

# Innovation in the Insurance Industry, Huh?

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# On the agenda

1. A little background

2. Why should you care?

3. Barriers to innovation

4. Breaking down the barriers

5. Q & A

# Background

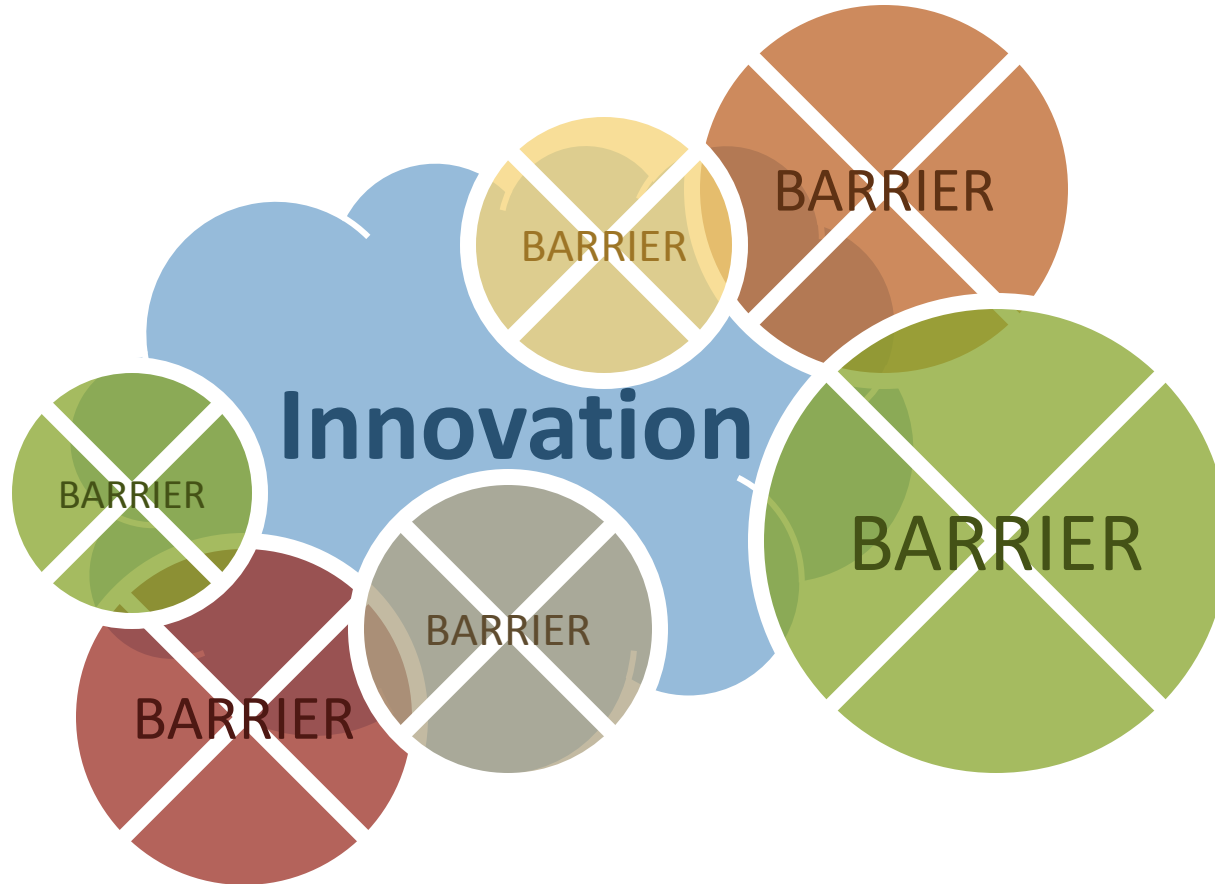
- “**The Innovation Imperative**” [LIMRA Market Facts Quarterly, Winter 2010], Walter H. Zultowski and I note that “life insurance” and “innovation” are rarely paired together
- **Innovation myopia** has many underlying causes from both sides of the equation:
  - The customer can lack the sophistication and the insurer is risk averse and complacent
- **Our aim today** is to discuss the practicalities of overcoming market and company barriers to innovation, a critical requirement to handle a rapidly changing environment



# Why should you care?

- You won't find insurance companies on lists like this: *Business Week's 2011 50 Most Innovative Companies*
- **Yet, 83%** of top executives said **innovation will be a key part of their strategy to benefit from the economic recovery** \*
- The difference between a CEO and leadership team with an "all-in" mentality and one who's innovation merely at an abstract level, is unmistakable—and so is the impact on the company's culture and results
- Many consider innovation as the “strategy” to stay ahead of global competition
- Despite that promise, insurance companies largely exhibit lackluster financial outcomes, including revenue growth and profitability

# We see a set of interrelated barriers



# 1. Misunderstanding the nature of innovation

A fundamental problem is the lack of comprehension about the holistic nature and role, consequently the initiatives fall apart from the start

## Three levels of innovation:

1. **Incremental:** Efficiency and effectiveness refinements
2. **Platform:** Build an architecture for the next generation
3. **Breakthrough:** Capture longer-term opportunities that require major resource restructuring

Keep in mind....

