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**TATA** CONSULTANCY SERVICES

# **Insurance Innovation in North America: CIO Perspectives on Priorities, Opportunities and Threats**

A Novarica Research Partners Program™ Report  
*Underwritten by TCS*

# Executive Summary

Across all lines of business the insurance industry faces both increased competition and commoditization which minimizes traditional approaches to differentiating products and services. Expanded communication options and increased transparency brought on by tools fitting under the social media umbrella turns unsatisfactory sales and service experiences into very public displays of dissatisfaction. Of course, the opposite is also true, inasmuch as experiences which exceed expectations and that "delight" customers are also rapidly shared in a form of content that is easily researched and accessible, which, until recently, was simply not available across the value chain for insurance products.

To address this, innovation is increasingly part of the dialogue carriers use to describe their development plans and go-to-market strategies. This study, conducted by Novarica and sponsored by TCS, is focused on understanding the specific actions carriers have been taking in order to move forward with innovation-oriented plans. The study was conducted with 10 carriers from the Novarica Research Council spanning both the P&C and L&A segments. Carrier responses to the survey from which this study is derived have been anonymized to preserve their confidentiality.

The resulting insights and perspectives provide a fascinating view for an industry facing significant changes in its markets, a rapidly evolving demographic for their consumers and persistently low interest rates which keeps financial pressure high and risk tolerance modest.

*This study was conducted with 10 carriers who are members of Novarica's Insurance Technology Research Council. All 10 are currently active in the North American markets. The population was evenly distributed between Life & Annuity carriers and companies that are focused on P&C lines of business.*

*The carriers are intentionally of varied sizes to provide the broadest possible perspective on how innovation is being incorporated into their planning and governance processes. The P&C carriers tended to have one primary distribution channel, sometimes with an alternative that provides a secondary outlet for products. L&A carriers are generally more diversified in their distribution efforts, with product manufacturers having, on average, 3 different channels with which they now operate.*

*Of the 10 carriers participating in the study, only one has gone to market with a "flanker" brand, which allows them to bring capabilities to market in a way that might not be possible with their current parent brand value proposition or because of concerns related to channel conflict.*

*Survey results were gathered during Q3-16.*

# Disruption Threats Are Everywhere

## CIOs have their heads on a Swivel

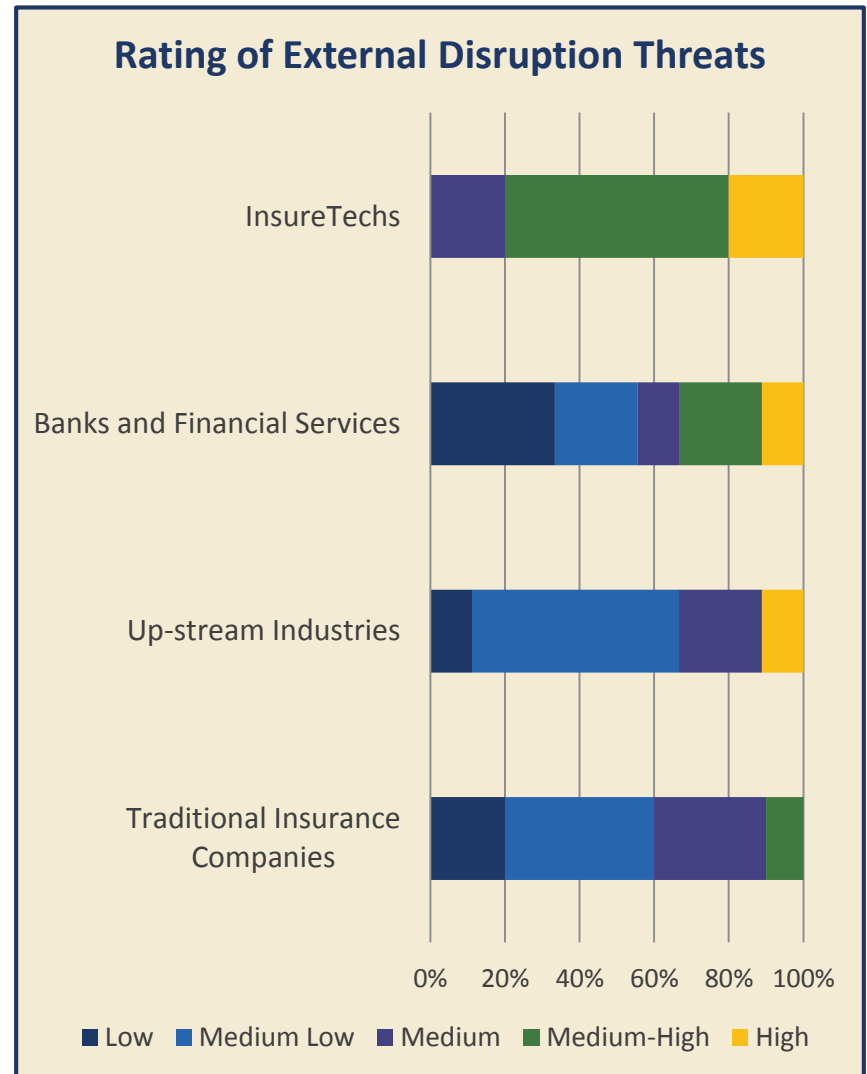
Innovation is the father of disruption in the insurance industry, and that disruption is now coming from multiple directions simultaneously. That has made it more difficult for the industry to form a cohesive response.

The most significant source of innovation and disruption currently is viewed as coming from outside the industry. Banking and financial services are typically on a trajectory which requires more rapid adoption of advancing technology-based capabilities; that has spawned a flurry of activity now aimed specifically at insurance.

## Capital Follows Opportunity

The main thrust of innovation and disruption into the industry is coming from InsureTech startups that are bringing ideas, technologies, and processes from other verticals into the insurance industry.

