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Evolving the art of the possible: Organic innovation in insurance

The first ever qualitative study into the changes happening as insurance innovation matures. What's good, what's bad, and what does the future hold?

Explore innovation in insurance, through the eyes of leaders in the field.

Insurance is changing, and it's changing fast. The pace of tech adoption is increasing exponentially, and rapid advances in adjacent technologies is having a significant, and growing, impact on customer expectations.

It's not okay to just keep doing things the way you always have any more. Organic innovation is about really understanding your customers' specific needs and pain points, and shaping new propositions around technology to create transformational change, through process optimisation, new propositions or longer-term direction setting. It's the gateway to thinking differently and maximising business opportunities.

In this report, we take a look at how insurance companies are innovating right now, how to structure innovation teams, and where the industry might be heading over the next 5 years. We also set out five rules for successful innovation.

Organic innovation is defining the future of insurance. Don't get left behind.

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Report methodology and contributors

We spoke to over 30 prominent figures in insurtech and insurance innovation, and asked them to tell us all about how they do it. Through hours of interviews, we talked about what they're working on right now, what works, what doesn't, what they're excited about for the future, and where innovation's headed.

Our research team also generated a raft of quantitative data around the state of the industry, which we combined with our own experience of helping organisations (both inside and outside the insurance world) maximise business opportunities through smart, customer-centred innovation.

Special mentions

We'd like to extend special thanks to the seven thought leaders you'll see quoted throughout this report:

Mark Budd
Head of Innovation (UK), Zurich

Paul Middle
Global Partnering Director, Connected Insurance, RSA

Stefaan De Kezel
Director of Innovation and Business Development, Ageas

Ted Stuckey
Managing Director, QBE Ventures

Paul Heybourne
Head of Innovation and Mobile, Aviva

Steven Zuanella
Group Chief Digital Officer, Generali

David Lundholm
Founder, Consistency Partners

Organic innovation right now

2018 saw a decline in new startup activity in insurtech, aligned to a clear shift away from big, expensive innovation teams and accelerators.

In this section, explore what's changing in insurance, and why.

Insurance isn't banking

It's tempting to compare insurance innovation to the flurry of activity that's happened in financial services over the last few years. But by this stage in FS's evolution, we'd seen the launch of multiple disruptive startups that would go on to change customers' relationships with money. N26, Starling, Revolut and others have since grown into mature businesses that incumbents have been forced to take seriously. That's manifested itself in a sharper focus on customers, better digital services, and a (so far not massively fruitful) rush to develop new propositions around PSD2 and Open Banking.

With a few notable exceptions, insurance innovation hasn't seen anything like that level of startup success yet. There are a whole bunch of innovative new propositions out there, but none of them have really achieved customer resonance, and insurers have taken some key learnings from that:

1. Breakthrough innovation is hard

Most people don't care about insurance. They buy it once a year, and only engage with it when they need to renew or if something terrible happens. Spending a vast amount of money on incrementally better new propositions won't change that.

2. Startups can be partners as well as threats

As insurtech startups mature, they prove their model, even if they don't achieve widespread adoption. Insurers are realising that they can innovate for less by partnering with those startups, rather than paying for big innovation teams to start from scratch.

