



THINK CUSTOMER FIRST

Reinventing
Insurance Series



TABLE OF CONTENTS

3

WHERE TO START

5

PEOPLE & POWER

Activate a CustomerFirst mindset

10

THE PATH TO FUTURE VALUE

(Re)frame your reinvention endeavors with these seven practical considerations

22

GET STARTED!

25

MEET OUR AUTHORS

WHERE

Over the past year, C-suite executives across all industries have had to think carefully about balancing "the desire to reimagine the business for the long-term and the need to remain disciplined and profitable in the short-term."¹ For insurers in particular, striking the right balance is critical to the industry's future.

TO

This paper shares our perspectives on taking a CustomerFirst approach—realigning corporate strategy with investments that are deeply tied to customers' needs — to drive new business growth, maximize value, and capitalize on today's market trends. Our structured, systematic approach can help executives navigate this next wave of uncertainty and beyond—whether you lead a multi-billion-dollar insurance company or are a mid-sized player looking to gain market share. As an example, our previous [Reimagining Life Insurance](#) paper² outlined a range of opportunities to help consumers improve their financial lives. We believe that insurers could be poised for long-term growth by rethinking their core value proposition around solving customer's most pressing problems.

The COVID-19 pandemic has accelerated profitability impacts and industry disruption trends that were playing out pre-crisis. Insurers were already facing catastrophic headwinds—such as low shareholder returns (five years with returns at half of market levels), flat market capitalizations (due to companies returning capital to shareholders), and price/earnings multiples trading in the mid-single digits. And then the pandemic hit.

START

Today's new normal has made it even more critical for insurers to increase their investment and innovation bandwidth. Many insurers have growth challenges with their current business models and are at risk of being rendered obsolete by competition and disruptors. There is a compounding effect of these headwinds against a backdrop of huge unmet financial needs from consumers across retail financial services sectors (insurance, retail banking, and wealth and asset management). Our interpretation of these megatrends, widely shared by our clients, is that the industry is losing relevance with consumers and could be heading toward secular decline.

We believe these trends will lead to consolidation and a greater separation between leaders and laggards. The good news is incumbents are now in a good position to solve customers' most pressing problems and can deliver faster by assembling and absorbing more capabilities from rising fintechs and insurtechs.



In this "Reinventing Insurance" installment, we explore how insurers can (re)frame their journey to capitalize on market trends and generate new shareholder value by creating new customer value.

We summarize a CustomerFirst activation plan to unlock new growth and market share and provide a set of practical recommendations for insurers to drive progress.⁴

PEOPLE

We are operating in a new world. One in which capital is no longer scarce and information and knowledge are abundant. People no longer have to live within the confines of what companies have historically offered and are not as concerned about how industries have been defined. Today, insurance consumers have many more choices to fulfill their needs, and they are open to both established and de novo brands that represent progress. Power has shifted from the supply side—incumbents in well-defined industries—to the demand side—people with problems they seek to solve, to fulfill, driven by time and convenience.

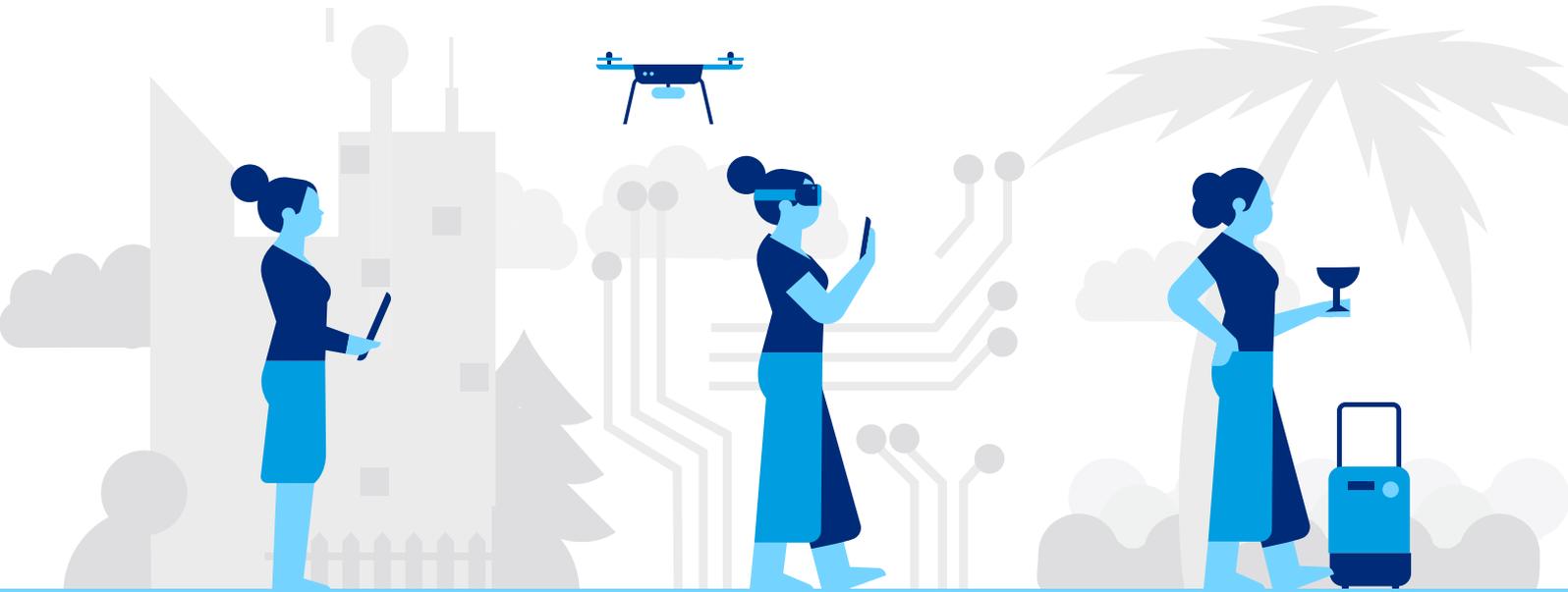
For insurers seeking to maintain relevance and grow, the old rules of the game—manufacturing a product and distributing it through well-understood physical channels, with the right price

