

A tough choice for insurers: navigating troubled waters with a tanker or speedboats



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Some say a storm lies ahead. Others say the storm is already here. All agree that more demanding customer expectations and opportunities from new technologies require new business models, forcing traditional insurers to navigate troubled waters. In this article we discuss which options insurers have to engage with a digitized world and whether changing the course of the whole organization or relying on new ventures is more likely to lead to a safe future.

Introduction

Traditional insurance models are being disrupted. Today's customers demand easy access and, most of all, customized services. They require that products and services are tailored according to their needs at every stage of their lives. At the same time, Insurtech-start-ups with strong customer focus, lean organizations, and digitized processes have an impact on the traditional insurer's customer base. Faced with this constantly changing digital environment, insurers must question how to adapt best. There are two general approaches to this scenario:

- Insurers can evaluate the available options, analyze and implement them throughout the organization at once. In our view, this approach can be associated with a tanker: difficult to navigate, but unstoppable when the direction is clear.
- Insurers can leave the parent organization untouched and employ many different ventures; these can adapt quickly, full speed ahead and employ a trial and error attitude. This approach can be likened to a speedboat: easy to navigate and fun to drive but, if not managed correctly, facing the risk of not producing tangible and implementable results.

Our aim with this article is to point out the differences between both approaches and to explain how and when these approaches should be applied (Figure 1).

Tanker

The first option for adapting to market disruptions is to react within the whole organization. We compare this to a tanker forging ahead in the open sea: it will navigate the waters at a steady pace fully aware of its surroundings. During this journey, the insurer will be able to select, analyze and discuss new technologies and ideas that will play a role in its journey and once it has selected the one(s) it wants, they will be implemented throughout the whole company.

The advantage of this approach is that it allows insurers to assess the complete impact that new technologies may have on the company's operating model. It can first evaluate the degree of change that is required from people, processes and systems to reap the benefits that might be provided by the technology. Furthermore, the company grants time to see how the technology develops, how it matures in the market and whether it fits the customers' needs. This allows the company to adapt to the new technology at the right stage of maturity. Another key advantage is the positive impact a unified digital culture has on the employees.

These advantages carry their share of disadvantages. The slower approach of the tanker can make the company look like a follower rather than a market leader in new technologies. This can negatively impact its customer base by not fulfilling customer expectations. Last but not least, strategical readjustments might be easier, however, if it turns out that a new

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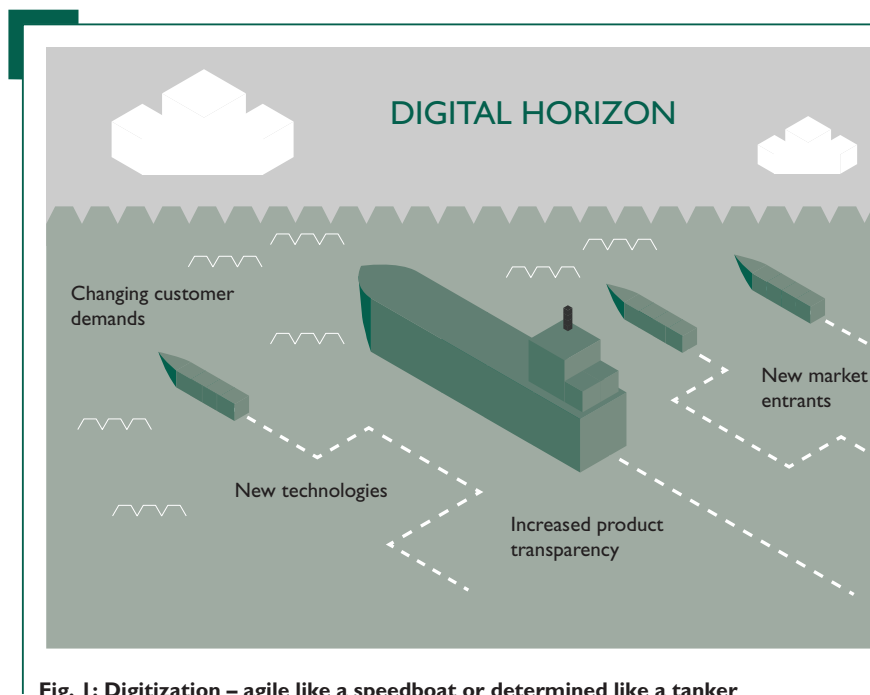


Fig. 1: Digitization – agile like a speedboat or determined like a tanker

course does not lead to sunny seas but towards choppy waters, the consequences are much more profound.

Speedboats

The second option for adapting to a changing environment is comparable to a speedboat. In this approach, companies quickly navigate the uncharted waters of Insurtech-start-ups to drive innovation. This is not done within the whole organization, but with subsidiaries, spin-offs and other small, project-oriented initiatives that are kept functionally separate from the parent company.¹

The main advantages of this approach are agility, flexibility and speed. A new venture does not have to follow the established paths of the parent company and can easily adapt to new circumstances. Furthermore, by being kept separate, it can encourage outside-the-box thinking and challenge traditional beliefs; the venture does not even have to adhere to the overall strategy of the company. Last but not least, a trial and error culture can emerge and more risks may be taken, because if a speedboat sinks, the parent company itself stays the course.

The greatest disadvantage of this approach is the structural difference between the speedboat and the tanker when it comes to integration. The operating model of the parent company may not be easily adapted to the business model of the speedboat, resulting in a cultural clash creating confrontations in terms of «us vs. them».

