

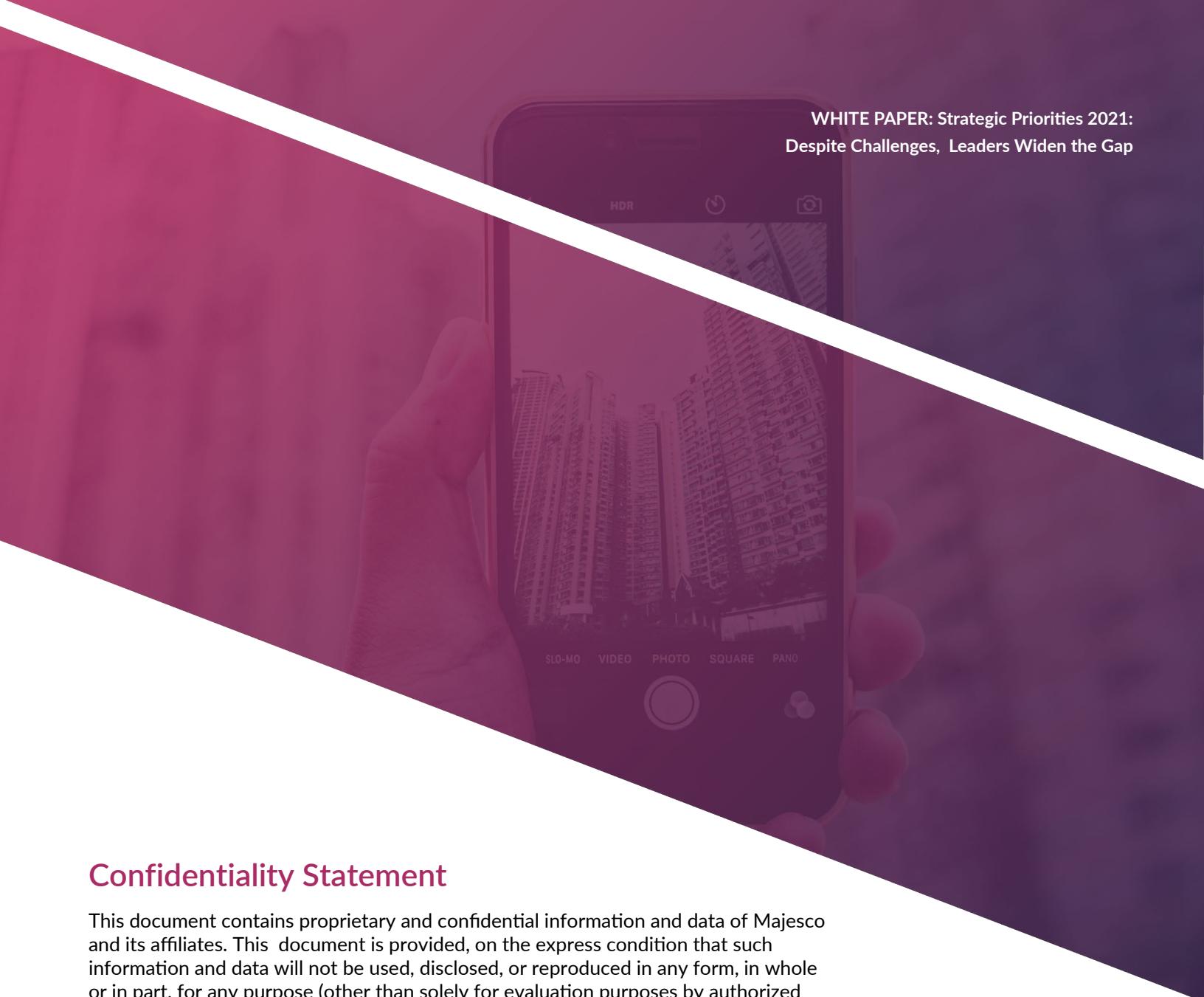


The Future of Insurance Starts Here

A MAJESCO WHITE PAPER

# Strategic Priorities 2021: Despite Challenges, Leaders Widen the Gap

MARCH 2021



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# Strategic Priorities 2021: Despite Challenges, Leaders Widen the Gap

## Executive Summary

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*"Now nearly a year after the emergence of COVID, companies – both insurers and their customers – realize it will never go back to "normal." As insurers step into the post-coronavirus future, they need to find a balance between what worked before and what needs to happen to succeed in the next normal. And that will take leadership."*

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*"These examples highlight the imperative for insurance leaders to re-envision their future of insurance by redefining their strategies and priorities for 2021 and beyond. They need to move rapidly from knowing to planning and then doing. Doing the same thing will not move them forward."*

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Digital transformation, the acceleration of change and the constant threat of disruption have a profound impact on leadership for all companies, including insurance.

2020 saw the constant threat of disruption, expanded and accelerated due to COVID and its continuous ramifications to the economy, businesses and individuals. Now nearly a year after the emergence of COVID, companies – both insurers and their customers – realize it will never go back to “normal.” As insurers step into the post-coronavirus future, they need to find a balance between what worked before and what needs to happen to succeed in the next normal. And that will take leadership.

In the MIT Sloan research report, *Leadership’s Digital Transformation*, it notes that 93% of workers across industries and geographies believe that being digitally savvy is crucial to doing their job. Most importantly, the idea that effective digital transformation delivers agility, adaptability, and customer centricity is now recognized as both *managerial mantra and leadership inspiration*.<sup>1</sup>

Andreessen Horowitz, a renowned leader in technology, noted in their blog, “2020 has shown us that every company – no matter their industry or size or age has to become a technology company to survive.”<sup>2</sup> While many leaders are not technical experts, they understand the business value and impact of technology on the business, not just today but in the future.

These examples highlight the imperative for insurance leaders to re-envision their future of insurance by redefining their strategies and priorities for 2021 and beyond. They need to move rapidly from knowing to planning and then doing. Doing the same thing will not move them forward.

Our 2021 Strategic Priorities research, based on post-COVID insurer survey results, shows a dramatically widening gap between Leaders and Laggards – **64%, a year-over-year increase of 20%** – when looking at their focus on key strategic initiatives in the past year. Followers were “treading water” to keep even with the previous year – with a 12% gap to Leaders.

Even more striking and concerning is the widening of the gaps between Leaders and the others in their outlooks for their companies over the **next three years of 103% and 28% for Laggards and Followers respectively, reflecting a 40% and nearly 10% gap growth for each**. These gaps do not bode well for insurers’ ability to create economic value, grow, and remain relevant with the ever-increasing pace of change and disruption.

The widening gap between Leaders and others is reflected in a 2020 E&Y study, which found that companies that invested more in new technology made more money.<sup>3</sup> Within the study, they looked at three financial metrics: revenue, gross profit and EBITDA. Looking at the five-year compound annual growth rate (CAGR), they found:

- Leaders are 45% more likely than laggards to **unlock annual revenue growth of more than 10%**.
- Leaders are 26% more likely than laggards to enjoy an **annual gross profit increase by more than 10%**.
- Leaders are 50% more likely than laggards to **annually see EBITDA increase by more than 15%**.

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*"So how do companies position themselves as Leaders, strengthen their business results, and position themselves as strong innovators? What differentiates Leaders from Followers and Laggards?"*

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Fast forward to 2020, COVID accelerated these trends and widened the gap between the top What made the difference in these leaders? The study found that companies that excelled in digital transformation shared six habits, which can be found in our strategic priorities research as well. The six habits are:

- **Focusing on customers** first and foremost
- **Accelerating AI** to drive growth
- Driving innovation through **ecosystems and partnerships**
- Nurturing **talent** with new incentives and strategies
- Activating governance plans for **emerging tech**
- Powering **innovation** by leveraging data and being agile

So how do companies position themselves as Leaders, strengthen their business results, and position themselves as strong innovators? What differentiates Leaders from Followers and Laggards?

This report, based on the results of the survey, answered these questions and more.

*"This crisis is an ideal time to double down on strategic priorities that will accelerate insurers' business and digital transformation. Rather than putting transformation plans on hold, insurers must and go all in, positioning them as Leaders in a post-crisis world."*

## Insurance Innovation Invigorated by Crisis

The necessity of insurance digital transformation has obliterated any lingering doubts as a result of the pandemic. With rare exception, operating digitally is the only way to do and stay in business. It's go digital, or die.

Digital has been a priority for insurance, but 2020 brought it in sharp focus. The ability to rapidly shift, the need for greater resiliency in the face of crisis and change and the ability to adapt to stay ahead of the competition was never more pronounced. Those who did have recovered and accelerated their focus on growth and innovation while others are still playing defense.

Digital is now central to nearly every interaction, forcing insurers to accelerate their business and digital transformation – from years to months. This crisis is invigorating innovation and digital transformation for Leaders, widening the gap with those left behind. These Leaders are adapting their plans and accelerating execution, finding ways to reallocate resources rather than staying the course of the past.

As noted in the McKinsey article, "Digital Strategy in a Time of Crisis," the ways companies learn from and adjust to today's crisis will deeply influence their performance in tomorrow's changed world, and those that successfully make gains "stick" will likely be more successful during recovery and beyond.<sup>4</sup>

This crisis is an ideal time to double down on strategic priorities that will accelerate insurers' business and digital transformation. Rather than putting transformation plans on hold, insurers must and go all in, positioning them as Leaders in a post-crisis world.

## Despite COVID Challenges, Leaders Widening the Gaps

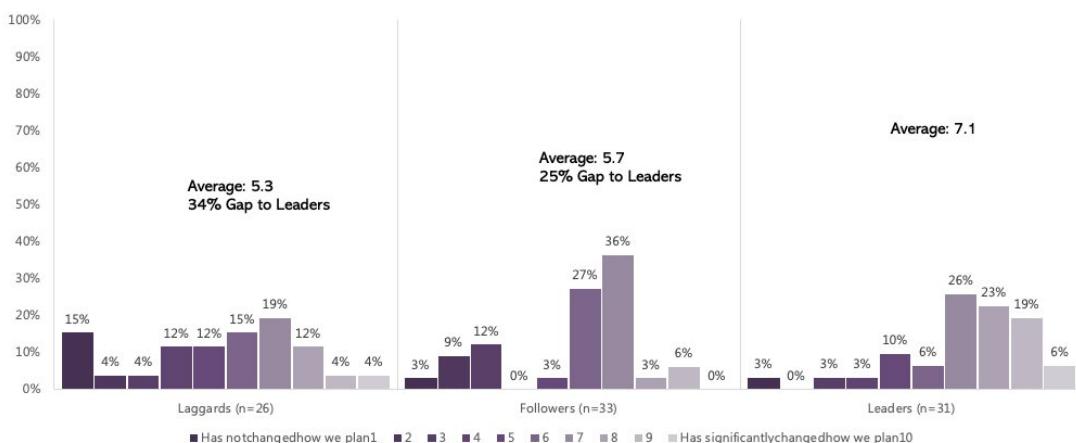
The COVID crisis seemed to come out of nowhere, blindsiding the world with the force of a tsunami. Suddenly, the "usual" way of doing things no longer worked. Now a year into the crisis, we're seeing a Darwinian story play out before us, shining a bright light on those who have been able to adapt and those who haven't.

