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The Adaptive Insurer Hit by the Covid-19 Crisis



Claudio Stadelmann

In 2015, BearingPoint performed market research to understand the drivers of an adaptive insurer, focusing on the business's ability to respond to economic, demographic and regulatory change. At this point in time, we identified three clusters of companies with a strong correlation between adaptiveness and market performance: leaders, midfield and laggards. This article revisits the results of 2015 and analyzes how adaptive insurers have performed in the Covid-19 crisis. Based on the lessons learned, we highlight the factors to be re-considered in our adaptiveness framework.



Philipp Lys

Leading insurers showed strong underlying performance in the crisis and adapted themselves quickly to massive operational restrictions.



Fabian Hotz

The Covid-19 pandemic hit the insurance industry in several dimensions. First and foremost, it led to huge losses caused by, among others, business interruption, event cancellation and increased mortality. Client and market interaction as well as internal operations had to be switched to virtual frameworks within weeks. In addition, from one day to another, the overall business environment had to deal with maximum uncertainty, including the most dominant impact on the health of the workforce. Existing management and reporting structures had to be adapted to the new situation. Several restrictions had never been built into a business continuity management plan – who had foreseen that borders would be closed and that all continents would be hit almost instantaneously?

Being adaptive was key in managing the new situation and navigating a company through the new normal.

Among the global group of insurers analyzed in our 2015 survey, there were several Swiss insurers. Swiss Re and Mobiliar got identified as leading adaptive insurers. The year-end results of both companies confirm that their underlying performance has remained strong (Mobiliar, 2020; Swiss Re, 2021).

One key insight of the study was that the three identified clusters (leaders, midfield and laggards) did show a correlation with market performance (see Figure 1). In addition, the study highlights that while insurers have mostly been able to define and articulate a corporate strategy, they struggled to deliver operationally. 80 percent of the leading companies, however, already identified criteria relating to people and processes as the biggest enablers for implementing an adaptive operating model. Later on in this article, we will highlight the key role that people have played during the Covid-19 crisis.

As part of our study, we asked 25 insurance companies to rate the importance of enabling factors for adaptiveness. The highest rankings were assigned to the following key levers (see Figure 2): strong customer orientation, rapid product and service development as well as early warning indicators.

Most organizations we spoke to were not customer-centric. They aligned their business processes around product categories and policy management systems that were more fitting to yesterday's requirements than to tomorrow's evolving needs. In the last years, we have certainly observed a shift towards customer-centric insurers. However, there are still hurdles to overcome in order to be fully customer-centric.

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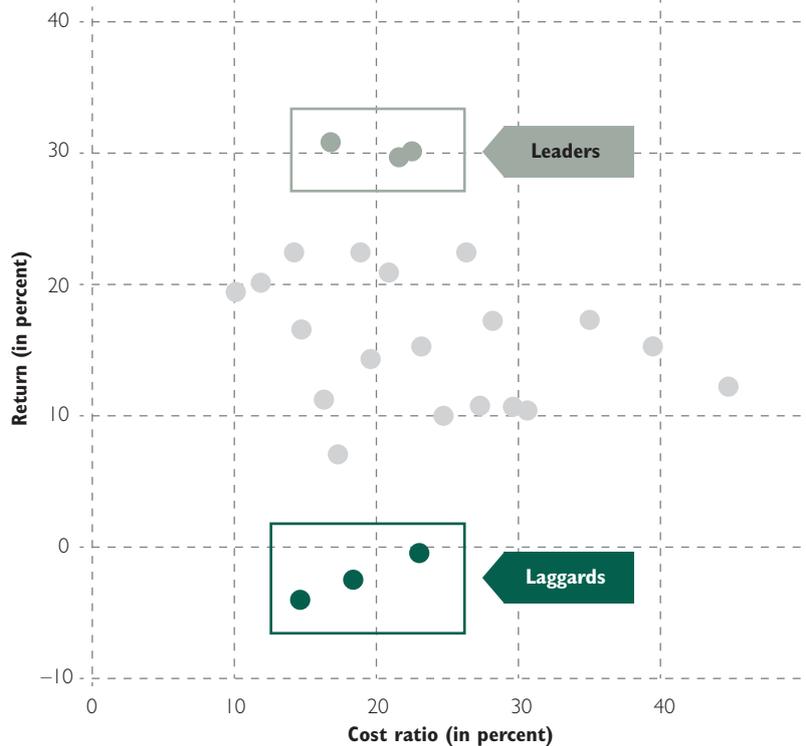


