

INSURANCE & INNOVATION:

PIPE DREAM OR IMMINENT REALITY?

*Insurance Executives Share Perspectives
on the State of Innovation*



INSURANCE INDUSTRY INNOVATION READINESS REPORT 2018

*A survey of nearly 180 insurance executives
conducted by The Institutes and Innovator's Edge*

INNOVATION IS HERE, BUT CHALLENGES REMAIN

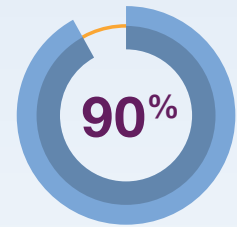
Innovation has arrived in the insurance industry. In fact, the majority of insurance companies are beginning to implement innovation strategies to stay ahead in an evolving industry.

The industry's increased commitment to innovation can be attributed to the rise of industry-changing technologies, from artificial intelligence to the blockchain. It's also the consequence of insurtech disruptors, which are entering the market at a staggering rate, and technology behemoths, from Alphabet to Apple, which are beginning to nip on insurance's heels.

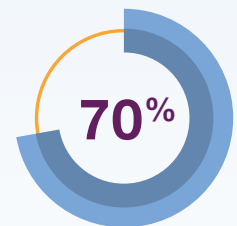
An innovation strategy is no longer a nice-to-have; it's a need-to-have. For legacy insurance organizations in particular, there's now an innovation imperative to remain relevant.

Yet challenges ranging from legacy IT systems to lagging innovation skill sets to budgetary restraints and beyond are hurdles insurers must overcome to achieve success.

Read on for insights from the inaugural "Insurance Industry Innovation Readiness Report" and to learn how some companies are successfully navigating to success.



of insurance executives, directors and VPs have made their innovation strategy at least a mid-level strategic priority.



of insurance executives, directors and VPs have implemented an innovation strategy.

Companies that succeed with innovation strategies are armed with a clear mandate, a mission and a set of best practices.

Guy Fraker

Chief Innovation Officer
Insurance Thought Leadership



We are on the cusp of a lot of change. Technology will enhance the industry and help customers, but people need to better understand innovation in order to do their jobs effectively.

Peter Miller

President and Chief Executive Officer
The Institutes



This report details the findings of a survey fielded by The Institutes and Insurance Thought Leadership & Innovator's Edge in summer 2018. In total, 178 individuals representing their company's management, executive and C-suite teams participated. Insurance sectors represented include property-casualty, excess/surplus/specialty, life, reinsurance, surety and health.

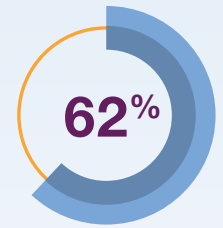
INNOVATION IS A GROWING STRATEGIC PRIORITY

Innovation has been a shared value among many organizations—insurers included—for years. But for many, it has been little more than a buzzword. Over the past few years, however, a growing number of insurers have begun thoughtfully approaching innovation through dedicated, strategic innovation initiatives.

While 14 percent of those surveyed claim to have always been pursuing innovation, and others began to pay attention over the past 10 years, the largest group – 35 percent – just began focusing on innovation in 2016-2017. In total, 92% of respondents reported their companies are now pursuing innovation.