For businesses, including insurance, a key to being among the fittest who survives the drastic impact is the ability to rapidly adapt planning – both the plans themselves and the process for creating them. Throughout history we often see that the difference between success and failure is related directly to the ability to evaluate, reinvent, and adapt to the current environment. While COVID forced companies to adapt, Leaders took advantage of the situation. Leaders exercised their adaptability to a much greater degree than Followers (25% gap) or Laggards (34% gap), as seen in Figure 1.

FIG. 1

Impact of COVID-19 on annual planning

Has COVID-19 changed the way you do your annual planning? by Leaders-Followers-Laggards



*"Leaders know they can't assume the customers they serve today will need or want the same products and services tomorrow...or that the same customers will even be there tomorrow."*

Leaders are also more in touch with COVID's potential internal and external impacts on their companies. Externally, their awareness of the impact to their customers was 26% higher than Followers and 33% higher than Laggards (Figure 2), a crucial insight and strategic difference between Leaders and those trailing behind them.

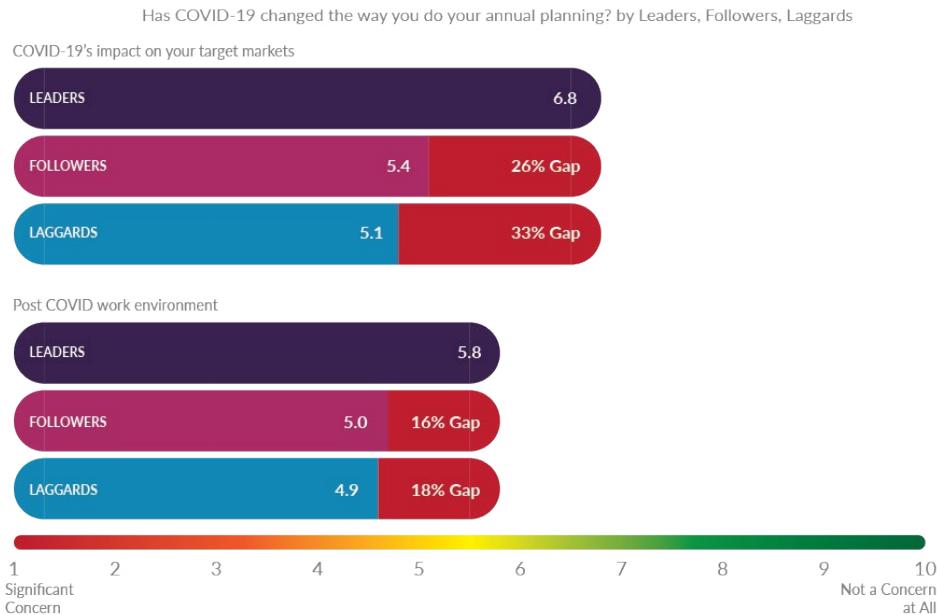
Leaders know they can't assume the customers they serve today will need or want the same products and services tomorrow...or that the same customers will even be there tomorrow. Leaders are constantly monitoring the changing demographics and dynamics and making short- and long-term adjustments to adapt and thrive in an ever-evolving market. If their current target markets are negatively impacted by COVID, they know they need to adjust their product and service offerings, develop new channels, seek new markets, and more.

Internally, the levels of concern and corresponding gaps about their post-COVID work environments are smaller, likely reflecting the "settling in" effect of a new normal of remote working. Long before the pandemic, insurers were aware of and planning for workforce changes, including the coming wave of employee and agent retirements, and competition with other industries for attracting and retaining talent, particularly the high-tech and financial services industries.

COVID ratchets up the pressure on these existing challenges, while adding new complexity. The move to working from home is rapidly becoming a standard for high-tech or financial services companies, creating opportunity for those in other industries who live outside the large cities or hubs of high-tech companies. A recent article by FlexJobs notes 23 large high-tech and financial services companies that are moving to long-term remote working.<sup>5</sup> Leaders demonstrate their advantage in being ready and willing to rapidly adapt to the changes.

**FIG. 2**

External and Internal Impacts of COVID-19



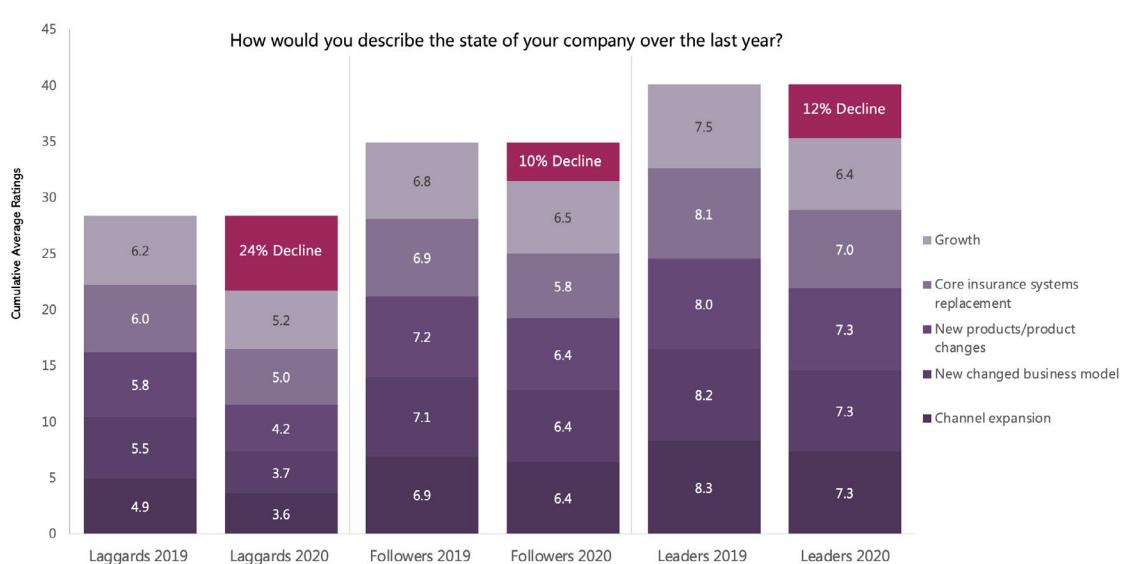
## The State of Insurers Last Year

COVID was a gut punch for all three segments in 2020. All had setbacks in their companies' growth and strategic activities compared to 2019. On an aggregate basis, Leaders (-12%) and Followers (-10%) saw similar declines, but Laggards' (-24%) was twice the decline of Leaders, highlighting their unpreparedness for the crisis (Figure 3). In contrast, Leaders' response was to counterpunch and adapt with new approaches to planning underpinned by a greater awareness of the business implications.

**Awareness and adaptability matter** when responding to change.

**FIG. 3**

COVID-19's impact on growth and strategic activities last year



*"These gaps reflect a vastly different strategic mindset between Leaders and Laggards, one that is squarely focused on the future and adapting to market challenges while the other is stuck in the past, trying to survive but falling further behind."*

Despite the setbacks of the last year, Leaders continue to dominate with a 12% lead over Followers and a striking 64% lead over Laggards, as seen in Figure 4.

Leadership matters, especially during disruptive change.

Leaders and Followers were nearly identical in their views of company growth during the previous year, but Leaders averaged a 15% gap over Followers on all the other factors. The largest gap (21%) was in Maintaining/Replacing core systems and the smallest (12%) was in a new factor added this year, Allocating resources to business as usual/change how we do business.

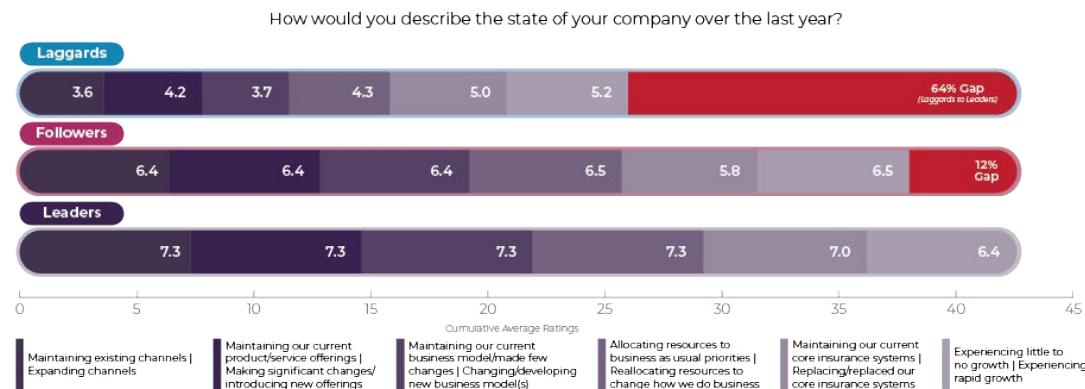
However, the huge gap between Leaders and Laggards was due to four key factors:

- Channel expansion: 103%
- New Business models: 97%
- New products/services: 74%
- Reallocating resources: 70%

These gaps reflect a vastly different strategic mindset between Leaders and Laggards, one that is squarely focused on the future and adapting to market challenges while the other is stuck in the past, trying to survive but falling further behind.

**FIG. 4**

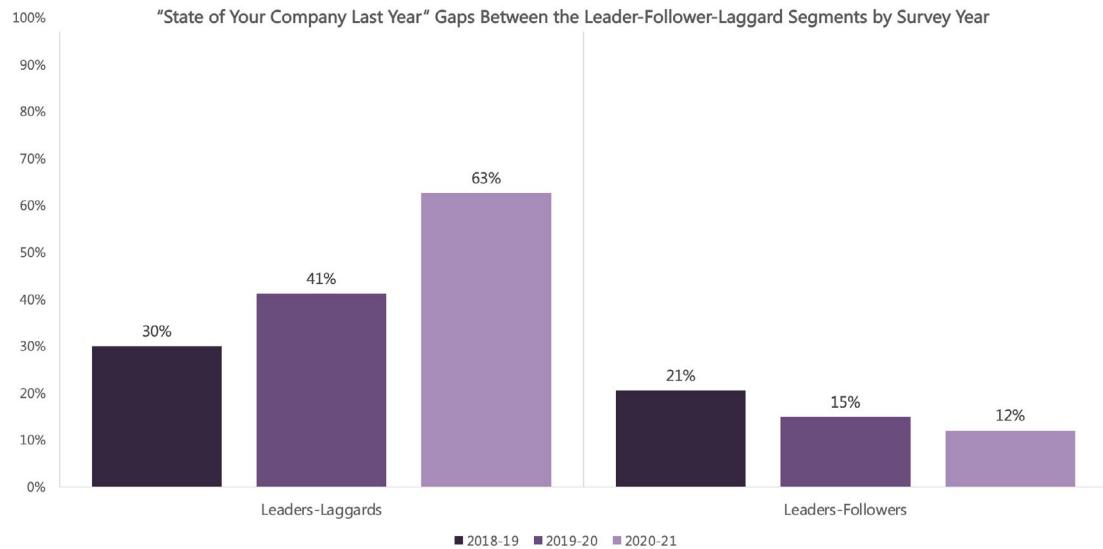
**Gaps between Leaders, Followers and Laggards in assessments of company growth and strategic activities last year**



The gap between Leaders and Laggards this year is the largest we have ever seen, more than doubling in size since we started tracking these segments in 2018-19, as seen in Figure 5. In contrast, the gap between Leaders and Followers has been slowly shrinking. The gap between Laggards and both Leaders and Followers, reflects a stark reality that Laggards' lack of awareness, planning and execution are putting their survival and relevance at increasingly greater risk – something they understand the implications of well.