and appropriate marketing brand awareness—no longer work. As the relentless forces of digitization collide with behavioral and societal shifts, the historical moats that have sustained many insurance incumbents are not as deep or as wide as they once were. We are now living in a world of demand scarcity and supply abundance: insurers, brokers, and technology incumbents are fighting for relevance and scarce customer attention, oftentimes through mostly undifferentiated products. The COVID-19 pandemic has accelerated the collision of these megatrends, encouraging disruptors to capitalize on them.

& POWER



THE COLLISION OF MEGATRENDS



**SOCIETAL
AND POLICY**

**TECH
AND DATA**

BEHAVIORAL

**~70% OF CUSTOMERS EXPECT
INSURANCE COMPANIES TO**

Give them
personalized
recommendations

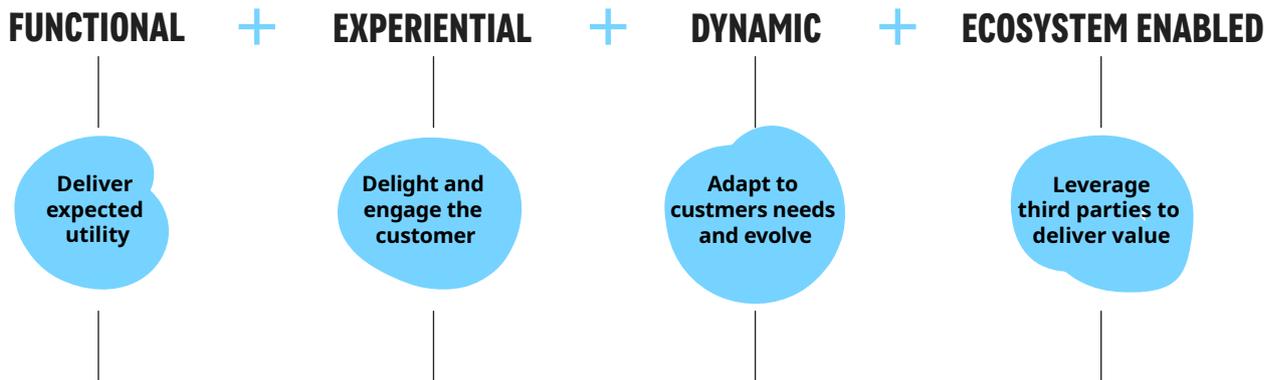
Help them
improve their
health and lifestyle

Provide offerings
that align with
their interest

ACTIVATE A CUSTOMER**FIRST** MINDSET

Therefore, while regulation, distribution channels and brand may have kept insurtech and big tech disruptors at bay for quarters or even years, it will not fix the declining margins and low-to-no-growth reality for most insurance incumbents. At the same time, however, the consumer opportunity continues to grow. We believe this yawning value gap between what people need and what current products provide exists because incumbents are focused on product-selling under the old logic and rules of the game, instead of problem-solving with a Customer**First** mindset.

THE PROGRESSION TO ACTIVE SOLUTIONS



Example: Transportation

"I'm heading on a trip, what is the best route?"

"Using my mobile device, what's the best and fastest way that I can get from point A to point B?"

"The technology showed the traffic I will encounter ahead—what's the best way to course-correct?"

Can you pick me up at my desired location—with a touch of a button—and let me know when you will arrive?"



The new game places consumers in control of their lives and with the power to vote with their attention. Consumers expect active solutions (see exhibit above) that “know them” and move with them through stages of their lives, and they have been taught to expect this by big tech players who bind great experience with the right products at the lowest total cost. In the battle for attention, companies who “do more of what customers want and less of what they don’t want,” win more share of attention.³ They start by solving a focused problem brilliantly with a subset of consumers, earning the right to more of their consumers’ attention for a broader scope of needs. With increasing attention, they build a treasure trove of customer data—signals of future intent versus records of past transactions, for example— that they harvest to improve experience or surface more of the right products at the right time, or both. We have seen big tech companies generate flywheel momentum or an accumulation of wins that leads to scale and outsized growth—the kind that investors covet.

