How insurance leadership can prepare for the new era

Insurance leadership can keep up with the industry's evolving landscape by rethinking their business models as well as their role as leaders.

by Bernhard Kotanko, Arne Gast, and Kurt Strovink

As the world evolves, organizations and corporate leaders across sectors and geographies must adapt to the new, emerging era, contending with everything from geopolitics to technological innovation to climate change.[1]

Insurance is not different in its need to transform. In fact, the pressure to reimagine insurance's organizations, ways of working, talent, and capabilities is even greater for a sector that typically has largely underperformed in growth and value creation and has remained conservative in its business and operating model transformations. Leadership will be of preeminent importance to succeeding on this journey.

Here, we focus on the forces defining this new era for the insurance industry, offer approaches for reimagining business models and organizations, and highlight the leadership traits that will help insurers achieve their goals in the future.

The six forces shaping the future of insurance

Six paramount trends will shape how insurance leaders adapt to create value for customers, shareholders and broader society.[2]

A growing awareness of risk

Private households, corporations, and governments alike have expressed heightened concern about the risks they are facing. As needs for family protection, healthcare financing, and retirement funding grow, people have become more wary about the uncertain availability of socially funded benefits. Corporations are concerned about their supply chain and business continuity, including cyber risks. And governments have been looking for ways to stabilize the growing demand for social benefits from an aging population.

For insurance companies, this growing awareness of risk is a positive sign of the industry's continued relevance in providing protection. But so far, the sector has failed to turn this awareness of risk and the need for protection into actual, realized demand. Rather, insurance premium growth has significantly underperformed nominal GDP worldwide,

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[1] For more on today's shifting landscape, see Chris Bradley, Jeongmin Seong, Sven Smit, and Jonathan Woetzel, "On the cusp of a new era?," McKinsey Global Institute, October 20, 2022.

[2] For more, see "Global Insurance Report 2023: Reimagining life insurance," McKinsey, November 16, 2022.

roughly only achieving half of GDP's growth rate. As such, insurers will have to reimagine how they engage with their customers, provide information and advice, and tailor their solutions.

Technological advancements

Insurance is an information business. While investments in technology have grown by 50 percent over the past four years for leading insurers, the industry has not yet taken full advantage of technology, data, and analytics. Harnessing the full potential of technology can allow insurers to augment the ways in which insurance is personalized, to design and underwrite new offerings, and to render services and customer engagement more effectively. It can also help improve operating models and ways of working to enhance productivity.

Volatile rates and capital markets

Most insurers see near-term tailwinds from rising nominal rates, but real rates may remain low for longer. Therefore, value creation for insurers is increasingly being driven by investment alpha, which requires new sets of skills and postures in financial markets. Key to achieving this alpha in the future will be moving to the forefront of green investing—with a particular focus on environmentally conscious endeavors. There could potentially be a $1 trillion gap in energy transition financing, and insurers' long-dated liabilities could provide effective funding. Such moves will require insurers to adopt a new set of capabilities in their investment management functions and proactively capture investment opportunities.

Changing growth portfolios

Within a difficult macroenvironment, pursuing opportunities for value growth becomes more important—and the current scale of underserved needs is extensive. Geographically, companies that find their posture within large parts of Asia can experience sustainable growth. Perhaps more importantly, however, companies must find specific opportunities within markets to fulfill unmet needs. For example, in the United States, market-oriented life products and spread-based annuities are forecast to experience high growth rates. For many insurers, it is also critical to develop a more assertive growth posture, rather than looking at ROE and cash generation foremost.

Public–private partnerships

As class difference grows, the need for health and retirement benefits expands, and macrorisks such as cyber and natural catastrophes gain prevalence, populations in many countries are demanding that their governments and public social services take a stronger role. At the same time, most public households are severely depleted, and, since the end of quantitative easing, debt financing has become less feasible. As such, new public–private partnerships could be of paramount importance for insurers, allowing for augmented retirement and healthcare funding, as well as mobilizing private capital for protection against macrorisks.

The future workforce

The COVID-19 pandemic has changed employee expectations for their employers, resulting in an exorbitant number of people quitting their jobs across geographies. Many industries are facing a talent scarcity that is further elevated by the retirement of the baby boomer generation. Historically, insurance has been a rather “closed” industry, with traditionally little attraction of diverse talent and capabilities from outside insurance. Now the industry needs to open to attract a much wider suite of capabilities and talents.

These six paramount themes define the future of the industry and, depending on how insurers respond, will determine which companies outlast others in the years to come. Over the past decade, the insurance sector has struggled to earn its cost of capital and has lost its relative share of value within financial services and in the broader global economy. Succeeding in this new era will demand clear focus, bold moves, flexibility, and learning—but today’s insurance business models and organizations may not be fit to accomplish these goals.