**FIG. 5**

**Changes in "State of Your Company Last Year" gaps between Leaders, Follower and Laggards**



This scenario aligns with a December 2018 Boston Consulting Group (BCG) article on how some companies successfully navigated disruption and created value, earning the title, "thrivers."<sup>6</sup> It states that successful reinvention requires making a large bet—one that can overcome the drag of the old way of doing things. Making that big bet requires leadership, confidence, and expertise to eliminate the "knowing – doing" gap. Those who wait – the Laggards – will need to make bigger and potentially riskier bets to gain parity with the "early responders" (the Leaders). As Leaders gain growth momentum, the "knowing – doing" gap grows, leaving Laggards with dwindling options and relevancy in fast-changing market.

The 2018 article seems prophetic in our current pandemic-dominated environment, as illustrated by this quote:

*"In a time of technological revolution, shifting regulatory priorities, and fast-changing consumer expectations, most companies will face some form of disruption in their industries or core markets. Some management teams anticipate the coming changes and respond promptly. Others, slow to react, must eventually address a more mature threat. The speed of response matters. Early movers can experiment with new businesses and models. Those that wait have dwindling options and, as our new research shows, must make far larger, more concentrated bets to navigate the disruption."*

**Speed matters**, particularly during disruptive change.

## Knowing: Understanding Internal and External Challenges

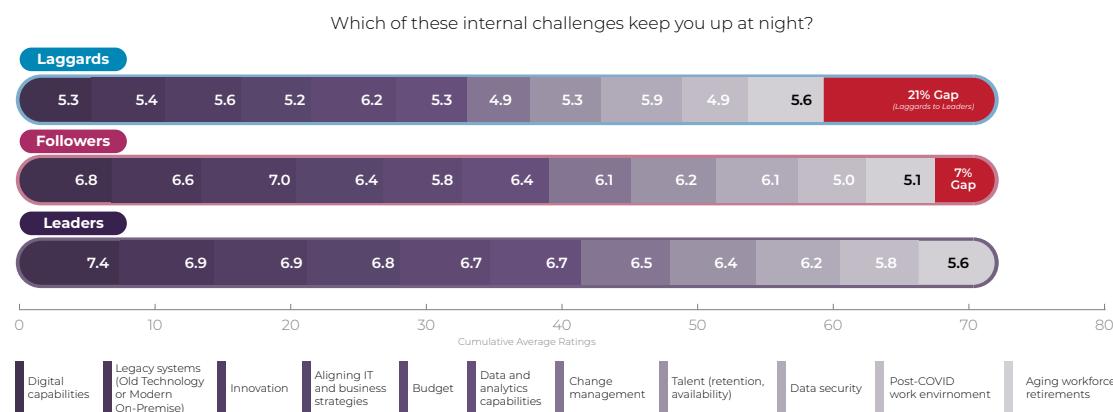
First, you must see the dots. Then you must connect them.

The first step in successfully responding to change and disruption is awareness and appreciation of internal and external challenges and knowing where you stand on each one relative to critical internal (e.g. strategic objectives) and external (e.g. current competitors) reference points. Leaders reveal advantages over Followers and Laggards in their focus on internal and external challenges reflected in the sizable gaps in Figure 6.

The 21% cumulative gap between Leaders and Laggards on 11 internal challenges was driven by large differences on several individual challenges, including Change management (41%), Digital capabilities (40%), Aligning IT and business strategies (31%), Legacy systems (28%), and Data & analytics capabilities (26%). Interestingly, the two segments were identically aligned on Aging workforce/retirements, which was 10% ahead of Followers. The only other meaningful gaps, each at 16%, are in Post-COVID work environment (covered above) and Budget. Otherwise, Followers are generally keeping pace with Leaders with only a 7% cumulative gap.

FIG. 6

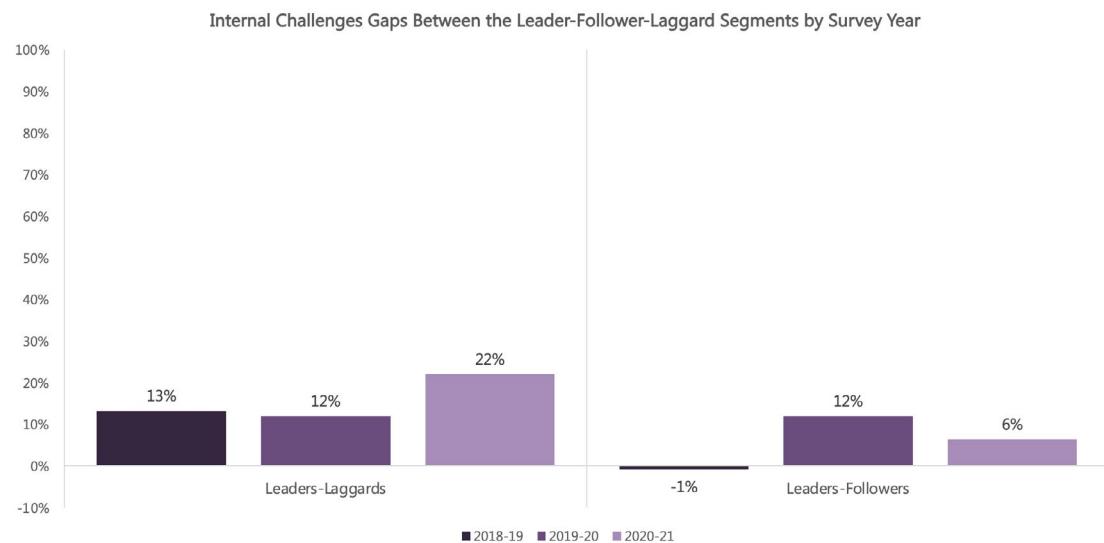
Gaps in levels of concern about internal challenges



Evidence of Followers' concentrated efforts to keep pace or narrow the gap with Leaders over the past three years is evidenced in the big jump from 2018-19 to 2019-20, followed by the gap being cut by 50% this year. In stark contrast, the gap for Laggards on internal challenges nearly doubled, as seen in Figure 7 (note that this is based only on survey attributes common to all three years, so the current year's gaps will be slightly different than those in Figure 6).

**FIG. 7**

*Changes in internal challenges gaps between Leaders, Followers and Laggards*



*"The gap between Laggards and Leaders is larger relative to external challenges. One of the largest gaps is around new sources of competition...a dangerous blind spot."*

The gap between Laggards and Leaders is larger relative to external challenges (Figure 8). One of the largest gaps is around new sources of competition...a dangerous blind spot.

In particular, the gaps between Laggards and Leaders are nearly 50% for these four challenges:

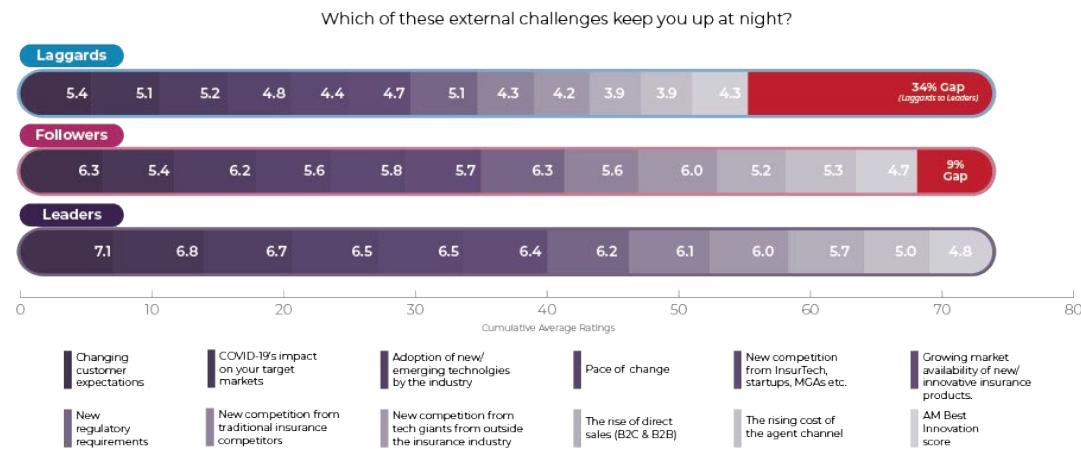
- New competition from InsurTech, startups, MGAs, etc.: 48%
- The rise of direct sales (B2C & B2B): 46%
- New competition from tech giants from outside the insurance industry: 43%
- Increasing competition from traditional insurance competitors: 42%

Followers are more aligned with Leaders on these four, though are behind on New competition from InsurTech (12%) and The rise of direct sales (10%). In fact, their relatively small 9% cumulative gap to Leaders is somewhat obscured by an "averaging out" of small single-digit gaps on six of the issues, and slightly larger double-digit gaps on six issues, something we did not see in the internal challenges. The largest gaps for Followers suggest potential blind spots that must be addressed to keep pace with Leaders:

- COVID impact on target markets: 26%
- Pace of change: 16%
- Changing customer expectations: 13%
- Growing market availability of new/innovative insurance products: 12%

**FIG. 8**

Gaps in levels of concern about external challenges

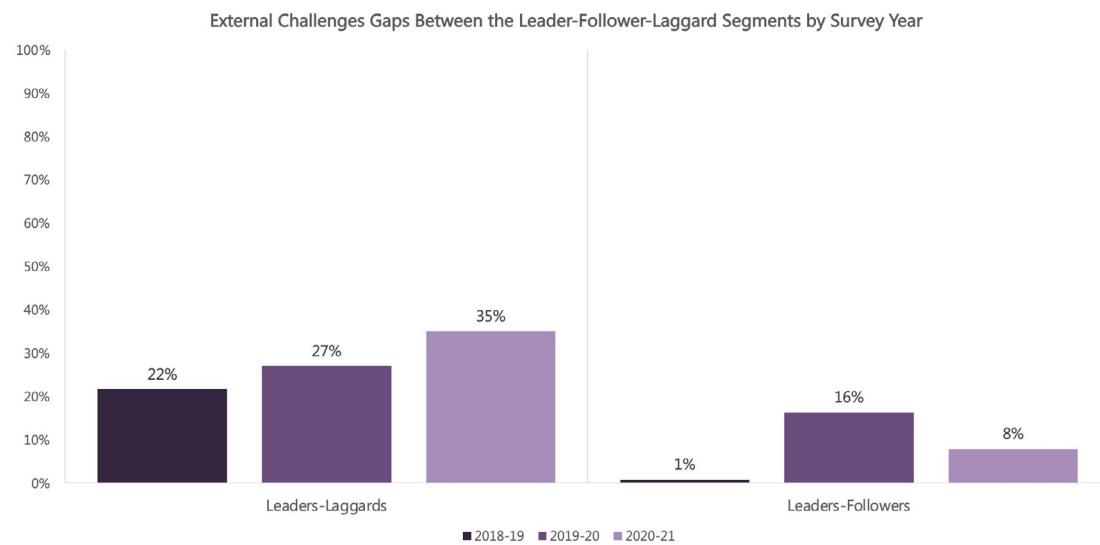


Despite this somewhat bifurcated set of external challenge gaps, Followers cut the gap with Leaders by nearly 50% compared to last year's survey, just like we saw in the year-over-year internal challenge gap changes, as shown in Figure 9 (again, note that this is based only on survey attributes common to all three years, so the current year's gaps will be slightly different than those in Figure 8). However, Laggards continue to fall further behind as their gap to Leaders grew by over 50% from 22% to 35% over the past 3 years.