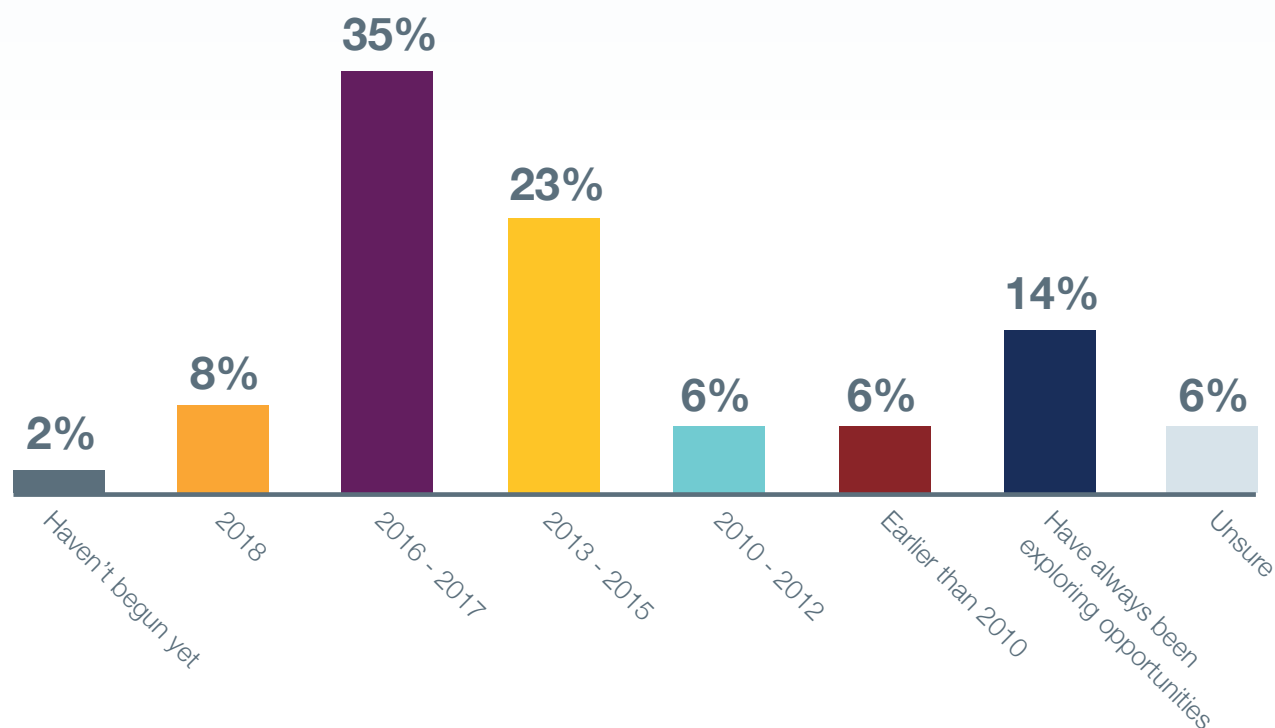
This is a drastic increase from 2015, when a separate survey fielded by SMA Research and Insurance Thought Leadership found that only one-quarter of insurer respondents had either a dedicated innovation process or dedicated staff.

Driving this are insurance leaders: the majority of insurers surveyed reported that their organization’s CEO, COO or other C-suite officers are the primary decision makers for their organization’s innovation strategy.



say C-suite executives are innovation strategy decision makers.