In Oliver Wyman’s annual flagship report, [The Customer Value Gap: Re-Calculating Route](#), we introduced the notion of a *LifeMap for Money*, which we compared to Google Maps. Why? Google Maps moves with users as they navigate their circumstances and gives them advice and guidance for where they are and where they may be heading next. We postulated that someone would crack the code on building and activating the Life Map in financial services, and we further asserted the opportunity is up for grabs for disruptors and incumbents alike. We still fervently believe, now as then, that this *LifeMap for Money* is an inevitable evolution away from product-centric thinking, and that the opportunists who seize this—whether fintech, insurtech, or incumbent—can create real and sustained wealth for investors by bridging customer value gaps. And no player, incumbent, or disruptor can claim the pole position in the *LifeMap for Money*—at least, not yet. For a full illustration and example of this concept, please see Oliver Wyman’s [The Customer Value Gap: Re-Calculating Route \(pages 24-25\)](#).

**What stands in the way
of future value?**



**Let's unpack
this further.**

THE PATH

Investors have voted. Market premiums and the growth in the market capitalization of financial services firms have been eclipsed by that of big technology and fintech. Yet, as we outlined in our first paper of the *Reinventing Insurance* series, this is not due to a lack of opportunity. For example, life insurance is seen as a mature, late-stage industry, yet US households are under-protected to the tune of a staggering \$19 trillion. Under some reasonable assumptions, that's a \$40 billion growth opportunity for insurers to address.

TO FUTURE VALUE

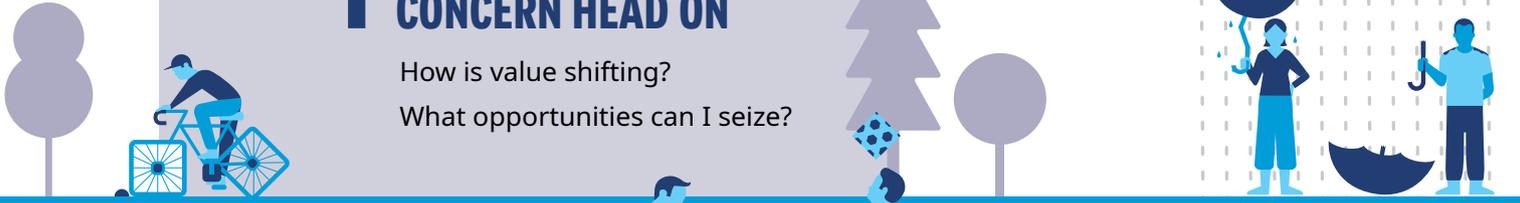
The mismatch in consumer demand and market supply across financial services leads to an extraordinary opportunity for future growth. By thinking and managing in a CustomerFirst way, insurers can reposition themselves as active growth players with an increasing share of customer attention. What's at stake? We believe those who take a CustomerFirst approach can recast themselves as "growth versus value-only" stocks and will experience Price/Earnings (P/E) expansion based on building new moats around underserved customer needs.

(RE)FRAME YOUR REINVENTION ENDEAVORS WITH THESE PRACTICAL CONSIDERATIONS

In the sections that follow, we outline a starting set of seven practical considerations that can help your teams to begin making progress—and frame or reframe your reinvention endeavors.

1 FACE THE GNAWING CONCERN HEAD ON

How is value shifting?
What opportunities can I seize?



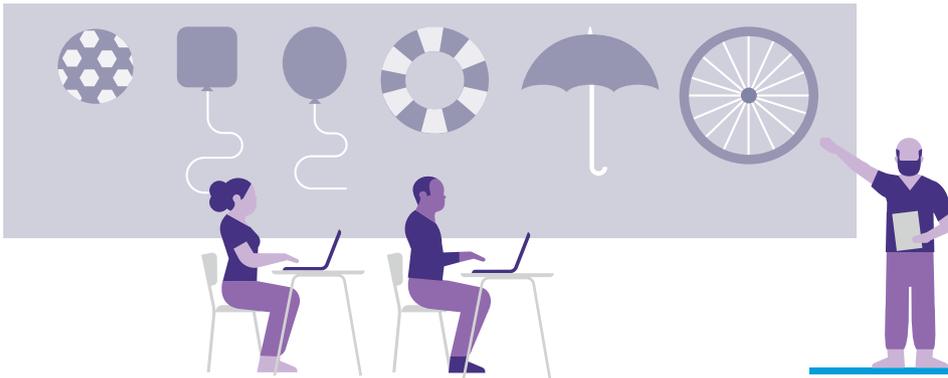
2 START WITH PROBLEMS, NOT PRODUCTS

What is the customer problem I should solve?