The trend indicates Followers are closing the gap to Leaders in many areas. But for Laggards, the question is, are they just in denial on these issues, or do they not have any plans on what to do about them?

**FIG. 9**

Changes in external challenges gaps between Leaders, Followers and Laggards



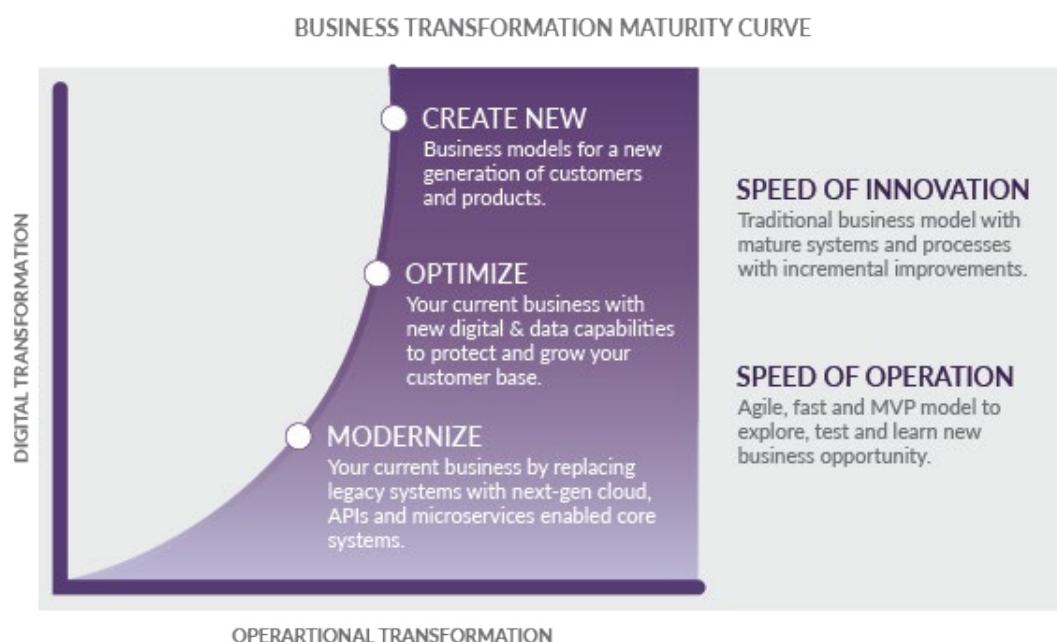
## Planning: Preparing and Prioritizing Strategic Initiatives

Success in moving from the past to the future of insurance requires a two-speed strategy: Speed of Operations, which focuses on making improvements to the current, traditional business model with mature systems and processes; and Speed of Innovation, which is all about creating agile, fast and new business models that explore, test and grow new business opportunities.

Speed of Operations is about keeping the current business healthy and competitive, to maintain and grow the existing customer base, and to help fund creation of a new business in Speed of Innovation. Specifically, companies must modernize and optimize to achieve Speed of Operations, and create a new business to achieve Speed of Innovation as seen in Figure 10.

FIG. 10

Digital business transformation maturity curve



*"Leaders continue to distinguish themselves with a stronger focus on strategic initiatives that support both components of the two-speed strategy."*

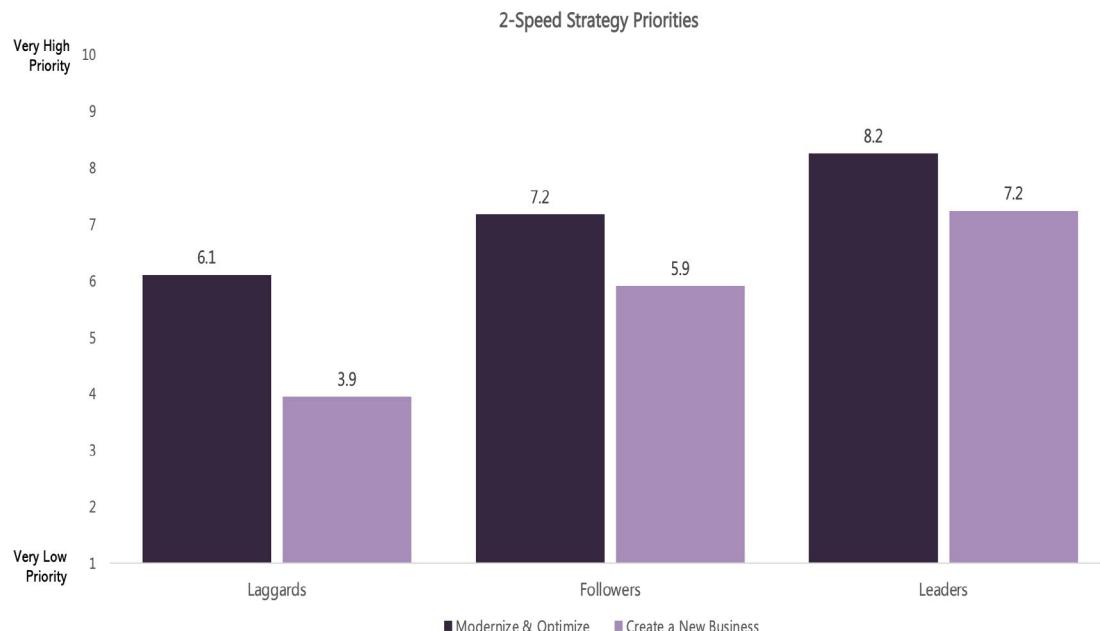
Leaders continue to distinguish themselves with a stronger focus on strategic initiatives that support both components of the two-speed strategy, as seen in Figure 11. On average, all three segments are more focused on the foundational aspects for modernizing and optimizing the existing business as compared to the aspects for creating a new business.

However, the large imbalance between modernize/optimize and create new for Laggards, a 56% gap, is especially concerning. This gap suggests they are entrenched in the past, limiting their ability to transition to the future. As we have seen in other industries, those that do not adapt and change eventually lose relevance.

In contrast, Leaders (14% gap) are much more balanced, appearing to successfully execute on the two-speed strategy. Followers (22% gap), while not far behind, need to refocus on balancing the priority between optimizing today's business and creating a new business for the future.

FIG. 11

Gaps between  
Leaders, Followers  
and Laggards in  
2-speed strategy  
priorities



### Modernize and Optimize

*"Cloud is now a fundamental requirement in the digital world and growing as we move into the new era of computing where every new technology trend, from AI and big data to microservices and the connected world, is increasingly dependent on cloud."*

Drilling into the specific elements of Modernize and Optimize reveals a large gap of 35% between Leaders and Laggards. The two key drivers of this gap are *Developing a Digital Strategy* (45%) and *Scaling the business on a cloud platform* (60%). Surprisingly, Followers also have a sizable gap to Leaders on this last one of 34%, more than double the size of the overall gap of 15%.

The gap around cloud platform is of particular concern. In our new digital age, technology and the business are fundamentally inseparable. Cloud technology is now a given, APIs enable technology to be easily componentized, AI and ML help the business to make "smart" decisions, digital experience creates unique and personalized engagement, and no code / low code eliminates complexity and accelerates the digital transformation journey as we outlined in our report, [Insurance Platforms – The Digital and No Code/Low Code Platform](#).

SMA has tracked cloud adoption over the past eight years. In their P&C Core Systems Purchasing Trends report, they noted that 2018 was a watershed year with **three in four new core systems deployed in the cloud**.<sup>7</sup> And in 2019 they reported that adoption hit a new high-water mark, with 84% of new core systems deployed in the cloud. They note that cloud is now a fundamental requirement in the digital world and growing as we move into the new era of computing where every new technology trend, from AI and big data to microservices and the connected world, is increasingly dependent on cloud.

FIG. 12

Gaps between Leaders, Followers and Laggards in Modernize & Optimize priorities

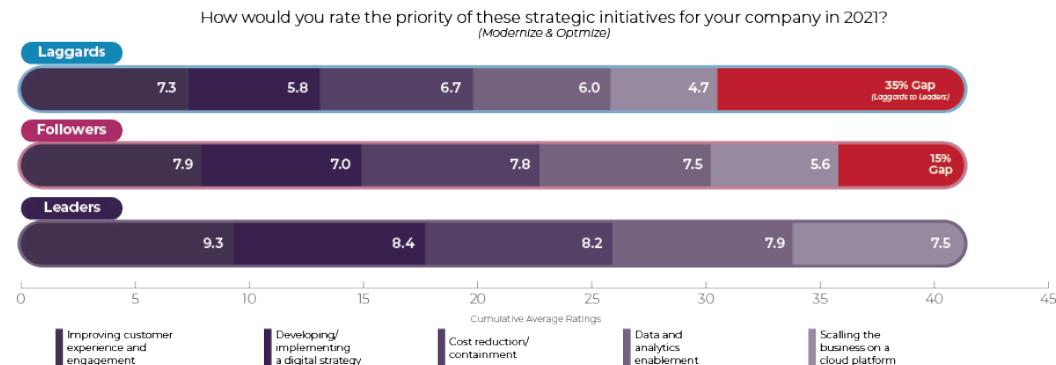
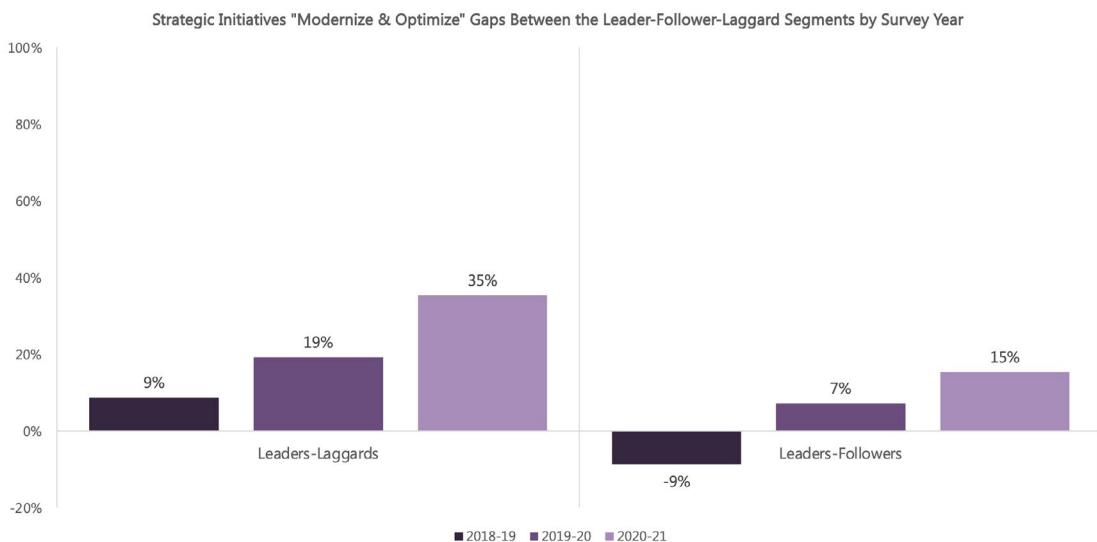


