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Insurance and Organization Practices

How US insurers can build a winning digital workforce for the future

The pandemic has brought an influx of digital talent into the market. Insurers now have an opportunity to address their shortfalls in critical roles.

by Julie Goran, Krish Krishnakanthan, Eleonora Sharef, and Kurt Strovink

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The insurance industry is facing one of the most profound disruptions in decades. Technologies including machine learning, artificial intelligence, telematics, and automation already presented challenges to the status quo across the insurance value chain. The COVID-19 pandemic has greatly accelerated that trend. Most insurance executives recognize they not only need to increase their number of digital employees by two to three times but also need to rethink the skills and profiles of this workforce. To date, however, many insurers have struggled to hire and retain world-class digital talent—the competition from tech giants and start-ups has been fierce, the insurance value proposition has not fully resonated with candidates, and insurers have been averse to hiring remote workers.

The pandemic has reshuffled the deck. The economic slowdown has resulted in widespread layoffs at many tech start-ups. At the same time, a number of financial services institutions have pledged no job cuts for 2020, making them a safe port in the storm. In addition, many insurers have embraced new ways of working—from forming virtual agile teams to emphasizing digital channels—at an unprecedented pace, demonstrating their ability to evolve. COVID-19 has also made consumers more comfortable with technology than ever, increasing the importance of digital technologies to support remote insurance advice, policy sales, and claims management.

The confluence of these developments provides insurers with a unique opportunity to make significant progress in building their digital capabilities and workforce. Four actions—evaluate remote work and location strategy, redesign the workforce plan, recalibrate the employee value proposition, and rebuild the talent acquisition engine—can position insurers to attract more digital talent.

Obstacles to competing on digital talent

Before the COVID-19 crisis, we looked at more than two million public social media profiles of full-time equivalents (FTEs) across US financial services

and insurance firms to gain insight on talent activity and performance outcomes. Using cluster analysis, we identified the number of digital FTEs and their skills across more than 120 large financial services institutions and 50 insurance companies. Two critical findings emerged.

Insurers trail other financial institutions in number of digital employees

In general, insurers significantly lag behind other financial institutions in the number of digital employees. Employees in digital roles (software engineers, designers, product managers, and data analysts) account for 8 percent of the total workforce at insurers. In contrast, that share is 36 percent at fintechs and big tech companies (Exhibit 1). Even within the insurance industry, we found a wide variance. At some insurers, digital talent accounts for 15 to 20 percent of the workforce, while at others it constitutes just 3 to 4 percent of the workforce. The disparity in absolute numbers is also stark: while big tech companies have an average of 20,000 to 30,000 digital FTEs, insurers have an average of 1,000 to 3,000.

Best-in-class insurers have more employees with technical skills

The FTEs in digital roles at insurance companies have a higher proportion of "old world" skill sets (Exhibit 2). The top skills listed by insurance employees in digital roles are Office, Excel, or project management. In contrast, best-in-class insurers have employees whose skill sets include active coding and development. Just 15 percent of digital FTEs at insurance companies list a coding language on their social media profile; that share is 60 percent at the largest insurers and 70 percent at tech firms.
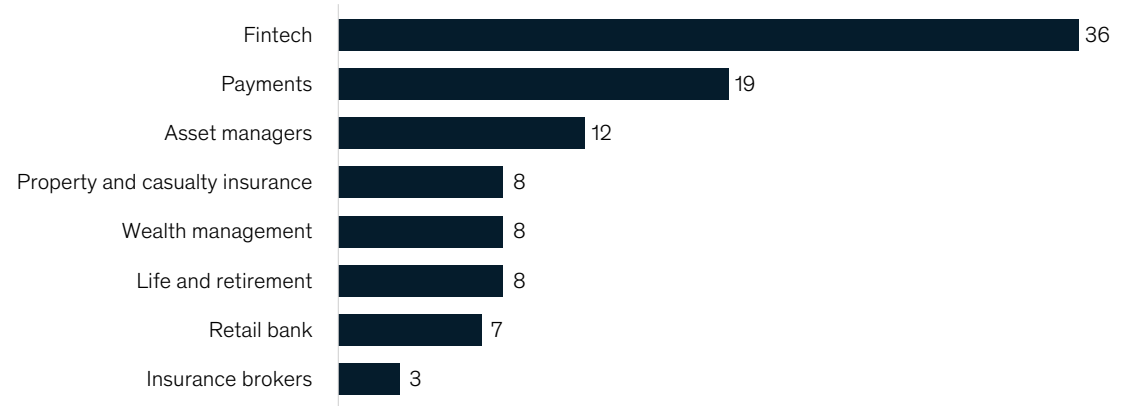
Best-in-class insurers seem to have more agile skills overall, compared with average insurers; these skills include scrum master, product owner, or sprint manager.