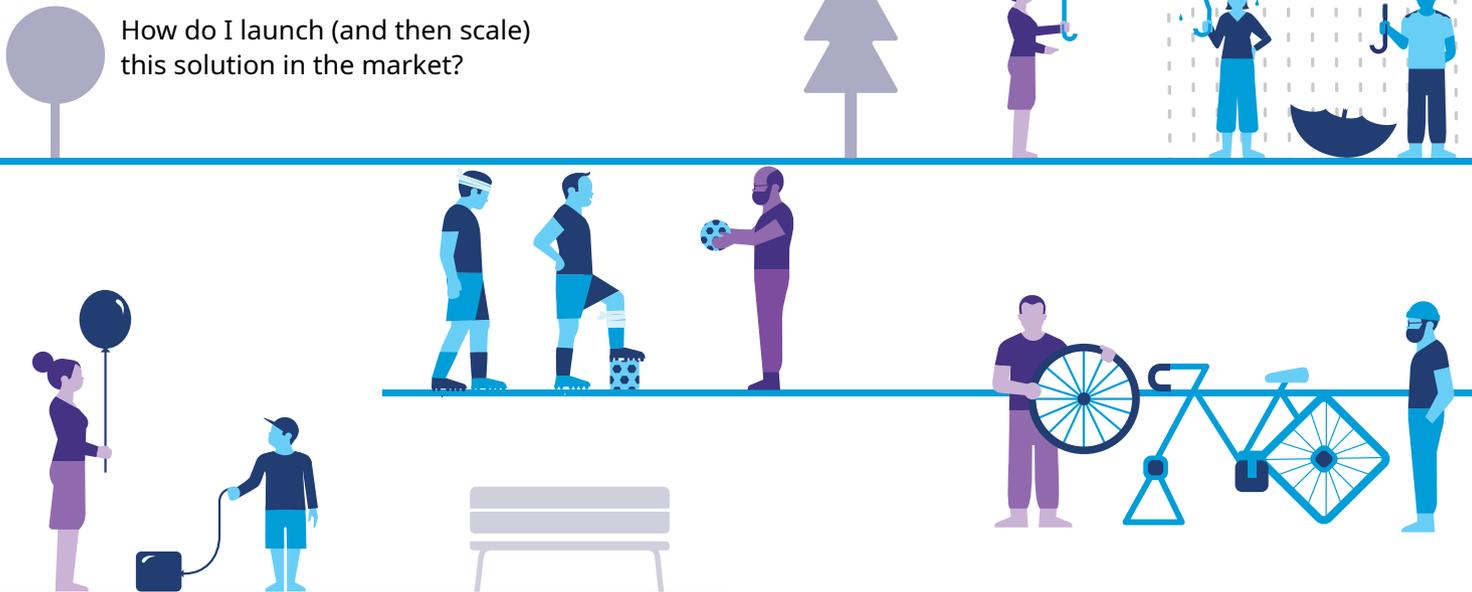
3 DESIGN AND BUILD ACTIVE SOLUTIONS

Have I framed the right solution(s)?
Does early testing and research with customers justify funding?



4 FRAME THE GAME AND ORCHESTRATE THE ECOSYSTEM IN YOUR FAVOR

How do I launch (and then scale) this solution in the market?





5 CRAFT THE RIGHT PORTFOLIO OF BETS

Do I have the right balance between business reinvention and growth bets?

How do I avoid holding onto initiatives too long, or dropping them too soon?

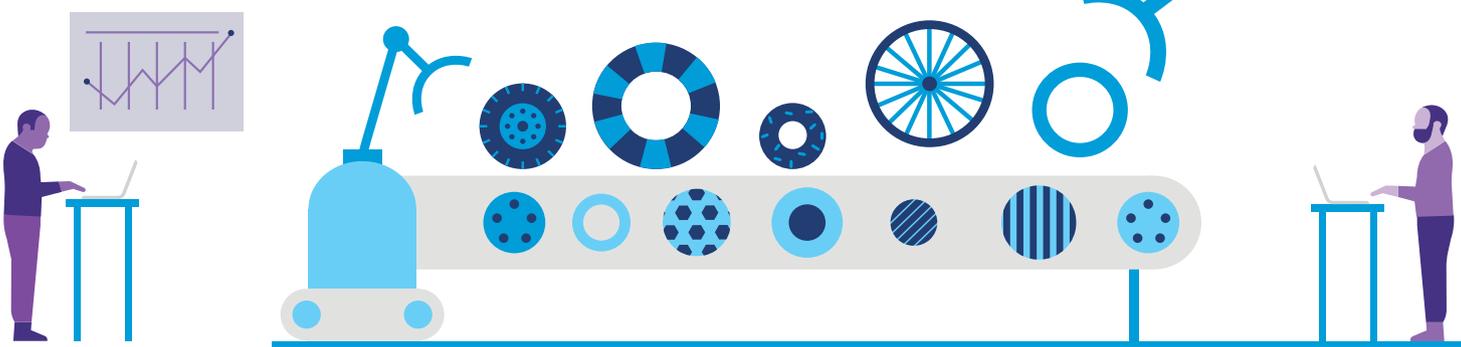
6 TRANSFORM THE ORGANIZATION BY WORKING FRONT-TO-BACK

How do I reorient people and processes to focus on solving the most pressing customer problems?



7 EMBRACE MODERN METHODS AND DISCIPLINE

How do I enable my teams to deliver CustomerFirst value – early, often and sustained?