FIG. 13

Changes in gaps between Leaders, Followers and Laggards in Modernize & Optimize priorities



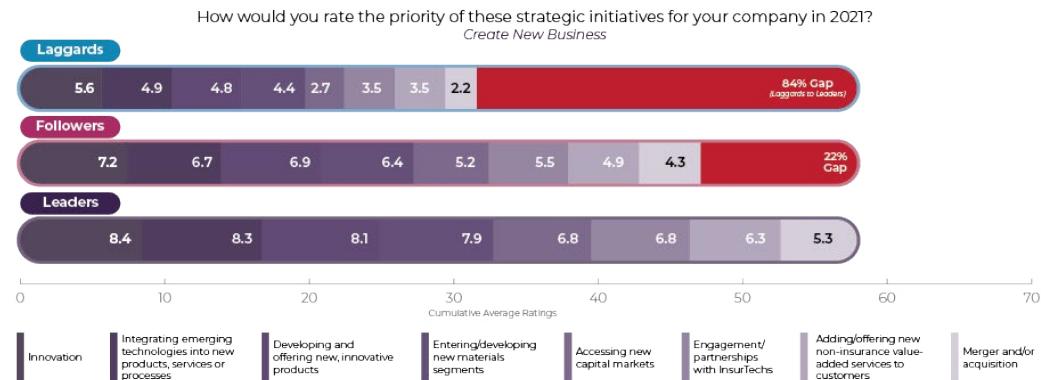
### Create a New Business

The situation for Laggards worsens in the Create a New Business component of the two-speed strategy. Laggards fall drastically behind, with a massive gap of 84%! The gaps in the individual strategic initiatives range from a low of 50% for Innovation (which was a new addition this year) and 152% for Accessing New Capital Markets. The access to new capital markets is a challenge for many of the mutual insurers, limiting what they can do.

Large gaps in Engagement/partnerships with InsurTechs (94%) and Adding/offering new non-insurance value-added services to customers (80%) are also strong evidence of Laggards' shocking weakness in speed of innovation. This gap reflects their focus on the past, rather than the future – a dangerous blind spot that suggests dim prospects for continued relevance or survival.

**FIG. 14**

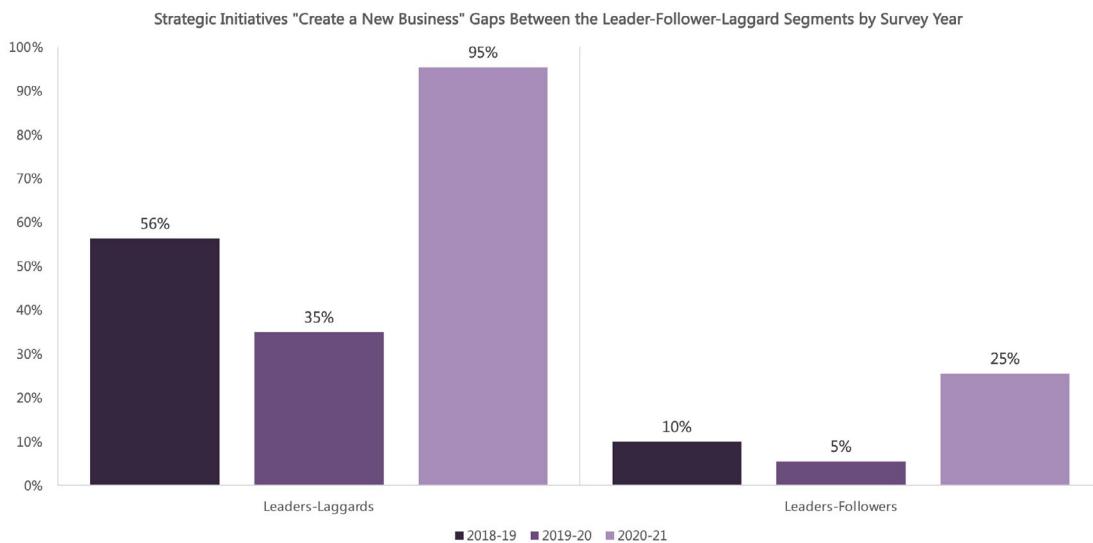
*Gaps between Leaders, Followers and Laggards in Create a New Business priorities*



Due to changes in the attributes we included in the Create a New Business component over different survey years, the current year gap between Leaders and Laggards in Figure 15 is larger than what is shown in Figure 14. However, the swings and relative sizes of the gap are alarming – going from an encouraging 21-point drop from 2018-19 to 2019-20, to a 60-point increase this year...nearly 3 times larger. Followers must also be concerned about the 5x increase in their gap with Leaders. This path will not bode well for the future if it is continued.

**FIG. 15**

*Changes in gaps between Leaders, Followers and Laggards in Create a New Business priorities*



The differences in planning priorities between Leaders, Followers and Laggards stand out in this year's research. While many Followers may be keeping relative pace to Leaders with their modernizing and optimizing the existing business, often reflected in strong financials, this is deceiving when considering the future business needed – where Followers and Laggards are not planning, and are falling further behind.

Leaders continue to distinguish themselves from the other two segments with their stronger focus on strategic initiatives that support the two-speed strategy. The rest of the insurers must accelerate their planning and turn it into doing to remain relevant, let alone viable for the future.

## Doing: Accelerating Digital Transformation

*"When it comes to incorporating specific marketplace trends, technologies or capabilities into their business models or offerings, Laggards continue to fall behind both Leaders and Followers."*

When it comes to incorporating specific marketplace trends, technologies or capabilities into their business models or offerings, Laggards continue to fall behind both Leaders and Followers. They are focused on a very limited set of opportunities that do not even keep pace with the rest of the industry.

The survey asked companies to indicate their level of response, from "No focus on this" to "Already implemented," for specific items within these categories:

- New market opportunities created by trends and technologies
- Platform technologies
- Digital capabilities
- Partnerships and ecosystems
- Regulatory developments

While companies cannot act on all of these issues at once, the inability to move from understanding to planning and execution is of great concern given the pace of change in the marketplace. Companies that fail to incorporate these categories into their plans and execute on them are intensifying their operational and business risk.

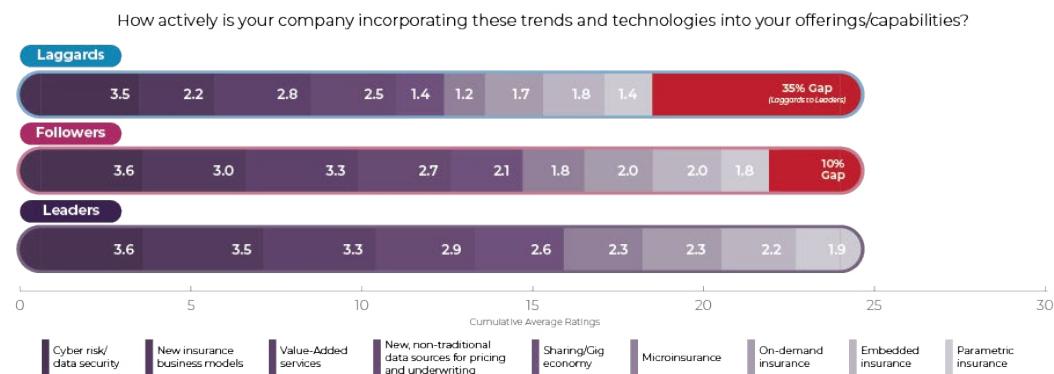
## Responding to New Market Opportunities

Continuous changes in technology-driven capabilities, customer behaviors and expectations and blurring market boundaries have created numerous opportunities for insurers to grow their businesses by creating new products and services and reaching new markets. Followers and Leaders are fairly well aligned on their cumulative responses to the market opportunities created by these trends.

However, there is another sizable gap (35%) between Leaders and Laggards, led by enormous gaps in acting on Microinsurance (92%) and the Sharing/Gig Economy (86%), and developing New Insurance Business Models (59%). These topics were not covered in the 2018-19 survey but in last year's survey, the gap between Leaders and Laggards was 22% and 7% for Leaders vs. Followers. Again, this supports the observation that Followers are doing their best to keep close to Leaders, but Laggards continue to fall further behind.

FIG. 16

Gaps between Leaders, Followers and Laggards in responses to market trends

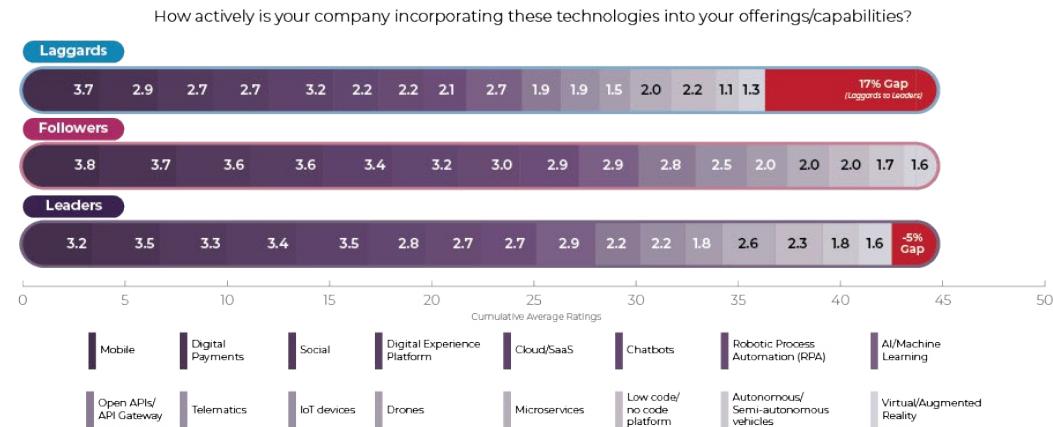


## Leveraging Platform Technologies

The most unexpected finding in this year's survey was that Followers beat the Leaders in their cumulative levels of incorporating 16 different technologies into their offerings or capabilities. Although a small gap, just 5%, it represents a 17-point swing from last year, when Leaders held a 12% advantage. The gap between Leaders and Laggards remained stable, at 15% last year and 17% this year.

