then consider alternative business models with different levels of customer interaction, analyze their respective benefits and challenges and discuss potential monetization systems.

• Chapter 4 presents our analysis of common innovation archetypes. We discuss common hurdles to innovation and how these can be overcome by taking an integrated approach to organizational design, culture and people. The chapter ends with a case study that illustrates key elements of the innovation-driven organization.

• Chapter 5 concludes by setting the agenda for the transformation toward the innovation-driven insurer.

Our special thanks go to the 15 experts from leading insurance companies in Switzerland who participated in our interviews as well as the contributing EY experts in the fields of insurance and innovation. We would also like to thank Giovanni Linardi and Fabian Gebhardt for their valuable research support.
1. A deeply rooted model for innovation – multi-pace layers
Successful systems consist of slower and faster layers. Slow layers remember and provide stability; faster layers learn and allow agility. Similarly, insurers seeking to embark on the transformation toward an innovation-driven organization need to challenge and rethink their approach at multiple levels (figure 1).

**Learning from the trees: pace layers**

<table>
<thead>
<tr>
<th>Time scale of change</th>
<th>Millennia</th>
<th>Centuries</th>
<th>One century</th>
<th>Decades</th>
<th>Seasons</th>
</tr>
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<tbody>
<tr>
<td>Insurer's context</td>
<td>Industry foundation</td>
<td>Company's purpose</td>
<td>Business model</td>
<td>Organization, people &amp; culture</td>
<td>Products &amp; services</td>
</tr>
<tr>
<td>Climate - external shocks</td>
<td>System absorbs external shocks: the more stable the foundation (soil and roots), the more resilient the system against large external shocks. The more stable the purpose, the greater an organization’s ability to build agility and absorb external shocks and the associated VUCA</td>
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**Figure 1: The multi-pace layers model of organizational analysis**

Each layer of the system obtains energy and nutrition from the preceding one. The soil supports the roots, the roots support the trunk, the trunk supports the branches and the branches support the leaves. The same interdependence can be seen between different corporate organizational elements. A stable industry foundation is important to enable resilience, but it is insufficient to embrace the inevitable changes ahead. Companies need a stable foundation that can offer resilience to external shocks but that simultaneously fosters agility. Experience shows that the more stable and coherent the organization's purpose, the greater its resilience against external shocks and the associated volatility, uncertainty, complexity and ambiguity (VUCA), and the better its ability to respond with agility to market trends.
**Insurers’ exposure to change – layer by layer**

Layer by layer, insurers need to scrutinize every aspect of their business against the backdrop of changing client expectations and digital disruption, and impartially decide what will still work and what needs to evolve, without fear of cannibalization.

**Soil and roots – industry foundation and company’s purpose.** Although the amount and types of risks will continue to change over time, the industry’s foundation – i.e., protection – will likely remain a reliable constant. However, companies need to revisit their purpose, which should be unique, but might be related to the industry’s foundation and make sure that it is deeply embedded in all of their operations.

**Trunk – business model.** Many industry insiders agree that business models are set to undergo a complete overhaul in the near future. Moving on from the ubiquitous B2C model, insurers will be required to acknowledge the supremacy of the consumer as the initiator of any relationship and find a position on the value chain that involves either close interaction with consumers or indirect interaction through business partners. Their chosen positioning will also largely determine their monetization options, which will increasingly entail a mix of premiums and fees for insurance-related services.

**Branches – organization, culture, people.** Innovative products and services will naturally arise in an environment where people are empowered to be innovative. Conversely, companies that focus on hiring the right people but do not tackle the underlying organizational structure and prevailing culture will find it difficult to retain their star performers in the long run. At present, insurers are typically organized by lines of business and functions. These tend to be staffed by highly specialized experts with an affinity for complexity. The insurance organization of the future will prioritize transparency of products over complexity. It will also be structured by customer segments and focus on their needs. Accordingly, the emphasis will shift from product revenue and costs to customer value management.

**Leaves – the products and services.** The products and services offered by insurers constitute the layer that is naturally most exposed to change. Today, insurance coverage is closely tied to specific products or narrowly defined services. In future, we will increasingly see integrated solutions tailored to specific customer needs and continually refined. Ultimately, innovative products and services will be the natural and continuous result of a successful transformation into a truly innovation-driven company with a clear purpose and organizational structure that empowers people and a culture conducive to innovation.

In the following chapters, we take a closer look at each of these individual layers and consider the misconceptions and barriers that can hinder the development of innovation capacity in insurance companies. We also examine leading practices in other industries and identify practical guidance for the insurance sector.
“If you look closely at all innovation initiatives, few are addressing the essence of insurance: our customers are still managing the complexity of our business.”
Adrian Honegger, Head of Group Strategy and Digital Transformation, Baloise

Innovation efforts are picking up momentum

Although the insurance sector has had little incentive to challenge its business and established structures in response to concrete external shocks so far, many industry insiders have begun to look at the consequences of digital disruption and rising customer expectations in other industries with concern and fear being caught off guard. Accordingly, innovation efforts in insurance are showing an upward trend that is set to accelerate in the coming years (figure 2).

Innovation submissions are only going in one direction: up

Innovation submissions during 2016 – 2018

- Innovation submissions are rising
- High innovation activity observed in 2018 and further increase expected in 2019

Recent activity suggests that companies are gradually adopting a more balanced approach to innovation that is increasingly covering additional dimensions (as opposed to a blinkered focus on product and service innovation), as is evidenced by the perceptible growth in 2018 in innovation efforts dedicated to internal processes and broader customer needs (figure 3).

