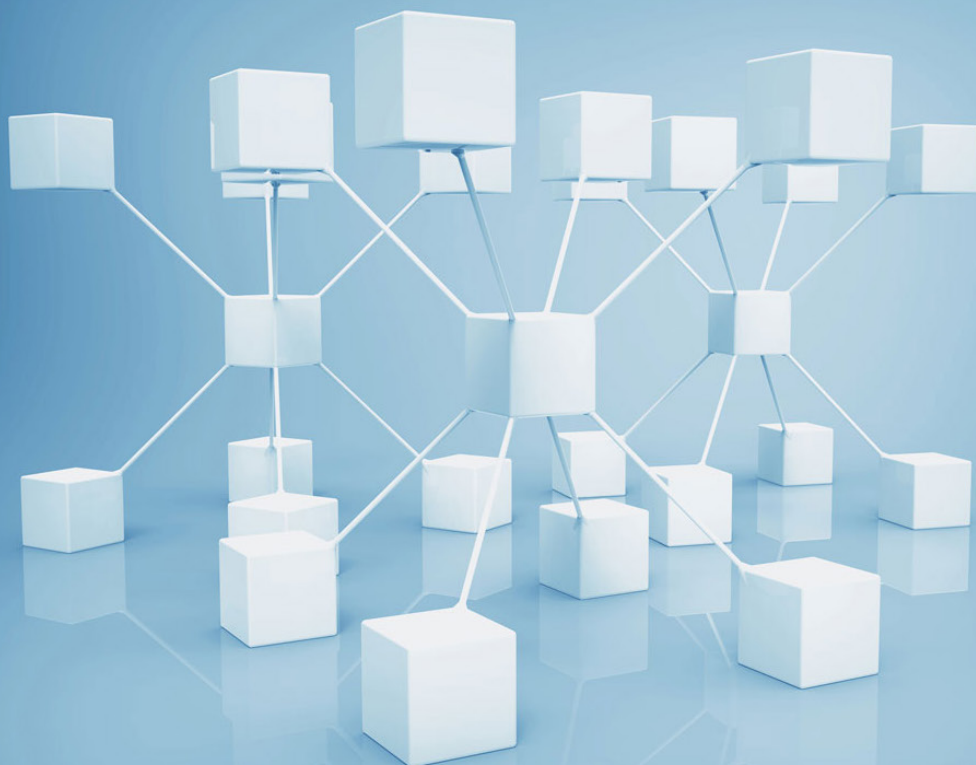


Insurance Practice

Scaling agility: A new operating model for insurers

Industry-leading insurers have proved enterprise-wide agility delivers the innovation and change incumbents need. The COVID-19 crisis has also highlighted the need for organizational change.

by Johannes-Tobias Lorenz, Deepak Mahadevan, Batu Oncul, and Mehmet Yenigun



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For many insurance carriers, launching new products can take several months. First, a product manager opens a project request, which takes the central project-management office several weeks to analyze. The office then appoints a business analyst to identify requirements, develop a business case, put the products into the pipeline, and allocate IT resources. In the meantime, actuaries build risk models, marketers design launch campaigns, and operations specialists prepare the underwriting and claims processes. These machinations are the start of a long journey involving at least six different departments while customers wait for their needs to be met.

Now, imagine a small cross-functional and agile team consisting of multiple actuaries, a marketer, a customer-journey design expert, a data scientist, and several software developers set on delivering new products and increasing sales through digital channels. This team does not dissolve after its project mission is completed; it continually maintains the product, collects customer feedback and improves customer journeys, and aims to improve its sales until other strategic priorities emerge.

One large European insurance company asked such an agile team to launch a new suite of digital insurance products. It developed the value proposition, pricing, and technical setup for two of the five highest-priority products. After four weeks, the team had minimum viable versions of both products ready for launch on the website. Once these versions went live, the team quickly gathered feedback from the customers and continuously made improvements, and during the following eight weeks the team launched the remaining three products. This team was one of more than 40 cross-functional agile teams that—following a multiyear, enterprise-wide agile transformation—were set up to permanently replace the previous functional organizations and run the business.

The concept of enterprise-wide agility is not new; many technology companies and service-industry leaders—particularly those in banking and telecommunications—have adopted it. More insurers are now turning to agile methods as they try to adapt to rapid industry changes. And COVID-19 is accelerating many of these recent structural shifts.¹ For example, customer expectations are evolving to include more digital, seamless, and multiaccess experiences as well as fast and reliable responses during the few moments of truth, such as in sales and claims.² As insurance products become increasingly commoditized, profit pools are eroding or shifting. Macro shifts in the workforce are emerging sooner than expected with remote-working models and a rising need for new capabilities, including data analytics.