INNOVATION IN INSURANCE IS STILL RELATIVELY NEW

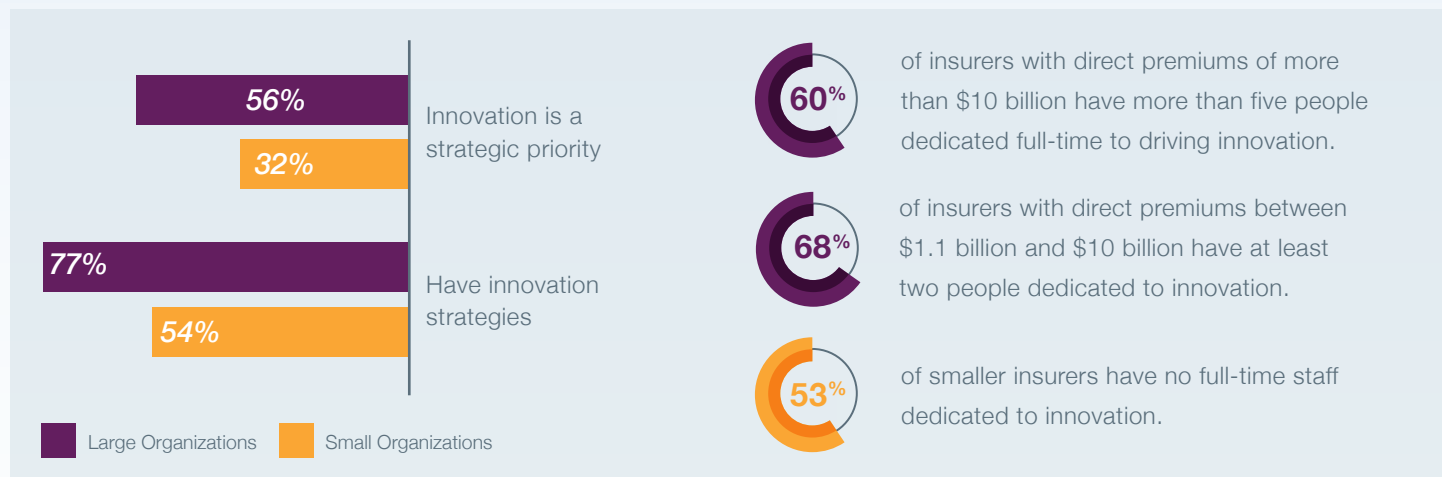


BUT INNOVATION IS NOT HAPPENING EQUALLY ACROSS THE INDUSTRY

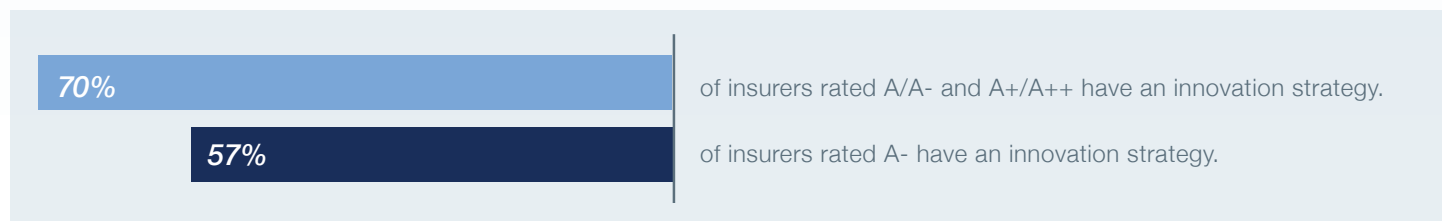
Generally, the property-casualty and life-health sectors reported very similar results across all categories—from innovation prioritization to innovation focus areas to innovation readiness.

However, innovation greatly varies by company size and rating. Larger, healthier organizations* tend to have innovation strategies in higher proportions. Smaller organizations** and organizations with a lower rating lag:

DIFFERENCES BY COMPANY SIZE



DIFFERENCES BY FINANCIAL STRENGTH***



Smaller organizations are more likely to say they're always exploring innovation opportunities, which may indicate less of a targeted commitment.

Meanwhile, larger organizations have a head start in pursuing innovation and are formalizing their approaches. This puts smaller organizations at an even greater disadvantage as they chase innovations established at larger companies.

*Larger insurers = direct premiums of \$1.1 billion and above

**Smaller insurers = less than \$1 billion in direct premiums

***A.M. Best ratings

Few companies have found success by launching a variety of small projects in an accelerator or incubator.

Guy Fraker

Chief Innovation Officer
Insurance Thought Leadership

INNOVATION FOCUS AREAS: AN EYE TOWARD THE CUSTOMER FIRST

Insurers actively pursuing innovation are largely focused on improving existing business functions. This is a common starting point for innovation, as it's often simpler, faster and more intuitive to devise ways to improve rather than develop new ideas.

Because customer retention and operational efficiency are clear business drivers, improving the customer experience and increasing efficiency are the obvious innovation priorities for more than two-thirds of respondents.