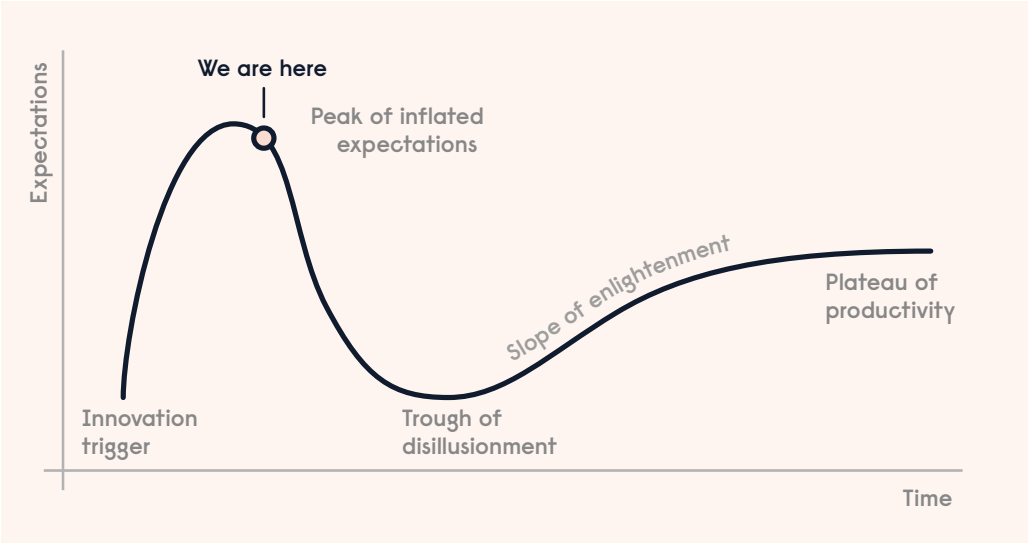
3. Optimisation can deliver big returns

New propositions are risky, especially when you're tied up in a mess of legacy systems. You might be able to generate much bigger, faster returns by optimising existing processes. It's hard for big, separated innovation teams to achieve that, because they don't work with those processes on a day-to-day basis, so insurers are finding other ways to innovate.

"The kind of disruption a Monzo or Starling might generate hasn't yet happened in the insurance world, but it will come"

David Lundholm
Founder, Consistency Partners

Negotiating the trough of disillusionment



There's still a lot of money around insurtech and innovation, even if the context of that activity's shifted towards partnerships and embedded teams.

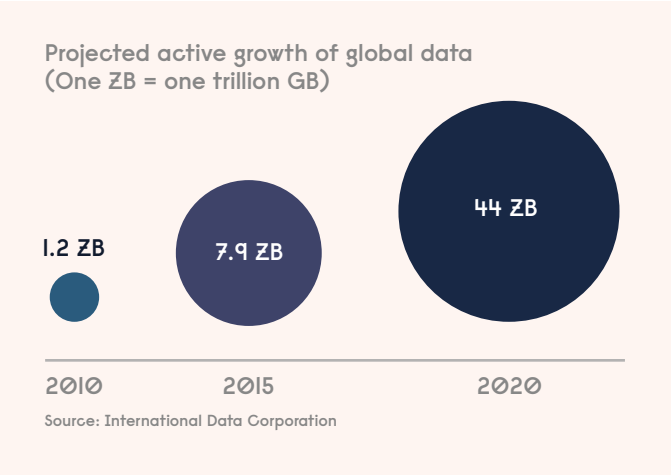
But most insurance innovation, especially around new propositions, is dependent on adjacent technologies such as the internet of things, AI or autonomous vehicles. All that technology is subject to its own uncertainty, both in terms of maturity and real-world adoption.

It'd be an indulgent board that allowed an innovation team to navel-gaze in isolation in 2019. Organic innovation in insurance isn't a silver bullet - it needs to be tied to strategic reality, and that means working quickly and transparently, and starting from real customer and business need.

The foundations for disruptive innovation have been laid

Everybody we spoke to talked about the importance of innovation to their organisation's future. Although the kind of disruptive innovation we've seen in fintech hasn't happened yet, there's a general acceptance that it's coming.

And all the ingredients for that disruption are already there. Insurance is based on risk calculation, and risk calculation is based on data; proliferation of internet-connected devices is roughly doubling the amount of consumer data that exists every two years (according to International Data Corporation). Propositions around telematics and health data are already achieving some success, but there's massive potential for insurers to do more.



At the same time, technology is dramatically changing the way people interact with services, and creating shifts in customer expectation that insurers can't afford to ignore. In a world dominated by aggregators, the threat of disintermediation looms large. Although we haven't seen it translated into a new business at scale yet, salient, service-based innovation is more important than ever.

"Organic innovation hasn't hit the big time yet... we're at the start of the journey, and there's a massive opportunity to get this right"

Steven Zuanella
Group Chief Digital Officer, Generali

Teamwork makes the dream work

As the nature of organic innovation changes, the way teams are built around it does too.

In this section, read about how insurers are building innovation teams, what they expect them to do, and how that translates into real-world impact.

Four models for organic innovation

Finding the right way to innovate is crucial. There's no one-size-fits-all approach - wider organisational culture and senior sponsorship are important considerations that are unique to every business, and a blend of a number of these models is usually the most successful route to meaningful innovation.

Organisational ability to innovate

Embedded innovation + external partnerships

Businesses with few constraints to innovative thinking, but limited resource, can achieve success by empowering business leads to think innovatively, and using external practitioners for execution. Creating the right spaces for third party collaboration is essential.