Innovation is NOT technology



## 2. Innovative insurer is an oxymoron

### ➔ **Barrier:** Risk-aversion is inherent to the industry

- The regulatory setting inhibits insurers
- Risk aversion often allows past experience to strangle creativity, fostering fear of change
- Innovation is not viewed by the insurance industry as a specialty function

### ⬅ **Rebuttal:** This is a “red herring.” It’s an excuse.

- Many other industries work around regulations (Pharma)
- Insurance companies are moving ahead, building innovation initiatives
- The consequence has been some larger paradigm shifts in how providers address the market, distribute, and design products

# 3. People are NOT always your greatest asset

## ➔ Barrier

- Most insurance company staff are selected for standardized, non-innovative roles, and promoted/retained as per usual– “innovation” can be frightening
- Executive promotion from within leads to in-breeding that weakens organizational DNA
- Excellent operational managers typically cannot innovate, and this characterizes the industry

## ⬅ Rebuttal

- Do not blame the people in place: They respond to what is rewarded, ignored or punished by the status quo, change incentives and everyone can innovate
- The answer lies in recognizing several things:
  - Innovation requires diverse “types” of people as claimed by Merrill (e.g., visionaries, connectors, developers, doers)
  - Executives can be employed from outside the industry, and this is happening
  - The need is for structure, processes, and information inputs conducive to cooperative action



## 4. A strong company culture is not necessarily an indicator of cultural innovation – it may be an inhibitor

### ➔ Barrier

- Do not assume it suffices to create a strong culture with high levels of employee satisfaction and retention
- This just exposes us to “groupthink”
- Strong cultures can become complacent with employees committed to goals but without emphasis on learning/cultural innovation since there is no toolkit or roadmap

### ⬅ Rebuttal

- Again, exaggeration
- Strong trust-based organizational cultures are perfect places for innovation
- When innovation is endorsed and emphasized at the C-level (and proper talent brought in), strong cultures will innovate faster and better than the rest



# 5. False market assumptions – the paralysis of forward thinking

## ➔ Barrier

- Ten myths that characterize a lack of “customer” orientation from discussions with Bob Pankauskas of Allstate:
  1. *It is all about price (most customers want just the same for less)*
  2. *People do not want to hear about insurance*
  3. *Innovation is risky*
  4. *Insurance is a commodity*
  5. *Brand reputation does not really matter*
  6. *Customers only want infrequent contact*
  7. *Social media has little effect on the insurance decision*
  8. *The agent-centric model is dead*
  9. *Consumers aren't interested in new insurance products or features*
  10. *The answer always lies with “the ease of doing business”*



## Rebuttal

- Most insurance companies are now addressing these, but there is a need to deal with underlying problems strategically

## 6. Innovation not seen as holistic and interactive

### Barrier

- This goes to insight rather than idea-driven innovation
- The industry's focus on “ideas” lacks recognition that these are raw material and that it is the following investigation and recombination that counts
- Ideas in a vacuum are generally useless: Framing and reframing as an applicable concept with potential value is a skill that must be taught

### Rebuttal

- We know that staff and customer ideas alone cannot be the direct source of breakthroughs
- However, they must be a source since they see the problems
  - The microwave was not advanced by a consumer, but the need to save time motivated someone to come up with a technical solution
- We agree that using a carefully designed process that links development of solutions to realities of the work situation is essential but disagree that most of the insurance companies are so idea myopic

# 7. Detailed predictions are close to impossible

## ➔ Barrier

- Sound business practice requires strong financial estimates of change
  - Especially in insurance where application conditions are difficult to gauge and there is a focus on quarterly results
- Lack of preciseness gives low change likelihood based on 20/20 hindsight fear

## ⬅ Rebuttal

- The reality is that across industries nobody sees the future with financial exactness—meaning great personal, political and financial risk outside box
  - Yet you can make informed, timely decisions that accommodate as much information as possible without overwhelming decision-making processes
- You can put yourself in a position to:
  - Establish a cogent agenda, metrics and screens adapted to innovation
  - Build an early warning system and act on it by listening to and analyzing all sources of intelligence sooner than competitors
  - Create plans for uncertain contingent scenarios



## 8. Not treating innovation as a major initiative

### Barrier

- The greatest inhibitor is probably lack of understanding about the nature of innovation, particularly types and scope
- This combined with the scale of most insurance companies makes it difficult to frame an initiative with clear goals and responsibilities

### Rebuttal

- Some of the most innovative companies are very large
- It may be difficult, but that is the task of strong leadership...bring about the change in a way that is not disruptive
- Sometimes it is best to start somewhere small, then do it well
  - Larger organizations, in particular, can use discrete experiments or pilots to develop and learn organizationally

# Which of these barriers resonate with you and why?

Barriers	Agree	Disagree	Why?
Misunderstanding the nature of innovation			
Innovative insurer is an oxymoron			
People are not always your greatest asset			
A strong company culture is not an indicator of innovation			
False market assumptions			
Detailed projections are close to impossible			
Not treating innovation as a major initiative			

Where do you start?

# Breaking down the barriers



# In the “Innovation Imperative,” Walt and I suggest ten considerations for success

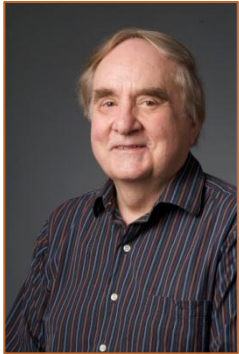
1. Define and set expectations
2. Recognize that it is more than culture
3. Seek corporate alignment
4. Establish responsibility
5. Customize the innovation process
6. Build with different skills and roles
7. Combine creativity and analysis
8. Balance technical innovation with market based innovation
9. Find a balance on process and formalization
10. Measure the results

**What are we doing  
in the marketplace to  
DRIVE INNOVATION?**

**How will you embrace innovation?**



# Questions



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