How to best navigate troubled waters to reach the digital horizon

An insurer dealing with the challenges of a digitized age has to decide how best to respond. Management press always praises speed, flexibility, agility and the ability to think outside-the-box. Consequently, relying on a speedboat strategy seems the most suitable option. One has to keep in mind, though, that sometimes a bold action that impacts the whole organization is the last resort to drastic market changes.

Based on our experience, we at BearingPoint recommend that a hybrid solution is the most suitable one for many large insurers. A tanker can never become a speedboat. However, it must ensure that it has the correct mindset and a flexible organization to adapt to a digitized

world. Therefore, a holistic digital strategy is required to set the course of the tanker and to describe how to benefit from speedboats.

For the parent company, several dimensions need to be considered in the digital strategy.² One approach that inheres many components is to establish a digital ecosystem. In this way, the parent company is not defined by a specific business model, but gathers the capability to integrate effectively and efficiently new digital services. In addition, the combination and offering of a mix of internal services, as well as services provided by other companies, is possible. This also helps to build a more digital culture across the organization. Regarding speedboats, we see different options how to establish them. Some of these options are described in the following sections.

Establishing an internal innovation process

The overall goal of this approach is the generation of new ideas from inside the company using the day-to-day client interaction, experience and knowledge from all employees.

BearingPoint, for instance, established an internal platform for posting, discussing and developing ideas in a playful manner independently from the company's hierarchy. The most promising ideas are selected and presented at the so called «Shark Tank» events. Here, the developers of the idea have the chance to pitch it to a board of senior partners and external incubators in order to get feedback and potentially tap in an extra reserved innovation budget. In this way, it is possible to shift course swiftly if a disruptive innovation comes up and the restrictions due to traditional procedures are minimal.³

Creating an innovation lab

Another promising path is creating an innovation lab which is granted the freedom to come up with and to test new ideas. Once the ideas have been proven

successfully, they are integrated into the parent company. Such an innovation lab does not operate within the standard organizational structures. Consequently, employees with diverse backgrounds and capabilities that typically would not fit into the parent organization, can be brought together.

A successful example is the innovation unit Allianz Digital Labs, which functions as an incubator for new ideas. It enables as well as creates ideas and drives experiments along the process until the point at which a proper funding decision can be made.⁴

Running innovation challenges

This involves going outside the company's boundaries in order to get an external view on innovation. The insurer can establish a competition where start-ups or groups of students can propose new ideas that improve or create new business models. The competitors are motivated by the funding that is provided by the company as well as by the opportunity to have a direct impact on an established business.

A global insurer, for example, has started an initiative that challenges students, young professionals and graduates from all over the world to create new, innovative business models in the insurance market. The goal is to use the results of the competition to fund a totally new insurer which is based on these ideas.

Another example is Be.Project, a challenging idea contest, hosted by BearingPoint for students in Germany, Switzerland and Austria. The team that succeeds in convincing the jury with their idea gets support to transform the innovative initiative into a successful start-up. In the end, not only the students benefit from this contest, but also BearingPoint staying at the forefront of innovation.

Exploring ideas in test markets

A further approach is to run new business models in a test market. This means that new ideas are rolled out geographi-

cally (in a region or country) or for a specific customer group, respectively. In order to reduce risks, this approach is ideally applied to areas where the parent company has no or only a minor presence. In this way, an innovative business model which may even contradict the overall global strategy can be explored in a greenfield environment.

Creating a venture

Creating a venture brings a lot of potential benefits, but requires also serious investments. Such a venture unit has the purpose to explore and engage with the start-up and Insurtech world. It continuously scans the market for new and innovative companies and ideas, with the intent to invest in or acquire the most promising ones. The selected start-ups not only get the investments but can also benefit from the resources of the parent company such as industry knowledge, data and network. In turn, the parent company benefits from innovative ideas and approaches. Another major advantage of this approach is the acquisition of patents that can provide competitive advantage in the market. This ensures that the company has a first mover advantage compared to other industry players.

A very good example is AXA Strategic Venture, a unit created by the AXA Group to fund strategic innovations of the company.⁵ One of its major acquisitions has been CoPromote, a marketing platform that focuses solely on expanding the marketing opportunities of social media creators. By organizing it as a separate unit, AXA Group is positioned at the forefront of technology without questioning its commitment to existing client base and processes.

Conclusion

Insurers have to navigate the digitized age and must decide how to do so. On the one hand, the whole organization can switch to a new way of doing business and clearly bet on one business model. This would be the tanker ap-

proach. On the other hand, the insurer could test several ideas first and move the organization in the direction which looks most promising. This would be the speedboat approach.

We at BearingPoint believe that a hybrid approach is best. It is clear that the digitized age is the reality and the whole organization has to acknowledge that. Customers are becoming more demanding and technology has to be employed to serve them – not vice versa. However, we believe that this does not mean simply betting on a trendy new business model, but implementing new ideas in a smart way in order to steer the insurance company towards the digital horizon and into a bright future.

Notes

- 1 Separate is understood here from a functional, not legal perspective. It's not so important that the new initiative is realized as a new legal entity, but it must be clearly separated from the parent company regarding the cultural, functional and marketing perspective, respectively.
- 2 See: Berger, Daniel; Broer Patrick and Pankoke, David «Digitization in life insurance: a prerequisite for success in spite of low interest rates», in: Institut für Versicherungswirtschaft der Universität St.Gallen (Hrsg.), I-VW Management-Information – St.Galler Trendmonitor für Risiko- und Finanzmärkte, I/2016, S.15–19.
- 3 An example of this is a company called Elevance, a blockchain start-up, which has its roots in the BearingPoint innovation process.
- 4 See: <http://digitallabs.allianz.com/en/>
- 5 See: <http://www.axastrategicventures.com/en/>