Embedded innovation + internal secondment

Resourcing embedded teams through secondments can help innovation culture spread through an organisation, but a constantly changing team can be less efficient. Relying on external design and development teams for execution can create bottlenecks.

Separated innovation + accelerators and consultancies

Setting up wholly separate innovation functions with acclerators or consultancies creates capacity and mitigates organisational constraints, but it's expensive and can lead to disconnection from the rest of the business.

Separated innovation + new internal capability

Building new teams to innovate creates internal capacity to think differently and brings new ways of working into an organisation, but there's still the risk of disconnection from the rest of the business.

Availability of required resources (or capacity for hiring)

Out of sight, out of mind?

Not so long ago, wholly-separate teams were held to be the gold standard for innovation in big business. A rush to demonstrate commitment to innovation led to the establishment of a whole raft of 'agency-style' innovation functions - usually big teams with capability across consultancy, experience design, build and deployment.

This was about talent attraction as much as delivery - a studio with a ping-pong table and a relaxed dress code were felt to be enough to attract new talent, with fresh perspectives, to insular industries that needed shaking up. The distance created by a separate office also freed innovation teams from organisational and governance restrictions, and created more space for divergent thinking.

Despite those benefits, everybody we spoke to heavily emphasised the importance of innovation that's tightly connected to the core business:

1. Integration back into the business is vital

It's really hard for a totally separate team to maintain tight links with the mothership. The absence of tight strategic alignment can lead to the innovation team wasting time and money on dead ends, and even good ideas can get lost in translation or without the right sponsorship.

2. Businesses need to match investment to return

Separate teams require a lot of upfront investment, and a significant leap of faith. You can fire a consultancy that's not performing, but when they're your own employees you don't have the same options. And if you never talk to them, it's hard to be certain of the value they provide.

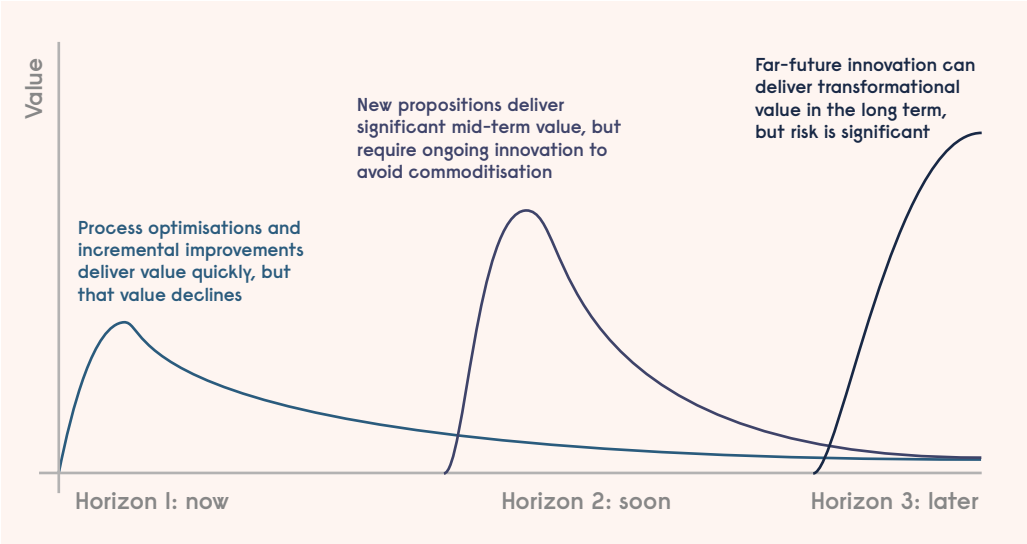
3. Dressing up isn't that bad anyway

As the digital industry's matured, agency work has become increasingly commoditised and talent has naturally gravitated towards more fulfilling in-house roles. Smart, digital-native graduates and seasoned specialists have found a natural home in big business, and the incentive of agency-style culture may not be much of an incentive any more.

"When innovation's removed from the business, they can get on and do things, but the challenge comes when they want to bring it back inside"

Paul Middle
Global Partnering Director,
Connected Insurance, RSA

Three horizons for organic innovation



Effective innovation integrates with business strategy across timelines.