Insurance companies are extending the footprint of innovation efforts

Innovation efforts by category, 2016 – 2018

- Recent activity suggests a more balanced approach, with a considerable increase in 2018 in the fields of internal capabilities and broader customer needs compared with previous years

In general, however, most innovation initiatives in the insurance sector still tend to be isolated and predominantly geared toward products and services. Experience shows that this approach leads to modest results as such products and services are typically developed in a protected space and companies routinely fail to scale them within their core organization.
Figure 4 confirms that, relative to innovation work on products and services, far fewer efforts in the period from 2016 to 2018 were dedicated to broader organizational change like optimizing internal capabilities or changes to business models such as the introduction of new distribution channels or the development of integrated solutions with external partners.

![Figure 4: Total innovation submissions by category, 2016 – 2018](image)

Figure 4: Total innovation submissions by category, 2016 – 2018

Such isolated approaches exclusively dedicated to products and services place severe limits on the total potential that can be extracted from innovation.

**Obtaining transparency of innovation spend**

Companies need to track and measure the success and return on investment of innovation initiatives within a fail-fast system so that they can abort failing attempts at an early stage and quickly redirect limited resources to the projects offering the most potential. Indeed, execution excellence will often determine whether innovation initiatives and transformation efforts thrive or perish — often more so than the underlying business idea. Measuring the performance of innovation initiatives is thus essential.

The process of defining appropriate metrics can be challenging, but it is of vital importance and requires due diligence. Insurers need to be able to pinpoint with accuracy where innovation spend is delivering the best returns. Yet the returns will not necessarily be only of a financial nature (based on revenue, costs, margins); they could conceivably relate to a broad spectrum of business aspects such as user network growth, intensity of interaction with customers, employee retention or a wide variety of qualitative variables.

The German publishing house Axel Springer serves as a good example of a leading practice concerning holistic transformation covering multiple layers spanning the publisher’s purpose to its products.

But what exactly are the developments in the insurance sector that incumbents need to keep track off? And what are their implications for established business models? In the next chapter we examine potential scenarios that insurers might well be faced with as a result of changing customer expectations and emerging technologies.
Headquartered in Berlin, Axel Springer SE is Europe’s largest digital publishing house. Its brands include Bild, Die Welt, and Business Insider. With over 15,000 employees, the group generated total revenue in 2017 of €3.6 billion.

Axel Springer was quick to recognize the changing climate and evolve its organization in a multi-layered approach.

Leading practice for a holistic transformation: from purpose to products

Case study addresses the following pace layers:
- All layers

Climate
- Transition to digital & information age
- Customers demand instant availability of news
- Decreasing demand for traditional print products
- Accessibility on multiple devices expected (especially online)
- Decreasing publishing sales and ad revenue

External shock
- First digital initiatives in 1996
- Almost no revenue from digital business in 2000
- Separate business segments (print and digital)
- 90% of employees working in print business
- Business model depended on print sales and ad revenue

Prior to transformation
- By 2016, over 72% of operating profit stemmed from digital
- Integration of online and print segments (removed silo thinking) — all employees clearly focused on content, both online and print
- Diversified revenue streams ranging from online and print to platform business models
- Freedom of speech, democracy, free market economy
- Independent journalism was and continues to be (unchanged) at the heart of the industry

Post-transformation

Determinants of success
1996 was the year in which Axel Springer SE mounted its response to digital disruption — way ahead of its time. A few years later, Axel Springer sold some of its more traditional print newspapers and sharpened its focus on digital offerings. 90% of employees came from the traditional printing business and could have potentially hindered the transformation process. So Axel Springer fostered an environment in which traditional print employees would support the change process. Fear of cannibalization between the print and digital business was addressed head-on and internal competition even encouraged. The company’s digital vision was translated into tangible goals for every employee and new values were defined to facilitate entrepreneurship and creativity.
2. Adjusting to a changing climate – new customer expectations, new technologies
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Fast-track innovators in other industries are changing the way customers view the world. Innovation forerunners like Spotify and Netflix as well as local influencers like Migros and Swiss Post are setting the standards that others have to follow across practically all consumer-facing industries, but also increasingly in B2B.

**Anticipating customer needs**

One key element of innovation is the ability to anticipate customer needs. At present, insurance products tend to be complex and opaque. In addition, insurers often take a reactive approach to customer needs and interactions are time-consuming. A look at other industries reveals that customers increasingly demand convenience, transparency and service providers that take the initiative in customer interactions (table 1). To convince customers of the added value of their offering, insurers will actually have to exceed current customers standards with respect to simplicity, transparency, relevance and speed.

Customers’ expectations are changing driven by their experience in other industries

<table>
<thead>
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<th>Today</th>
<th>Tomorrow</th>
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<tr>
<td><strong>Insurance</strong></td>
<td><strong>Forerunners in other industries</strong></td>
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**Simplicity**

- **Complex**
  - Insurance customers are overwhelmed by the huge variety of insurers and their multifaceted product offerings
  - Product differences and contract details are often excessively complicated – many customers are over-insured for some risks and lack coverage for others as a result

- **Convenient**
  - The streaming service Spotify provides access to a vast number of music titles and recommends/preselects relevant content for its customers by analyzing their usage patterns and preferences

- **Integrated (vs. modular)**
  - Anticipate insurance coverage where, when and as long as customers need it
  - Offer simple and solution-driven offerings, combining complementary services of multiple companies around fundamental customer needs like mobility or health

**Know your customers**

- How well do you understand your customers today and how are they influenced by their experiences in other industries?
- Discard your current assumptions about your customers and their needs. Next, leave your desk regardless of your rank and conduct market research in the field.

