Insurance

Incumbents Strike Back
The IBM Institute for Business Value, in cooperation with Oxford Economics, interviewed 828 CxOs from the Insurance industry. These conversations included both quantitative and qualitative responses. The analytical basis for this Insurance industry report uses 780 valid responses from the total data sample collected.

More than 12,800 CxOs, representing six C-suite roles, 20 industries and 112 countries, contributed to our latest research. We used the IBM Watson Natural Language Classifier to analyze their contextual responses and ascertain overarching themes. We also used various statistical methods, including cluster analysis and discriminant analysis, to scrutinize the millions of data points we collected.

Which way to the future?

The signals are utterly bewildering. As digital technologies transform the world, monopolies are winning big-time. Yet collaborative systems are also flourishing, and even in industries where the competition is shrinking there’s still plenty of creativity. Little wonder top executives are puzzled.

Insurance CxOs are no exception. They’re divided as to whether the focus will be on new or established markets (44 percent versus 42 percent, respectively). But they’re clear about one thing; there’s been a major shift in the external forces most likely to affect their organizations over the next few years. In 2015, market pressures and regulatory concerns topped their agendas. Today, macro-economic factors have soared to first place, as interest rates still hover at historic lows, despite monetary tightening in some economies.

Like their peers in other sectors, Insurance CxOs also report that people skills have become a much bigger issue: 60 percent of respondents say talent will be one of the four biggest influences on their enterprises – recognition, perhaps, of the growing importance of ideas and innovation, and the intensity of the battle for the best brains. That said, 68 percent of Insurance CxOs still tell us that market forces, including increased competition and changing customer preferences, will play a prominent role in reshaping their companies, while 67 percent say the same about technological advances.
Reinventors race ahead

In the course of our research, we identified three distinct organizational “archetypes,” each at a different stage on the road to Digital Reinvention™ (see Figure 1).

Reinventors focus on developing breakthrough products, services and business models; excel at extracting value from their ecosystems; and actively experiment. Their IT strategies are aligned with their commercial goals, and they’re superb at managing change – all of which helps them stand out both financially and as innovators.

Practitioners are ambitious but haven’t yet acquired the capabilities required to realize their ambitions. They’re neither as focused nor as agile as Reinventors.

Aspirationals have even further to travel. They still need to devise a clear strategy, put the right processes and resources in place, and develop the agility to seize new opportunities.

Reading the road signs

So what’s actually going on? Four topics stand out from our conversations with CxOs and our work with academics:

Dancing with disruption
The path to personalization
The pull of platform models
Innovation in motion.

“My biggest challenge is changing the mindset of the company from product-driven to customer-driven.”

Chief Marketing Officer, Insurance, United States

Figure 1

Insurance split

Industry archetypes have distinct characteristics that lead to differing vantage points
Dancing with disruption

Two years ago, most of the executives we interviewed were deeply worried about digital giants and ankle-biters from other sectors invading their territory. Now, they report, the real disruption is coming from innovative industry incumbents that have reinvented themselves. Insurance CxOs see things somewhat differently. Like other CxOs, they’re relatively sanguine about the prospect of disruptive competition: only 34 percent say their sector is experiencing huge upheavals, and only 25 percent recognize an urgent need to transform their enterprises in response. But they’re less concerned about reinvigorated insiders than they are about tech-savvy startups – the so-called “insurtechs” – stealing a chunk of their pie.

Insurance CxOs say the best way to deal with the threat of an incursion is to partner with an insurtech, and the Reinventors in our sample are stepping up to the challenge. The executives who run these companies have a much better sense of the direction in which the industry is heading than their peers in less successful enterprises: 87 percent of Reinventors have C-suites with a strong grasp of how the insurance sector is evolving, compared with just 70 percent of Practitioners and 46 percent of Aspirationals. Moreover, many of the Reinventors have already adjusted their business strategies to deal with the danger the insurtechs pose (see Figure 2).