While not true across the board, many of these startups are well-capitalized by PE or VC money, both of which view the industry as the next big opportunity to launch profitable and sustainable ventures.



# Innovation Sources

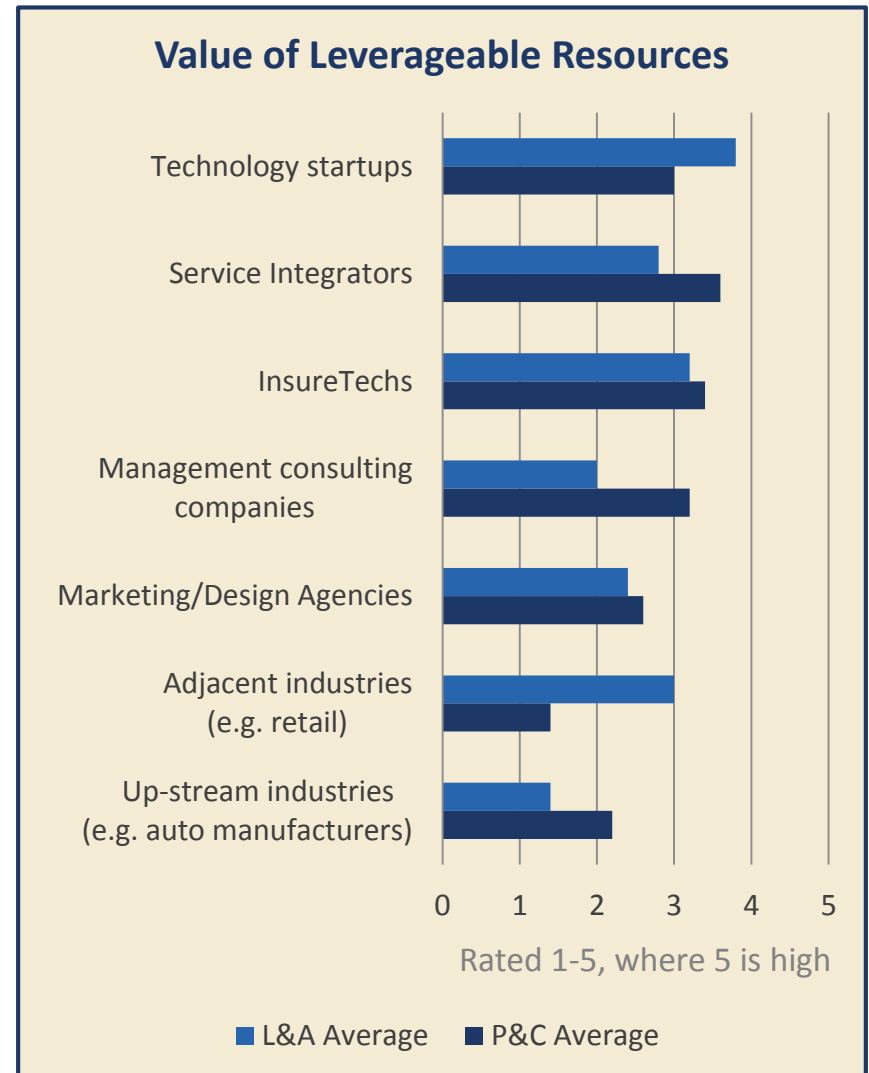
## Leveraging Different Perspectives for Innovation

The P&C industry is farther along the innovation curve than the L&A industry. That means that P&C CIOs have had more time to source innovation expertise across their internal and external value chains. Many P&C CIOs have put together a combination of InsureTech startups, customer experience designers from outside the industry, and traditional management consultants to build capabilities.

L&A CIOs are still looking for that sweet spot of outside and inside industry expertise to begin to get their arms around what innovations means to them and their companies.

## Pioneers and Settlers

Both P&C and L&A CIOs are leveraging innovation ideas pioneered in other industries. That removes some, but not all, of the risk of applying things like virtual assistants and IoT products and services.



# Innovation Methodologies

## Innovation as Process

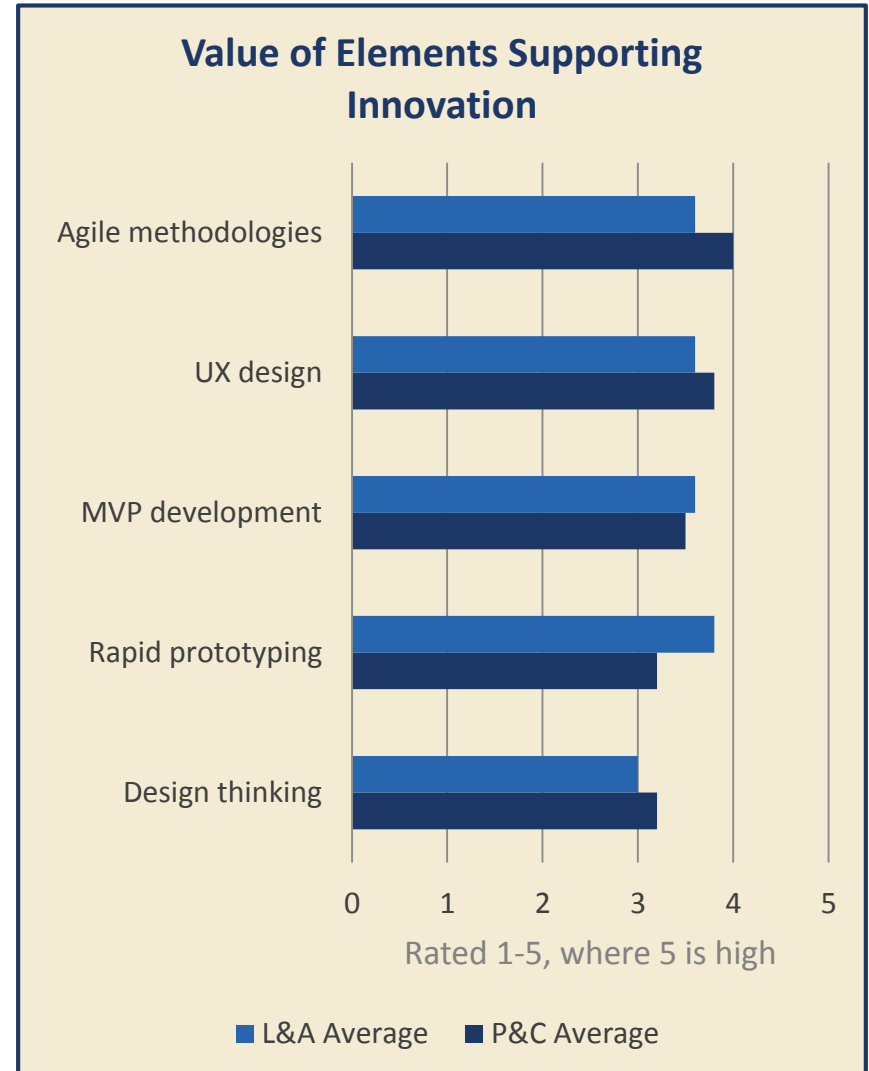
Insurers and CIOs across the P&C and L&A spaces are utilizing methodologies to test, implement, and sustain innovative ideas.