Reimagining insurance business models

Insurance companies and their business models have only gradually evolved in recent decades, typically driven by regulatory and public policy changes, such as those that preceded the wave of mutuals and public insurers that privatized in the 1990s. Many insurance companies still pursue the full insurance value chain scope—split into broad lines of business—and operate in a predominantly functional setup. International companies also contend with a geographic market-governance lens. For some companies this results in complex, three-dimensional business models along business, function, and market lines.

These traditional business models hinder insurers from being agile and effective. To respond to the six paramount forces and turn them into value growth, many insurers need to reimagine their business models and how their companies are organized. Four key starting points can help insurers break from the mold.

Developing an unbundled view on the insurance business model

Most insurers own their business models end-to-end and run them using broad lines of business. This approach mashes together three distinctive business models, each with unique qualities that can be bolstered to create more value: a distribution business, often via intermediaries such as agents, brokers, or banks; a manufacturing and origination business for propositions, which contains superior technical and marketing talent; and a balance sheet business, which optimizes liabilities and assets and includes superior investment management.

While many companies may decide to retain ownership of these businesses as an end-to-end capabilities, there is real benefit to understanding the specific attributes of each model that add value as well as the capabilities required to leverage them. Taking this approach enhances transparency on value creation and creates a more rigorous view of productivity. It also simplifies decision making and governance processes with a greater sense of ownership and accountability.

Simplifying and connecting organizations and ways of working

Organizationally, many insurers use structures that have several layers; small, insular teams; and managers with little control over processes. Moreover, they tend to use a sequential way of working, which is time-consuming and bureaucratic. As such, these structures often cause teams to stay in their lanes, rather than working across functions. Though many insurers have experimented with agile, especially in IT and new capability areas, the bulk of the sector still operates in a traditional, "Tayloristic" manner.

To change this traditional setup, insurers can first simplify the layers of their structure, expanding teams to combine more capabilities at scale and reducing administrative management while sharpening their focus on specific areas. Next, they can strengthen transversal roles and teams to holistically optimize customer journeys and workflows. Together, these steps can enable faster and more direct decision making among teams and create a more flexible reconfiguration of teams across departments. Importantly, these changes should affect the entire organization—not only IT, and not only projects and new teams. As a result of these changes, insurance organizations of the future should feel more dynamic.

Redesigning full talent journeys

Because of its strong purpose, societal impact, and the variety of roles and career paths it offers, insurance should be among the top destinations for talent. Yet in most geographies, insurers struggle to attract and develop talent—especially in newer skill sets, such as tech and analytics. The aging workforce has also made creating pathways for older staff more challenging. And if technology makes significant headway in terms of productivity, it may affect the skills and head counts required. As such, crafting dedicated talent journeys could help attract and retain talent.

Journey for new talent and new capabilities. Insurers need to refresh their propositions to appeal to the younger generation of talent and focus on new capabilities, such as agile, analytics, human-centered design, and digital marketing. In this journey, it is critical to emphasize the insurance industry's positive contribution to society in addition to the datasets and tools available for fast learning, evolving roles and teams, and a degree of freedom.

Journey for transforming legacy staff. Many employees stay at one insurer for the bulk of their career, often in one function and in similar roles throughout. Many of these roles have changed because of automation, technology, and AI and analytics. Employees affected by these changes should have opportunities to reskill or upskill through programs and should have access to more development support inside and outside their core profession.

Journey for specialists and managers. Modern organizations benefit from larger teams and fewer managerial roles to allow for more specialists, flat hierarchies, and transversal collaboration. This structure implies that the traditional career path for individuals moving into managerial roles is no longer the standard. It is therefore essential to craft talent journeys that move beyond promotions to managerial functions and create specific career paths for specialists to fully unleash their potential. This journey is specifically important for insurers because they require a broad set of specialist skills and benefit from transversal working.

Journey for older employees. Many companies have an aging workforce, but the median employee age is higher than that of the overall workforce in the United States.[3] Many insurance companies need to balance the dichotomy of preserving the unique experience of employees that have been tenured for longer and the strength of long-term talent retention, with nurturing productivity, rejuvenation, and transition in the workforce. This journey is particularly sensitive given companies' social responsibility.

Many insurers are aware of these development needs and have singular initiatives to foster these talent journeys, but many still need a more systematic approach.

Strengthening the learning organization

Insurance is a specialist business and requires its employees to adopt skills and capabilities quickly. The most relevant and fast-paced areas are digital technology and cloud, customer experience and human-centered design, analytics and AI, advanced investment management, and agile. Insurers should develop learning organizations to constantly adapt, evolve, and mobilize for innovation, prototyping new approaches and rapidly scaling the best internal experiences and external practices. This will require new a mindset of experimentation, an R&D pipeline for new management practices, and structures that connect front-runners so they can share, learn, and collectively raise the bar. This environment will help develop talent internally and make companies less dependent on finding outside talent with specific skills.

