



A Division of
Silicon Valley Innovation Center

Silicon Valley Insurance Accelerator

An Insurance Disrupted Executive Insight Report

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"Bridging cultural gaps between established companies and born digital startups can seem impossible. The good news is that partnerships that pay deliberate attention to specific activities are paying off."

Research Partner

CELENT

Accelerating Insurance Transformation The Good, The Bad, and The Ugly of Innovation Relationships

Michael Connor, SVIA and Mike Fitzgerald, Celent

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Mike Connor

CEO, Silicon Valley Insurance Accelerator
Chair, Insurance Disrupted Conference Series

EXECUTIVE SUMMARY

Insurance leaders are proactively seeking partnerships with the emerging InsurTech companies which are bringing new capabilities and business models to the market. They are also making substantial investments in innovation incubators and/or accelerators and partial or complete funding of start-ups.

Establishing successful innovation partnerships is challenging. Bridging the value and cultural gaps between established companies and newly born digital startups can seem impossible. The good news is that partnerships that pay deliberate attention to specific transition activities are starting to pay off.

This report brings to life what is and isn't working, and shares insights from those working on the leading edge of innovation partnerships. Based on quantitative survey data of industry professionals and qualitative comments from leaders in insurance and technology firms.

This analysis addresses the following key research questions:

- What drives the need for digital transformation in insurance?
- What are the key challenge areas in making insurance transformation work?
- What are the most impactful actions insurers and partners can take to increase success?

INTRODUCTION

This report is a joint effort between SVIA (Silicon Valley Insurance Accelerator (SVIA). and Celent. SVIA facilitates an ongoing dialog between industry, innovators, and investors that accelerates industry innovation, and is a division of Silicon Valley Innovation Center. Celent researches financial services technology. Celent and SVIA share a goal to help insurers deliver innovations that create value for insureds, particularly by employing new digital technologies.

We partnered on this report with three objectives:

- Collect the opinions of insurers and technologists concerning specific key challenge areas for insurance transformation
- Measure the impact / scale the challenges
- Identify interventions to improve the effectiveness of transformation

The data collection effort took two forms – one quantitative and one qualitative. First, an online survey was sent to insurers, insurance technology vendors, and technology startup firms focusing on insurance solutions. The survey contained thirteen questions which asked participants to rank various successful insurance transformation challenges based on their professional experience. Ninety-four responses were received. In recognition of their participation, respondents could request a summary of the results. (See Appendix for detailed demographic information.)

Second, a qualitative data collection effort was conducted as part of Insurance Disrupted | Silicon Valley | 2015 SVIA's kick off Conference. Over 220 attendees met for two days in November, 2015 in Palo Alto. An additional sixty people joined via an online portal.



WHAT DRIVES THE NEED FOR DIGITAL TRANSFORMATION IN INSURANCE?

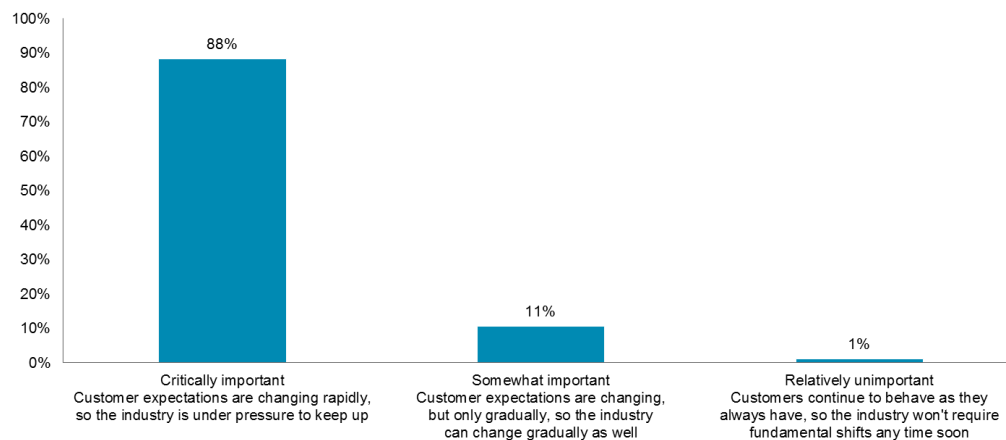
OUR WORLD IS BEING DIGITALLY TRANSFORMED