To many ears it sounds like innovation and methodology should not go together, but in fact the opposite is true for insurers. CIOs need ways to capture, test, and judge the value and merits of innovative ideas. And once judged, they use methodologies as a way to effectively implement and sustain innovative products and services.

## What is Working out There?

P&C and L&A CIOs are leaning on methodologies that have proved effective in other industries. Design thinking, UX design, Rapid Prototyping, and others have all been used in manufacturing, retail, and banking and financial services to great affect.

Applying Agile methodologies to insurance innovation can be an effective combination, and since many insurers adopted Agile some years ago, CIOs can leverage their own IT staffs for innovation initiatives.



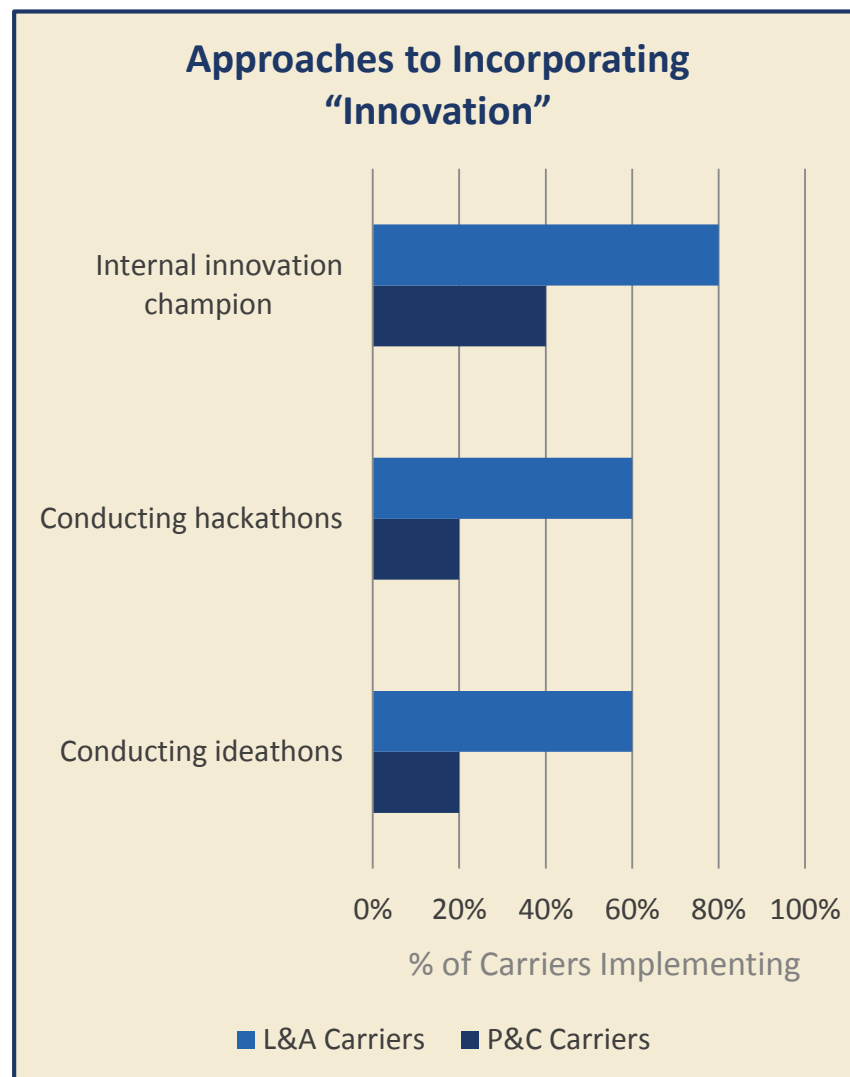
# Incorporating “Innovation” as a Concept

## What does Innovation Mean?

Conceptualizing innovation is one thing; actually being innovative and acting innovatively is something else altogether. Many CIOs are moving from the conceptual to the concrete by sponsoring formal activities that are designed to encourage creative thinking.

As noted earlier, P&C insurers are further along the innovation curve than their L&A counterparts in general terms. In an effort to accelerate efforts recently, however, appointing an internal “Innovation Champion,” whether a person or a team, has become commonplace in L&A carriers. The value of such champions is that it serves notice to the rest of the company that innovation is a priority, and that resources – people and money – will be allocated to bring innovative practices from concept to reality.

P&C carriers have moved faster to integrate innovation into mainstream activities than their L&A counterparts. Conducting hackathons and ideathons are tools CIOs are using to foster a culture of innovation. L&A carriers now appear to be making greater use of these tools than their P&C counterparts, reflecting the current state of their broader innovation activities.