**Add value for your customers**

- Are your customers the starting and end point of all your initiatives?
- The sole "killer criterion" determining whether to invest (or not) in an innovation initiative should be customer value, i.e., the extent to which the initiative will satisfy a specific need and whether customers are willing to pay for it. The contribution to the financial performance of a particular line of business is the result.
"There are two customer segments with regard to buying behavior: convenience buyers who prefer bundled products and transparency buyers who prefer modular products."
Michael Müller, CEO Switzerland, Baloise

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<td><strong>Forerunners in other industries</strong></td>
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<tr>
<td><strong>Transparency</strong></td>
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<tr>
<td><strong>Black box</strong></td>
<td><strong>Transparent</strong></td>
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<tr>
<td>• Customers do not understand the rationale behind claim acceptance or rejections</td>
<td>• Swiss Post allows customers to track the shipping status of their mail and to actively influence the process (e.g., the delivery address)</td>
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<tr>
<td>• Product features can be looked up, but are too often too complicated to be fully understood</td>
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<tr>
<td><strong>Relevance</strong></td>
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<tr>
<td><strong>Reactive</strong></td>
<td><strong>Proactive</strong></td>
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<tr>
<td>• Insurers do not systematically analyze customers’ underlying insurance decisions</td>
<td>• The video streaming platform Netflix analyzes customers’ preferences and produces movies and series with matching content</td>
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<td>• Customers therefore have to explicitly communicate their coverage needs or risk ending up with insurance they don’t need</td>
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<tr>
<td><strong>Speed</strong></td>
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<tr>
<td><strong>Time-consuming</strong></td>
<td><strong>Time-efficient</strong></td>
</tr>
<tr>
<td>• Lengthy search for information on insurance offerings and conditions</td>
<td>• Customers of Swiss supermarket chains Coop and Migros can use faster digital self-service checkouts rather than waiting in line at traditional checkouts</td>
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<tr>
<td>• Physical contract conclusion process often causes delays</td>
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Table 1: Cross-sectoral analysis of changing customer expectations and their implications for the insurance sector

Different customers have different levels of expectations on the properties of offerings such as convenience versus transparency. Insurers will need to adapt their service offerings to different archetypes irrespective of their chosen business model (see next chapter for an analysis of future business models).

**How will insurers and insured interact in tomorrow’s world?**

It is difficult to predict the exact form that interactions between insurers and insured will take in the future, but they will certainly be very different to what we have become accustomed to. Given this uncertainty, how can insurers best equip their organizations with dynamic operating models capable of serving tomorrow’s demanding customers?

In the following we envision three future customer scenarios and consider the implications for mobility, health and life insurance.
Future customer scenario 1

Life

New technologies increase opportunities and demand for proactive interaction with customers

A childhood dream come true: Caroline is finally travelling with her husband Carl to Hawaii. Her risk advisor notices that she is considering taking a boat trip close to lava flows based on her internet search history (which Caroline has permitted by signing a data sharing agreement) and contacts her through a consultation chat. The adviser puts the risk of taking the trip into context and advises her based on her personal risk tolerance profile. After the consultation, Caroline decides to go on the trip and uses her smartphone to buy insurance coverage by simply activating a module to her life insurance portfolio, which she can later deactivate after the trip.

10 years ago, Caroline and Carl decided to take out life insurance to secure a high quality of life for their children. She signed up with a risk adviser who helps her to consciously assess the risks she typically takes. Having given her consent to exchange data from her behavior trackers, the advisor is not only able to understand her personal risk tolerance profile, but can also foresee higher-risk events before they occur. For instance, Caroline's risk advisor can proactively contact her when her behavior suggests that high-risk events that exceed her tolerance level might occur.

After the sightseeing trip to the lava flows, she decreases her risk tolerance slightly to reflect her greater risk aversion, thinking: “been there, done that”.

What role can an insurer play in these scenarios?
Can an insurer adapt to the variety and complexity of customer needs?
Future customer scenario 2

Health

New customer behavior creates opportunities for insurers with a holistic problem-solving mindset

Aged 28 | Single | Shares an apartment | Works 60% as a brand designer and 40% for an NGO | Is interested in the environment and hiking | Lives by the code of: memento mori

Anna comes home after a tough day at work and immediately opens a parcel that her flatmate accepted for her. Inside, she finds a slick etui.

Earlier in the day, after her usual morning run, her smart contact lenses reported an abnormal level of carcinogens in her blood. Her smart tool responded to the finding by asking Anna for permission to investigate further. By accepting, Anna set a chain of events in motion.

While getting ready for work, all available data was sent to her health partner, who contacted the third-party solution providers best-suited to deal with Anna’s problem. Anna’s health partner also updated her food plan for the next few weeks and communicated it to her smart fridge, which autonomously orders her groceries.

Anna opens the etui and finds a tiny red pill. She wonders how it could possibly work: after swallowing the pill, she was told, it will gather additional information in her intestines, where a problem is suspected. Depending on the results, a doctor’s appointment will be arranged for the coming days.

Anna is glad to have a health partner she trusts to support her in improving her health, while taking care of all medical costs and even automatically providing her with any employer sick-leave certificates she might need.

Can an insurer serve Anna as an active health partner?
How can an insurer win Anna’s trust to use her data for the greater good (e.g., a healthier society)?
How will insurers cooperate with third parties to holistically serve customer needs?

8 Within the boundaries of the permission levels set by Anna.
Future customer scenario 3
Mobility

Insurers will not always interact directly with customers

Aged 45 | Married | One son | Lives in a small house in the suburbs | Works as a manager for a large industrial company | Values making the most of his limited free time and spending it with his family

Giorgio comes home from an exhausting day at work. He checks his watch: 7 p.m. Like every Wednesday, his son’s ice hockey training has just ended. In the past, he would have had to rush out to pick him up from the ice rink, a 30-minute drive away.