The call for an agile operating model for insurers has never been clearer. While this multiyear process is complex, scaling up agile practices is not exceedingly difficult. To do so, insurance companies must break silos and move beyond singular agile teams to reap the full benefits of enterprise-wide agility.³ This requires deciding what the organization will solve with agility, redesigning the organization as a network of small empowered teams, and deploying agile governance and processes. The agile transformation also involves rethinking the people model in a nonhierarchical environment, and modernizing core technology components.

The case for adopting enterprise-wide agility in insurance

Traditional insurers' functional and hierarchical operating models are set up to succeed in relatively stable environments and are increasingly becoming outdated. These models were already posing challenges for insurers before the COVID-19 pandemic emerged. As they organize for the next normal, it will be critical for insurers to get faster,

¹ For more on the effects of the COVID-19 crisis on insurers, see Ramnath Balasubramanian, Krish Krishnakanthan, Johannes-Tobias Lorenz, Sandra Sancier-Sultan, and Upasana Unni "Restore and reimagine: Digital and analytics imperatives for insurers," May 14, 2020, McKinsey.com.

² For more, see Simon Kaesler, Michael Krause, and Johannes-Tobias Lorenz, "The multi-access (r)evolution in insurance sales," April 1, 2020, McKinsey.com.

³ For more on agile principles, see Wouter Aghina, Karin Ahlback, Aaron De Smet, Gerald Lackey, Michael Lurie, Monica Murarka, and Christopher Handscomb, "The five trademarks of agile organizations," January 22, 2018, McKinsey.com.

leaner, and more effective.⁴ Agility helps on all three counts. Agile organizations are designed to minimize handovers and maximize accountability on missions, allowing them to launch new products or update new pricing models up to five times faster. With business and IT working closely as a single unit, they spend less time on alignment, syndication, and decision preparation.

In addition to shortening time to market, agility can help delayer organizations, simplify governance, and deliver operational efficiency. One European insurer reduced the number of hierarchical layers in its organization between its CEO and entry-level employees from seven to three (Exhibit 1). As a result of creating this agile organization, the insurer was able to reduce its number of management committees by 30 percent. Also, its agile operating model design enabled the insurer to achieve 20 percent operational efficiency.

As a result of being faster, leaner, and more effective, agile ways of working typically lead to improved customer satisfaction and employee engagement. An Asian insurer, which completed its agile transformation, increased its customer-satisfaction scores by nearly 20 points while also raising average employee-engagement scores across its tribe members by more than 20 points after one year of agile operation (Exhibit 2).

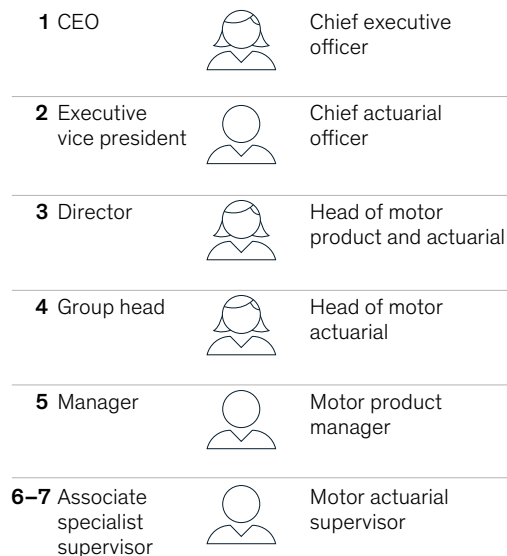
Companies that adopt agile practices also tend to do a far superior job of adapting to remote ways of working, which have been critical during the COVID-19 pandemic. Small self-managing squads are a good recipe for remote work. Weekly agile ceremonies (planning meetings where teams set expectations and collaborate) and daily virtual huddles allow for superior vertical and horizontal alignment within teams. They also maintain high levels of transparency through fast-changing

⁴ For more, read Wouter Aghina, Christopher Handscomb, Jesper Ludolph, Daniel Rona, and Dave West, "Enterprise agility: Buzz or business impact?" March 20, 2020, McKinsey.com.

Exhibit 1

Organizational delayering is one end result of an agile transformation.

From traditional organization . . .