# Technology as a Tool for Innovation

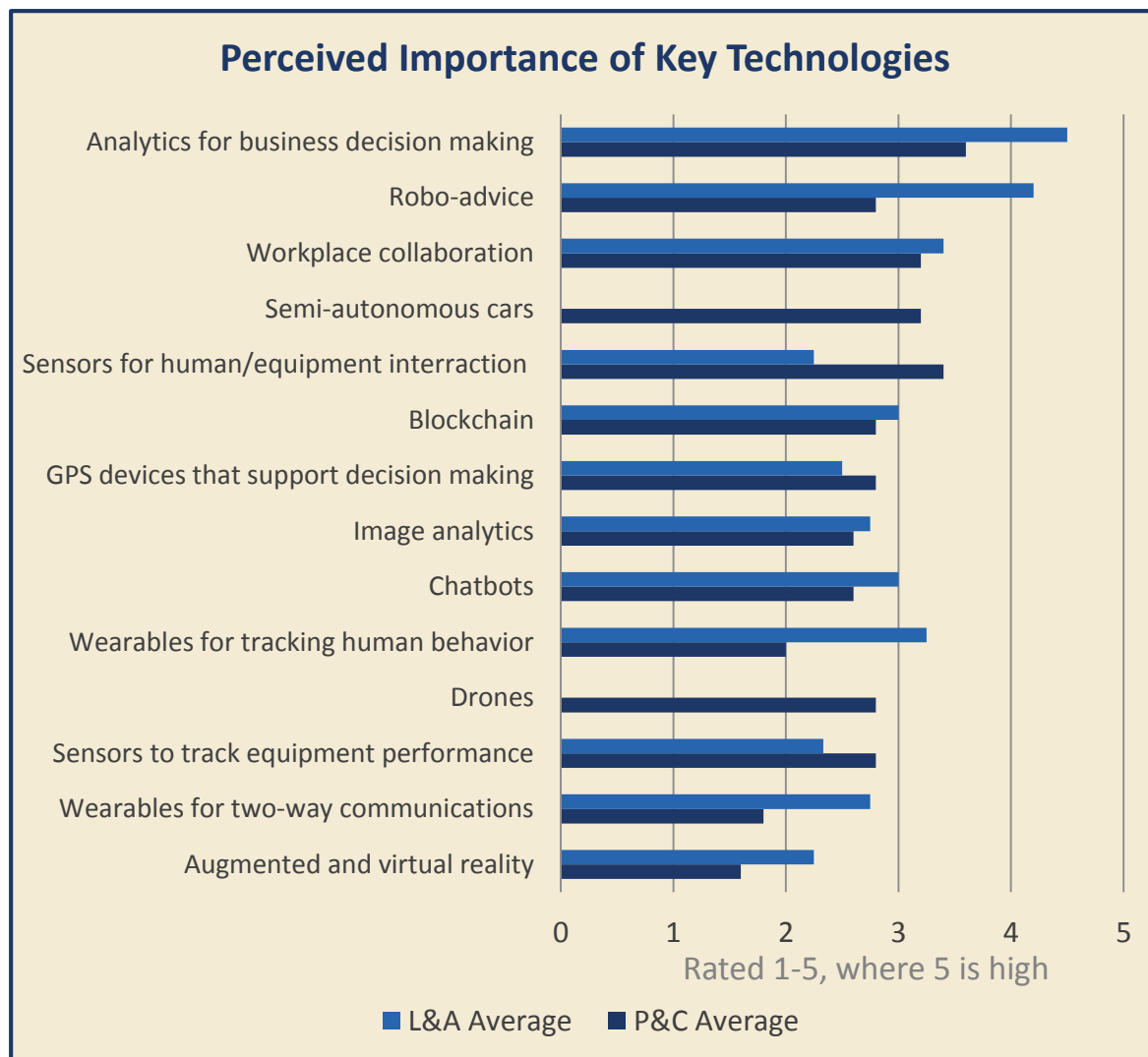
## Lots to Choose From

As the research indicates, CIOs are considering a myriad of newer technologies to support - and in some cases drive - their innovation efforts.

At this point AI-themed solutions like intelligence-based business solutions and Robo-advice product and service apps and platforms are top of mind for CIOs.

## Business Driven

That said, P&C and L&A CIOs are and will gravitate toward the kinds of technologies that best augment and enhance their market, product, and operational efforts. For instance, wearable devices are more important for life insurers; semi-autonomous vehicles and sensor devices that track driving and other habits are more important to P&C insurers; and drone-based technologies and data collection are and will be important to both P&C and L&A insurers.