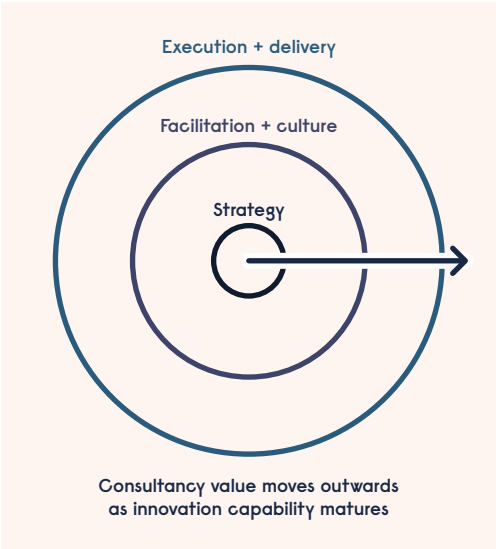
Near-term changes can deliver big returns, especially in organisations where innovation isn't well established, and they also generate goodwill and trust at board level. New propositions can also demonstrate value quickly, if there's engagement with the core business.

But there needs to be time, space and budget devoted to longer-term innovation too - while it's much further removed from financial return, it's this activity which will help established insurers anticipate and capitalise on business opportunities generated by disruptive change.

Who do you need in an innovation team?

Innovation isn't really about designing new propositions or implementing new processes. Those bits come later - the first step is to facilitate conversations within a business, build consensus, and drive cultural change away from legacy ways of working. Get people to understand the value of innovation, and take it seriously as a way of maximising business opportunity, before you worry about execution.

Before you build a pipeline of innovation projects, though, you'll need a way of delivering it. This can be a significant blocker to realising value from innovation - user stories and Powerpoint decks have no value to your customers, but the internal teams who can turn those artefacts into experiences have their own conflicting priorities.



The majority of people we spoke to told us external practitioners had a key role to play in delivering value from innovation. Tried-and-tested frameworks and processes, as well as broad experience from inside and outside the industry, can help create senior sponsorship at the start of the innovation journey; later on, buying in delivery expertise can be a cost-effective way of balancing capability and demand.

Most of the people we spoke to talked about behavioural science as a key area for capability growth. For some, it's about creating product experiences that are more appealing and increasing conversions through the normal touchpoints. For others, it's something wider, an opportunity to influence customer behaviour to minimise risk.

Regardless of roles, diversity is vital to innovation. Insurance struggles with insular thinking, and getting perspectives from people with various backgrounds and experience is essential. Although, given that most people we spoke to were white men aged between 35 and 60, there's still some distance to go.

Doing the do

Innovation is increasingly seen as a means to an end - a way of advancing thinking and doing business better, rather than an intrinsically valuable activity in itself.

In this section, read about how insurers are using innovation to drive real value on a day-to-day basis.

Driving cultural change

Most insurance businesses are old, and with age comes inertia. They're caught between shareholders who'd rather see dividends today than preparation for what might happen in 3 years' time, and legacy systems and ways of working that make divergence difficult and punish failure.

In that climate, innovation must spearhead cultural change. 10 years ago people talked about creating agile organisations - now the focus has shifted to creating innovative organisations, and that requires more from an innovation team than unfocused futurology and a 3D printer. To be culturally innovative, organisations must disseminate innovation throughout their teams.

From our conversations, we found three key principles for creating cultural change through innovation:

1. Encourage customer-centricity

For many organisations, the biggest impact of innovation is a renewed focus on the customer, whether that customer is a consumer, a broker, a homebuilder, a colleague, or one of any number of other people. Everybody we spoke to talked about the importance of shifting away from traditional ways of doing business - focusing on pricing, risk and appetite - and moving towards a customer-centric model.

2. Be transparent about process, tools and techniques

Successful innovation isn't a black box, it's a sequence of small tasks. Sharing techniques through co-creation and workshopping can empower people outside of the innovation team to accomplish those tasks independently, leading to constant, pervasive innovation.

3. Advocate accountable freedom

Innovation relies on experimentation, but experimentation often ends in failure. Innovation teams should use success stories to create an environment where it's okay to try, and it's okay to fail. That means working across HR, compliance, legal and risk teams to remove restrictions that get in the way of new approaches.