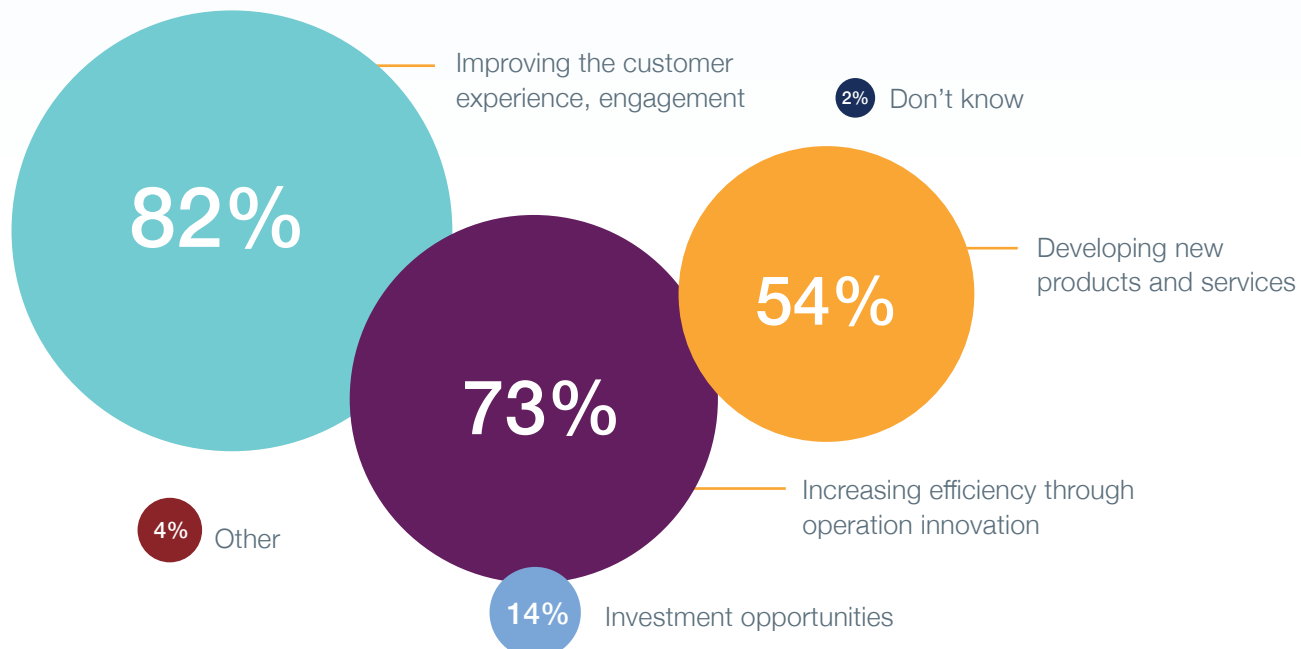
However, it's important for insurers to focus not just on areas where incremental gains can be made. Creating new product lines is often where a long-term return on investment lies.

Everyone in insurance should be looking for new ways to use technology to improve customers' lives. The possibilities are endless if we are open to them.