**FIG. 17**

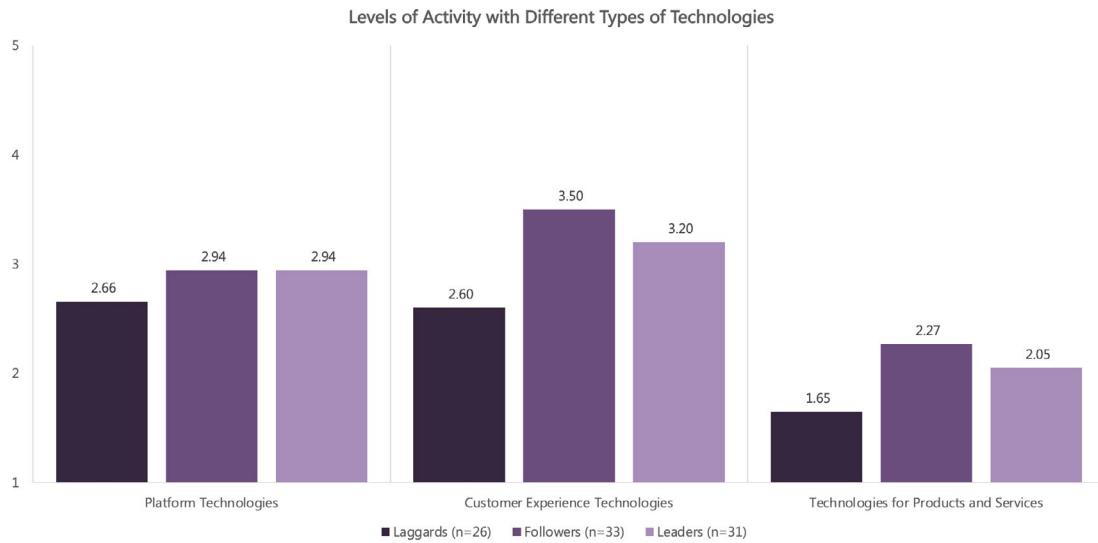
Gaps between Leaders, Followers and Laggards in responses to technology trends



When we split these 16 technologies into three groups and compare the aggregate averages, you see that the Leader-Follower gap is driven by Technologies for Products and Services (11%) and Customer Experience Technologies (9%).

**FIG. 18**

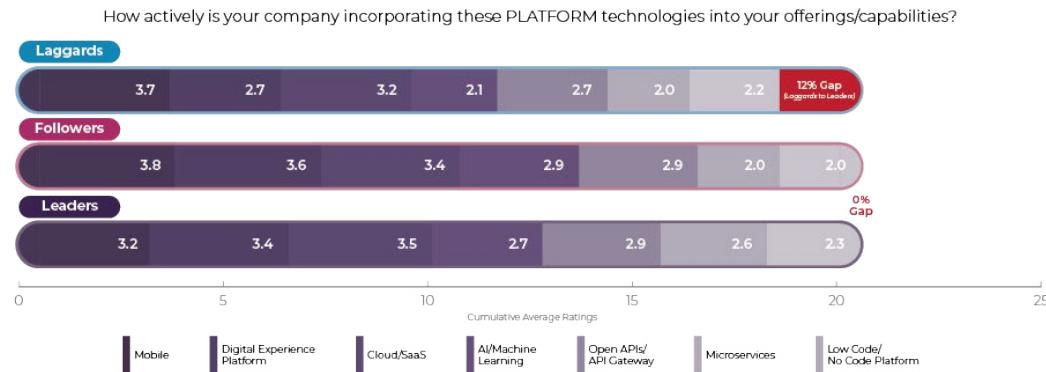
Gaps between Leaders, Followers and Laggards in responses to technology trend groups



Leaders and Followers are dead even in their overall levels of activity and response to Platform Technologies. In last year's survey, the gap was 15% in favor of the Leaders. Also somewhat surprising but encouraging, Laggards nearly halved their gap with Leaders, from 22% last year to 12% this year. Leaders and Followers separate themselves from Laggards on two of the technologies: *Digital Experience Platform* (26%, 33%) and *AI/Machine Learning* (29%, 38%) while Leaders stand out from both on *Microservices* (30%).

The tightening of the gaps between all three is overall encouraging, particularly for Followers and Laggards, giving a ray of hope.

**FIG. 19**  
Gaps between Leaders, Followers and Laggards in responses to platform technology trends



## Implementing Digital Capabilities

*"Neither is it sufficient to simply add common, disparate digital capabilities like portals and think you can "check the digital box." Becoming a digital insurer requires a cultural change and mind shift to a new way of thinking, planning, and doing. Leaders know this."*

2020 was definitely the year of digital! All three segments are implementing digital self-service options like chat and digital payments. While these tools have been around for some time, COVID made them table stakes.

However, they do not meet the shift in the desire for personalized, holistic experiences because "out of the box" portals are functionally focused ... i.e. a claims app or quote app. In contrast, digital insurance platforms transform these older approaches from siloed, separate transactions into more satisfying, holistic experiences for customers, channel partners and employees as we noted in our life and auto customer research.

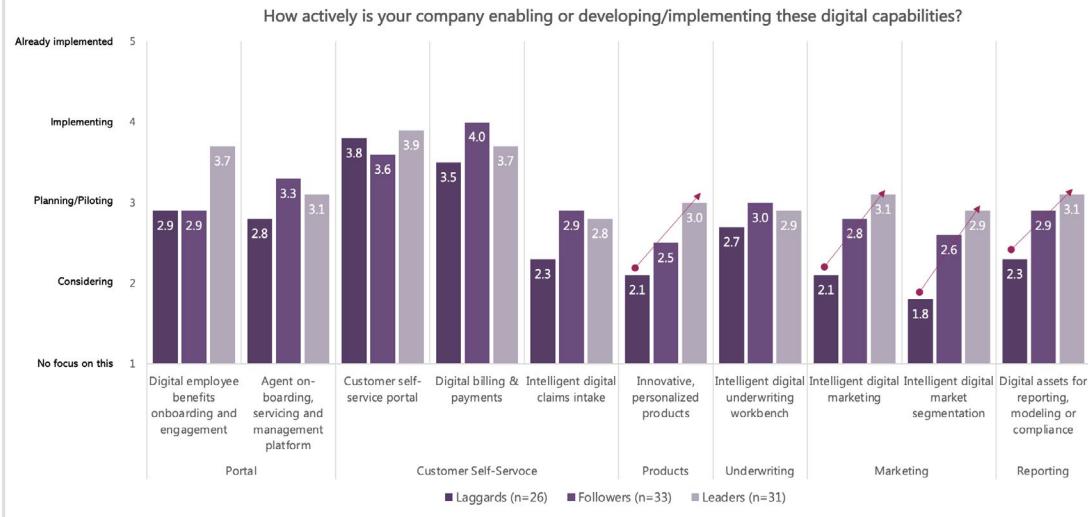
Neither is it sufficient to simply add common, disparate digital capabilities like portals and think you can "check the digital box." Becoming a digital insurer requires a cultural change and mind shift to a new way of thinking, planning, and doing. Leaders know this.

They are leveraging digital technologies to enhance customer and employee experiences and to improve their strategic and operational capabilities, as seen in Figure 20, with leads over the Laggards in *Digital employee benefits onboarding and engagement* (28%), *Intelligent digital claims intake* (22%) *Innovative, personalized products* (43%), *Intelligent digital marketing* (48%) and *segmentation* (61%), and *Digital assets for reporting, modeling or compliance* (35%).

Today's customers are increasingly digitally adept, with higher expectations, different needs and a demand for better experiences that are not met with the "traditional" insurance approach, creating a fault line between customers' expectations and insurers' ability to deliver. These digital gaps will become the new competitive differentiators.

FIG. 20

*Leaders, Followers and Laggards responses to developing/implementing digital capabilities*



### Partnerships and Ecosystems

*"Insurers must increase their "doing" in this area to avoid lost opportunities to reach new or underserved markets and to be at the forefront in establishing partnerships before others. Laggards' failure to recognize the criticality of partnerships and ecosystems is a major blind spot."*

Of all the Doing categories, the gap between Leaders and Laggards was the largest for Partnerships and Ecosystems, at 71%. The largest drivers of this disappointing gap are *Setting up product(s) on a partner platform with revenue sharing* (129%), *White-labeling product(s) to be sold by another company* (86%), and *Establishing an ecosystem of partners using APIs* (81%).

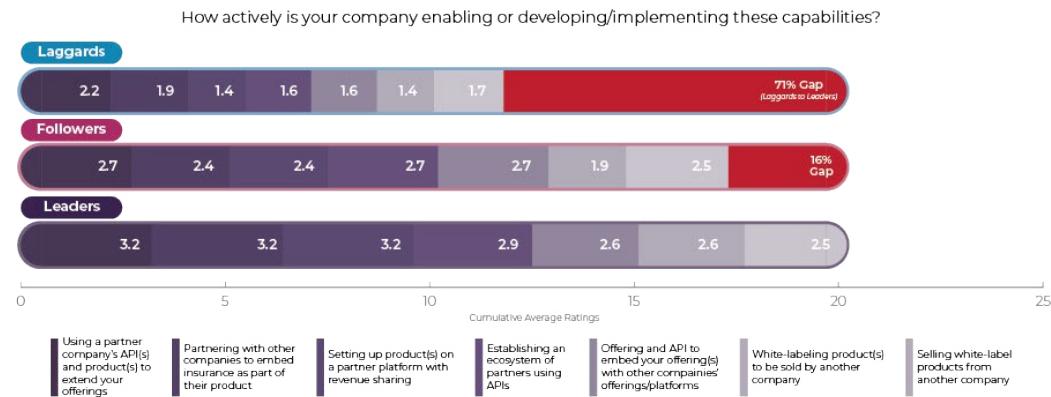
Insurers must increase their "doing" in this area to avoid lost opportunities to reach new or underserved markets and to be at the forefront in establishing partnerships before others. Laggards' failure to recognize the criticality of partnerships and ecosystems is a major blind spot.

Our research, as well as numerous other studies, have shown strong customer interest in buying insurance through other partnerships and channels. Furthermore, the development and access to APIs to connect to new partnerships and ecosystems is increasingly important to be considered.

In this new era of insurance, nearly every insurance process is rapidly becoming frictionless, including buying. If distribution channels are easy to use with products that are easy to understand, then insurance has the opportunity to grow through a friction-free, multi-channel distribution system. The benefit of adapting to these channel dynamics is that we move from needing to "sell" people on purchasing insurance, to introducing insurance that is ready to be "bought" seamlessly at the point of need, creating a scale-able, sustainable business model.

**FIG. 21**

Gaps between Leaders, Followers and Laggards in responses to partnerships & ecosystems



While both Laggards and Followers closed the gap with the Leaders last year, each saw those advantages disappear this year. The Leader-Laggard gap was a staggering 4x increase over last year's gap of 18% and the Leader-Follower gap increased 3x, as seen in Figure 22.