In general, insurers have fewer people in digital roles and these workers lack up-to-date tech and

Exhibit 1

Insurers trail other financial services companies in volume of digital talent.

FTEs in digital roles,[1] %

Fintech	36
Payments	19
Asset managers	12
Property and casualty insurance	8
Wealth management	8
Life and retirement	8
Retail bank	7
Insurance brokers	3

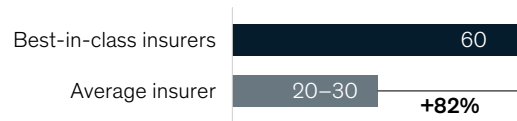Note: Figures may not sum to 100%, because of rounding.
[1]Software engineers, designers, product managers, and data and analytics.
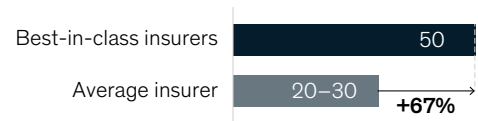Source: Glassdoor; LinkedIn; April 2019

Exhibit 2

Most insurers have an IT workforce that is not sufficiently technical.

Percent of digital/analytics FTEs who list programming as a skill[1]

Best-in-class insurers	60
Average insurer	20–30 **+82%**

Skills of best-in-class insurers

Java	JavaScript	C++	HTML

Percent of digital/analytics FTEs who list agile/modern management skills[2]

Best-in-class insurers	50
Average insurer	20–30 **+67%**

Skills of average insurers

SQL	Leadership	Office	Excel

[1]Programming languages including C++, Python, C, JavaScript, PHP, and Ruby.
[2]Skills include scrum master, agile manager, product owner, etc.
Source: LinkedIn; McKinsey team analysis

agile skills. Executives recognized this gap before COVID-19, but the pandemic has made hiring and training digital talent a top priority.[1]

The path toward a digital workforce

The influx of newly available digital workers into the market gives insurers a unique opportunity to invest in talent to accelerate their digital transformation. According to Layoff List, start-ups have laid off more than 60,000 digital employees during the pandemic. Similarly, the US Bureau of Labor Statistics reports the overall digital labor unemployment rate rose from less than 2 percent to around 5 percent. The only other time unemployment numbers reached that level was during the dot-com bubble. Even tech giants have let go of thousands of digital employees. At the same time, the number of US job postings for technology roles dropped by a staggering 30 percent in April of this year, according to LinkedIn.

Executives who want to accelerate their digital talent migration can't afford to hesitate. Insurers should take four actions to reshape their digital workforce.

1. Evaluate remote work and location strategy

The pandemic has taught companies a couple of important lessons: working from home is possible without undercutting performance (indeed, most insurers are currently experiencing a productivity bump) and being on-site together is not always necessary to maintain productivity. Some companies are choosing to create remote virtual offices—that is, choosing one additional city in which to hire digital employees. Other insurers are hiring the best employees regardless of where they live in anticipation of a permanent off-premises arrangement for a select group of workers. Many insurers are also considering how remote working can help them become more inclusive, especially for technical roles, where companies have historically had difficulty making progress.

To make this transition, insurers must reassess some established approaches and processes. For example, conventional wisdom has long held that for an agile team to be effective, all members should be in the same room. However, several insurers have recently launched agile transformations that were more effective than the in-person equivalent. For remote working to be successful, insurers will need to adjust their processes, including setting up digital teams to work remotely (leaning on tools such as GitHub), quickly ramping up new hires from any location, and training managers on how to provide feedback and support to team members they may never meet in person. Establishing standardized processes is even more important in virtual and hybrid environments.

Insurers must also adjust their norms for engagement. When employees are in the same location, email and short-form communication can be used in a transactional way. However, when these channels represent the whole of a team member's interactions over the course of a day, insurers must be not only prepared to establish new norms for communication, decision making, and data sharing but also deliberate about norms guiding the use of certain tools (for example, when to favor Slack instead of email). Other tasks, such as shipping code into production, performing remote quality assurance, and promoting remote agile development, might need to be reengineered. Insurers will also need to overcome other challenges such as building and maintaining a culture virtually and onboarding new employees. Last, replacing daily in-person routines that are vital to company culture and team cohesion will also require a sustained commitment.

