KPMG

Getting real value from innovation

Insurance CEO Outlook

December 2017

Insurance CEOs are certainly saying all the right things about innovation. But are they doing enough to turn their investments into real and sustainable value?

As an insurance executive, you probably already know that your business is on the verge of disruption. According to our recent global survey of insurance CEOs, many view disruption as more of an opportunity than a threat. And there's a good chance that you're making a number of investments into innovation in the hope of transforming your business and operating models.

But our survey also suggests that many insurance CEOs may not be ready to put their money where their mouth is when it comes to innovation. Indeed, less than half of the CEOs in our survey said that they expect to increase investment into innovation programs over the next 3 years. Just 45 percent indicated that they might increase investment into emerging technologies.

Squeezing the spigot

In part, this lack of financial commitment in innovation is understandable. Today's insurance decision makers face a number of competing and immediate priorities; there is often little budget left over to invest into 'unknown future opportunities'. Our conversations with insurance CEOs also suggests there is still a significant level of skepticism about whether some of these new technologies are actually ready for prime-time.

At the same time, many of the executives that I talk to seem a bit underwhelmed by the value that they have achieved from their existing innovation investments. Many of them have been pouring lots of capital into new technologies and ideas but few think they have achieved the right level of ROI to justify a further ramp-up of investment.

My experience working with market innovators suggests that rather than slowing down the investment, insurers should instead be ramping up their innovation efforts (and their investments) considerably.

True, most insurance executives are trying hard to make a difference. They are visiting startups. They are investing into innovation centers and capabilities. They are entering into new partnerships and collaborations. Many are even experimenting with emerging technologies such as drones, artificial intelligence and blockchain. So why are they not seeing any real value?

Changing the view of innovation

Part of the problem is that most of these efforts are being conducted in siloes or as discrete projects — more often viewed as a short-term experiment than a real growth and value-driven strategy. And that means that they are not being allowed to release their actual value to the enterprise. Small efforts will unlock small value. Enterprise-wide initiatives, on the other hand, have the potential to unlock massive value.

Similarly, insurance CEOs may also be thinking too 'small' when it comes to the definition of innovation. Many seem to think that innovation starts and ends with technologies. But the reality is that innovation, when done right, should also influence the overall business and operating model of the organization.

> **New technologies can help you do the same things faster or smarter. New business models and operating models help you do different things. And that is what real innovation-led transformation is all about.**

Take, for example, the recent trend towards intelligent automation at insurance companies. Pretty much every insurer that we work with today has undertaken some form of intelligent automation program — for the most part, leveraging robotics to test out relatively targeted and siloed proof of concepts within specific processes.

The more advanced insurers, however, are already thinking about how they can use robotics and intelligent automation to radically change their operating models. They are kicking off enterprise-wide projects that integrate artificial intelligence — particularly machine learning and natural language processing — to uncover new ways to enable their insurance professionals and empower their customers. And that is leading to new (and often unexpected) sources of value.

Start here…

So what will it take to really move the innovation needle? Here are five tips from my experience working with leading insurers:

1. Focus on investment:

For some, this will mean increasing overall investment into 'innovation' significantly. For others, however, this will require investments to become more focused and value-driven. Start by investing into those programs that have enterprise-wide potential to radically alter not only the technology set but also the way the business operates.

2. Integrate innovation into the business:

Innovation should never be a project in its own right; it should be integrated into the organization's culture, vision and business model. Resist the urge to develop an 'innovation roadmap' and, instead, focus on driving innovation into all of the projects and initiatives that are important to the business. Bring all of the 'emerging technology' capabilities (e.g. blockchain, AI, IOT) together to solve end-to-end challenges, don't implement them in siloes.

3. Educate the decision-makers:

While most senior managers and board members intrinsically understand the importance of innovation in today's marketplace, few seem to have a proper assessment of the wide pallet of capabilities and opportunities that innovation can deliver. Provide decision-makers with real examples of how innovation can deliver enterprise value, drawing from leaders both inside and outside of the insurance sector.

4. Go for agility:

Consider how your investments will enhance organizational agility and flexibility. Understand where the speed of the business is slowing down the organization's ability to meet customer demands and find ways to address these barriers by leveraging new technologies and operating models. Focus on the biggest barriers first.

5. Rely on third parties:

No insurer should be expected to develop and maintain their own robust innovation capabilities; their focus should be on the business. Instead, insurers should be tapping into third party providers and advisors that can bring real-world experience and unique capabilities to the organization.

As our survey of CEOs suggests, insurers are keen to turn their innovation investments into real and sustainable value. But that will require more investment and more radical change. This is no time to ease the foot off of the gas pedal.

A millennial's view on insurance innovation

Insurers spend a lot of time worrying about how millennials perceive their organization. So we sat down with **James Godwin**, a recent graduate from the University of Surrey and an Assistant Manager in KPMG in the UK's insurance practice to talk about his thoughts surrounding innovation in the insurance sector.

Q: In your opinion, have insurers really embraced innovation?

A: I think they are starting to. The personal line insurers seem to really be taking the lead, particularly in the back office, by leveraging AI and 'big data' alongside other proven technologies. The commercial line insurers are still struggling a bit it seems, largely because they manage some very specialist risks which don't offer standard policies and therefore can be difficult to automate.

Q: What type of innovation are millennials looking for from an insurer?

A: I can't speak for an entire generation, but I suspect that most of us want to see more obvious innovation from our insurers. Most insurers are doing a fantastic job transforming the back office, but you don't see as much change in the way the front office works.

Q: Can millennials help insurers become more innovative?

A: I certainly believe they can. The reality is that recent graduates and new employees are often less clouded by tradition and pessimism. Junior staff tend to be a bit more optimistic — they can afford to take more risks in their career. I think that's why we're seeing more and more insurers starting to think about how they can empower their junior staff to come up with new ideas and really support implementing them.

Q: Are there specific approaches that seem to work well?

A: I think it's more about creating the right environment for innovation: allowing young professionals to network across the organization and test out new ideas; giving people more time to experiment and grow; creating 'sandboxes' where new ideas can be tested. Basically, encouraging idea generation across the organization.

Q: Are there ways for senior decision-makers to improve their innovative thinking?

A: Absolutely. One of the best ways to do that is through reverse-mentoring. I personally spend a lot of time talking with one of our most senior partners in the firm about his business strategy, client challenges and even personal goals, and through that process I help him challenge his more traditional viewpoints and think differently about how he approaches his objectives. It's hugely valuable time invested for both of us.

Q: What advice would you give traditional insurers seeking to drive innovation?

A: First would be to make the most of the millennials you employ. Let them network, give them space to innovate and encourage them to bring new ideas to the business. I'd also suggest conducting idea generation sessions and challenge competitions that allow the whole organization, junior and senior, to collaborate on new ideas. Ultimately, though, I think insurers need to be more honest about what value innovation actually has in their organization — to their customers and stakeholders and also to their staff.

Contact

Michael Adler
Principal, Advisory — Insurance
KPMG in the US
T: +1 212 954 1795
E: michaeladler@kpmg.com

kpmg.com/socialmedia

Designed by Evalueserve. Publication name: Getting real value from innovation. Publication number: 135107-G.
Publication date: December 2017