Fig. 1: Correlation between the average share price development and the average cost ratio of the 25 largest insurance companies for the period from 2009 to 2013

(Source: BearingPoint, 2015)

Because of the Covid-19 pandemic, other enabling factors for adaptiveness might have gained in importance.

Based on the projects with our clients during the Covid-19 pandemic, we have identified an increased relevance of the following enabling factors of adaptiveness:

- Flexible working environment
- Cloud-based sourcing
- Compatible culture across business units and countries
- Global geo-resilience (not an element of the study conducted in 2015)

Companies which have already had flexible working environments in place, e.g., working from home models, managed the switch to remote work seamlessly. The required infrastructure and collaboration tools were already available. Teams were used to meet and collaborate virtually.

During the crisis, businesses have profited significantly from a flexible IT ar-

chitecture. Especially cloud-based services, which build the core of highly flexible meeting virtualization, have been very important.

As a result of our Agile Pulse Study 2020, we identified a strong indication that companies that invested in an agile culture across business units and countries have performed better during the crisis, as independent employees could take decisions and adapt quickly to changes (BearingPoint, 2020a). This result is supported by a survey which we conducted in order to assess the advantages companies see in agile organizations (see Figure 3).

Advanced analytics and global geo-resilience are key capabilities for the adaptive insurer.

Like most businesses, we underestimated the rapid global spread of Covid-19. The

lack of timely access to reliable data that would have allowed companies swift responses was laid bare. In a recent international study on data leadership, we identified the importance of enterprise-wide data literacy (the ability to read, understand, create and communicate data as information) as a decisive factor for successful data analytics implementations next to the sole technical capabilities (BearingPoint, 2020b).

If companies master those traits, there are important lessons to learn: Successful firms adapt pragmatic and quick solutions fast as opposed to aiming for the silver bullet, adopt the new way of working to engage partners as well as customers and provide them with valuable information, while seeking innovation in products, services, distribution and reach of delivery.

The identified leaders in adaptiveness quickly closed this gap by connecting a broad set of external data sources, enhancing their conventional business steering and reporting layers with additional insights gathered beyond their well-established enterprise data boundaries. For example, Swiss Re harnessed cloud-powered analytics platforms to improve their existing risk exposure models with the help of pandemic incident numbers across their asset landscape.

Besides the ability to quickly integrate external data sources, the concept of digital twins in operation will become a game changer for simulating the impact of different scenarios on the business. If appropriately implemented, technologies such as process mining can provide valuable insights into operational procedures, gauging the effects of any change in the business triggered by internal or external events, respectively. By using such digital twins, insurers can, for instance, quantify the operational and financial impact of a new product launch or business transformation initiatives and can measure the effect of a crisis at scale.

