

INTERNATIONAL INSURANCE SOCIETY: LEADERS OF TOMORROW

New Insurance Leader Manifesto

Accelerate your strategy development

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Ensure you define your strategy in terms of efficiency **and** customer value, then leverage design thinking and workforce planning to evolve your organization and protect against disruption.

I don't recall considering myself an "insurance leader" until recently. My background is largely in banking or investments, and my academic life was focused on finance and economics. After a few years of diving deeply into the insurance industry, I've come to agree with those that believe disruption is a real risk to our businesses. Our target customer of tomorrow is open to buying insurance from technology firms¹ and researching or looking to transact on mobile devices.² At the same time we are facing low interest rates, limiting our profitability and opportunity to invest.

As new leaders enter our industry they risk being drawn into endless financial complexity, narrowing their focus. Missing the opportunities to acquire customers and create new sources of customer value, the goal of the new entrants and start-ups we are seeing today. The lack of customer engagement creates a secondary issue in attracting the talent to sustain and evolve our organizations overtime. There are no simple solutions, but there are well developed approaches to properly defining strategy, enhancing customer value and building teams that can increase the chances of successfully navigating disruption.

My goal is to help the reader develop strategies to address this disruption risk. I want to give back to a business that I've grown to love and provide other new leaders with a simple framework and set of recommendations. Said another way, below is the new insurance leader manifesto!

Resist the internal financial focus and define your strategy in terms of customer value

The value and importance of robust modelling, experience monitoring and evolving our understanding of profitability overtime is impossible to argue against. Risk management is the core of what we do and ensures we are here to deliver on our customer promises. The challenge is our detailed risk and financial management culture is by nature intense, time consuming and inward focused. A common example I use is the difference between total sales volumes which have grown in my market, versus actually household ownership which has declined.³ The customer view tells a concerning story about the health of our industry, but our metrics and analysis focus on issues like if we are selling enough to cover expenses.

I am fascinated by the sheer volume of assumptions used to develop, manage and report on our industry profitability. I am not aware of a study that proves the predictive value of these very complex

¹ CapGemini World Insurance Report 2016

² "Future of Insurance is Mobile", Ellen Carney, Forrester Research, 2015

³ "Insurance ownership study", LIMRA, 2012

models and their point-in-time estimates. More broadly speaking, there is little evidence that people generally are able to predict the future⁴ yet we spend significantly more time on these detailed models than our customer. This dynamic is partly responsible for the disruption risk we face today.

Disruption can come from angles that incumbents don't see as a result of how they view or define their business. Popular current examples include Airbnb and UBER. It is unlikely hotel chains and taxi operates worried a decade ago about potential competitors that didn't own hotels or taxi cabs. What Airbnb and UBER have in common is the value they provide comes from the platform and experience they provide, not the product itself. Their core focus is attracting customers, and this is a potential source of disruption for our industry as well. We shouldn't be surprised by an increasing number of start-ups looking to acquire customers or offer different platforms to add customer value.⁵

To avoid this disruption ensure you have a clear understanding of the difference between operational efficiency and actual strategy. The importance of distinguishing between the two concepts is a result of Michael Porter's work and captured in a classic Harvard Business Review article.⁶ While focusing on electronic process, underwriting improvements and general expense efficiency is necessary it does not ensure sustainable margins. Your strategy should allow you to charge a premium by creating real value for customers. It is the ability to charge for this value, combined with keeping costs competitive that allow a company to drive long-term superior profitability. Our lack of customer focus comes from how we have defined and talk about our product category.

'Sold not bought' is an outcome, not a condition

It's untrue that people don't buy insurance. It is our policy holders that pay the premiums, not the distributor. 'Sold not bought' is our largest self-imposed inhibitor. Demand for our products is low because we make them hard to access and we provide low perceived value, not because of some inherent issue with the category.