Peter Miller

President and Chief Executive Officer
The Institutes

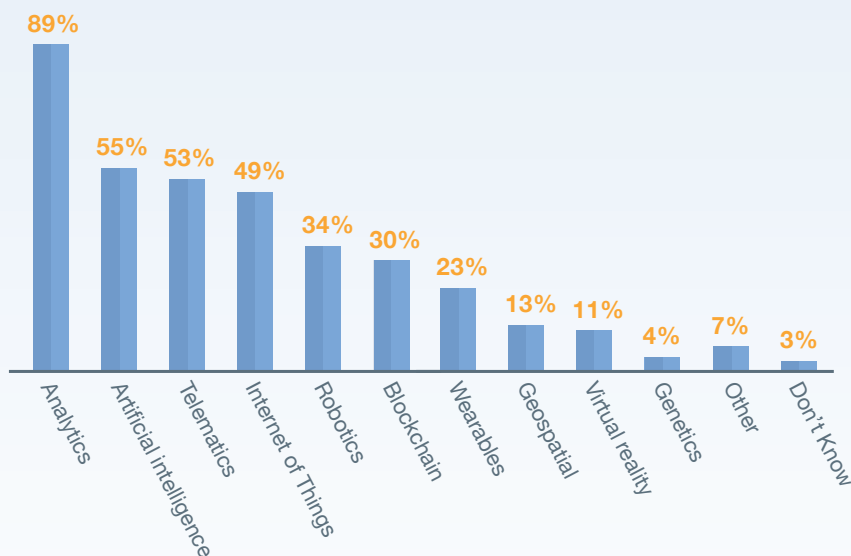
AREAS OF INNOVATION FOCUS



FOR MANY INSURERS, INNOVATION IS SYNONYMOUS WITH TECHNOLOGICAL ADVANCEMENTS

Much of the innovation in insurance today is heavily focused on analytics. As insurers collect and gain access to increasingly vast amounts of customer data, it's a priority and an opportunity to determine the best way to learn from it. Leveraging new technology to better analyze data is a top focus area for innovation efforts.

TECHNOLOGIES BEING EXPLORED BY INNOVATION TEAMS



Technology has already had a significant impact on most insurers, and the majority expect this trend to continue.



TWO-THIRDS of insurers say technology has already significantly changed how they do business.



But **ONE-THIRD** say it will take from one to three more years to feel technology's true impact on their business.

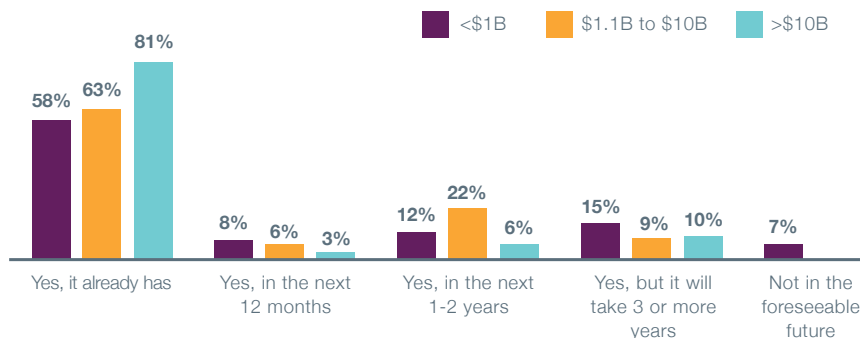


ONLY 3% say technology was unlikely to significantly change the insurance business.

The largest insurers, those with over \$10 billion in direct premiums, were most likely to report that technology has already significantly changed the way their organization conducts business.

Conversely, nearly seven percent of the insurers with less than \$1 billion in direct premiums said technology will not significantly change business processes in the foreseeable future.

DO YOU BELIEVE TECHNOLOGY WILL SIGNIFICANTLY CHANGE THE WAY YOUR ORGANIZATION DOES BUSINESS?



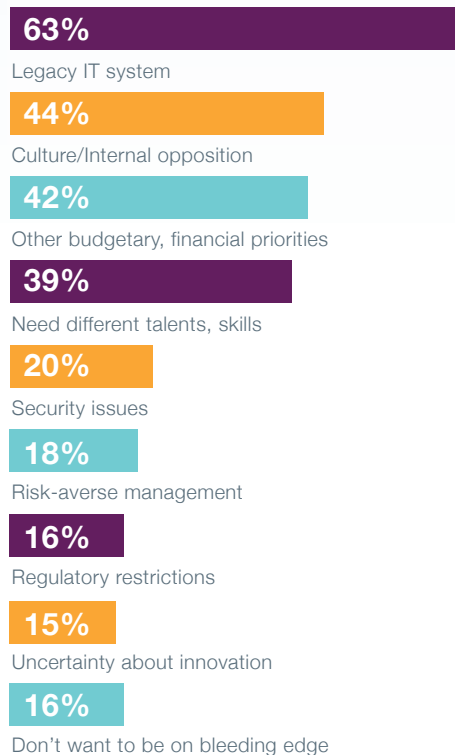
BEYOND TECHNOLOGY, CULTURE AND COMPETENCY ARE GETTING IN THE WAY OF INNOVATION

Not surprisingly, an aging technology infrastructure is the greatest hurdle to successful innovation.

However, a lack of readiness connected to cultural issues, talent, risk adversity and uncertainty collectively amount to a much larger obstacle to companies' adopting and successfully executing innovation initiatives.