. . . to agile organization

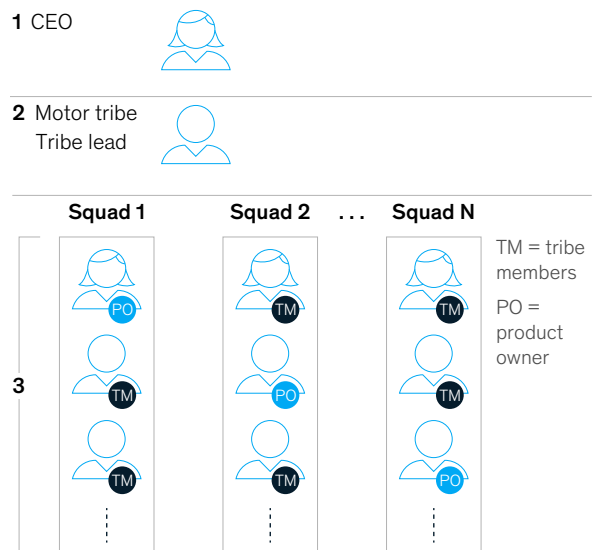


Exhibit 2

Agile companies show superior operational, health, and financial results.

Time to market, months

5–7× faster

Productivity

**20–30%
improvement**

Customer-satisfaction score

**20–30 p.p.
improvement**

Employee-engagement score

**20–25 p.p.
improvement**

Note: p.p. = percentage point.

market conditions with regular virtual meetings and digital collaboration tools to plan sprints, conduct review sessions, and prioritize and manage backlogged items.

Without agile methods embedded in their enterprises, however, many of today's insurers are not ready to face the challenge of the next normal. To determine the need for an operating-model transformation, executives of insurance companies can work through this set of questions with their executive teams:

- Is there constant confusion around ownership and responsibility when trying to deliver end-to-end business objectives that cross functions? Do these endeavors often lead to additional unnecessary management structures such as shadow committees and task forces?
- Does delivering the most critical solutions—namely, customer journeys, products, and analytical models—require multiple handovers and therefore long lead times?

- Is the organization overlayered or overstaffed (especially at middle management), creating inefficiency, excessive time spent gaining consensus, and loss of accountability on core business objectives?
- Do the organizational culture and leadership approach make it difficult to collaborate across units, hinder fast decision making, slow down the pace of experimentation, and decouple decision making from facts and data?
- Is the organization finding it difficult to attract the talent that it needs to win in a competitive environment?
- Is the technology infrastructure built in a monolithic way that does not support the speed and flexibility required to keep up with tech giants and insurtechs?

If answers to some or most of the questions above are a resounding “yes,” the insurer should strongly consider a shift to an enterprise-wide agile

operating model to deliver on its strategic objectives and achieve business results.

Redesigning a fluid insurance organization focused on customer missions

When embedded across the insurance value chain, agility can help insurers improve their customers' experience. They can use two main agile building blocks to do so: cross-functional tribes and self-managing teams.

Cross-functional tribes

An agile, cross-functional tribe structure is ideal for delivering change initiatives. These tribes provide and unify all the resources necessary to deliver on their missions. While they are responsible for managing the business, and building and maintaining product and services, they typically do not run the day-to-day operations. Their obsession is improving how the customer is served and they possess all the capabilities needed to fulfill their missions. A product tribe may develop new products, maintain customer journeys on various sales and service channels, drive penetration in the market, and manage a customer portfolio. An after-sales tribe can, for example, work on improving the effectiveness of indemnity management, improving central procurement for certain spare parts, automating internal claims operations, or designing a new digital first-notification-of-loss journey.

Self-managing teams

While tribes are managing the business, delivering change, and improving how products and journeys are delivered, agile self-managing teams can run everyday operations. These flat, multiskilled teams distribute work within itself. These teams can run sales operations in the field, run claims operations, run the underwriting processes, and answer customer calls. Their ultimate objective is to run operations flawlessly and as tribes have designed it

for them, while meeting relevant key performance indicators (KPIs).

In one European insurance company, the claims handling department adopted agile ways of working by, for each type of claim, combining all activities, including claims handling and call center operations, under the same team. These teams have all the skill sets needed to process one type of claim from end to end, and are accountable for results. Each of these teams has clear KPIs and service-level goals, and works without a formal team leader to achieve them. Unit leaders and agile coaches helped the teams continuously improve their operating model. The result was increased customer satisfaction through end-to-end ownership, higher productivity, and efficiency with fewer handovers across teams and more “doers” within the team, and more-motivated employees by giving them the authority to make decisions.