2. Redesign your workforce plan

Many hiring managers conduct workforce planning at a macro level—that is, they focus more narrowly on annual attrition numbers and recruiting estimates. However, they rarely link these metrics

[1] Tanguy Catlin, Ari Chester, Julie Goran, Megan McConnell, and Scott Rutherford, "Transforming the talent model in the insurance industry," July 6, 2020, McKinsey.com.

Carriers should take the time to assess not only what skills are needed now but which ones will be valuable to the company over the long term.

back to overall business strategy. This approach means leadership and skills gaps are often unidentified. If issues are detected, there is no plan in place to address them—and when issues are identified, they are after the fact and difficult to change because of annual, analog processes. Carriers should take the time to assess not only what skills are needed now but which ones will be valuable to the company over the long term.

Guided by the company strategy, insurers should develop a comprehensive view of the future workforce to guide hiring decisions. Carriers can ask several questions:

— What should the overall size of the organization be?

— How many people should be in each function?

— What skills do we need to support our future strategy? Do I need to hire? Can I upskill? Rent workers?

— How do these skills change under different business scenarios?

— What is the overall gap or excess we have, by skill and by role?

The answers to these questions will help insurers develop a workforce plan that algins with the organization's objectives and focuses on the specific skills that digital candidates should have to support business growth.

3. Recalibrate the employment value proposition in today's market

The elements of a company's value proposition that digital employees prioritize have changed drastically. Job security has taken on added importance, so insurers can emphasize the industry's stability and back it up with proof and data. But more important their value proposition resonates more today: insurers have been at the forefront of protecting people, helping individuals provide for their families in this time of need, and creating a backstop in uncertain times. For example, data scientists can help "crack the code" on how to provide insurance quotes without doing in-person medical testing (in line with physical distancing goals). Finally, when possible, organizations should introduce developers to ways they can give back—for example, coding for a good cause and open-source programming that can help COVID-19 relief efforts.

Insurers also have the chance to reset the narrative and perception of the industry by focusing on the integral role it has played in helping organizations and individuals manage risk and support change. For example, various insurers have committed significant amounts to nonprofits helping in COVID-19 relief efforts and many P&C insurers have also offered to return auto premiums or give policy credits to eligible personal lines customers. Finding ways to

highlight such moves and integrate corporate social responsibility into the value proposition will have a profound impact on hiring.

4. Rebuild the talent acquisition engine to hire top talent remotely

In response to the pandemic and resulting economic slowdown, many organizations have announced deep cuts to talent acquisition, HR, and recruiting teams. Such moves can be counterproductive. In our experience, HR teams play a crucial and strategic role today.

This moment of inflection can lead to new ways of thinking about workforce planning, new questions about how to successfully support a remote workforce, and new opportunities to hire the best talent. HR will play a critical role in taking advantage of those opportunities. Thus, insurers should rethink the role of HR, craft more strategic value-added roles, and reimagine how HR teams can work with their internal business partners.

Paving a path forward

To attract top digital talent, organizations will need to reexamine some of their entrenched beliefs. Several questions can help guide these efforts:

1. What is our long-term remote work and location strategy? Where do we envision locating our teams, and what are the implications?

2. What is our workforce plan for the future? What are the skills gaps we need to close to reach our future strategy, and how does the current moment in time affect our thinking?

3. How can we recalibrate our employment value proposition to meet the moment? What are candidates today looking for, and how can we uniquely position ourselves in line with that?

4. How can we adapt our HR teams to execute against this strategy?

The answers to all of these questions will have a direct impact on culture, another important element in the overall value proposition.

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After struggling for years to close the digital talent gap, insurers suddenly find themselves in a position to make significant progress. The window won't be open long, so executives should mobilize quickly and focus their attention on enhancing their workforce planning capabilities and employment value propositions now. They can't afford to let this opportunity slip by.

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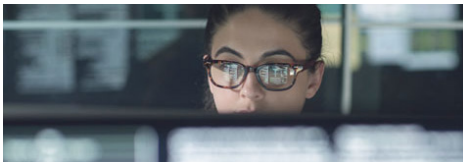McKinsey's Insurance Practice publishes on issues of interest to industry executives.
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