"If all the business units start doing it themselves and put my team out of business... that's where things get really interesting"

Ted Stuckey
Managing Director, QBE Ventures

Creating sustainable value

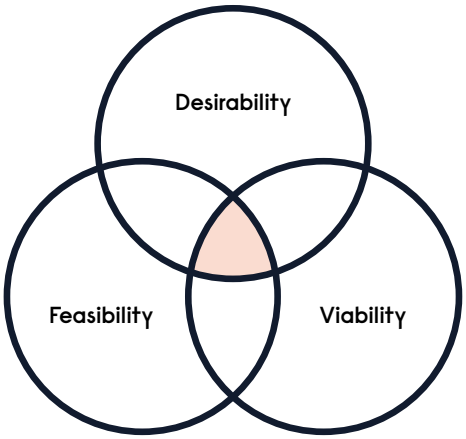
Across the people we spoke to, we found that classic dimensions for ensuring value from innovation still hold true:

Desirability - does it meet a customer need?

The stimulus for many projects is customer insight, so consideration of desirability is baked in. Successful innovation projects go beyond that, though, conducting focused research with customers to understand the qualitative factors that play into that (often quantitative) insight. That helps innovation teams have confidence they're building the right thing; proposition and usability testing as part of a development phase helps them check that they're building it in the right way.

Feasibility - is it possible?

Despite the issues we've already discussed around legacy systems, most of the people we spoke to told us governance, compliance and marketing were just as likely as technology to get in the way of innovation. Spending time with representatives from across the business, early on, is vital in order to understand feasibility.



Viability - is it worth it?

Piloting is the key to understanding the business benefit of a new idea. Getting an early version of a proposition into the hands of customers, and checking how it performs against hypotheses and KPIs, helps stakeholders and sponsors understand the levers and have confidence that an innovation drives real value.

How long does it take?

If innovation doesn't happen quickly, it's not innovation any more. The ever-increasing pace of tech adoption has seen breakthrough propositions adopted and adapted in record time, and organisations that don't move fast find themselves unable to compete with better-optimised competitors, or unable to excite customers who can get better service elsewhere.

Big businesses often have trouble moving quickly, though, and expectations around time to market differed widely across our experts. We did find three strategies around increasing cadence and developing propositions faster in the long term:

For new propositions, work outside existing systems

While front-end experiences can often be created or changed quickly, it tends to get ugly when new propositions require significant behind-the-scenes changes or integrations. Innovation teams in big insurers need to think laterally to get around those challenges, and while that mindset can deliver significant value by solving hard problems quickly, it can also create tension with internal teams.

Be open to partnering

Startups don't work within the same restrictions as big businesses, and their survival depends on speed and agility. All of the people we spoke to relied to some extent on partnership to deliver new technology fast, although many of them also spoke about the tension caused by mismatched expectations - while big businesses might want to move at the same speed as two guys in a garage, that doesn't mean they can, and that can be frustrating for both sides.

Invest the time upfront

Put the hours into embedding the right processes, building relationships with the parts of the business that might slow innovation down, and creating space for new thinking. It requires commitment - setup activity doesn't deliver any immediate value - but that time you spend nutting out the details of your framework or understanding the governance risks of piloting will pay off once you start delivering.

"Speed is really important - if we don't respond to a new challenge within 6 months we've probably missed the boat"

Mark Budd
Head of Innovation (UK), Zurich

Embrace ambiguity through process

Ambiguity is an essential, if unwelcome, part of innovation, but cultural acceptance of ambiguity is inversely proportional to business size. Having frameworks that help you work it out along the way, and bringing stakeholders with you, is the best way to create lasting engagement and value.

1. Workshop

Getting people together from across the business early on helps create a shared view of the insight and objectives around an innovation project, and a broad sense of its potential. Inviting customers into that session delivers even greater value, and create a cast-iron link between user needs and the eventual solution.

2. Design

Successful innovation is all about moving quickly, and having the right process in place to rapidly evolve a workshopped idea into a proposition is crucial. Many of the people we spoke to use design sprints to bring subject matter experts, sponsors and stakeholders together for intense, focused periods of activity around experience design, business case, metrics and proofs of concept.

3. Pilot

Releasing a proposition into a controlled environment delivers valuable feedback and helps stakeholders and sponsors understand broader business impacts around marketing, support and operations. Risks around customer expectation and brand value can be mitigated by launching a pilot internally first, and giving staff the opportunity to pick up on significant issues.