Conveniently, he recently subscribed to an app-based, on-demand mobility service. Giorgio opens the app and sees that there are two autonomous cars near the ice rink. He indicates where his son should be picked up and selects “home” as destination. Done.

Just 10 minutes later, on the other side of the city, Giorgio’s wife Sabrina leaves work at her usual time. The mobility platform has gradually learned her routine and had already asked her on her way to work whether she needs a ride home at 7:10 p.m.

Giorgio takes advantage of the time freed up to prepare dinner so that he can enjoy a pleasant evening with his family when they all arrive at 7:30 p.m.

The use-based bill for car services is automatically charged to Giorgio’s bank account at the end of each month together with the family’s other public transport fees.

- Which role can an insurer play in providing mobility to Giorgio?
- How can an insurer secure access to customer data?
- How can larger data pools be translated into better customer understanding for better products and services?
3. The soil, roots and trunk – identifying what to shed, what to keep
Rediscovering the purpose of insurers

Originally, the purpose of insurance was to collectively share and mitigate risk in order to manage entrepreneurial risks and foster economic growth. Early insurance products evolved in a mercantile economy and consisted of agreements governing mutual assistance. For instance, merchants would reciprocally allocate to each other cargo space on their respective ships, effectively mitigating risk by distributing cargo among as many vessels as possible. In that sense, the predominant business model was essentially peer-to-peer by nature (similar to the modern sharing economy concept). The principles of solidarity and mutual-benefit played a key role.

In contrast, today’s insurers are oriented toward earning returns and creating value for their shareholders. To this end, the insurance sector has edged away from a purpose-led enterprise based on risk-sharing toward a business centered around pricing risk for maximized profit (i.e., a for-profit model). The challenge lies in returning to a purpose-led enterprise that serves the interests of customers, investors and shareholders (figure 5).

Engage your employees under a shared purpose

- Is every employee able to state your company’s purpose?
- If not, reflect on your purpose and redefine it if necessary to align all your employees toward a common vision. Then break the purpose down to an individual level so that each employee understands his/her individual contribution.

Tell the story about your purpose to customers and the broader market

- This is not a one-off marketing campaign; it is continuous, consistent storytelling, explaining why you do what you do.
- Customers’ buying behavior is not only dependent on economic value but also on emotional value.

Achieve customer-centricity by accepting customers’ preferences

- Have you ever asked your customers what they want you to be?
- Choose the business model that customers perceive as the most credible means of fulfilling their needs. Your governing thought must be: how can I optimally align my purpose with my customers’ needs. This may entail cannibalizing your existing business and switching from a premium-driven revenue model to a portfolio of premium and service fees.

Call for action

Engage your employees under a shared purpose

Tell the story about your purpose to customers and the broader market

Achieve customer-centricity by accepting customers’ preferences
"Transparency is the first step, a gateway if you will, to customer trust and loyalty."
Marion Koch, Head of Strategy, Swiss Life (Switzerland)

In pursuit of profit and shareholder value, the industry has adopted a highly product-centric approach to business, partly losing sight of customers’ needs and wishes. Indeed, the overemphasis on products has tended to alienate customers, leading to a substantial loss of trust in many cases. Customers have responded to insurers’ obsession with products and the ever-increasing commoditization of offerings by making purchase decisions almost exclusively based on pricing.

Going forward, insurers need to pursue a model that aligns their purpose with the interests of multiple stakeholders. Aside from simply providing capital to cover risk, they should also increase their activities in risk education and prevention as well as asset recovery.

The investment management firm Vanguard is an interesting example of how different stakeholders’ interests can be reconciled.
Are you innovating your business or just testing your creativity? — A guide to leading practice transformation into an innovation-driven insurer

Vanguard has successfully aligned the interests of customers and owners - by merging them

*Leading practice* for alignment of customers’ and company’s interests

**Case study addresses the following pace layers:**
Purpose | Business model

---

**Vanguard’s purpose:**
“Take a stand for all investors, to treat them fairly, and to give them the best chance for investment success”.

---

**Transparency of fees**
- Vanguard’s annual management charges include all ongoing costs and are transparent for customers

**Competitive pricing**
- Vanguard’s average ETF expense ratio is 0.08% (industry average: 0.31%)†

**Better performance**
- The majority of Vanguard’s funds are passively managed
- Investors realize that passive funds are performing better because of their lower cost base

**Alignment of customers’ and company’s interests**
- Vanguard is owned by Vanguard’s US domiciled funds and ETFs
- Those are owned by customers (shareholders) only
- Customer and shareholder interests are thus aligned

---

**Customer value:**
1. Better performance of portfolios due to lower fees
2. Transparent pricing of investment products

---

**Implications for insurers**
- Business models can serve to link the company’s purpose with customers’ needs and put customers at the center of all activities
- The model keeps all profits within the system and uses them to drive innovative developments
- The business model was introduced at a time when all other players in the asset management industry were pursuing an active investment strategy and charging expensive fees

---

† as of 31 Januar 2018
‡Investors equal customers in Vanguard’s business model
† as of 31 December 2017
†US asset-weighted fund expenses as a percentage of 2017 average net assets
“All direct insurers are pursuing the same strategy: a shift from risk-takers to advisors. The question is what do customers want from them?”

Pietro Carnevale, Head of Strategy & Innovation, Generali Switzerland

Furthermore, insurers have to recognize that it is customers who decide what business model best suits their needs and delivers the level of convenience they expect. As in the future health insurance scenario (Anna) outlined in chapter 2, it may be expedient for some insurers to interact directly with consumers. In contrast, the mobility insurance scenario (Giorgio) illustrates a case in which insurers might be better off positioning their business model further upstream in the value chain, a topic we will explore in more detail in the next section.