Digital transformation, changing cultural values, resource scarcity, and environmental impact concerns are impacting every industry, including insurance. Those changes are accelerating the growth of the sharing economy and the demand for resource optimization. The rise of sensors, intelligent digital ecosystems are blurring the boundaries between the digital and physical worlds, and generating massive new data sources. Next generation analytics and Artificial Intelligence are coming on stream to harness that data. Adapting to and succeeding within this digitally transformed world will require changes in every aspect of the insurance industry, and the processes by which it delivers value to its customers.

LEADERS BELIEVE INNOVATION IS CRITICALLY IMPORTANT

Over 85% of participants responded that insurance innovation will be critical in the next three to five years in order to meet customers' expectations.

Figure 1: Innovation may be informally defined as fundamental changes to products, services, or business models. How important will innovation be within insurance over the next three to five years? (Response percentage n=94)



Source: Celent/SVIA Survey

NEW BUSINESS MODELS ARE REQUIRED

Digital capabilities enable a new economy which increasingly demands new business models and solutions focused on facilitating customer outcomes. For insurance, those changes and capabilities bring new efficiencies to business process and operations. These are driving three fundamental changes in the traditional market which will impact incumbents and provide opportunity for new entrants.

- **Customer Engagement** moving from periodic to continual
- **Value Creation** moving from indemnification to risk avoidance and goal achievement
- **Product / Payment Structure** moving from pay as you rate, to pay how you use



INNOVATION REQUIRES A NEW MINDSET

Incumbent insurers are challenged to rethink their customer and how their delivery systems satisfy their needs. Increasingly, consumers use multiple intelligent systems, (eg., Google Search, Amazon) and their expectations are being shaped by them. Insurers will continue to delivery indemnity products, but will increasingly need to create different customer value, tangentially related to insurance, and more related to service. In order to accomplish this, they must transition from a product-based mindset and into one based on outcomes.

Building an Innovation Community is Essential for Market Leadership



Paul Carroll
CEO, Insurance Thought Leadership

The trends and technologies driving insurance innovation and transformation are staggering. No one company has the ability to assimilate and act on all of the opportunities and challenges those are creating. Building an innovation community, and having a dialog like the one taking place at this conference is essential for any company that expects to emerge as a market leader.

At the same time, insurers must respond to demographics shifts and effectively engage a younger customer who expects digital services. This requires a new delivery platform. The opportunities and challenges related to this transition were echoed by multiple conference presenters.

Incumbents Can Learn What Younger Customers Value by Working with Startups



Dustin Yoder
Founder & CEO, Sureify

According to Sureify, There is a huge gap between how industry incumbents think about how a consumer values their products and how the younger consumer thinks about an insurance product. Startups have a huge advantage in thinking like the next generation of insurance buyers, because their teams are literally made up of the next and current generation of buyers for the products.

STAYING COMPETITIVE REQUIRES INNOVATING A DIGITAL SPEEDS

While much of insurance in the past revolved around financial ecosystems and relationships, the next generation of insurance will include digital ecosystems that connect people, things, data, and analytics. Staying competitive in a digitally transformed insurance industry will require keeping pace with the digital innovation in this landscape.

You Can't Innovate at the Speed of Insurance



Brian Hemesath,
Managing Director, Global Insurance Accelerator (GIA)

Brian referenced a quote by Alex Polyakov, Co-founder and CEO of Livegenic, during his presentation. Alex's quote was, "You can't win by innovating at the speed of insurance". According to Brian, Competing with technology is a very different game. Innovation is now taking place at digital speeds, you won't survive if you aren't keeping pace.



WHAT ARE THE KEY CHALLENGES IN MAKING INSURANCE TRANSFORMATION WORK?

Experience teaches that most insurance transformation efforts fail – even those directed at the traditional business model. Innovation projects involve even more risk because they often involve new operating models and emerging technologies.