# Supporting Innovation

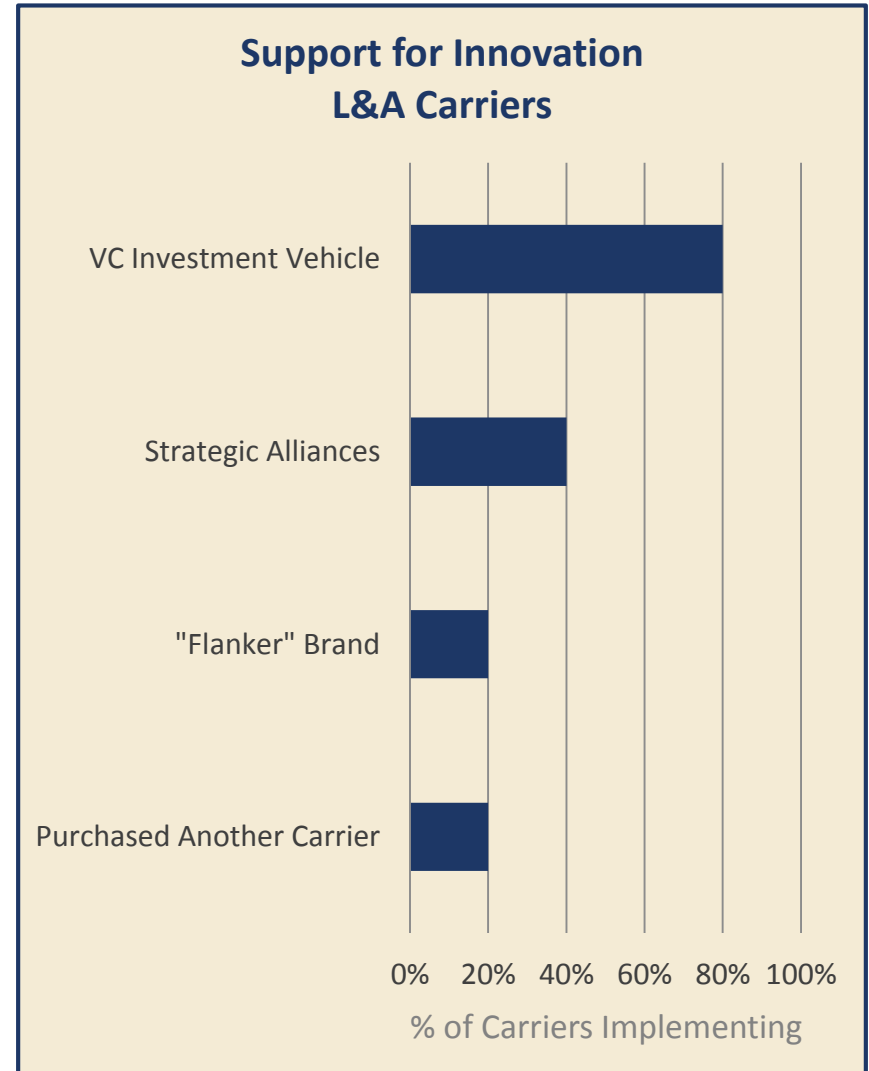
## A Little Support Helps

Many CIOs and their carriers have recognized the need to reach outside of their own spheres of experience for some help with innovation initiatives. In this sample population, these alternatives were being pursued by L&A carriers. P&C carriers appear to drive innovation more directly with other capabilities.

The most common approach is to create a venture capital investment entity that is separated from the core insurance business. This gives the entity the necessary independence to pursue ventures that may or may not prove fruitful.

Insurers are also pursuing strategic alliances directly with InsurTech startups or other solution provider entities who have the intellectual property but perhaps lack the resources and structure to move ideas from concept to reality.

While not commonplace, some insurers are also using “flanker” brands (i.e. alternatives to their traditional parent brand) as an entry into the innovation world. This can also allow them to do things which would be inconsistent with their parent brand’s value proposition.



Survey Results Will Not Total 100%



# Funding Innovative Ventures

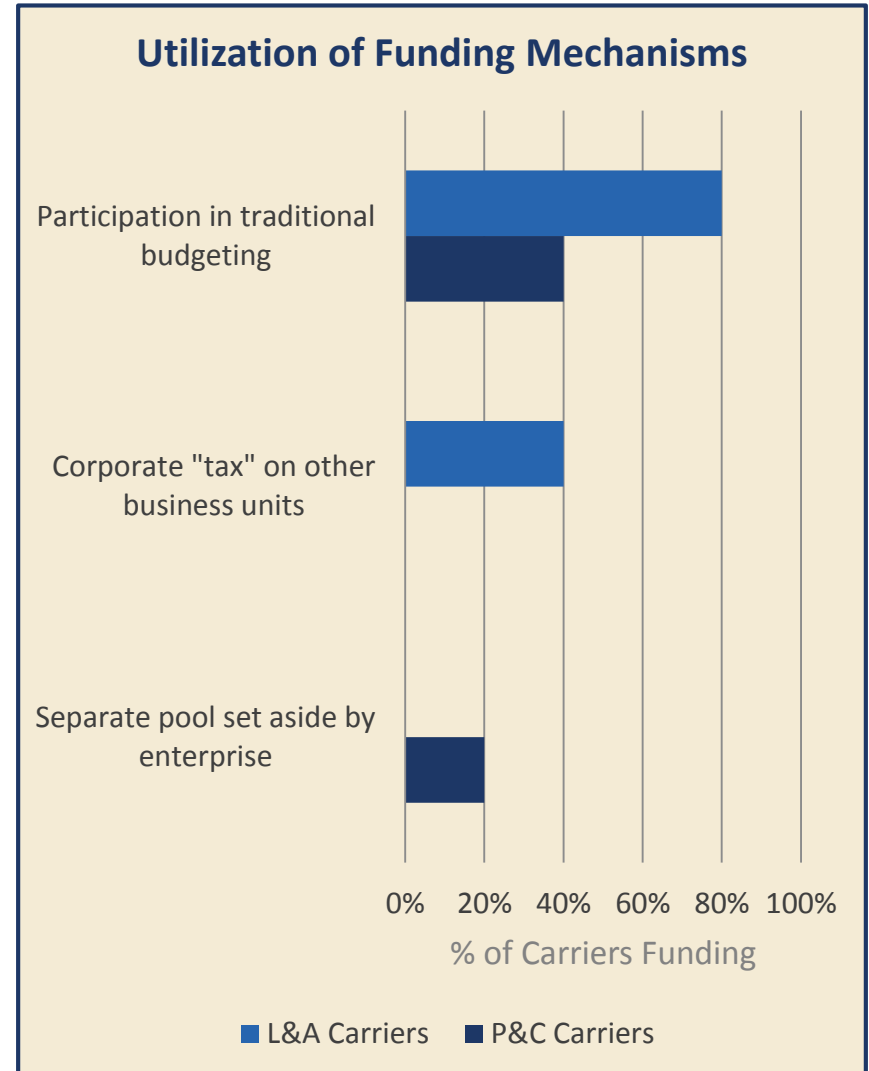
## Funding Innovation

Like any other initiative, those focused on innovation have to be accounted for someplace in the real world of dollars and cents. L&A insurers favor the traditional budgeting route more than P&C insurers, but that may be a factor of P&C insurers playing in this world a little longer and as a result finding other ways to fund innovation initiatives that are separate and apart from traditional budget approaches.