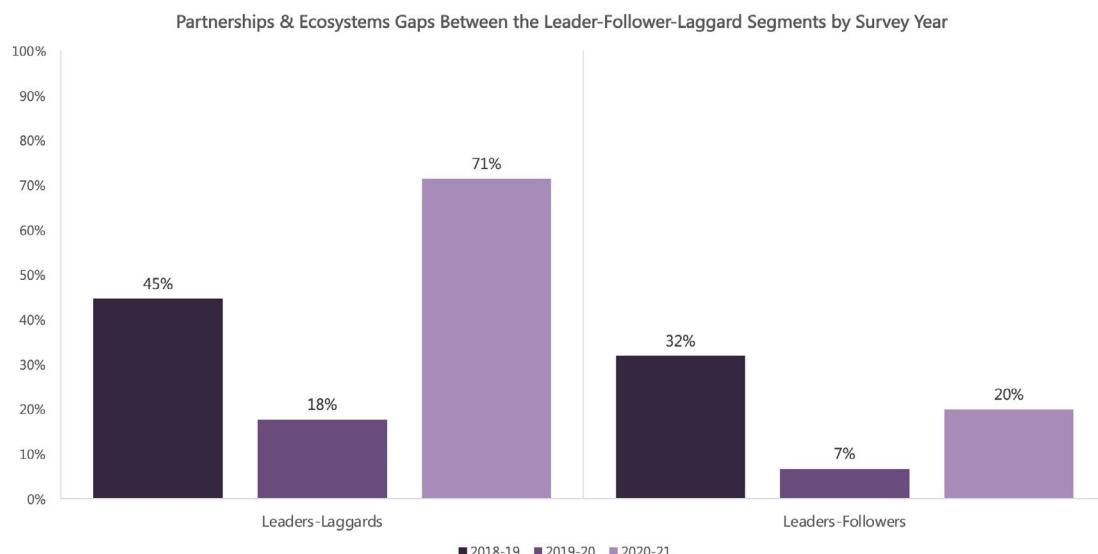
Market boundaries are no longer clear. They are shifting and, in some cases, evaporating. The combination of technology and customer expectations is directly impacting insurance by altering the traditional ecosystem of agents and brokers – who, yes, are still relevant – to have insurance embedded or sold differently across a broader ecosystem including automotive, transportation businesses, big tech and more.

By doing so, these partners are breaking down business and market boundaries to make the ecosystems operate fluidly, based on the customer needs and expectations for both the risk product and other value-added services. This, in turn, creates greater value for these insurers due to new revenue streams and access to a broader market through the multiplier effect.

Given the rapid development of ecosystems, shift to a platform economy, and increased focus on a broader customer experience dependent on partnerships, these gaps offer Leaders, who are actively working with ecosystems and partnerships, the opportunity to accelerate and tie down relationships while Laggards and Followers get left behind.

**FIG. 22**

Changes in gaps between Leaders, Followers and Laggards in responses to technology trends



*"It is surprising that insurers are not more actively planning or executing strategies that take advantage of these regulatory changes to accelerate their innovation initiatives."*

## Regulatory Developments

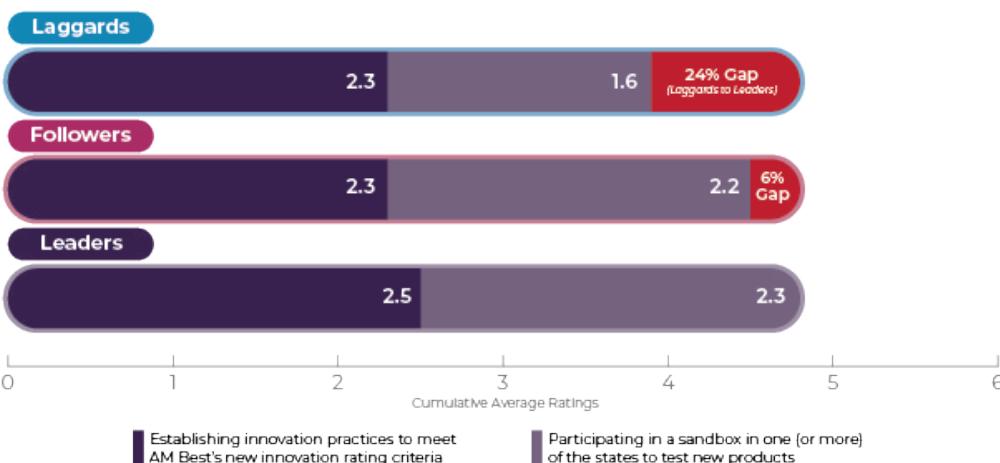
Compared to the other Doing categories, responding to the AM Best innovation rating criteria and participating in a state-sponsored innovation sandbox have among the lowest levels of activity by all three segments. The 24% Leader-Laggard gap increased slightly from last year's 17% gap, while the Leader-Follower gap remained flat compared to last year's 7% gap.

Innovation initiatives are increasingly laser-focused on creating competitive advantages that respond to the rapidly shifting marketplace and adoption of digital technology. As a result, innovation has moved from an operational to a strategic imperative in order to solidify market leadership by outpacing competitors, and by challenging disruptors to ensure long-term survival and success. From this viewpoint, it is surprising that insurers are not more actively planning or executing strategies that take advantage of these regulatory changes to accelerate their innovation initiatives.

We believe the "knowing-doing" gap and the paths an insurer takes for the future, including leveraging the sandbox opportunities, will have a direct relationship with their innovation capacity and ability, two crucial elements of the new AM Best innovation score.

**FIG. 23**  
Gaps between Leaders, Followers and Laggards in responses to regulatory innovation developments

How actively is your company responding to these recent regulatory developments?



## Optimism for the Future

We have seen the significant impact of the COVID crisis on the growth and strategic activities last year for all three segments; even the Leaders were not immune. But what distinguishes Leaders from the others is how they were prepared and responded to the crisis. Our research suggests the pandemic could be a break-out event that permanently and definitively pushes Laggards into irrelevance, tests Followers to recommit to the future, and provides Leaders a springboard to innovate and grow.

*"Leaders are undoubtedly viewing these conditions as an opportunity to seize a competitive advantage, which is reflected in their stronger optimism for the future compared to Followers and Laggards."*

Leaders are able to take advantage of the unique conditions of the crisis that can create the springboard which sparks innovation. A recent article in MIT Sloan Management Review helps explain these unique conditions, highlighting there are "five interdependent conditions that characterize a crisis and boost innovation."<sup>8</sup>

1. A crisis provides a sudden and real sense of urgency.
2. Organizations can drop all other priorities and focus on a single challenge, reallocating resources as needed.
3. Teams come together to solve the problem with a greater diversity of perspectives.
4. The importance of finding a solution legitimizes what would otherwise constitute waste, allowing for more experimentation and learning.
5. Because the crisis is only temporary, the organization can commit to a highly intense effort over a short period of time.

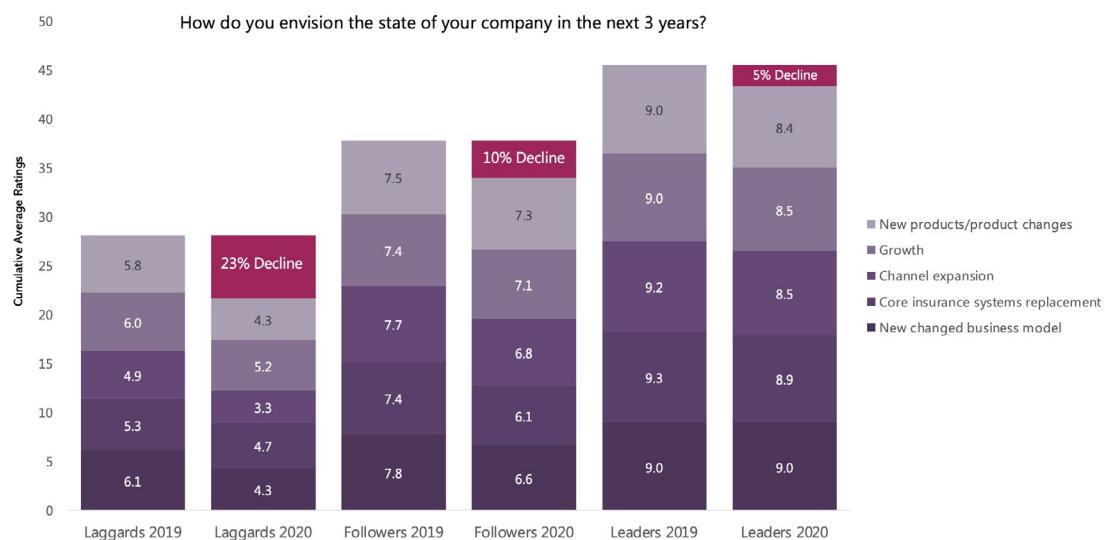
Leaders are undoubtedly viewing these conditions as an opportunity to seize a competitive advantage, which is reflected in their stronger optimism for the future compared to Followers and Laggards.

When assessing the outlook over the next three years, the impact of COVID is clear, as seen in Figure 24. Both Laggards and Followers have the same level of decreased optimism for the future as they had in the assessment of their companies' growth and strategic activities in 2020 vs. 2019, which we saw earlier in Figure 3. However, Laggards also had nearly a 25% decline in their outlook for both last year and the next 3 years whereas Followers, while less, still showed declines of 10% in both.

Leaders, on the other hand, show much more optimism. Despite a 5% decline in their future expectations compared to last year's survey, this is less than half of the 12% decline in their assessment of their companies' performance in 2020 vs 2019.

FIG. 24

COVID-19's impact on outlooks for company growth and strategic activities over the next 3 years

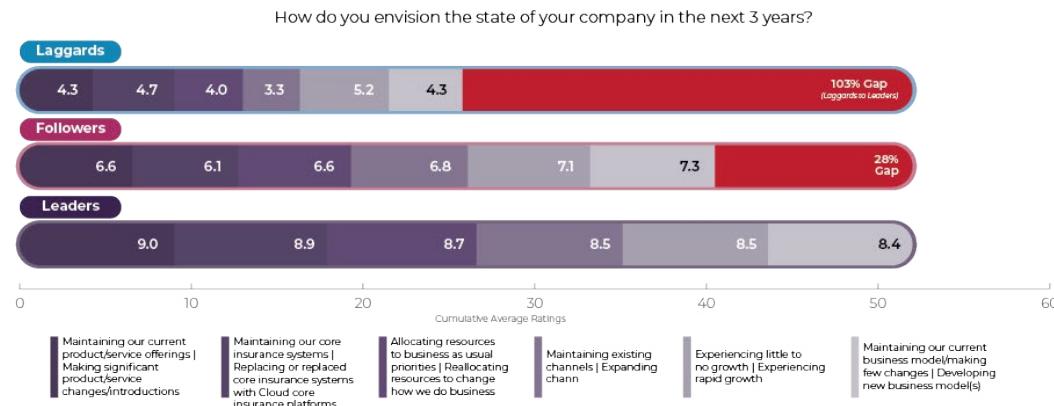


The most compelling result was a staggering 103% gap between Leaders and Laggards in how they envision their companies over the next three years, a significant increase from the alarming 64% gap on their assessment of the past year that we saw earlier in Figure 4.

While less, Followers' 28% gap does not bode well for their future and contradicts earlier evidence regarding keeping pace with the Leaders. While they may be keeping pace, the breadth and impact of what they are doing is likely not enough for the future.