The resistance does not stem from the C-suite: 62 percent of companies have someone in the C-suite responsible for the organization's innovation strategy.

BIGGEST HURDLES TO INNOVATION



*HBR, December 2016; RyRob.com, January 2018

But findings suggest this focus isn't trickling down to frontline workers at many workplaces.



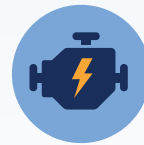
Only 3%

of insurance executives surveyed say most of their employees have an adequate understanding of innovation and the skills to be innovative.



72%

believe only some, or a mixed bag, of their employees have an adequate understanding of innovation and the skills to be innovative.



23%

report that only a few employees are helping drive the innovation engine.

Based on these results, it is no coincidence that **39 percent of insurance executives** say their organization needs different talent or skills to successfully execute innovation initiatives. After all, approximately **80 percent of innovation output** is generated through humans, not technology.*

These findings are not as bleak as they may appear, however. Innovation is greatly sparked by creativity, and creativity is a muscle that can be strengthened through training specifically focused on developing the skills necessary for innovation initiatives. While not all employees will be able to execute on innovation initiatives, it's a reasonable goal for all employees to be able to spot, foster and embrace innovation.

More reasonable than expecting employees to one day simply 'be innovative' is giving them the tools and training to develop this skill set.

Peter Miller

President and Chief Executive Officer
The Institutes

INCREASING INSURER INNOVATION READINESS

In addition to enrolling high achievers in innovation programming, leadership can also enhance their organizations' approach to innovation.

Whether organizations fall into the nearly two-thirds of organizations surveyed that have at least one person dedicated full-time to driving innovation efforts, or whether the C-suite is the only decision maker, planning must come first.



- 1** *Build an innovation dream team that represents your company's ranks.*
Every level of employee has a role to play. Corporate leaders often ignite the effort and participate, but at a minimum, they must buy in. Those on the front lines are often best to capture and drive ideas. But don't forget those in the middle—their participation directly affects whether innovation thrives or stalls. Directors, assistant vice presidents, and so on know firsthand how conformity helps career trajectories and do not contemplate risk taking. They need to join the effort.



- 2** *Set a clear innovation goal and identify a few key areas for tactics.*
By picking a lane, organizations will make it easier for employees to participate, decrease frustrations and increase the likelihood of innovation efforts staying on course.



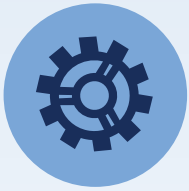
- 3** *Establish clear guidelines for when an initiative should be discontinued.*
Innovation is iterative, and it will take numerous tries to make incremental enhancements and many more to hit innovation home runs. Creating clear criteria for green-lighting projects through each stage of development will help ensure little effort is wasted.

Innovation doesn't just mean 'think outside the box.' Instead, innovation thrives when you give it structure because it becomes accessible to employees.

Guy Fraker

Chief Innovation Officer
Insurance Thought Leadership

INCREASING INSURER INNOVATION READINESS, *continued*



4 *Create a process for employees to get involved.*

Eight in 10 organizations surveyed encourage employees to contribute ideas to the innovation process. The easier it is to submit ideas in a way that eliminates negative judgment, the more likely employees will want to innovate.



5 *Incentivize employee participation.*

Organizational culture shifts take years, and creating a culture of innovation is no different. Develop a reward system for employees. It could consist of publicly acknowledging employees for submitting or reviewing ideas and/or of giving rewards, monetary or symbolic, to employees whose ideas are accepted.

Innovation can be a challenging concept to define, especially in workplaces with legacy systems in a highly competitive and regulated industry such as insurance. To combat this, leaders should focus on making innovation tangible. Rather than diving right into innovation initiatives, leadership should first invest in strategic innovation planning initiatives and employee training initiatives.

Building this solid foundation will ensure innovation transforms big ideas into big business advantages.

It's an exciting time for our industry, with technology presenting so many solutions that can improve how we support customers. Embracing and leveraging innovation at all levels is not just suggested but required for future success.

Peter Miller

President and Chief Executive Officer
The Institutes