L&A insurers have also used an approach that effectively levies a corporate “tax” on other business units as a way to aggregate budget monies for innovation. The logic is that innovation will benefit the entire organization, but over the short term such an approach could cause some political or cultural issues inside an insurer.

## Other Routes

Some P&C insurers have chosen to carve out a separate budget for innovation, usually staffed with separate resources as well, as a way to create “innovation centers” whose mission is to come up with as many ideas as possible, and move the most promising ones from concept to prototype quickly without the bureaucratic hindrances of the larger organization.



Survey Results Will Not Total 100%

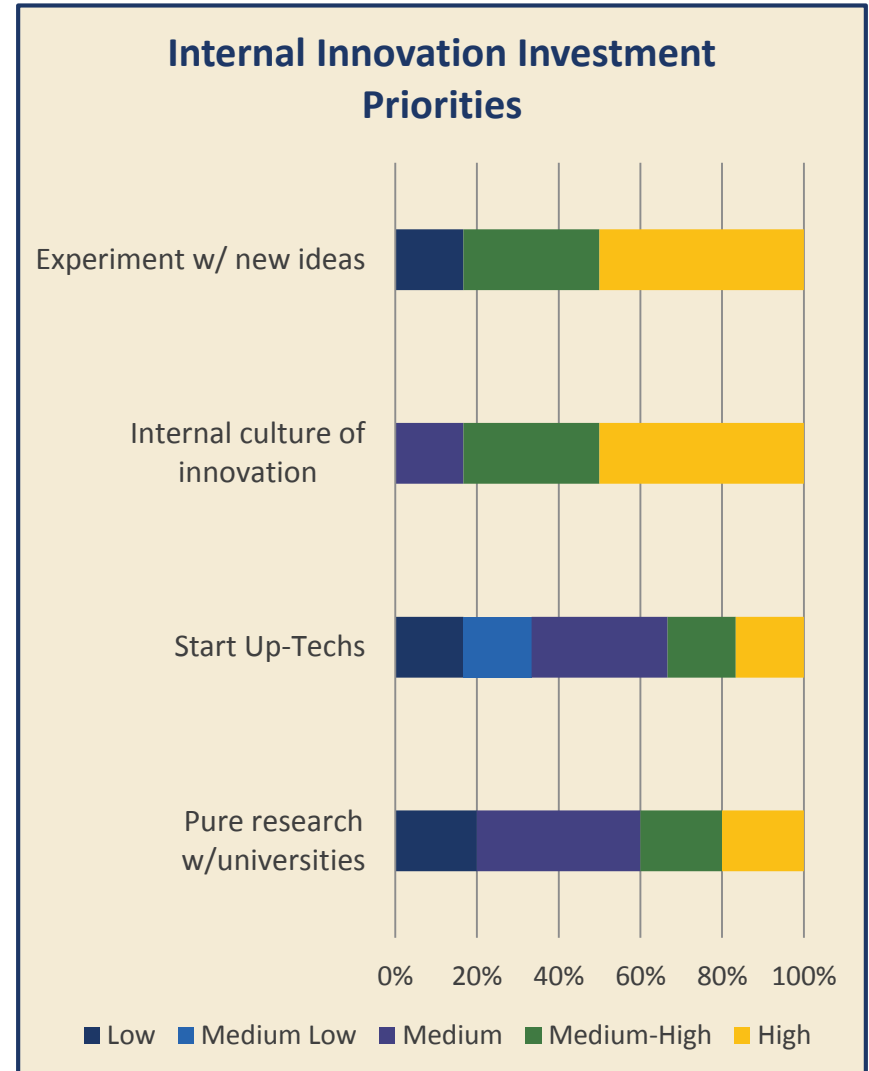
# Investing for Innovation

## People

When investing in innovation both P&C and L&A CIOs have discovered the power of investing in cultural change and adaptation. The old maxim that “culture eats strategy for lunch” has never been truer when it comes to innovation. In the end it’s the people in the organization who will have to shift their cultural norms so that it includes an openness to new ideas and the new behaviors that come with them.

## Technology

New ideas and experimentation are the grist that feeds the innovation mill. CIOs and their organizations are looking both inside and outside of their organizations for inspiration and ideation. Many have created internal innovation centers or loosely coupled investment funds that actively engage with InsurTech startups and university research and think tanks. This is a trend that’s likely to accelerate as more insurers get serious about innovation.