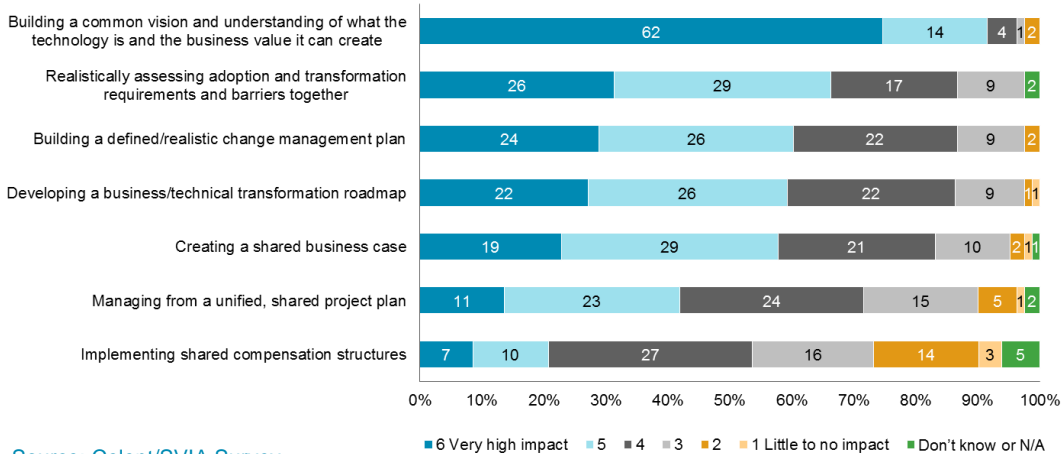
Survey participants were asked to identify the challenges to insurance transformation in order of importance. Note that all of these elements are necessary. The objective of the question was to establish a priority among them.

NOT HAVING A SHARED VISION OR PLAN

A successful digital vision must accomplish several key objectives. First it must move the company outside of its historical view of its current customers, products, industry, and anchor it in the digitally transformed market that is evolving. Next, the vision must define how the company will create value in that future. Finally, it must inspire and compel the company’s employees and its partners to fulfill that vision with a huge sense of urgency.

This view surfaced clearly in the survey data as “Creating a common vision/plan” was the highest ranked challenge area. Among various activities that can be taken to develop a common plan, respondents ranked “Building a common vision and understanding of what the technology is and the business value it can create” as having the highest impact.

Figure 2: How critical to success is each of the following activities in creating a common transformation plan? Answer on a 6-point scale, where 1 means Little to No Impact and 6 means Very High Impact (Response count n=83)



Source: Celent/SVIA Survey

Connect Innovation to the Core Business



Guillaume Cabrere
 CEO, AXA Lab & Global Head of Digital Partnerships, AXA

Build a structure that connects innovation to the core business. The most innovative technology or partner in the world means nothing, if your core businesses don't put them into play.