Given these agile building blocks and an organization's overall objectives, insurers need to answer several design questions as they define their aspirations and desired organizational architecture. The following questions are not exhaustive but are a good starting point for all insurers as they start this journey:

- Will the tribes be built on product lines, customer journeys, customer segments, or sales channels? How will the organization architecture work based on how the tribes are designed?
- How will we approach digital channels and digital transformation? Will we incubate them as a separate tribe or tribes, or embed these missions into existing tribes?
- How will we design the link between “change” tribes and “run” self-managing teams? Should we directly link corresponding units or group all “run” elements under a single umbrella for efficiency benefits?

- How will we organize our sales self-managing teams? Will we assign them by channel, region, or product?
- How do we keep our functional edge while distributing functional elements into permanent tribes?

The answers to these questions are not straightforward and will vary by insurer. However, two guiding principles should always hold true. First, the organization design should minimize handovers to enable faster delivery and improved accountability. Second, the design should allow for economies of scale and avoid duplication of resources. From the very start and before the insurance organization embarks upon a multiyear, enterprise-wide agile transformation it is essential for company leaders to agree on an end-state vision. That vision, which includes how these agile building blocks should come together, should be in service of creating a better end-to-end customer experience (Exhibit 3).

The nuts and bolts of insurance tribes

Today, many traditional insurance organizations are built on functional domains, which helps ensure technical excellence for each business line. During the past two decades, this approach has indeed resulted in function-based innovation, effective sharing of best practices, and tighter control over standards. However, easier access to data and information have diminished the advantages of functional experts working in separate silos. In today's fast-paced, omnichannel, and "always on" market environment, it is nearly impossible for insurers to deliver seamless and comprehensive experiences that customers want without breaking down functional silos. This is precisely why most insurance companies begin their journeys toward agility with cross-functional tribes.

In a nutshell, the delivery organization is split into tribes where full accountability is given to the tribe lead (Exhibit 4). The tribe lead is responsible for effectively delivering the mission with the help of squads. A squad is a cross-functional team

Exhibit 3

An agile insurer built its organizational architecture based on customer journeys.

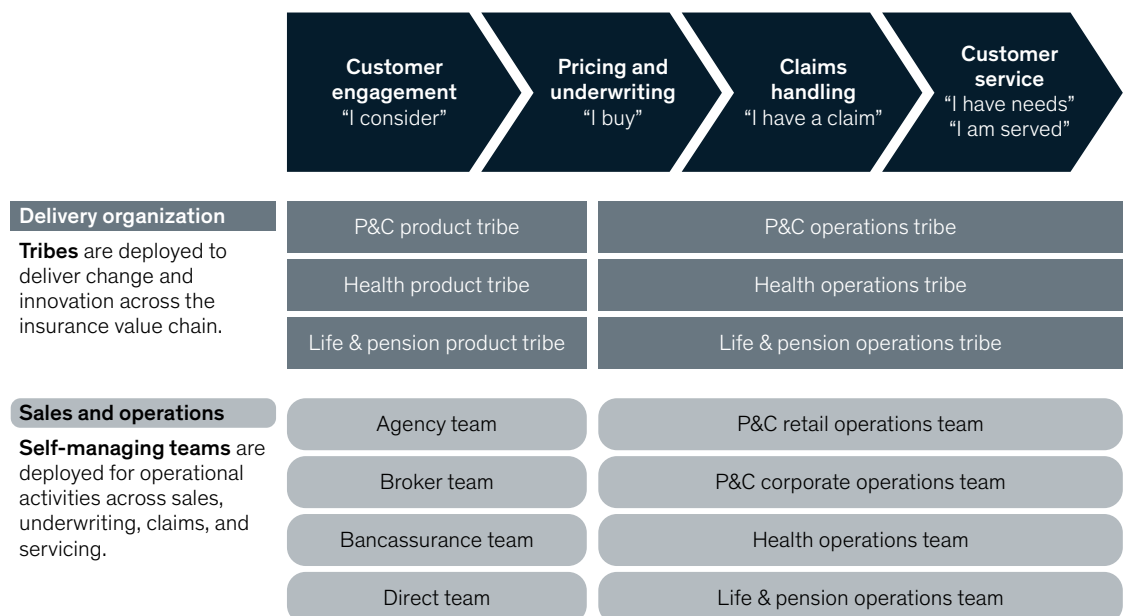














































Exhibit 4

Tribes are the delivery centers of insurers.