Take term insurance, one of our basic products in the life industry, and consider the buying experience. It is significantly more complex than other basic financial product purchases⁷, we use confusing

⁴ "Superforecasting: The art and science of prediction", Philip Tetlock and Daniel Gardne, Crown Publishing, 2015

⁵ Two examples I like are OSCAR.com and Friendsurance a peer-to-peer platform

⁶ "What is strategy", Michael Porter, Harvard Business Review, Nov-Dec 1996

⁷ Banks in particular are ahead in improving the purchase experience for basic banking products, such as bank accounts or loans

language⁸ and are falling behind significantly in meeting customers' digital expectations⁹. Under these conditions it is not surprising that our products need a strong "push" to generate customer interest. The issue then, is not that our products are not bought, but that we are not creating a buying environment that encourages people to act on the basic need for insurance.

Once they've acquired the product, our challenge becomes the lack of ongoing benefits and positive interactions for our customers.¹⁰ I proudly work at a company looking to change this through an integrated wellness program that provides rewards and discounts to policy holders for healthy behaviors.¹¹ This has been widely successful in South Africa, driving real interest and broad awareness of insurance, but it is unclear if this will translate as well to all markets. Regardless, of the solution we need to experiment with new value propositions that the person paying the premium receives. Above average margins is the reward for the organizations that figure out how to make our products more relevant to the consumer.

In addition to the buying experience, create a continuous process for adding customer value

There are an increased number of start-ups targeting our industry looking to add customer value beyond what we provide today.¹² To combat this trend we need a more detailed understanding of the customer's journey and to start looking for ways to add value. A great starting point for any leader is to apply for one of your products and take detailed notes on your experience. You will find several improvement opportunities without expensive consulting fees! However, you'll need a more formal process and the current trend appears to be design thinking.¹³

Design thinking helps you to look at the whole experience from consideration, to purchase, to claim. It does not ignore emotional issues like how customers feel about the language used in service interactions. Some of the core concepts from design thinking that can benefit our industry are outlined below but by no means exhaustive. I recommend reading the recent publication by Mackenzie and Co. as well as leveraging HBR.org as a starting point to understanding Design Thinking.

⁸ Flirting with the Uninterested, Ferrante-Schepis, Maria and Maddock, G. Michael, Advantage Media Group 2012

⁹ "Future of Insurance is Mobile", Ellen Carney, Forrester Research, 2015

¹⁰ "Charting a path to customer centricity, How design thinking can transform insurance", Machesney & Co, March 2016

¹¹ Refers to the partnership Manulife has with The Vitality Group, the provided of the Vitality wellness program

¹² For example Friendsurance, a Peer-to-peer company, provides a cash-back bonus annually when you remain claim-free

¹³ "Design Thinking Comes of Age", Jon Kolko, Harvard Business Review, September 2015

KEY DESIGN THINKING CONCEPTS:

1. Design and test different solutions

- Many organizations map out the pre-process current, and new. Design thinking organizations brainstorm and "design" multiple solutions.
- Prototypes are then used to test how the customer reacts and interacts and the solution is potentially redesigned again based on that information

2. Don't ignore the emotional experiences

- Traditional value is based a lot on the rational trade-offs of cost for value, but real customer value is a combination of this and how they feel about owning products
- Good design thinking balances and focuses what products and services you provide to maximize not just the 'utility' but how the customer feels about owning the product

3. Get comfortable with an iterative approach

- In design thinking no product or service is ever complete. You are constantly monitoring how customers react or feel and testing new approaches to add value

Our industry is not currently customer friendly in our underwriting processes, language or use of customer facing technology. More important than the specific framework you use, is the discipline of thinking about actual customer experiences and how your strategy will create value you can charge for. If you can't articulate how you'll add value, you don't have a sustainable strategy and are more exposed to disruption.

Evolution of your organization and the talent within it will help create customer value

Depending on how you define your strategy to add customer value, you will benefit from experience outside the life insurance industry. For example, there will be pockets of the financial services industry that are more advanced than your organization in key areas. In the Canadian market, banks have more mature capabilities in leveraging customer facing technology to up-sell and cross-sell customers.¹⁴ If that is a component of your strategy it would be wise to target that experience in some key positions.