1 FACE THE GNAWING CONCERN HEAD ON.

How is value shifting? What opportunities can I seize?

To create the motivation and energy for change, insurers need to make a brutally honest assessment of their industry and organizations. Then, insurers need to craft a transformation narrative that builds conviction with stakeholders, internal and external.

Specifically, insurers need to understand how the industry is evolving and the rate of change:

Market: Is power shifting in favor of other players, and if so, how fast? Can we neutralize them? Can we lead?

Customer value: Where can we create unmatched customer value?

Operating model: Are we achieving full potential from digitization in terms of cost, cycle time, and flexibility?

Organization: What skills, talents and leaders do we need? What new ways of work and management discipline are in order?

After identifying the “call to action,” insurers must then craft a competitive narrative that articulates their relevance in the market and how they expect to channel disruption in their favor—toward customer value growth. This narrative can be the basis for reframing how investors see and value a company—and begin to reward it for outsized growth vis-à-vis competitors—as well as a compelling internal narrative to drive change across the organization.



This assessment and its associated narrative will help crystalize and promote how value is shifting across digitized ecosystems, and the range of opportunities companies can exploit.

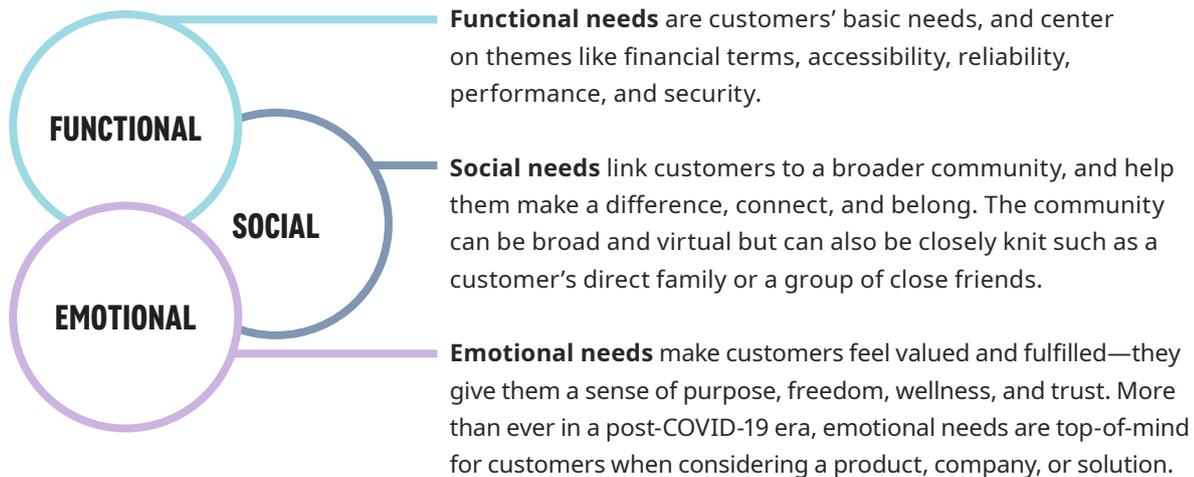
2 START WITH PROBLEMS, NOT PRODUCTS.

What is the customer problem I should solve?

As power shifts toward the end point of the demand chain and customers' expectations rise dramatically, insurers need to evolve their mindset by shifting away from selling products and moving toward solving problems, and not just any problems the ones that spark real energy for progress.

Today, most insurers start with products, assets, or channels in mind, and compete primarily on features, functionality, and price—aiming to differentiate from a well-defined set of peers. As customer demand evolves and the competitor set continues to broaden, insurers must move toward understanding their customers' needs and focus on enabling progress in their lives.

By focusing on customer needs, insurers will identify gaps that, when addressed, create outsized value for customers and shareholders. Building a truly differentiated solution begins with understanding the full range of customer needs—not only functional, which are often insurers' focus, but also social and emotional.



Understanding customer needs is critical to define a promising "beachhead": a differentiated solution to a well-defined problem anchored on customers' functional, social, and emotional needs.

3 DESIGN AND BUILD ACTIVE SOLUTIONS

Have I framed the right solution(s)?

Does early testing and research with customers justify funding?

Customers have been taught to expect active solutions that capture signals (triggered by life events, for example) to provide outcomes that evolve with them and their needs.