	 Tribes lead	 Agile coach				
Example product tribe	New acquisitions squad	Renewals squad	Onboarding journey squad	Business development and innovation squad	Customer portfolio management squad	Other squads
Product and actuarial chapter	 	 				
Marketing chapter					 	
Data chapter	 			 	 	
Engineering chapter	  	 	 	  		
Other chapters						

Product tribe

Is a fluid structure assembling and dissolving squads depending on where the value is coming from

Tribes lead is fully responsible for business results and established priorities, allocates budgets, and forms interfaces with other tribes

Agile coach coaches individuals and squads to create high-performing teams

Squads

Comprise no more than 9 people, are self-steering and autonomous

Include representatives of different insurance functions

Have end-to-end responsibility for achieving commercial missions and specific set of objectives and key results

Work with start-up mentality in a nonhierarchical structure

Product owner is responsible for managing product vision and backlog, not teams

Chapters

Drive craftsmanship development as well as best practices and controls across squads

Provide a stable community for functional experts to belong to

Chapter lead is responsible for personal development, coaching, and professional management, in addition to squad role

accountable for an end-to-end mission based on tribe objectives. Squads minimize dependencies with nontribe functions and maximize autonomy within tribes—they have the authority to launch new services and products, change prices, and make in-budget purchases.

Squad members come from multiple functions, forming chapters within the tribe. Chapters are essentially capability houses, similar to functions within traditional organizations. Insurance tribes

typically have several indispensable chapters that ensure best-practice sharing and compliance with functional standards across the organization. For example, product and actuarial resources bring product and pricing know-how to the tribe, while the marketing chapter manages the above-the-line and below-the-line campaigns and customer experience. The data chapter includes resources such as data engineers, architects, and visualizers who help multifunctional squads use analytics as an enabler. Lastly, the engineering chapter brings in

software-development capabilities that help squads deliver software solutions from idea to execution. Other resources may be in the form of additional chapters or flow-to-tribe depending on the tribe mission and priorities.

Chapters ensure tribes have the functional excellence insurers have always required, and squads ensure they have the flexibility and agility they need in the next normal. Tribes are the delivery centers of insurers, defining how products will be marketed and distributed, how they will be priced and underwritten, and how customers will be served in line with the company strategy.

For any insurance company this organizational structure of squads and chapters is at the heart of agile transformation, but it is only one piece of the puzzle. Insurers that undergo such a journey must also redesign their processes around agile principles; develop an entirely new talent model

to fit their new, flat organization; and establish their technology foundations to operate in an agile way (Exhibit 5). This is a long journey that requires serious commitment and continuous collaboration across multiple departments.

Where and how to begin?

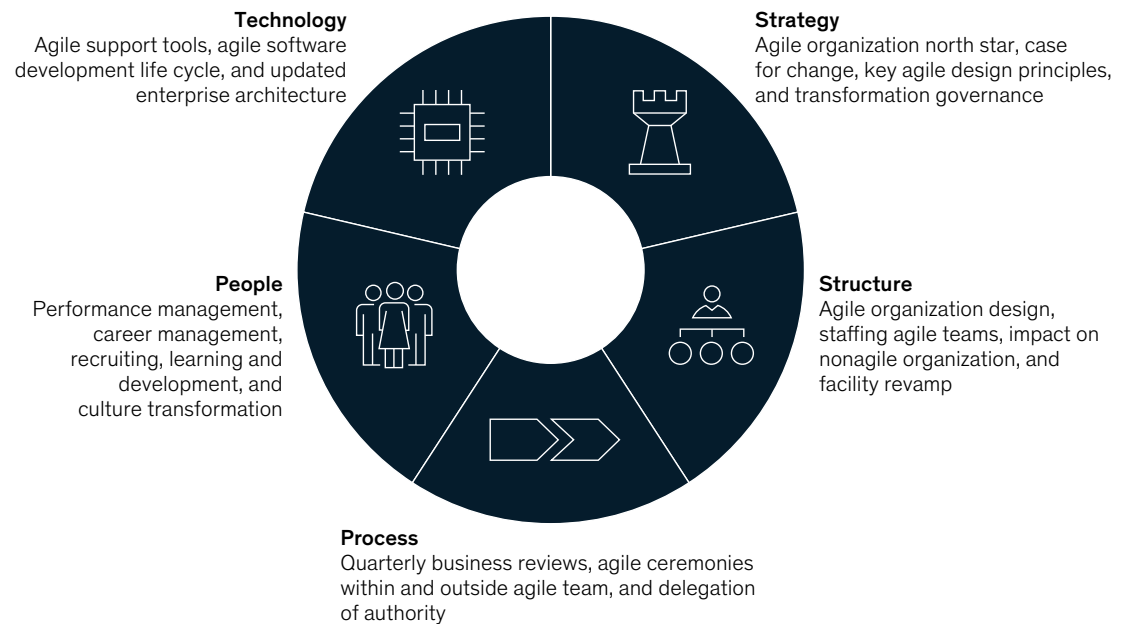
As with most large-scale transformations, there is no single or correct path to the end state.⁵ However, several steps can certainly increase the rate of a successful outcome.