Both examples above relate to the advanced analytics capabilities as outlined in the 2015 framework. Given that data analytics solutions have gained immense

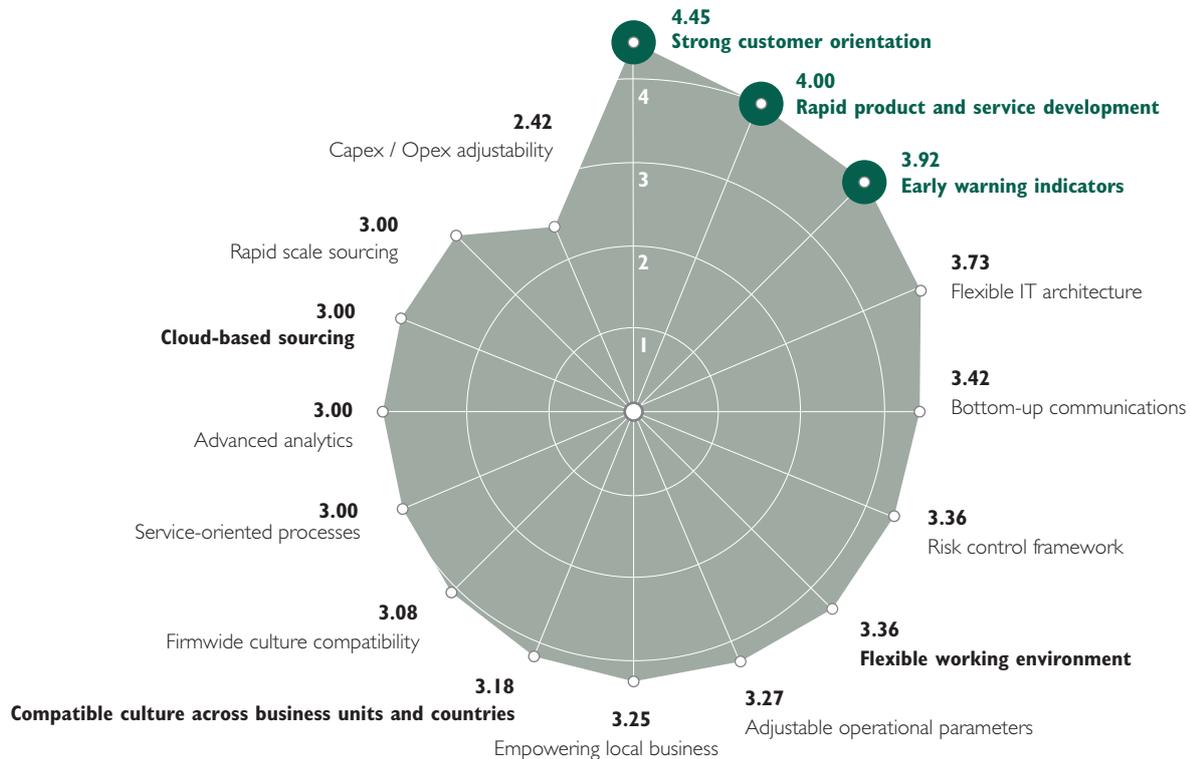


Fig. 2: How can insurers reshape their business model?¹ (Source: BearingPoint, 2015)

momentum in recent years, mainly due to the availability of scaled cloud-based services, our adaptiveness framework needs to accentuate these capabilities in more detail.

The last element to be added is the global geo-resilience capability. According to a report of the World Economic Forum, global health pandemics occur roughly every 30 years (World Economic Forum, 2019; World Economic Forum, 2020). The Covid-19 crisis could, therefore, not be considered as an extremely unlikely event. However, nobody expected to encounter, for instance, closed borders across continents, systemic supply shortages or crisis-induced trade restrictions. Thus, geo-resilience suffered heavily under the Covid-19 pandemic.

Employees have made a difference during the crisis.

Listening to our insurance clients on what went well during the crisis shows

consistently that the employees made the difference. They were highly engaged, adapted quickly to the new circumstances and went the extra mile despite the uncomfortable situation.

In September, Mobiliar was able to state that the company had successfully continued its growth path in the past economically difficult months. The insurer explained that this was mainly due to high investments in infrastructure and IT security which had been made over the past five years. These investments enabled operations both at the general agencies and at the head offices to seamlessly switch to home and mobile working when lockdown measures came into force in mid-March 2020.