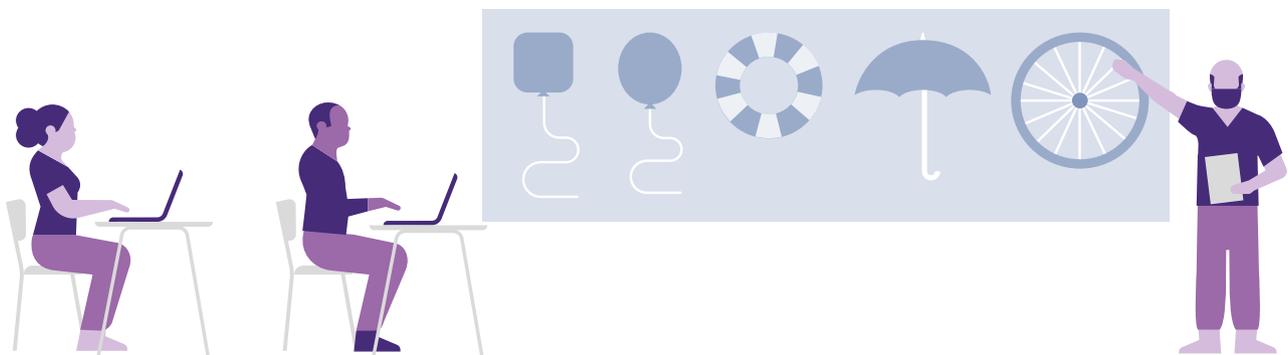
This leads to better value propositions for customers, which fuels growth and provides the opportunity to address tangential needs. As companies gain a better understanding of their customers, they develop richer solutions with a greater scope. This kind of customer momentum can then trigger the “growth flywheel.”⁷

It is crucial for insurers to embrace a test-and-learn mindset as they get on the growth flywheel, and to maintain it through every step of the journey rather than solely in early stages. Testing can serve different purposes:

Discovery: *Am I focused on solving the right problem(s)?
Does the idea I am pursuing feel right?*

Validation: *As we refine our solution, does it still make sense to customers?
How well does it address their functional, social, and emotional needs?
Will they engage early and often?*

Usability: *How intuitive does the solution feel? Does it meet the customers’
ever-increasing experience and servicing expectations?*



Successful active solution design requires releasing a “beachhead” early and testing your way to right. Being wrong earlier and learning fast are invaluable benefits from this approach.

WHAT IS AN ACTIVE SOLUTION? A CLOSER LOOK

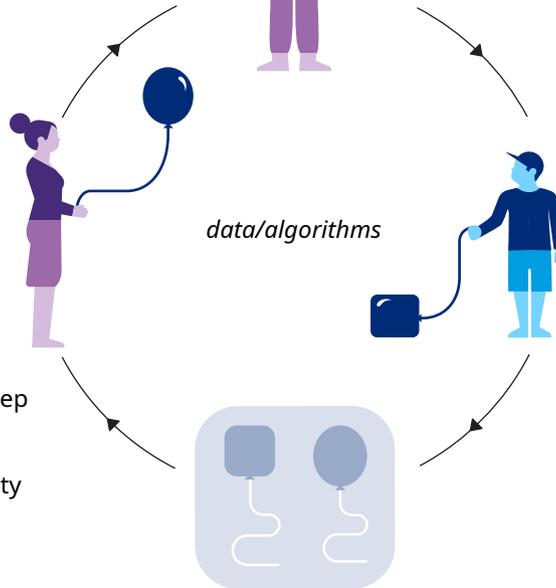
DESIGN

beachhead solution,
powered by research,
focused on solving a problem



TEST

...with customers,
early and often



EVOLVE

...experience in lockstep
with becoming richer
and stickier with
increasing functionality

CAPTURE SIGNALS

...generated by customers
engagement, to improve
experience, function, or both

ITERATE

...the experience and functionality,
sourcing from existing assets
(products) and third-party ecosystem

4 ORCHESTRATE THE ECOSYSTEM

How do I launch (and then scale) this solution in the market?

The insurance industry is undergoing accelerating change. Enduring customer needs (wellness, financial security, and so on) are evolving in response to market megatrends. In-and near-market competitors seek to steal market share. Disruptors threaten to reshape the economics within the existing supply ecosystem.

Instead of tactically responding to these as threats, companies can strategically leverage them to identify opportunities by considering their “crown jewels”: key assets or capabilities that are unique, valuable, and hard to replicate. This is how companies determine their role going forward.

As we previously outlined⁸ insurers need to determine how they want to position themselves in the market. Is your business a:

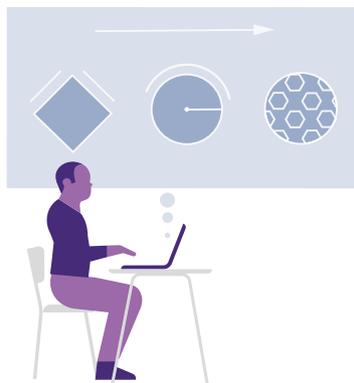
DEMAND AGGREGATOR

...that has a direct relationship with customers and understands their needs (i.e., by helping them make the best protection decisions)?



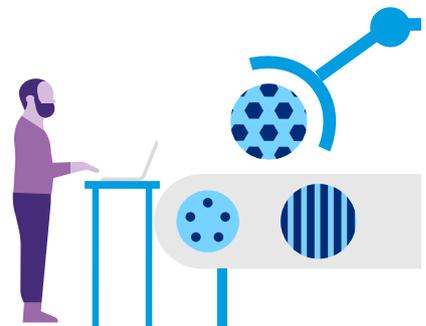
PLATFORM PROVIDER

...that links customer needs and component suppliers' offerings together (e.g., by identifying the best portfolio of insurance and retirement solutions for a given customer)?



COMPONENT SUPPLIER

...that manufactures and delivers a specific product, capability or service triggered by specific customer needs?