The path to personalization

Connecting with the customer on a personal level is essential these days, but designing compelling personalized experiences takes a profound understanding of what makes different people tick. Again, Insurance Reinventors are ahead of the curve.

They approach problems like design thinkers – by empathizing and engaging directly with customers, consulting their partners to get a better picture of the customer experience, analyzing detailed journey maps and using cognitive solutions to unearth deeply buried insights. The result? A full 83 percent of Insurance Reinventors are effective at creating personalized customer experiences, compared with just 64 percent of Practitioners and 44 percent of Aspirationals. Moreover, many Reinventors aim to do even better: 73 percent expect use of artificial intelligence to deliver major improvements in the customer experience over the next few years.

“Digital disruption has made it possible to develop new products, lower the price and offer better customer satisfaction.”

Chief Marketing Officer, Insurance, Japan
The pull of platform business models

One of the most exciting recent trends is the emergence of the platform business model, which connects producers directly with consumers, enabling organizations to grow faster and generate higher profits. While only 7 percent of Insurance CxOs currently operate platforms, 26 percent are experimenting with the concept and 21 percent intend to reallocate capital for this purpose. And yet, insurers are generally planning to reallocate only 13 percent of their capital, which is markedly less than companies in related industries such as Banking and Financial Markets.

But what makes a platform work? We identified three “rules” for success: creating value from reciprocity, capitalizing on data, and committing to innovation. Insurance Reinventors fit this profile particularly well. They’re better than Practitioners and Aspirationals at collaborating with customers to develop new offerings, and integrating customer feedback into their planning and design processes. Insurance Reinventors are also more adept at mining the data they collect: 42 percent are highly effective at using data to identify unmet customer needs, compared with just 15 percent of Practitioners and 10 percent of Aspirationals.

Figure 2

Strategic advantage

Reinventors are beginning to adjust their strategies to deal with insurtechs

Reinventors
Practitioners
Aspirationals

Q: To what extent has your enterprise adjusted its business strategy to respond to disruption by insurtechs? (Percentage of respondents choosing “to a large extent.”)
Innovation in motion

The organization of work is altering dramatically as enterprises collaborate to innovate and ecosystems replace go-it-alone entities. The smartest C-suites are preparing for the future by creating teams that learn on the fly. A full 81 percent of Insurance Reinventors already solicit input from employees to develop new approaches. But many of them have gone much further: 70 percent are embracing fluid, cross-functional teams to stimulate continuous learning (versus just 45 percent of Practitioners and 36 percent of Aspirationals). Nearly three-quarters of all Insurance Reinventors also empower their teams to decide on the best course of action (see Figure 3). The CxOs who head these companies lead through trust.

There’s more. Insurance Reinventors have C-suites that are consistently better than those heading Practitioners and Aspirationals at articulating a clear corporate strategy and then executing it with the right resources and people in place. They’re also much better at fostering a culture of transparency and ongoing dialogue, encouraging the sharing of knowledge across their enterprises, and rewarding fast failure and successful innovation equally. In other words, Insurance Reinventors combine a dynamic vision with an open culture and agile operations – and these, as our research shows, are the three stepping stones to organizational dexterity.

Q: To what extent does your enterprise empower teams to decide on the best course of action? (Percentage of respondents choosing “to a large extent.”)
Strengthening advantage: Actions to take now

*Interrogate your environment.* Scan the insurance landscape and seek partnerships with insurtechs that fit your business environment best. Create opportunities for frequent and intense interactions with customers, partners and competitors. Test existing assumptions and drive totally new strategies.

*Commit with frequency.* Insurance is still a trust product: prioritize investments that build customer trust and brand value. On digital platforms – which are inherently transparent – community-generated feedback, if heeded well, can boost brand value in unimaginable ways. Invest in agility, people and new technologies.

*Experiment deliberately.* Insurance is risk-averse. To create a more open and collaborative culture, look for ways to challenge traditional norms and allow (controlled) failure as a way to learn and adapt to a changing environment. Find opportunities to co-create with customers, partners and even competitors.

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