4. Scale

A successful pilot should lead to a tweaked, validated proposition that's ready for the bigtime. Often it's just about marketing the proposition more widely to create broader adoption, but there may also be fulfilment and operations challenges to solve.

Measuring success: what does good look like?

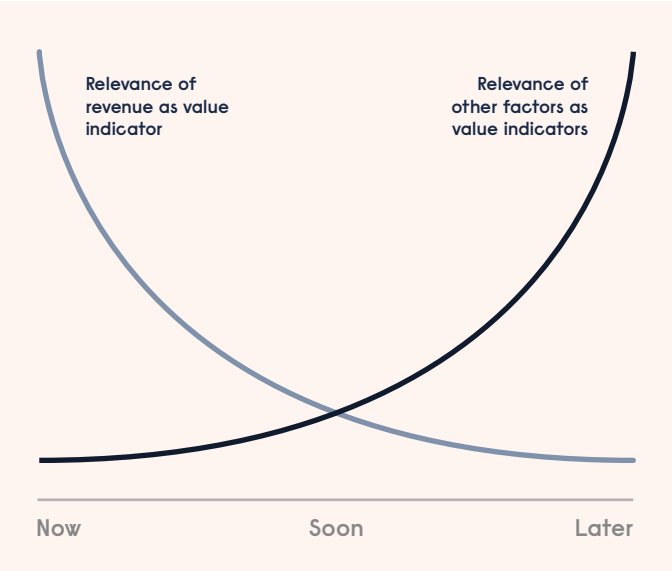
Traditionally, success has been a pretty easy thing to define for insurers. Does a proposition make money? Does it strengthen relationships with customers? Does it drive strategic business growth or diversification? If the answer to at least one of those is yes, it's probably a winner.

For innovation projects, the goalposts move depending on time horizons:

For near-term process improvements, the most important markers are still financial - better processes generally lead to better margins.

For mid-term innovation - mostly new propositions - revenue's still important, but harder to forecast. Moving the business's thinking or creating engagement with innovation can also be a marker of success.

For long-term innovation - big bets on major industry shifts - traditional business case rules don't apply, so success is about influencing direction of travel and building for the future.



"Part of innovation is not being sure of what the outcome's going to be... if you're learning along the way, that can be enough"

Paul Heybourne
Head of Innovation and Mobile, Aviva

What's next for insurance?

Innovation is happening, and customer ecosystems and expectations are shifting. But where's it all headed?

In this section, find out how insurance might respond to a rapidly changing world.

Being where customers are

While innovation projects are often hung off particular emergent technologies, customer-centred innovation should always be led by human needs rather than the availability of new tech. The subset of normal people who are interested in telematics as a concept is tiny; the number of people who want to get lower car insurance premiums by having their driving tracked is much higher.

But insurance is a classic grudge purchase. It costs money, but you only get value from it if something bad happens. And everyone knows someone with an insurance horror story - a payout delayed, a claim refused or an inscrutably hiked renewal price. Insurers may not actively want to fleece customers, but there's clearly a perception problem.

Most of the people we spoke to predicted an innovation push towards radically easier management around classic insurance touchpoints (quote, buy, claim, renew). We're already seeing incremental improvements - whether that's text messaging to make claims or more sophisticated underwriting to balance costs and reduce renewals - but there's probably more to come.

Further out, technology will help insurance become almost invisible across those touchpoints. A connected car could file a claim for you after an accident, and it'd know exactly how fast you were going and whether you were on the right side of the road or not. A networked lock could determine when your house is most likely to be secure, and compare that to hyper-local crime statistics to calculate burglary risk with unprecedented accuracy, leading to a renewal price you really trust.

Finding ways to add value

Disintermediation has already had a huge impact on the insurance market through aggregators, and that impact will only increase. When your customers are buying insurance by asking their smart speakers to find them the cheapest quote, how do you differentiate except by cutting margins?

The future will see insurers taking interest in the wider experience. Instead of offering buildings insurance, they'll seek to differentiate by looking at the whole experience of home ownership; that might mean partnerships with businesses whose products mitigate risk, leading to lower premiums. Or it might mean driving behaviour change through added value linked to positive action (something that's already happening in some quarters, for example through reduced-price gym memberships for health insurance customers).