Another point to consider is that within each customer need segment (based on consumer needs like mobility or life assurance rather than lines of business), several business models will likely coexist alongside each other in a differentiated attempt to systematically address the preferences of specific customer archetypes.

**Finding the ideal position on the insurance value chain**

In contrast to the commonly observed distinction between B2B and B2C business models, we prefer to use the terms C2B2B and C2B2B. The initial C in both instances reflects the fact that consumers have gained considerable market power in recent years and are increasingly able to determine the nature of business relationships. The B in bold font represents the insurer’s position on the value chain, either close to consumers or further upstream.

The intensity of interaction between insurers and customers is mainly a result of customers’ perceived relevance to their core need (figure 6). For instance, customers who simply want to travel from A to B will seek a convenient and cost-effective mobility provider and give little thought to the related insurance coverage, which consumers will simply expect to be an integral part of the overall package. In contrast, buyers of life insurance will give more careful consideration to their choice of insurance provider as they seek to protect the living standard of their loved ones in the event of their untimely death.

![Figure 6: Customers’ perception of distance and credibility of insurer’s offering with respect to their immediate needs](image-url)

**The customer decides** on the nature of the business relationship, depending on the credibility of the insurer’s offering

<table>
<thead>
<tr>
<th>Insurers’ offering is perceived close to customers’ needs</th>
<th>Insurers’ offering is perceived distant from customers’ needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>High direct customer interaction</td>
<td>Low direct customer interaction</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>🧱 Protect the quality of life of my loved ones</td>
<td>🧱 Protect me from unforeseen events</td>
</tr>
<tr>
<td>🏠 Help me live healthier and longer</td>
<td>🏡 Protect my home and belongings</td>
</tr>
<tr>
<td>📷 Protect my data and privacy</td>
<td>🚗 Take me from A to B with the utmost convenience</td>
</tr>
</tbody>
</table>

Emerging macro needs from customer’s point of view

Figure 6: Customers’ perception of distance and credibility of insurer’s offering with respect to their immediate needs
"Insurers should first make sure not to disappoint customers before they aim to inspire them."
Patrick Scherrer, Head of Strategy and M&A, Helvetia

Many insurers fear losing contact to consumers. But are their fears founded? In many cases direct touchpoints with customers are irrelevant as long as insurers can obtain the data they need to do business and develop the added-value products and services demanded by customers. In fact, insurers might well find that their business partners are a richer source of valuable customer data than their own direct interactions. In many cases, the strict C2B2B model will also prove the more cost-effective option and it will allow insurers to concentrate their limited resources on how to better serve customer needs with insurers’ core competence. Table 2 below provides an analysis of the benefits and drawbacks associated with the two poles. It also presents examples of (re)insurers in Switzerland and abroad that have already launched first initiatives in a bid to develop engagement or invisibility models in specific segments.

<table>
<thead>
<tr>
<th>Engagement model (C2B2B)</th>
<th>Invisibility model (C2B2B)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>• Insurer engages the customers directly and orchestrates other services in the background</td>
</tr>
<tr>
<td><strong>Chances</strong></td>
<td>• Insurer leverages existing expertise to serve as a provider of risk management services</td>
</tr>
<tr>
<td>• Customers attach emotional value to the insurer’s brand and are willing to pay a premium for the extra service</td>
<td></td>
</tr>
<tr>
<td>• Direct touchpoints with customers can be used to foster trust and customer loyalty</td>
<td></td>
</tr>
<tr>
<td>• Partnering with players from different sectors can help strengthen market position</td>
<td></td>
</tr>
<tr>
<td>• Accelerated scalability with the right partners in front end</td>
<td></td>
</tr>
<tr>
<td>• Opportunity to understand customers even better by operating behind the scenes with aggregated data obtained from multiple partners who have direct touchpoints to end customers</td>
<td></td>
</tr>
<tr>
<td>• Allows better risk assessment and provision of risk mitigation advice</td>
<td></td>
</tr>
<tr>
<td>• Alternative risk transfer capabilities might take up market share</td>
<td></td>
</tr>
<tr>
<td>• Business partners control the direct access to customer data</td>
<td></td>
</tr>
<tr>
<td><strong>Risks</strong></td>
<td>• Insurers have to reorganize from an organization based on lines of business to one based on customer segments</td>
</tr>
<tr>
<td>• Customers are demanding and have high expectations on their primary point of contact</td>
<td></td>
</tr>
<tr>
<td>• With iptiQ¹¹, Swiss Re has established a good example of an invisibility model. iptiQ is a “white label” life and health insurance provider that works in partnership with consumer insurance brands. It does not sell insurance directly to customers, but instead builds simple insurance solutions by drawing on Swiss Re’s expertise and its partners’ knowledge in bringing the right products to the right people. iptiQ is currently expanding into the non-life market with the same proposition.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Case studies in Switzerland</th>
<th>Case studies in Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td>• smile.direct¹⁰, which is part of the Helvetia Group, applies the engagement model. With its online insurer, it aims to foster direct digital relationships with customers. To complement its current portfolio with health insurance offerings, it has partnered with Sanitas. In this context, smile.direct acts as a gateway between the customer need for health insurance and the Sanitas health offering. The latter is branded as “smile.health”.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• With iptiQ¹¹, Swiss Re has established a good example of an invisibility model. iptiQ is a “white label” life and health insurance provider that works in partnership with consumer insurance brands. It does not sell insurance directly to customers, but instead builds simple insurance solutions by drawing on Swiss Re’s expertise and its partners’ knowledge in bringing the right products to the right people. iptiQ is currently expanding into the non-life market with the same proposition.</td>
</tr>
</tbody>
</table>
If you have to educate people about the problem that your product solves, then you are not offering a solution to a compelling enough problem for which people will immediately be willing to pay.

