Going for growth

Insurance CEO Outlook 2017

October 2017

Insurance CEOs are certainly bullish about their company's growth potential. In fact, in a recent survey of insurance CEOs, 85 percent voiced confidence in their short-term growth prospects; almost eight in 10 said they were confident in their ability to grow their business over the next 3 years.

Yet few expect that growth to be significant. Indeed, nine out of 10 insurance CEOs said they expect to achieve less than 5 percent growth overall.

These results are not entirely surprising. And they suggest that insurance CEOs are finally getting prepared to invest into transforming their businesses for the future.

The reality is that — while insurers have been talking about transformation for years — very few have had the time or the capacity to do anything about it in a very significant way. The desire was certainly there. But other more immediate pressures kept getting in the way.

This data (and my recent conversations with insurance executives) suggests that companies are now starting to recognize that their businesses are being disrupted. And it will take nothing short of revolutionary change to respond given the magnitude of what the industry is facing.

Making real progress

For the past 2 years, I have had the honor of hosting many of the world's leading insurers at the KPMG Insurance Industry Conference. And, each year, I've surveyed the attendees on their transformation expectations and activity across certain areas. The data — while slightly less scientific than our CEO survey — has been telling.

Last year, 54 percent of attendees admitted that they had made no progress towards implementing Robotics Process Automation (RPA). This year, just 26 percent said the same. The number of attendees who said they were actively piloting RPA projects almost tripled in the same time. That is a massive change in just 1 year.

Similarly, we've seen a significant shift in the way insurance organizations think about and approach innovation. At last year's conference, most attendees said they were focused on 'training' their employees to become more innovative. This year, companies were more likely to say they were partnering with outside organizations to drive innovation.

Somewhat perplexingly, however, the CEO survey results also indicate that insurers are not planning any major increases in their innovation budgets over the next few years, suggesting that — rather than making wholesale changes — most will likely continue to focus on 'playing around the edges' with pilot projects and proof of concepts. While this is certainly an important step (particularly for risk-averse insurers), it will take larger investments and more deliberate disruption to achieve the growth goals they seem to expect.

Pulling all levers

Of course, technology and innovation is not the only path to revolutionary growth. Many insurance executives are now also focused on finding alternative sources of revenue and new service areas to play in.

For some commercial line writers, the focus has been on the small-to-medium enterprise (SME) market segment, suggesting insurers are looking for ways to increase scale. In the life segment, the focus has moved towards improving customer segmentation and tapping into niche markets, indicating that insurers are seeking to grow in underserved markets and demographics (particularly millennials).

At the same time, many insurers are continuing to refocus their portfolio of businesses and markets. Some are jettisoning unprofitable businesses and segments, divesting non-core businesses and exiting low-margin markets. Others are simply renovating their portfolio to more accurately reflect the company they want to be in the future.

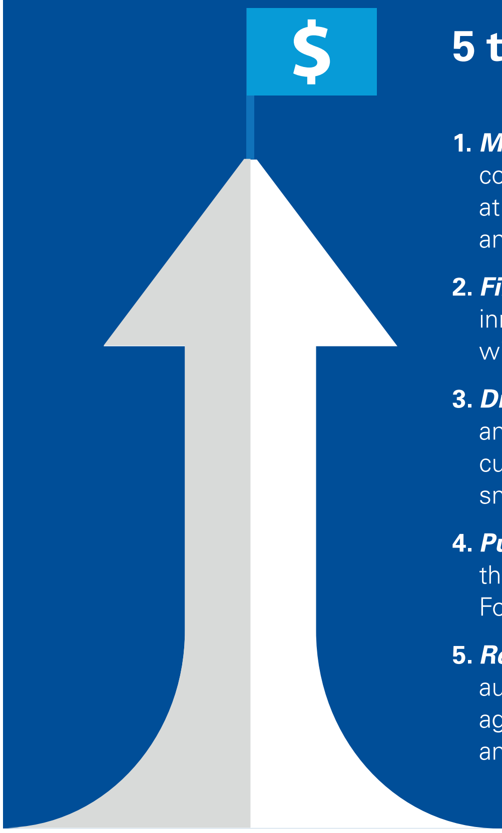
The shift from protection to prevention is also giving insurance CEOs reason for optimism. Many believe that — to get closer to their customers and increase their relevance — they need to become much more embedded in their customers' lives and decision-making processes. The past few months have seen insurance leaders place significant focus into becoming much more 'customer centric'. Pursuing a truly customer centric way of life means transformation from front to middle to back office.

Taking pain for gain

It is not surprising, therefore, that insurance CEOs are bullish about their longer-term growth potential. After years of talk and smaller targeted improvements, they are finally getting down to much more significant actions. Rather than waiting to be disrupted, most now feel that they are starting to become disruptors themselves.

But they also recognize that transformational growth comes at a cost. Implementing new technologies, tools and systems takes time, investment and resources. Shifting from products to services requires new business models, value chains and development. Focusing on profitable markets and segments means getting rid of older, less profitable businesses.

Ultimately, insurers are starting to recognize that they will need to spend their way to growth. And that means slower bottom line growth over the next few years. Immediate pain for long-term gain.



5 tips for driving profitable growth

1. ***Move from pilots to scale:*** Pilot projects are great, but the real value only comes when new models and technologies are adopted across the enterprise at scale. Make sure you have a plan for scaling up your successful pilots and ideas.
2. ***Find smart partners:*** While insurers have worked hard to improve their internal innovation capabilities, significant additional value can be gained by partnering with smart organizations that bring new ideas and ways of working to the table.
3. ***Drive value from data:*** With masses of data available through internal systems and external partners, insurers could be doing more to understand their customers' needs, identify new trends and develop new opportunities through smart and targeted analytics.
4. ***Put the customer first:*** Consider how your projects and initiatives will impact the customer, solve customer pain points or improve the customer experience. Focus on improving personalization and driving enhanced customization.
5. ***Rethink your workforce:*** Create the right mix of permanent, contingent and automated workers to allow you to not only compete efficiently and effectively against new entrants, but also to respond to the shifting demands of the market and customers.

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