In most observed cases, the switch to a remote working setup has been impressive. In the European Union in 2019, employees' share stating that they usually work from home was slightly over five percent. A survey in the second quarter of 2020 showed an increase to over 36 percent, while an additional in-

crease in late 2020 was observed as many governments made working from home mandatory. However, the increase in the share of people working from home is also limited, as not every job can be performed from home. It is estimated that the percentage of jobs in Switzerland that can be done from home is close to 50 percent. Large financial corporations such as Credit Suisse have even stated that more than 90 percent of all employees worldwide could work from home after the outbreak of the virus (Credit Suisse, 2020).

Employees who experienced the crisis are opting for change.

What will the lasting «new normal» look like? Nobody knows, but we all know that change is on the agenda. In the past (traditional) setup, the working environment was called «the office». But what will it be called when the physical representation is spread across several corporates and co-working interaction spac-

es as well as working from home locations? Will a fixed office desk even exist in the future? Employees have discovered the advantages of working from home such as the reduction of commute time and thus an increase in quality of both professional and private life.

In 2020, BearingPoint conducted internal surveys twice to monitor the pandemic's effects on the daily work of our employees. To compare the development during the crisis, the first study was conducted in April, whereas the second was conducted in August. We could confirm all of the before-mentioned advantages of working remotely, while additionally observing a significant higher estimation of the employee's own productivity, a positive impact on the personal well-being and a strong desire to continue remote working for two to three days per week in the future.

Thus, after the crisis, the overall share of people working (partially) from home is expected to be significantly higher than before, even though a slight decrease is expected compared to the figures during the crisis. Consequently, some insurance companies (e.g., Nationwide or Aviva) but also large banks such as Morgan

Stanley already decided to reduce their facility footprint remarkably. It has been estimated that the demand for office spaces in Switzerland will fall by 10 to 15 percent over the next ten years, as working from home saves a considerable amount of office costs for corporations.

The experiences made during the pandemic will surely lead to a higher acceptance of working from home. Because of that, solid home office concepts need to be developed. It remains to be seen which concepts will be implemented long term and how the «new normal» will look like.

Another trend we analyzed in an early 2020 study for a large Swiss client is that companies currently face major challenges in recruiting along with managing their internal and external workforce (BearingPoint, 2020d). The demand for increasingly flexible tailor-made working models is growing because of social and economic developments and the changing requirements of globalization and digitization. Due to the demographic developments, the shortage of skilled workers is further exacerbating the situation. To maintain profitability and sustainable competitiveness, making flexible working

models widely available is becoming increasingly important.

The trend towards gig economy employment patterns has even accelerated in the crisis. For highly skilled employees, it is getting more attractive to share their capacity among different employers when workplace virtualization is the standard. A 2018 Gallup survey showed that already at that time 36 percent of all US workers participated in the gig economy in one way or another. The many-sided advantages of working within the gig economy as well as the increasing quality of setups to work from home will certainly increase the share of involved people – also in Europe.

Now that we experienced a pandemic, are insurers prepared for another major crisis like a cyber shutdown?

A main learning from the pandemic is that we have to prepare for the unexpected. We consider the following challenges to be critical for all operating insurers in the next decade:

First, the importance of effective protection against any type of cyberattacks is generally recognized and has been a top priority for IT departments over the last decade. However, with the ongoing trend of working from home and/or in the gig economy, the efforts to protect all relevant assets have recently been intensified even more. Because employees also use private devices with different operating systems and internet providers offering different types and levels of security management, the risk for data theft and ransomware attacks has significantly increased.

Second, during the crisis, the underlying (financial) performance of the leading insurers has been strong. But what would that performance look like if a major cyber shutdown would hit the insurance industry or a complete nation?