Oliver Werneyer, Co-Founder & CEO, Imburse Payments

Insurance Innovators: The Future of General Insurance Report 18/19”; survey of 1,000 senior executives in the insurance sector, including insurers, brokers and aggregators active in both personal and commercial lines

Monetization

Regardless of the business model insurers choose, a growing trend is evident in the industry toward supplementing premiums with fee-based monetization. Indeed, recent studies indicate that fees will need to make up a much bigger share of insurers’ top lines in the future. In a recent survey, 57% of insurers stated that they expected a significant reduction in premium income. At the same time, 74% of respondents believed that differentiation in the insurance market will become more focused on the quality of fee-based services than on the price of compensation-based insurance.

Today’s insurance customers have little patience for complicated and time-consuming claims processes. Insurers that can help consumers reduce risk (figure 7) while improving their experience will be able to interact closely with them and potentially also charge fees for add-on services (engagement model). These might include convenient services that are only loosely related to the core need for insurance coverage (e.g., providing customers benchmark information comparing their risk behavior to that of their peer group). As we saw in the life insurance scenario (Caroline) portrayed in the previous chapter, consumers might also be willing to pay for advice on how they can better manage and mitigate their risks. Another potential revenue stream: insurers could distribute the products that support customers’ efforts to prevent and reduce risks (e.g., health devices that monitor specific health risks).

Future revenue source

Figure 7: Potential revenue sources from the engagement model and the invisibility model

"Insurance Innovators: The Future of General Insurance Report 18/19"; survey of 1,000 senior executives in the insurance sector, including insurers, brokers and aggregators active in both personal and commercial lines
In contrast, insurers that choose the invisibility model will likely focus on their expertise analyzing, transferring and pricing risk. Potential revenue models from analyzing risks might include developing risk rating or risk mitigation products for clients that integrate evolving technology. Consider, for instance, the alliance between Swiss Re and BMW, which leverages driver-assistance systems to calculate risk scorings. In insurers could also specialize in the management of back books, a field in which considerable movement and restructuring is expected in the coming years. With respect to risk-prevention, insurers could offer products and services designed to mitigate risks (e.g., cybersecurity software).

h In partnership with Swiss Re, the BMW Group is seeking to leverage the growing sophistication of its driver-assistance systems to lower insurance premiums for customers. The solution will enable primary insurers to calculate premiums based on an individual assessment of each vehicle's technical features.
4. The branches and leaves – striking a balance between speed and reliability
Deploy innovation at two levels:
1. Innovate around “what you offer” – translate an idea into a product or a service that satisfies specific needs for which customers will pay (products and services)
2. Innovate around “who you are” – systematically apply new information, technology and imagination in converting resources into innovation capabilities (business model)
First-level innovation is easier but it will not transform the core business. Second-level innovation will penetrate the core.

Technology makes things possible, people make things happen. So invest in both:
- Learn from other players (e.g., insurtechs) and eventually internalize IT as a core competency, i.e., as an integral element of each line of business. The industry’s future leaders will be technology companies that provide insurance.
- Get to know your future workforce (their skills, their mindsets, their motivation) and create an organizational environment that will secure their loyalty (structure, incentives, ways of collaboration). Focusing on recruitment isn’t enough. In order to attract and retain talent, you need a powerful magnet – your culture.

At present, Swiss insurers are pursuing a variety of strategies and approaches geared toward accelerating innovation based on their respective goals and needs (figure 8).

Selection of innovation archetypes depending on goals and needs

<table>
<thead>
<tr>
<th>Degree of centralization</th>
<th>Common innovation archetypes</th>
<th>Key advantages</th>
<th>Main disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralized</td>
<td>Labs, hub &amp; spoke A</td>
<td>• Motivates internal community to innovate</td>
<td>• Initiators of new ideas often lack the time to fully immerse themselves in their development</td>
</tr>
<tr>
<td></td>
<td>Open innovation B</td>
<td>• Enables knowledge transfer from alliances</td>
<td>• Taking developed ideas to the next level is often difficult due to unclear ownership</td>
</tr>
<tr>
<td>Centralized</td>
<td>Innovation center C</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>VC fund D</td>
<td></td>
<td></td>
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</tbody>
</table>

Percentage of Swiss insurers which pursue this innovation approach

Level of inclusivity

Figure 8: Share of Swiss insurers pursuing most common innovation archetypes

All innovation archetypes have their distinct benefits and drawbacks (table 3).
“Setting aside any fear of cannibalization and adjusting existing profitable business are prerequisites for successful innovation.”

David Hollander, Global Insurance Leader, EY

<table>
<thead>
<tr>
<th>Incumbent’s goal</th>
<th>Key advantages</th>
<th>Main disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>B</strong> • Instill innovation by creating physical and digital spaces where people can exchange and collaborate</td>
<td>• Offers inspiration from other companies and professions • Exposes incumbent to lean start-up structures and new forms of collaboration</td>
<td>• Added value to insurer is not directly visible or measurable for internal stakeholders • Successful start-ups tend to leave open innovation hubs as they grow</td>
</tr>
<tr>
<td><strong>C</strong> • Deploy a centralized innovation team tasked with use-case development for different business areas throughout the company</td>
<td>• Eases alignment with corporate strategy • Efficient form of spreading innovation methodologies (e.g., design thinking) across the company</td>
<td>• Lacks outside perspective and restricted by company’s organizational structure • Struggles to sustain the culture of innovation in the entire company</td>
</tr>
<tr>
<td><strong>D</strong> • Invest in start-ups to benefit from potential success as well as absorb new technologies and culture</td>
<td>• Provides access to external innovative solutions and IT capabilities • Permits diversification of innovation initiatives</td>
<td>• Risks of over-valued start-ups that don’t offer anticipated capabilities • Difficulty to integrate start-ups without killing their culture</td>
</tr>
</tbody>
</table>