The best approach to defining your desired mix of experience and skills is to follow a structure workforce planning approach. By reviewing your department's current capabilities and defining a future state of experience or skills, you can identify core gaps to fill in support of your strategy. If you are at a

¹⁴ "Retail Bank Operational and Digital Leaders Reap the Rewards", Boston Consulting Group, May 2016

larger firm your HR department can likely support you directly with some form of workforce planning. If not, the basic elements include¹⁵:

KEY WORKFORCE PLANNING STEPS:

1. Strategy & Gap Analysis

- What skills, knowledge and experience do you need to execute your strategy
- How does that map to current supply and demographics

2. Model options to build out capabilities

- Define tactics to develop and retain existing talent strengths
- Define acquisition strategy, including 'borrowing' other internal talent

3. Implementation & ownership

- Explicitly define your recruiting, training, compensation and other outcomes you can track as part of annual objectives and performance targets for leaders
- At larger organizations look for existing development programs and training to leverage

The specific tactics needed at each organization will be different, but one challenge we all face is attracting new leaders and the increasing number of millennials that represent our customers of the future.¹⁶

Win the war for talent

Differences in generational preferences at work are well documented at this point. Millennials want more of a coaching relationship with their boss, increased flexibility and autonomy even if they haven't 'earned it' in the eyes of older managers.¹⁷ For years I used to speak at local business schools about careers in financial services. I don't recall any of these talented young MBA students looking to work directly in the insurance business, but like a tape recording they talk about interest in investment banking and asset management. We are in a war for talent with other parts of financial services and you need to know how you'll compete.

¹⁵ "Strategic Workforce Planning", Mercer Consulting, May 2015

¹⁶ "Human Capital trends in the Insurance industry", Deloitte Consulting, 2016

¹⁷ "What Millennials Want in the Workplace", Forbes Magazine, May 2014

The answer is partly in one other interesting fact about millennials and their views on work. Turns out Millennials have a strong orientation to wanting to work somewhere that they can make the world a better place!¹⁸ All staff, and in particular younger talent, are more likely swayed by an understanding and feeling that what they do matters. While we may not stack up well to some professions, we should have confidence in our purpose of protecting people and their families from the financial stress of the difficult life events we cover.

One approach is to define and understand your ‘why statement’ based on Simon Sinek’s work.¹⁹ The ability to communicate why what we do matters and the impact we can have on people’s lives will help you attract talent, in particular millennials. Whether you believe in the broader ‘why statement’ value or not, the simplicity of the language versus traditional vision, mission, and strategy statements will appeal to many potential recruits and help you win over new talent.

New insurance leader manifesto summary

Our industry is being targeted for disruption. To combat these risks and flourish we need to focus on building operational efficiency **and** providing more value to our customers. Insurance is only in the “sold not bought” category because we’ve failed to make it accessible and engaging to own. New insurance leaders need to recognize efficiency alone will not protect them from the disruption. Understanding that strategy is about adding customer value, leaders should create a systematic way to identify opportunities to add real customer value, while building the teams that can guide their organization through change and keeping an external focus. Specifically this leadership manifesto encourages you to:

Focus on customer value by:

- Balancing your time between internal profit metrics (ex. total sales) and customer focused metrics (ex. household ownership)
- Occasionally apply for, add to, or make a change to products you own at your company
- Employ a process like design thinking to find opportunities to continuously add value

Evolve your team overtime by:

- Doing detailed workforce planning to identify the skills and capabilities that need to develop or acquire
- Target younger talent by leveraging our strong ‘why statement’, we’ll need them to adapt our businesses for the customer of tomorrow

¹⁸ According to Forbes Magazine, 64% rate making the world a better place a priority

¹⁹ “Start with Why” by Simon Sinek was published in 2011 and is summarized in his popular TED talk