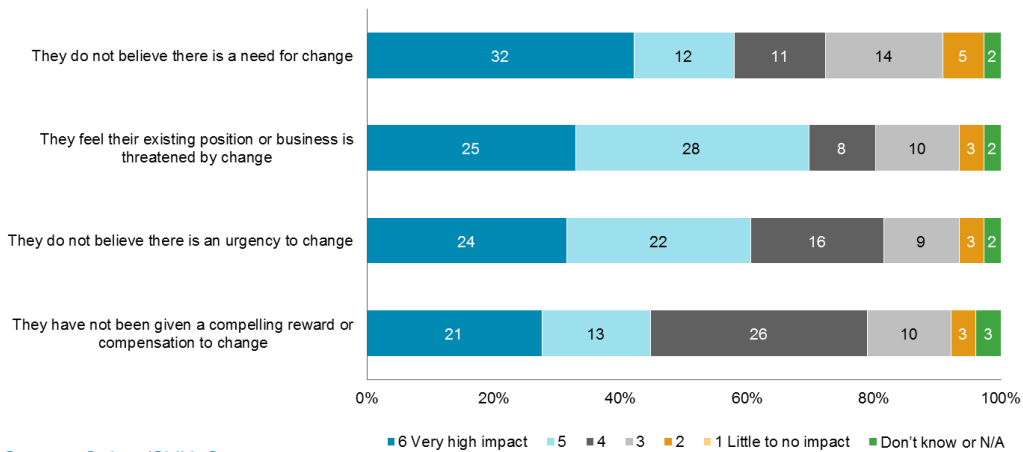


POLITICAL / LEGACY BARRIERS

With innovation, talk and even budgets are cheap. What counts is whether the traditional organization and lines of business support the changes innovation demands. If business metrics, compensation, hiring and firing, promotions, and incentives do not make supporting the required innovation more rewarding than staying with the status quo, the status quo will win every time.

The survey asked participants about the impact that existing leaders have on innovation. Figure 5 lists the ranking of their responses.

Figure 3: Existing business units and business unit leaders can slow down or block innovation or transformation efforts because they feel threatened by the proposed change or see no urgent need to change or personal benefit in risking change Please rate the level of impact of each of these reasons. Answer on a 6-point scale, where 1 means Little to No Impact and 6 means Very High Impact (Response count n=76)



Source: Celent/SVIA Survey

Build Internal and External Alignment



Gregory Bailey
Co-Founder & CEO, Denim, @DenimLabs.

"True disruptive innovation encounters resistance. You can't overcome this unless you have built high level cross functional support and alignment with your company and within the partners you work with. Don't boil the ocean -- start small. Recognize that disruption often starts in small niche markets. Decide which innovative / disruptive companies and technologies you want to monitor and develop a portfolio approach to engaging them. Leverage innovation models that are successful, there are lots of them out there. Pick one that works and own it. You'll know you are being successful when you start encountering resistance."



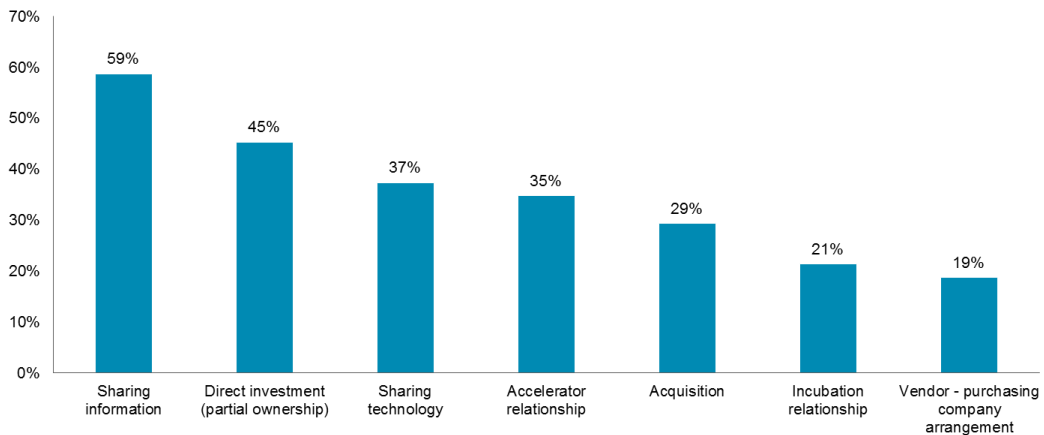
WHAT ARE THE MOST IMPORTANT ACTIONS INSURERS AND PARTNERS CAN TAKE TO INCREASE SUCCESS?

ESTABLISH A PORTFOLIO OF PARTNERING TYPES TO SUPPORT INNOVATION STRATEGY

The past year has seen explosive growth in Insurtech – partnerships with some, and direct investment in others, in emerging technology companies by insurers. A variety of models have surfaced to facilitate the interaction between incumbent insurers and start-ups: accelerators, incubators, venture capital firms owned by insurers, and partial or complete ownership of startups.

Successful innovators develop a portfolio approach to innovation. This requires an agreed definition of the different levels of innovation (incremental to disruptive) as well as different types of innovation initiatives, (piloting advanced technology, investing in new business models, setting up innovation labs, and setting up innovation outposts). Insurers should also look for multiple types of partnerships and align the number and nature of partners with the goals of their innovation strategy.