By determining the play, leveraging their crown jewels, and setting up the right partnerships, insurers can maximize speed to market and build a durable position in the ecosystem shaped in their favor.

5 CRAFT THE RIGHT PORTFOLIO OF BETS

***Do I have the right balance between business reinvention and growth bets?
How do I avoid holding onto initiatives too long, or 'dropping them' too soon?***

Insurers and their management teams need to agree on what really matters over the short- and long-term, and acknowledge the journey as a business transformation, not merely a digital one. They need to appropriately allocate attention across the portfolio. Too often, innovation fails because firms assume the chief technology officer (CTO) or chief digital officer (CDO) should bear the entire responsibility for innovation. Successful business transformation cannot happen unless the entire C-suite is engaged.

Insurers should separate their business portfolio into Four Zones (see below) and allocate the right management attention and resources to each one, along with distinct metrics, talent and ways of working. The Four Zone model enables the kind of focus and executive debate needed to build resilience – the antidote for dealing with disruption. Oliver Wyman collaborated with Geoffrey A. Moore, author of *Zone to Win* to develop the Four Zone model.⁹

Performance: Business-as-usual + initiatives, where growth and margin are the main metrics.

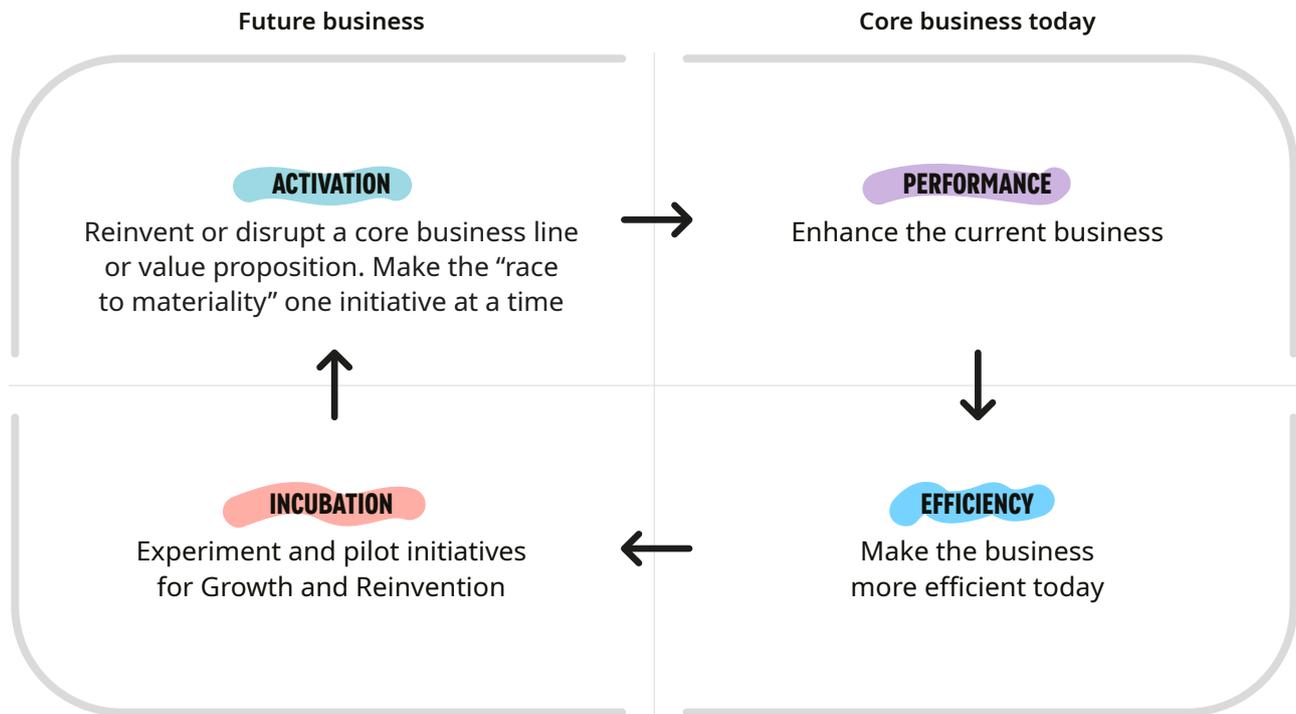
Efficiency: Initiatives in which the focus is on optimizing existing efforts; efficiencies can be used to fund the future via the next two zones (Incubation and Activation).

Incubation: Early initiatives in which the focus is on rapidly understanding value through customer validation and building conviction for change.

Activation: Scaling of Growth or Reinvention initiatives after having crafted a narrative and built conviction with internal and external stakeholders.

Insurers should play the zones to characterize, assess, and prioritize their strategic portfolio mix. To plan for the future, they need to move resources from today's business (Performance, Efficiency) to tomorrow's business (Activation, Incubation).

FOUR ZONE APPROACH



6 TRANSFORM THE ORGANIZATION

How do I reorient people and processes to focus on solving the most pressing customer problems?