Table 3: Analysis of common innovation archetypes

However, irrespective of the path chosen by insurers, many are encountering the same hurdles. For instance, new hires brought in to support the transformation often feel alienated and frustrated by the rigid organizational environment. Another frequent setback: fear of cannibalizing existing business often paralyzes genuine attempts at organizational change. Some insurers have also found that their natural drift toward expert-driven structures can inhibit innovative approaches.

Moreover, the adoption of methodologies geared toward boosting innovation capacity – e.g., agile collaboration, design thinking or lean start-ups – is not going to deliver the level of differentiation that many hope for. Such techniques are already common practice in many other industries and they will similarly become a staple element across the insurance sector in the near future. In addition, an obsession with new methodologies and the development of new products and services can distract from the core problem: that innovation needs to be embraced by people throughout the organization. One important lesson is that depth of transformation is key, regardless of the chosen innovation archetype. By the same token, any transformation strategy that fails to tackle the core is neither sustainable nor credible. Sooner or later, a more thorough transformation will be unavoidable, and the longer that organizations delay, the tougher it will prove to be.

**Innovation is the result of the right organizational environment**

Time and again, players across a wide variety of industries have shown that successful transformation goes hand in hand with the evolution of a new company DNA. Before turning to the business of coming up with new products and services, innovation efforts must focus on how the deepest interactions within the company work and how they engage with the outside world in order to create a seamless, permanent and continually evolving culture of innovation that doesn’t merely produce once-off hits, but can flexibly adapt to the changing environment and consistently outperform rivals. Text box 1 shows an example of a successful innovation initiative that was deeply ingrained in the organization.
Spotify. In 2012, seven years after its launch, Spotify began to create an internal guide on agile principles. It soon became clear that the company lacked a common understanding of agile principles across the organization. With that in mind, employees, working together with agile coaches, formulated the new “Agile à la Spotify” concept that would later become the manifesto for the company’s organizational design and way of working.

Today, the whole organization consists of “squads”, i.e., teams made up of cross-functional members. Squads are self-organized and have end-to-end responsibility for their products and services. This approach affords them utmost autonomy, which not only increases the speed of decisions, but also motivates employees. At the same time, multiple mechanisms actively support the alignment of different squads (e.g. through the company’s mission statement). The overall goal is thus to have teams that are "loosely coupled but tightly aligned".

The virtuous cycle – organization, people, culture

A purpose-led organizational setup is conducive to a culture that attracts diverse and innovative people who in turn help refine the organizational setup and enrich the corporate culture, thus turning full circle. The resulting self-perpetuating cycle can amplify the individual effects to create an impact that is greater than the sum of its parts - provided it’s done right. Indeed most people are naturally innovative – in the right environment. However, when insurers neglect the balance between organization, culture and people, or quite simply get it wrong, the cycle can quickly spin into a destabilizing force that can prompt star performers to leave and seek more inspiring employment. So, although people are a key element of the innovation-driven organization, they are not the starting point of effective transformation efforts.

Figure 9: Interdependence of organizational setup, culture and people
Sustainable innovation requires a shift in the leadership profile: from technical experts to change orchestrators.

Samuel Grossenbacher, Head of Personal Lines, Mobiliar

Organizational design faces unprecedented challenges as business and IT merge closer together in order to anticipate at increasing speed changing customer needs and to accelerate technological development. IT will thus undergo a radical shift from merely serving as a peripheral support function to becoming one of the core competencies within organizations. Consequently, business and IT are going to have to find new ways of coexisting seamlessly and productively.

Consumer-facing insurers will also see a substantial shift in their organizational structure from lines of business (i.e., products) to customer segments (i.e., needs). Current incentives and KPIs are the outcome of hierarchical organizations and will need to be redefined. By the same token, budget, resource and performance management will also have to be overhauled as they are repurposed for application in the context of agile projects, internal ventures or participation in external start-ups.

Culture. Instilling and cultivating the right culture is essential. That requires unwavering commitment from leadership. Without it, the ranks with high tenure in particular are almost certain to resist adaptation. In addition, any effort to infuse a culture in which failure is valued as an opportunity to learn and improve can only be persuasive if it is role-modeled from the top. What mistakes have leaders made? What have they learned from them? How has the company benefited as a result?

Relegating the core business to the function of a cash cow whose strategic task is to finance all other projects is sure to be met with resistance from long-standing employees understandably unwilling to be treated like dinosaurs destined for extinction while new business models pick up traction. It is therefore vital to actively involve core business staff (and skeptics in particular) in the transformation process. Yet it goes both ways: high-tenure staff need to understand why change is needed; but it is equally important that everybody throughout the organization understands and appreciates the core business.

The right organizational design and culture are vital for attracting the right people and retaining them.

People. It is true that innovation starts and ends with people. But insurers should not start their transformation journey with general recruitment campaigns, inconsistent employer branding or forced up-skilling programs.

Forerunners proactively engage with employees and discuss the impact of digitization. It is important that insurers create diversified, empowered and inclusive teams that excel in execution. They also need to leverage talents, including externals – from industry experts to technology providers. Indeed, as technology increasingly becomes a core capability across all lines of service, the composition of teams will undergo fundamental change. Accordingly, future teams will feature closer integration of new specialists (e.g., agile coaches, data scientists, customer experience designers) and specific personalities (visionary warriors fighting for the cause, innovative shapers valued for their lateral thinking and persistent doers with implementation skills).