Figure 4: Please note which of these transformation partnership arrangements are underway in your firm. (Choose all that apply Percentage of respondents choosing option (n=75)



Source: Celent/SVIA Survey

LEVERAGE DIFFERENT PERSPECTIVES

Think Like A Technology and Marketing Company That Happens to Sell Insurance.



Kevin Kerridge
Head of Small Business Insurance, Hiscox

“Insurers can learn a lot from working with startups and technology partners. One of the first things incumbents need to do is to stop thinking and acting like an insurance company and instead, think and act like a technology and marketing company that happens to sell insurance. This means making a significant investment in marketing, technology, and customer service. “That’s a big but critical, strategic step for any insurer as it goes to the heart of culture, the extent of investment, and the profile of talent employed”.



Startups Need to Find Mentors



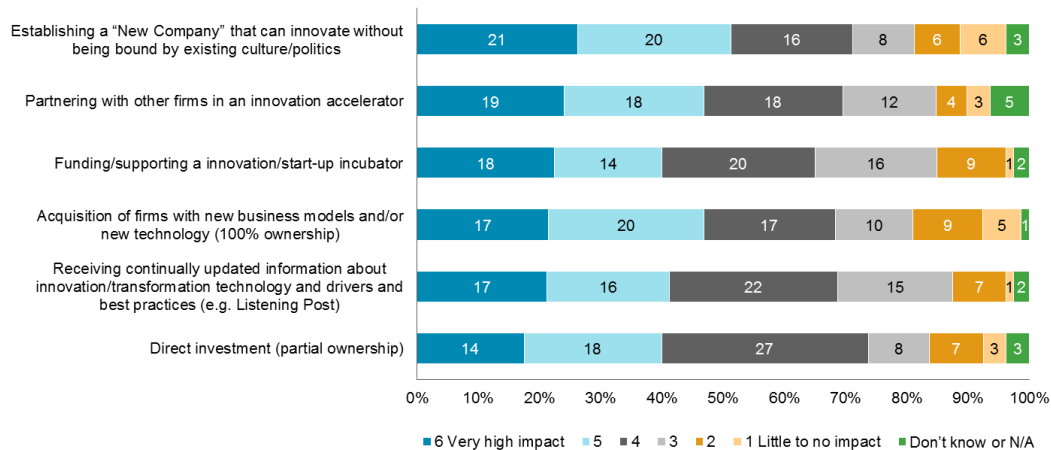
Brian Hemesath,
Managing Director, Global Insurance Accelerator (GIA)

Startups coming into the industry need to be aware of the complexity and change taking place in the industry and how it's regulated. They need to listen and learn, and find champions and mentors who can guide them. It's a complex landscape, they need to figure out where and how they fit, and where they can bring the greatest value.

DON'T CONFUSE MOTION WITH PROGRESS

In innovation partnerships it is important not to confuse motion with progress. It is critical to determine which partnership approaches are most effective and focus on the highest ones. The survey clarified the value participants assigned to different partnership activities. The survey asked participants about the value of different partnership models for innovation. Figure 5 lists the ranking of their responses.

Figure 5: Rate the value of these different partnership models and innovation activities. Answer on a 6-point scale, where 1 means Little to No Value and 6 means Very High Value Response count (n=80)



Source: Celent/SVIA Survey

Incubate Truly disruptive Concepts Outside of the Company



Guillaume Cabrere
CEO, AXA Lab & Global Head of Digital Partnerships, AXA

As you move from learning to engaging in truly disruptive activities, you start to encounter internal resistance, because you are impacting existing business models and values.

At some point you realize you can't ask an existing business to disrupt itself. At that point your company has to choose between letting it go, or incubating it outside the company.



ACTION STEPS

The following recommended action steps are taken from the conference sessions as well as other sources. Think of this not as a complete plan but as a starting checklist to make sure you are on the right track.