# Innovation Priorities

## Product, Process, and Profit

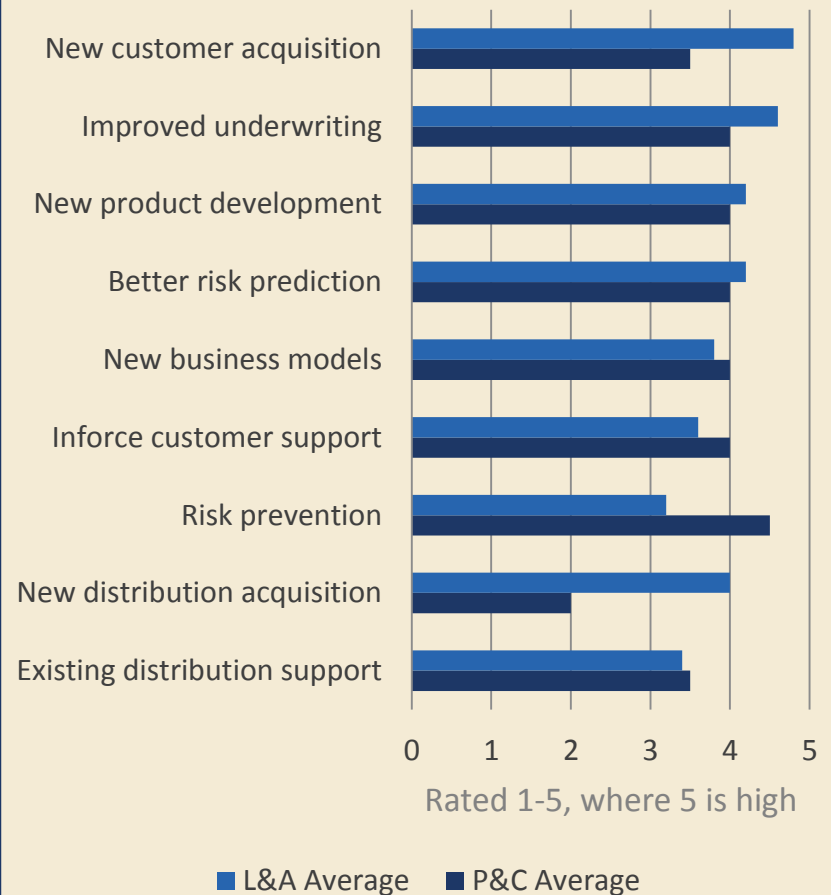
Innovation for its own sake may be fun, but that's not the reason insurers are getting so involved in it. Rather, innovation is seen as a way – and by some as *the way* – to create new products, engender more efficient and effective processes, engage more intimately and empathetically with customers, and of course, drive profitability.

As the research suggests, many insurers are moving toward this brave new world on a variety of fronts, from underwriting, to risk management, to distribution, to altogether new business models. Insurers increasingly view innovation as the engine that can drive the change they and their stakeholders desire.

## Splitting Hairs

The difference between P&C and L&A investments by function is not significant, with L&A putting a little more emphasis on new customer and distributor acquisition, while P&C insurers are emphasizing risk prevention a little bit more. The bottom line is that they're both making investments as a way to discover their own innovation sweet spot.

### Evaluation of Focal Points for Innovation



# Innovation KPIs

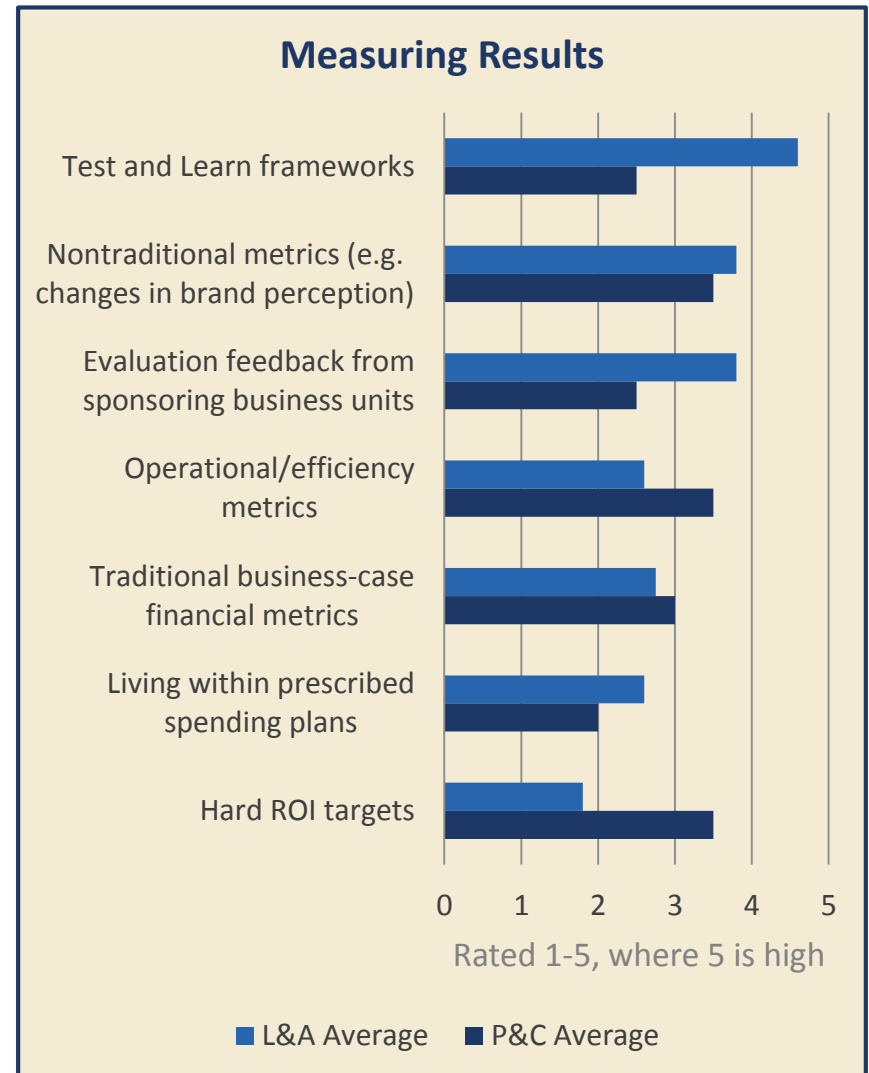
## Measure Twice...

Innovation and metrics are still problematic. It's fair to say that the industry has not landed on a quantitative and qualitative set of metrics that can accurately gauge an innovation process. That said, insurers are trying to measure what they can. Why? Because that's what insurers do.

As the research results suggest, P&C CIOs and their companies are only slightly more comfortable than their L&A brethren with intuitively understanding that some innovation efforts, while not completely measurable, can pay dividends.

## Cut Once

Despite any temporary switches from quantitative to qualitative measures, insurers are still going to be looking for some measurable improvements over the long run. That's the reason for engaging with innovation after all, and the trend line suggests that KPIs and other metrics will solidify as more and more insurers gain valuable experience with innovation initiatives.