Traits of future insurance leadership

Times of change require exceptional leadership. In our experience, at the core of every transformation is a leadership transformation. Insurance leaders have the unique opportunity to be on the forefront of a major industry transition and to make an impact in society and for shareholders. We have identified six central traits that can help enable CEO and leadership excellence.

Be bold in direction setting. Insurance could play a bigger role in our society and economy to safeguard people's well-being. But growth has been sluggish, and vast latent needs have yet to be turned into real demand. Addressing these issues requires insurance leaders to proactively approach their practice to develop more effective strategies. Leaders can engage with customers to understand their needs and provide innovative solutions more ubiquitously. They can also connect public welfare and private insurance to develop more holistic, integrated solutions that serve the whole population rather than selected (typically upper middle class) segments. To raise productivity, leaders can build transversal ways of working and attract a wider set of talent. Each of these actions come with risks. But setting a bolder direction for the business requires leadership to take that risk.

Help the board help the business. Boards play a critical role in advancing a company's impact. This is especially true in insurance, which is closely connected to other industries, regulators, governments, social services, and the public. By engaging with the board effectively, insurance leaders can provide more value for the company—for example, by renewing the board with new, diverse talent over time, such young talent with experience in

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[3] "Labor force statistics from the Current Population Survey: Employed persons by detailed industry and age, 2021," US Bureau of Labor Statistics, accessed January 9, 2023.

big data or AI, to complement trusted retired accountants. Leaders can also leverage the board's rich cross-industry perspective, wide business networks, and coaching and mentoring expertise.

Engage stakeholders through purpose. The core mission of insurance should be clear and its greatest strength: the industry seeks to create peace of mind for people, corporations, and society by mobilizing capital markets to protect customers. However, many insurers struggle to get the message across. They tend to use difficult, technical language that clouds or miscommunicates the benefits of a particular insurance proposition.[4] They should embed insurance much more within the actual living context of their customers. Insurance leaders should help communicate this bold purpose of insurance in society and help employees and customers learn and stay aligned with the mission.

Transform the leadership bench. Given that leadership transformation is core to every transformation, the traditional command-and-control approach to leadership is wholly inadequate for the magnitude of the challenges insurers currently face. To succeed in today's climate, insurance companies need to explore fundamentally new paradigms of leadership. We see front-runners across industries making five interrelated changes to leadership, asking leaders to shift what they focus on (beyond profit to impact), how they show up (beyond expectations to wholeness), how they organize ourselves (beyond command to collaboration), how they create value (beyond competition to co-creation), and how they get work done and make change happen (beyond control to evolution). All of these shifts involve more than simply updating old practices; they go beyond traditional responsibilities and expand the range of leadership. To make these shifts, investing in leadership development—focusing on senior leadership teams and leadership networks across businesses, geographies, and functions—will be pivotal.

*Make use of the unique skill sets of top teams***.** To pull off the large-scale transformation of the leadership bench, leaders should lean on the strong base within their own teams. Top teams doing real work in transformations have a high degree of insight into the future of the industry. This shared experience can produce greater alignment when deciding on winning strategies and taking a purpose-driven approach to change. To improve the quality of interactions within top teams, leaders should strive to create a sense of psychological safety, crystal clarity in roles, and focused decision-making practices. The best teams will use these turbulent times to renew themselves by building new skills, opening up, and asking for help, as well as bringing in new perspectives to create a diverse environment that is better at problem solving. As leaders seek to shape the evolution of the business and reimagine their business models, working on strengthening top teams will be as important as working with them.

Adapt personal operating models. The coming years will be challenging yet rewarding for insurers and their leaders. However, many leaders, worn out by the COVID-19 pandemic, have grown tired of change programs that have followed each other at an ever-increasing pace and complexity. Excelling will require leaders to make focused choices in personal operating models to maintain their energy and enthusiasm for change. Leaders should ask themselves what their priorities are for their business and personal development, which roles should they play themselves and which should they delegate, what time-management

[4] For more on integrated propositions—that is, combinations of products, ecosystems, and planning tools—see Enoch Chan, Bernhard Kotanko, and Kyle Luk, "The power of proposition: An interview with AIA's Alice Liang," McKinsey, July 28, 2022.

practices and boundaries they should establish in the office and at home, and what techniques they and others can use to stay energized (lifestyle, sense of purpose, and more). Making deliberate choices and running small experiments to test new models could greatly expand productivity and well-being, have a profound impact on employees, and improve relationships inside and outside the office.

The global insurance sector has an opportunity to augment its role in this new era, helping people, businesses, and societies while creating superior value. To progress, insurers need to reimagine their business models and organizations—and distinctive leadership can make all the difference, creating a defining source of energy to carry teams along on these journeys.

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