FIG. 25

Gaps between Leaders, Followers and Laggards in assessments of company growth and strategic activities over the next 3 years



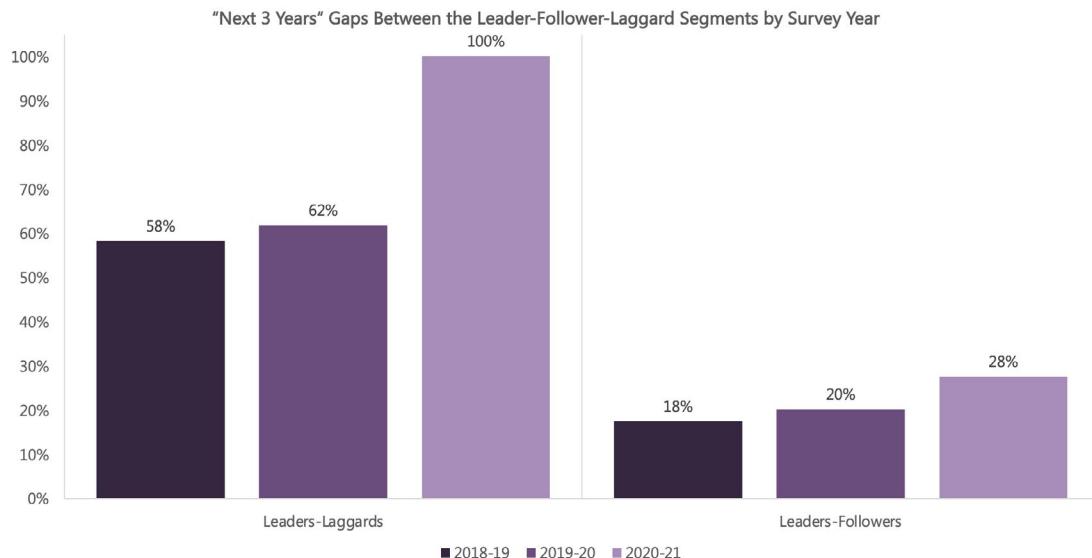
*"While not encouraging, Followers and Laggards must remember that every challenge has a solution and some of these solutions are so incredible, they give a great deal of hope for the future. They just need to plan and execute on these to create an optimistic future."*

Even more discouraging for these two segments is the continued growth in the gaps with Leaders in their optimism for the future. This is especially alarming for the Laggards, whose gap swelled by nearly 40 percentage points. (Note: For consistency with the prior years' surveys, Figure 26 does not include the new attribute in this year's survey about allocating/reallocating resources, therefore the data labels are not exact matches).

While not encouraging, Followers and Laggards must remember that every challenge has a solution and some of these solutions are so incredible, they give a great deal of hope for the future. They just need to plan and execute on these to create an optimistic future.

**FIG. 26**

*Changes in “Next 3 Years” gaps between Leaders, Follower and Laggards*



## Conclusion

*“Insurers MUST assess where they stand in terms of the various areas that define Leaders versus Followers and Laggards, because ‘business as usual’ is no longer a strategy in this time of dramatic change and pressure.”*

This second report from our 2021 Strategic Priorities research underscores the criticality of why insurers MUST assess where they stand in terms of the various areas that define Leaders versus Followers and Laggards, because “business as usual” is no longer a strategy in this time of dramatic change and pressure.

Based on the research, these three segments can be summarized as follows:

**The Leaders:** Companies that understand the market dynamics and have rapidly moved to planning and execution across most of the key areas. They are focused on a two-speed strategy by investing in modernizing and optimizing today’s business, while also investing in the future business nearly equally. They are or have moved from legacy or non-platform core to cloud platform core solutions, leveraging an array of platform, digital and emerging technologies to elevate customer experiences, launch new products, expand channels and embrace ecosystems to transform the business.

**The Followers:** Companies that understand the market dynamics but are not moving as quickly or broadly into the various areas for planning and execution. They are solidly focused on modernizing and optimizing today’s business, but less so than Leaders on the future business. While they are relatively close in many areas to Leaders, the pace of execution when looking out three years is not the same, gradually increasing the gap. Because of this, they may not recognize the danger in the gap until it is too late.

**The Laggards:** These are companies that generally understand the market dynamics but are clearly stuck in the past and have failed to rapidly move to planning and execution across the array of strategic areas. They are not moving to new cloud platform solutions, or incorporating platform and emerging technologies. They are keeping their business solely focused on the current business model, which lacks the level of automation, digital capabilities, and more, needed to meet the rising demands of a new generation of buyers. If not already, they are approaching a downward spiral of relevance that will be nearly impossible to reverse.

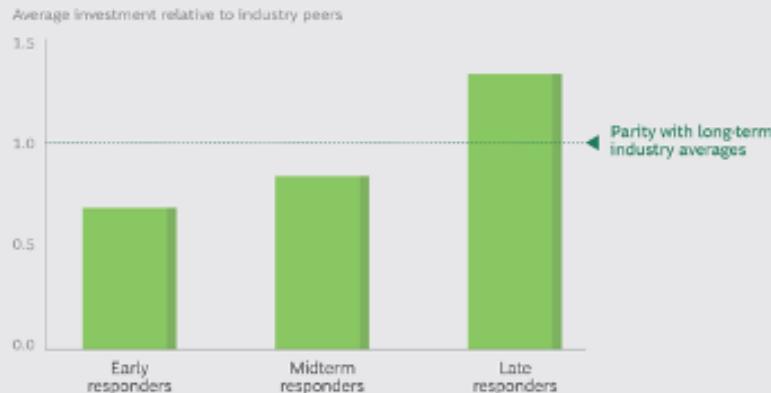
Because Leaders are so far ahead, their investment will be substantially less than Followers or Laggards who have waited, hesitated, or just moved too slowly. As seen in Figure 27 from the Boston Consulting Group research referenced earlier, the difference in investment is significant. Leaders (early responders) are at about 0.65, Followers (midterm responders) at 0.85, nearly a 25% investment increase needed, and Laggards at nearly 1.3 with nearly a 70% increased investment to gain parity with Leaders!

### Speed and early investment do matter.

The significant gaps between Leaders versus Followers and Laggards are becoming so great that no amount of resource or investment will close the gap, let alone leap over it – accelerating a downward spiral.

**FIG. 27** Impact of delaying responses to disruptions (BCG)

**EXHIBIT 2 | The Longer Companies Wait, the Bigger the Bets They Need to Make**



Source: BCG analysis.

Note: Average organic and inorganic investment as a percentage of market capitalization during disruption period / 20-year industry average of organic and inorganic investment as a percentage of market capitalization; organic and inorganic investment as a percentage of market capitalization defined as R&D / market capitalization + growth capex / market capitalization + M&A expense / market capitalization. Industry averages are the medians of industry group peers over a 20-year period that ended in 2018. Early responders: Adobe, Apple, Monsanto, Netflix, Nvidia, and VF; Midterm responders: Bristol-Myers Squibb, Charles Schwab, Domino's Pizza, Microsoft, and Samsung Group; Late responders: Best Buy, Qantas Airways, and Gannett.

*"If you are still relying on the past and pre-digital age, pre-pandemic business models and more, now is the time to reevaluate."*

Therefore, if you are still relying on the past and pre-digital age, pre-pandemic business models and more, now is the time to reevaluate.

It is time for bold moves. It is time for a remodeling project! For context consider the following:

In late 2019, Home Depot tweaked its famous tagline from, "More saving. More doing," to "How doers get more done." And, in spite of COVID-19, doers have been getting things done. Home remodeling is way up, with everything from minor remodel projects to major construction projects on the rise. Home Depot and Lowe's stock prices are up, due to a 23%-25% jump in sales.<sup>9</sup> While entertainment is limited, travel is curtailed and dining out is rare, much of the nation is taking the opportunity to rethink home life, wondering, "What can we do with this idle stretch of time that will improve our living space for the future?"

In the realm of insurance, some companies are also finding themselves in the middle of a dramatic remodeling project. What can we do with this stretch of time? Choices must be made. Which remodeling projects will modernize and optimize the business, and which ones will create a whole new business next door? The challenges facing insurers are the revised time-horizons. COVID and its digital pressures have compressed previous time assumptions. Many initiatives and investments that were slated for a 3 to 5-year path are now moved to 18 months or less, accelerating the digital transformation of insurers.

*"Our research shows that insurers who are executing on key strategic activities have significantly higher growth compared to those companies with lower strategic execution."*

For decades, the creation and evolution of insurance markets and products unfolded at a slow and steady pace. Insurers' technology, data and processes were adapted to take advantage of these opportunities – sometimes through technology updates, extensive customization or through new technology. The result of this approach was highly customized and costly systems that did not adapt quickly to market changes. They became increasingly unresponsive to market shifts or opportunities. Companies managed and lived with slow transformation because everyone was in a similar position – new products took 9 -18 months or more to build and launch. Adding new distribution channels could take 6-12 months. These long timeframes slowed and limited market, revenue and growth opportunities because not only were they long but expensive.

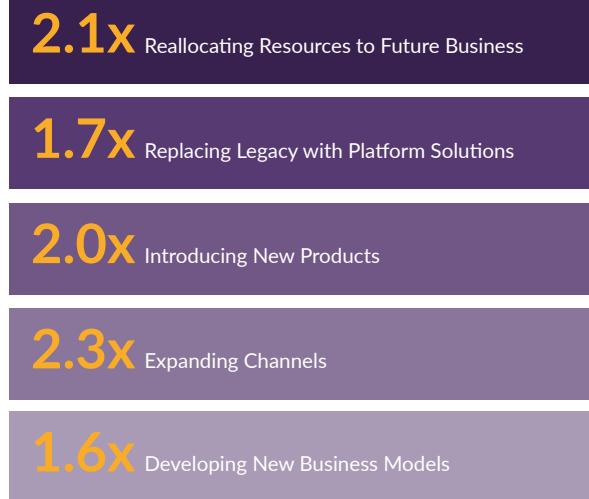
But the market is much different now. The pace is significantly different. The types of change have expanded. The constantly changing risks, customer behaviors and expectations, technology-driven capabilities, new sources of data, and blurring market boundaries have increased insurance market demands for new products and services that the old technology cannot support. Today, insurers must be able to launch new products in weeks, new capabilities in days, new channels in weeks or days, and new rates or rules in hours.

Know where you are in the Knowing-Doing Gaps, from our Strategic Priorities research, that define Leaders who are accelerating digital transformation with resilient digital business models. Then rethink and reprioritize your strategies and priorities to take advantage of the shift and opportunities unfolding. And most importantly, execute on these priorities with a sense of focus and urgency. Our research shows that insurers who are executing on key strategic activities have significantly higher growth compared to those companies with lower strategic execution.

FIG. 28

Higher levels of strategic activities are associated with higher growth

### Insurers are achieving higher growth by...



Finding the right balance between optimizing today's business and boldly creating tomorrow's business is more important than ever. Which remodeling projects are you focused on that will modernize and optimize the business, and which ones will create a whole new business next door?

Are you ready to strike that balance and rise as one of the post-crisis leaders?

What we can tell you is that the competition is focused on this and taking advantage of this idle time!

## About the Authors



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