Creating that kind of broader value will require insurers to forge long-term partnerships with very different businesses. Working with a diverse range of players, who might have business models or ways of working that aren't a natural fit, will present significant challenges. But the pay-off will be worth it for those who get it right - growing service revenue will offset the inherent uncertainty of risk-based premiums, and finding a place in an ecosystem that goes beyond insurance and into the fabric of customers' lives will lead to more frequent, positive interactions and life-long relationships.

"It's not the case that just because you introduce a snappy proposition, someone who didn't care about insurance yesterday will care about it today"

Stefaan De Kezel
Director of Innovation and Business Development, Ageas

Towards greater transparency

Historically, insurance hasn't been an easy thing for customers to understand. Premiums go up when you expect them to stay the same, or stay the same when you expect them to go down, and it's hard to understand why and impossible to challenge.

This has been a regulatory hot topic recently, at least in the UK, with new laws aimed at eliminating the 'loyalty premium' (the increased price loyal customers are lulled into paying through steadily increasing premiums). Disintermediation has helped, by making it much easier to compare prices and service levels across providers - if an insurer isn't able to quickly justify being more expensive, they'll lose business, and brand loyalty won't cut it.

Several people we spoke to talked about focusing innovation on further tipping that balance back in favour of the customer. This is partly because innovation teams are often made up of people who haven't previously worked in insurance, and therefore have much lower tolerance for the old ways of doing things. It's probably also grounded in commercial reality, though - harnessing technology to link renewal prices more closely and clearly to life events will give insurers the chance to take the power back from aggregators, and make an understandable case for changing renewal prices.

Operationalising innovation

AM Best, the insurance industry credit ratings business, caused a minor flurry of excitement earlier this year when they shared a consultation paper around scoring innovation activity in insurance businesses. While it was flawed in a number of respects (chiefly a limited, overly-commercial assessment of ROI, a lack of appreciation for the importance of customer centricity, and an emphasis on big, headline-grabbing innovation over optimisation and incremental advances), it clearly pointed to the structural importance of innovation for insurance businesses.

As innovation activity moves along the hype cycle we discussed right back on page 7, we'll see more of this kind of appreciation of its importance, and it'll become a standardised part of insurance activity. That might mean that every insurer has an innovation team. It might even mean that insurance culture has changed to the point that innovation is embedded throughout organisations, and happens in a genuinely organic way as part of day-to-day life.

Either way, closer links to core business have already seen innovation move away from old realities. The days of sequestered teams of mad scientists doing cool stuff that has no application are numbered. The innovation team of tomorrow will be home to a blend of skills and viewpoints, and it'll have increasing influence over strategy and direction of travel.

A broader focus for greater value

So far, new customer-focused propositions around personal lines have received a disproportionate amount of attention from innovators. There are probably a couple of reasons for that:

Firstly, they're the glamour jobs (inasmuch as anything related to insurance is a glamour job) - disruptive B2C propositions get press attention, increase brand awareness and help with talent acquisition.

And secondly, the kind of talent that innovation teams want to acquire - people with a wide range of skills and experience from outside the insurance industry - find aspects of the business that they have direct contact with much easier to engage with. If you've never worked in insurance, getting your head around the intricacies of risk calculation process for the shipping industry is much harder (and less appealing) than doing something with telematics for motor insurance.

But personal lines offer diminishing returns for innovation, and there's still a vast amount of potential, both in terms of process optimisation and disruptive new propositions, in insurance for SMEs and large corporates. Those lines generally offer significantly higher revenue than consumer-focused lines, and are more in need of new thinking; in the future, that'll lead to an increasing shift of focus away from the personal and towards the commercial.

5 rules for successful innovation

Follow these simple rules to shape the innovation team you really need, increase engagement, and deliver greater value.

How hard can it be?

Rule 1:

Always start with the customer

Because if you make the thing people want, they'll buy it from you.

Rule 2:

Know when it's time to partner

There's no point reinventing the wheel. If someone's built the thing you need, find a way to work with them.

Rule 3:

Share everything, always

Innovation isn't a dark art. Build engagement and drive cultural change by taking people with you.

Rule 4:

It's more important to start than to be right

If you wait until you know everything, you'll never get going. Embrace ambiguity and controlled failure.

Rule 5:

Invisible can be interesting too

Just because something isn't shiny doesn't mean it's not worth doing. Process innovation can deliver massive value, fast.

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Thanks for reading!

If you're ready to level up your innovation, or you'd just like to talk about the contents of this report, drop Robb or Matt a line:

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