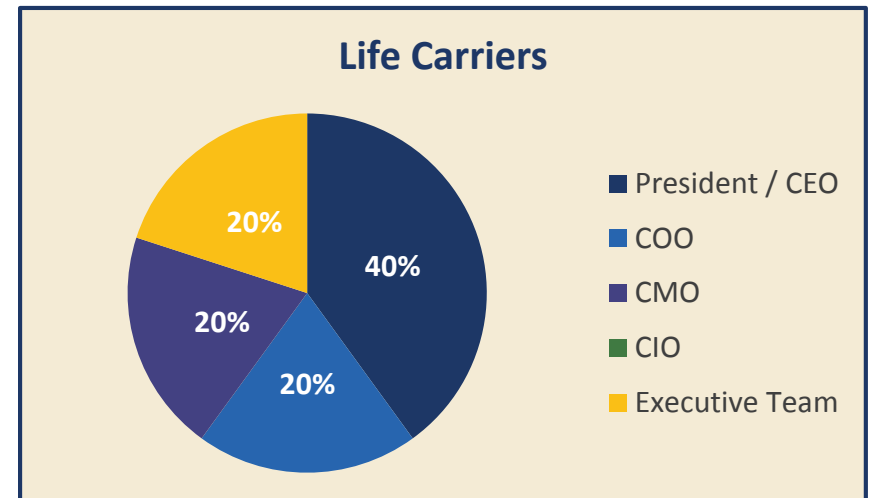
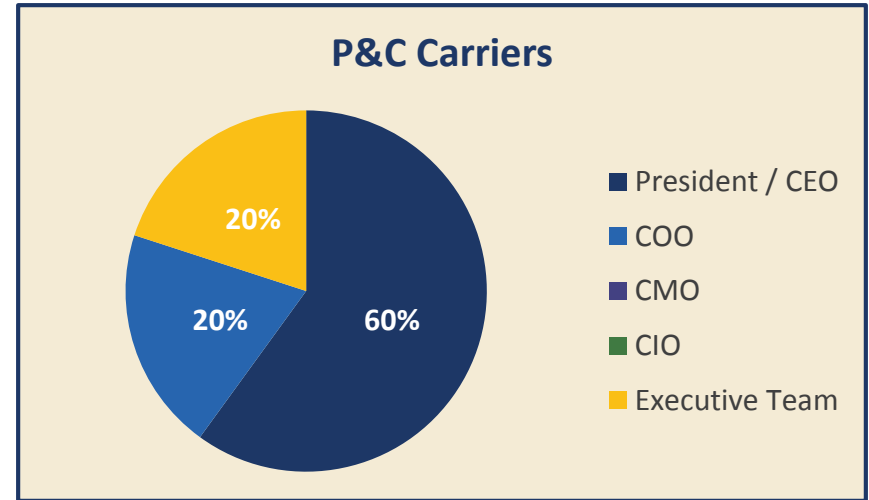


# Innovation Is A Senior Leadership Prerogative

**Innovation is increasingly important to insurance carriers.** While the importance in 2016 has varied considerably between carriers, and has been of somewhat greater importance to P&C carriers than their L&A counterparts, there was universal agreement that this would be a higher priority in the coming year.

**Innovation requires senior leadership attention both to prioritize efforts and to ensure appropriate funding.** One of the recurring challenges for insurance carriers is that innovation can be perceived as a threat to the current operations within organizations that are generally very conservative. This can trigger an “immune system” reaction which can adversely impact delivery of new capabilities.

- Perhaps in recognition of this, the establishment of the policies and procedures associated with innovation initiatives are most commonly associated with the President / CEO of carriers, as reported by 50% of the study participants overall.
- In 20% of reporting carriers, this responsibility is associated with a COO, across all lines of business.
- It is noteworthy that in no case is the CIO alone leading innovation efforts at participant carriers.



# Concluding Thoughts

**Carriers face a series of significant challenges as they consider the near term future.** With the average age of an agent in the United States now exceeding 59, significant demographic changes significantly impacting customer preferences and a persistently low interest rate environment challenging traditional cost structures, carriers simply cannot double down on the strategies from the past.

**Innovation remains a subject which is attracting significant attention at insurance carriers, across all lines of business, today.** That said, many carriers which have conservative cultures and prefer to avoid risks in their investment plans, struggle with how to gain traction to do new things in fundamentally different ways. This remains an industry where the preferred mantra appears to be a “fast follower”.

**While innovation is relatively easy to embrace as a general concept, understanding the correct way forward is very much a function of both internal factors and external influences for specific carriers.** Innovation can be hard work that requires a dedication of resources and a willingness to take new risks. It can also require new organizational structures and an acceptance that an asset (e.g., a traditional brand) can also be a liability. Bimodal thinking may be foundational to being successful in the future.

**Many carriers are focused on the need for executing on a Digital Strategy, which may be important, but is not synonymous with innovation.** All business is going digital, if for no other reason that it is a practical way to take costs out of existing business models. These improvements may be critical to survival and competitive positioning, but they should not be considered innovative. Innovation is frequently about breaking things and a willingness to walk away from traditional approaches to products, distribution models and operations.

**Technology advances in financial services typically take place first in verticals other than insurance.** Carriers would be wise to keep an eye on developments in both the banking and investment realms to see a preview of their own futures.

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**Novarica** helps more than 80 insurers make better decisions about technology projects and strategy through research, advisory services, and consulting.

We publish frequent, independent, in-depth research on trends, best practices, and vendors. Our research projects are directed by senior executive-level experts, and leverage the knowledge of more than 300 insurer CIO members of our Research Council.

Our Strategy-as-a-Service advisory services provide on-demand phone and email consultations on any topic in insurance or technology. Our clients have told us it's like having a team of experts down the hall, for a flat annual fee that is a small fraction of the cost of a single employee.

Our consulting services include vendor selection, benchmarking, project assurance, and IT strategy development. They are based on our deep knowledgebase, extensive relationships, personal experience, and proven methodologies. Our clients get rapid, actionable insights and guidance, delivered directly by our senior team.

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