Change efforts are successful only if there is a clear mission for employees to rally behind. As we mentioned earlier, creating a narrative around reinvention from a traditional insurer to an innovative financial provider can provide employees with the conviction and energy to opt-in to the transformational changes that are required.

By working back from the customer problem in this narrative, change efforts need to start from the front office (customers and needs; competitive positioning vis-à-vis disruptors) and proliferate throughout the organization.

The organization needs to transform to develop cultural traits that support innovation and overcome the challenges incumbents face (such as inappropriate metrics, demand for resources, or competing objectives). A successful transformation program needs to work across all levers of change (including leadership, organization, skill, mindset, and ways of working), and with a view that small steps, systematically taken, lead to big things.

In particular, adequately de-risking such endeavors requires the company to determine which risks it is willing to take via these initiatives. Moving fast will require transforming many traditional ways of working, while opting for traditional processes (such as business-as-usual, procurement, or partnership approaches) may lead to missed opportunities – with nimbler players getting there faster.



Transforming the organization by working front-to-back and de-risking the initiatives by assessing the trade-offs between traditional and alternate ways-of-working is essential to the success of any CustomerFirst initiative.

7 EMBRACE MODERN METHODS AND DISCIPLINE

How do I enable my teams to deliver CustomerFirst value – early, often and sustained?

Success is not just selecting the right idea and executing it. Companies need to adopt modern ways of working, attract the right talent, and apply extreme management discipline. They need to build the right muscles and apparatus to innovate and create a CustomerFirst experience which also serves as a beacon to attract talent away from big tech.

This is exemplified by entrepreneurs who must run the project or venture with limited time and resources. These constraints force them to be ruthlessly focused on how to use their resources to get to the next funding round while improving the value of the company. Insurers need the same discipline if they want to embed a new approach for innovation.

First, they should **employ a co-creative working approach** that incubates new talent and makes existing talent work in a new way, breaking down silos, and getting people to work in a fluid, intra-discipline manner—learning by doing is the best way for their teams to embrace this mindset.

Next, they should **consider time as the enemy and resource constraints as a friend**, every step of the way. They should be ruthless about the amount of resources they dedicate to any given initiative.

Finally, they should **harness and employ a stage-gated funding model** that allows them to take an optionality mindset—the objectives and key results (OKRs) need to reflect that and evolve as they gain confidence and build conviction with stakeholders.



Success in growth ventures is rarely about ‘genius design.’ Very much like the best entrepreneurs, incumbents must also onboard a discipline of innovation that helps them pivot from a course of action that isn’t generating results, or persevere even when the going gets tough.

GET STARTED

While none of these considerations is a silver bullet to a successful reinvention endeavor, you should observe and embrace all of these elements to deliver a value “trifecta” – outsized customer value, growth premium from investors and a compelling mission for employees.

Key elements for a CustomerFirst mindset to drive growth

INNOVATION PROCESS

- 1.** How is value shifting?
What opportunities can I seize?
- 2.** What is the customer problem I should solve?
- 3.** Have I framed the right solution(s)? Does early testing and research with customers justify funding?
- 4.** How do I launch (and then scale) this solution in the market?

MANAGEMENT DISCIPLINE

- 5.** Do I have the right balance between business reinvention and growth bets?
How do I avoid holding onto initiatives too long, or ‘dropping them’ too soon?
- 6.** How do I reorient people and processes to focus on solving the most pressing customer problems?
- 7.** How do I enable my teams to deliver CustomerFirst value – early, often and sustained?



The insurance industry must reinvent itself to restart the growth engine. A CustomerFirst** mindset and playbook are important aids for the difficult business transformation journeys underway.**

The Prize: incumbent insurers can become more relevant than ever, critical enablers to their customers' financial lives.

ENDNOTES

1. See [Oliver Wyman's, "The State of the Financial Services Industry 2020 report, When Vision and Value Collide,"](#) page 5, exhibit 1 and page 22, exhibit 12.
2. See [Oliver Wyman's "Reimagining Life Insurance paper,"](#) January 2020.
3. See [Oliver Wyman's, "The State of the Financial Services Industry 2018 report, The Customer Value Gap: Recalculating Route,"](#) and January 2020 ([When Vision And Value Collide](#)).
4. See Oliver Wyman's, ["The State of the Financial Services Industry 2018 report, The Customer Value Gap: Recalculating Route,"](#) page 23, Exhibit 4.1.
5. See Oliver Wyman's ["Reimagining Life Insurance paper,"](#) January 2020.
6. See Oliver Wyman's ["Reimagining Life Insurance paper,"](#) January 2020. (page 7): Oliver Wyman analysis calculated at a household level using the US Survey of Consumer Finances. The 'Protection Gap' is calculated as the difference between the level of life insurance a household should be buying and what it holds today.
7. See Oliver Wyman's, ["The State of the Financial Services Industry 2018 report, The Customer Value Gap: Recalculating Route,"](#) page 37
8. See Oliver Wyman's ["The State of the Financial Services Industry 2017 report, Transforming for Future Value,"](#) January 2017
9. Oliver Wyman collaborated with Geoffrey A. Moore, author of Zone to Win to develop the Four Zone model.

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