Build a Common Vision

- Work with key stakeholders to develop a vision for how emerging technology and trends will reshape business models and industry value chains within insurance
- Create a vision of future customers and what outcomes will create value for them in a digitally transformed future
- Define the emerging technologies, partners, business models, services, data and analytics that will enable the creation of that value

Overcoming Political and Legacy Barriers

- Innovation has to be a top down priority tied directly to the strategic goals of the company. The CEO must proactively support innovation and hold the organization accountable for it
- Work with key stakeholders in business areas to explore alternative, service oriented models, identify the impact those will have if launched by a strong competitor, identify the business advantage those would create if your organization was the first to market with them.
- Establish regular meetings between key stakeholders in the business units and innovation teams and partners

Improve Innovation Partnerships

- Assess which emerging business models and technologies will benefit most from partnering, and develop partnerships in the areas that will create the greatest value for you
- Build a cross mentoring program between your company and your partners that helps partners understand your business, and helps your company develop a more innovative culture
- Participation in accelerator/incubator programs that give your access to innovation trends and community shaping the future of insurance.



FINAL THOUGHTS

No one company or group of partners can possibly keep up with pace and breadth of digital innovation impacting the insurance industry. For companies to succeed, they must immerse themselves as a value added contributor within the communities driving that innovation. Failing that, they will be left to react to, rather than be part of, shaping the future of the industry.

Leaders have defined their innovation strategy, invested in new skills, determined where their major gaps are and are working to fill them, and continue to reach out to the digital ecosystem. They realize they cannot just bolt on technology, or just buy a company or two and call it a day, they seek to make innovation as core to their business as managing to quarterly revenue and profits.

Celent and SVIA encourage insurers to become proactively involved and to cultivate aggressive executive sponsorship. Half efforts are futile.

Disruptive Innovation Isn't A Linear Process



Scott Walcheck
Founder – CEO, Trov

“Successful innovation initiatives - and the startups that chase them - often evolve into something different than what they started out to be. It’s important to regularly communicate this expectation to all stakeholders. Disruption is an art not a science, so plan on numerous micro pivots that are the natural responses to what you learn as you engage and better understand who you’re serving - consumers, partners, incumbents, and investors.”



ABOUT

SILICON VALLEY INSURANCE ACCELERATOR (SVIA)

SVIA accelerates innovation in insurance by facilitating the flow of market and technology insight, relationships, and investment between the established industry and our eco-systems of innovative technology, InsurTech Startups and Venture firms in Silicon Valley and other global innovation hubs.

INSURANCE DISRUPTED CONFERENCE SERIES

Insurance Disrupted | Silicon Valley | 2015, Nov 19 -20, 2015, was the kick off for SVIA's conference series. It brought Silicon Valley and Industry Innovators together for the first time to explore the current state of disruptive innovation and how to work collaboratively to accelerate it.

Customer Engagement at the Digital Edge, Mar 22 – 23, 2016, silicon Valley will explore, developing next generation engagement strategies and capabilities for digitally connected customers and insurance services in Life, Health, and P&C.

Disruptive Business Models | InsurTech Invest, and the ACORD Insurance Innovation Challenge May 23 – 25, Silicon Valley, will explore defining, developing, and investing in next generation outcome and services based insurance business models and products for Life, Health, and P&C

Disruptive Big Data & Analytics Strategies, Sep 8-9 , 2016, Silicon Valley, will explore developing integrated disruptive business strategies for big data and advanced analytics, AI, and Cognitive Computing for Life, Health, and P&C

Core Systems: The Digital Generation, Nov 15 – 16, 2016, Silicon Valley, will explore requirements, strategies and roadmaps to establish digital generation core systems and processes for Life, Health, and P&C

CELENT

Celent is a research and consulting firm focused on the application of information technology in the global financial services industry. The firm has two basic offerings:

Research, providing members with continuous knowledge and advice, and

Consulting, working with clients on specific strategy issues.

Celent's analyst team is organized by financial services industry vertical: Banking, Securities & Investments, as well as Insurance. Our research and consulting teams are one and the same, which means that our strategy consulting clients have direct access to the knowledge and expertise gathered as part of our research practice.

Acceleration Insurance Transformation: An in-depth report on this topic is available as part of Celent's Research & Advisory Program.

ADDITIONAL INFORMATION

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