We elaborated a scenario of a 100 percent shutdown of the Swiss network infrastructure and concluded that:

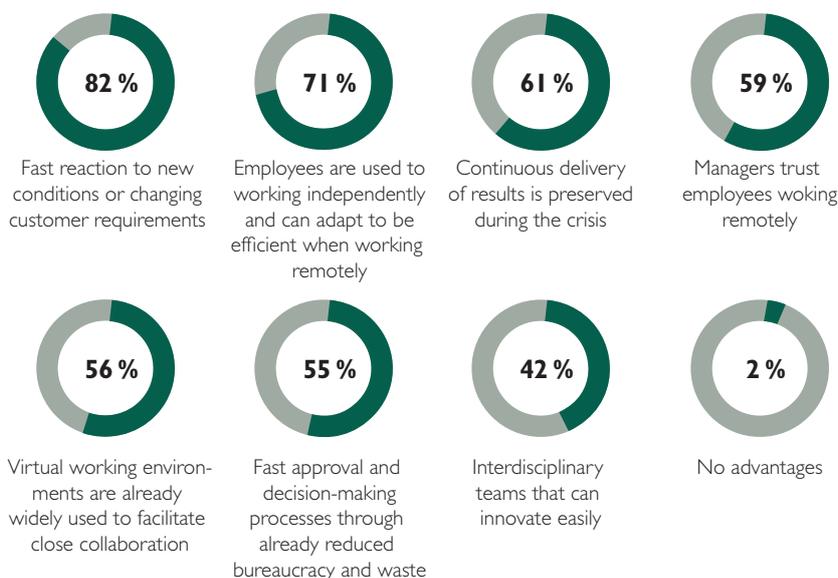


Fig. 3: Advantages of agile organizations in times of crisis and beyond

(Source: BearingPoint, 2020a)

- The impact will be immediate.
- Nobody will work in or out of Switzerland anymore.
- Several systemically relevant services will be offline.
- Technical recovery will happen faster (several weeks to few months), but for some cases, business recovery will be impossible.

As shown in an article published in the Harvard Business Review, this risk is already a reality. Due to its century-old equipment and the increased fears of devastating fires, the utility companies in Northern California shut off power to more than 1.5 million people in late 2019 (Harvard Business Review, 2020). As a consequence, the United States experienced its first-ever long-lasting large-scale blackout. Experts at Stanford University estimated costs of up to USD 2.5 billion. For many cybersecurity experts, the blackout was a signal of just how precarious our reliance on electricity is and how big our focus on preventing cyberattacks and cyber catastrophes should be.

The investments in geo-resilience should therefore be increased significantly. An adaptive insurer needs to be able to run its operations from another region or continent if, for example, Switzerland is shut down for several

weeks, as indicated in the scenario above.

The insurance industry is taking cyber risks into account. That is illustrated by an interview with Christian Mumenthaler, the CEO of Swiss Re, during which he stated that it is «likely that we're going to have some significant cyber losses in the next 10 years, at some stage» (Swiss Re, 2020).

Adaptiveness investments of our Swiss leaders did pay off – and they will be even more relevant in the future.

While adaptive insurers did navigate well through the crisis and the top-ranked enabling factors for adaptiveness of 2015 have remained important, we identified other increasingly important factors during the Covid-19 pandemic.

First, offering flexible working environments by ensuring efficient remote working infrastructure is critical to maintain key resources, while the inclusion of the gig economy allows access to additional pivotal resources. Second, cloud-based sourcing facilitates remote and mobile working, while optimizing costs and increasing service agility. Third, a compatible (agile) culture across business units and countries allows com-

panies to perform better during crises, as independent employees can take decisions and quickly adapt to change. Last, global geo-resilience as a new factor in our adaptiveness framework is a structured approach to manage the risks of infrastructure blackouts and to ensure business continuity.

Notes

- 1 The averages shown in the figure correspond to the following question: «Rate the importance of the following factors as enablers for adaptiveness in your organisation/department on a scale from 1 (low importance) to 5 (high importance).»

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