Leadership, too, has a completely different role to play in the agile organization. Shedding the traditional management profile, leaders will need to hone their change management skills in particular. Their function will be to support and empower project teams rather than permanently instruct and control them. As one industry insider put it: “The management creates a positive environment, employees produce the actual innovation.”

In effect, all three elements – organization, culture and people – must be synced under the banner of a powerful shared purpose that is embraced throughout the organization.

1 Mathias Zingg, Head of Claims, Baloise
Case study  Valve

Valve Corporation is a US video game and hardware producer. It is behind highly successful video games, the world’s largest online gaming portal, Steam, and the widely used game programming environment, Source.

Valve is an example of how to enable employees to stay innovative by establishing the necessary organizational frame

Leading practice for organizational design & culture as the motor of innovation and financial success

Case study addresses the following pace layers:
Purpose | Organization and people

Success as an outcome
In 2012, Valve reported a higher profitability per employee than Google, Amazon or Microsoft

Self-organization
• Valve has no hierarchies and no job descriptions
• Teams do not have formally assigned leaders. Project leads are chosen by consensus. There is no extra prestige or money for serving as a lead
• Project teams often adopt temporary internal structures specifically aligned to the group’s needs

Implications for Swiss insurers
• Insurers should rethink their organizational design to foster innovation instead of solely focusing on developing innovative products and services within legacy and rigid structures

Entrepreneurial mindset
• The success of Valve’s organizational setup critically hinges on hired talent
• Ideal candidates are simultaneously generalists and specialists in key fields
• Performance measurement at Valve incentivizes and empowers entrepreneurial spirit and ownership

Implications for Swiss insurers
• Insurers could likewise adjust their KPIs such that each employee acts as an entrepreneur and creates added value for the company (e.g., internal peer-driven assessments to rank individual employees according to their relative value for the company)

Full ownership
• Employees at Valve are free to decide which projects to work on and how much time to spend on various competing projects
• Valve does not have a top-down communication channel. Employees are responsible for finding out what’s going on
• Employees are rewarded by their skill level, productivity, group contribution and product contribution

Implications for Swiss insurers
• Full project ownership and responsibility supports an innovative corporate environment in which employees aim to improve customer experience
“Innovation leaders and teams should not be shy to attract a bigger circle of like-minded, impactful ‘followers’ from other teams who voluntarily get involved and contribute to the work. That might appear like an ‘entourage’ to some, but such movements multiply value.”

Eric Schuh, Global Head P&C Solutions, Swiss Re
“Innovation should not be seen as an end in itself, but rather as a driving force for customer satisfaction and profitable growth.”

Martin Tschopp, Head of Corporate Development, Helvetia

Yet, an approach that overemphasizes the “leaves” (insurance products and services) is certain to fall short of expectations. Genuine, sustainable transformation requires a far more holistic approach. Innovative products and services will naturally flourish in an environment where people are empowered to be innovative and to work toward a purpose with which they identify.

**die Mobiliar**
Tooyoo. Digital platform that allows online documentation of wills and final arrangements in the event of death. It allows relatives to quickly take care of all formalities in a difficult time.

**Swiss Re**
Parametric flight delay insurance. Enables instant payouts based on a pre-defined trigger, such as amount of rainfall or wind speed.
5. Plant a seed today – where to start
The roots of innovation run deep. In the immediate term, insurers need to first define the ultimate goal of their innovation activities and measure it systematically. A data-driven approach is vital in order to decide which initiatives are paying off and which ones are burning valuable resources. Initiatives that are not meeting agreed-upon goals must be rigorously aborted – provided the goals are realistic and reasonable. This will release valuable resources and thus increase the speed at which promising projects can be pursued and scaled.

In the longer term, insurers need to engage in a process of deep reflection. They need to rediscover their true purpose and credibly convey its value to employees, customers and the broader market. Staying true to purpose and pursuing genuine customer-centricity may entail adopting new business models that differ by line of business depending on customers’ needs, cannibalizing existing business or switching from a premium-driven revenue model to one driven by fees.

In effect, innovation must act on two levels: first-level innovation centers on products and services ("what we offer") while second-level innovation drills deeper into the organization ("who we are"). Second-level innovation is essential for transforming the core and producing sustainable outcomes. Such in-depth, sustainable innovation entails investing in the drivers of change – technology (which makes things possible) and people (who make things possible):

- **IT will be a core competency** in the future insurance market. In fact, tomorrow’s leading insurance companies will essentially be technology companies that provide insurance.
- **The right people will naturally gravitate toward the right environment.** Insurers need to establish an environment (i.e., organization, processes, culture) that will naturally attract and empower creative self-starters as well as hands-on implementation specialists dedicated to making an impact.

The message is clear: innovation for innovation’s sake is quite simply not enough. Up until now, insurers have mainly been playing in a protected space: trying out new innovation methodologies, creating and testing new ideas and prototypes as well as investing in an array of different ideas. From now on, insurers seeking to establish a credible stance for the future will have to leave the testing environment: bringing innovation to their core and enabling people to be innovative under a shared sense of purpose. So insurance executives need to ask themselves: “Do I **continue** experimenting, or do I **embark** on a journey to genuinely innovate the business model – translating creativity into real customer value?”

“**If you want one year of prosperity, grow grain. If you want ten years of prosperity, grow trees. If you want one hundred years of prosperity, grow people.**”
Guan Zhong, ancient Chinese politician
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8. Sources


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