Set a “north star” from the beginning. Agile transformation is a multiyear journey that requires full buy-in from the leadership team; it must set a vision from the beginning and be engaged in every step of the process. The transformation team for one European insurance company conducted a diagnostic survey across its top 30 executives and gathered them in a workshop to analyze results and

⁵ For more, see Daniel Brosseau, Sherina Ebrahim, Christopher Handscomb, and Shail Thaker, “The journey to an agile organization,” May 10, 2019, McKinsey.com.

Exhibit 5

A holistic enterprise-wide agile transformation needs to cover many dimensions.



gain support for an agile transformation. After four full-day executive committee workshops and two visits to other companies that have gone through similar journeys, the whole executive team got on board with the end-state vision for the organization and how to get there.

Start with a small front-runner tribe. Adopting agile at an enterprise level from the start is a challenging undertaking; rather, insurers should begin the journey with a single front-runner tribe before scaling it across the organization. A typical front-runner covers an end-to-end business—such as the home insurance product line—including functional areas such as product management, pricing, marketing, data, engineering, design, as well as claims, operations, and sales. The front-runners should be comprehensive and bring the model to life in its entirety with all necessary agile elements; they shouldn't just be testing few agile ceremonies.

These front-runner tribes should be designed to impart “what enterprise-wide agile will feel and operate like” to let the organization digest this transformational change. They should not be set up to test if agile ways of working are appropriate, which is why many organizations have stopped referring to these as pilots. A good front-runner tribe is sizable and has a well-aligned leadership team. For example, one insurer decided to pick one of its biggest lines of business where it saw a high growth potential as the front-runner tribe. During that experience, company leaders gained invaluable lessons on how to design agile ceremonies and performance management processes that best fit the company culture.

Learn from front-runner tribes and then scale agility across the organization. Agile transformations acknowledge that not everything can be known and

planned for and that the best way to implement is to adjust as you go. With lessons from the front-runner tribe, agile transformation teams can iterate the design to better fit the insurer and scale across the organization either instantly (launching all remaining agile units at once) or stepwise (spreading the launch of agile units according to a time frame). One insurer, for instance, monitored the performance of its front-runner tribe for six months, made several changes to its “tribe design blueprint” based on the observations and then launched four other tribes in the course of another six months.

Do not wait to transform human capital, including capability building and hiring. Agile requires new skills and capabilities⁶—including a growth mindset, performance orientation, and empowerment—that do not often come naturally to those who are steeped in traditional operating models. Insurers should therefore focus on rapid upskilling and hiring top talent to fuel tribes. Following the launch of new tribes, one insurance company developed individual learning programs for its agile coaches, product owners, and chapter leads. It also put its executive team through an agile leadership learning journey to help the team role model agile behaviors. Finally, it introduced new and diverse talent to the tribes when it hired ten “superstar” product owners. These new product owners, coming in from the likes of banking, telecommunications, and technology, brought the much-needed new blood that agile organizations typically require.

Focus on culture from day one. Cultural transformation takes much longer than organizational change, so insurers should initiate a culture program from the very beginning. One insurer defined the key behaviors it wanted to change across the whole organization and created a nine-person cross-functional “culture squad” that

⁶ For more, see Deepak Mahadevan, Christopher Paquette, Naveed Rashid, and Evgeny Ustinov, “Building agile capabilities: The fuel to power your agile ‘body,’” August 23, 2019, McKinsey.com.

includes one representative from every company function (agile or nonagile). The culture squad's sole job is to catalyze cultural transformation by encouraging specific behaviors in the organization. After one year, the team deployed a leadership development journey, a brand-new performance management system, and a communication strategy that inspired conviction in an agile operating model.

Many insurers are finding that enterprise agility gives them the upper hand in meeting customer expectations, improving time to market, creating efficiency, and increasing employee engagement. Front-runners are already seeing results; many others are following. Now is the time to organize for the future.

The insurance industry is undergoing tremendous change at the start of the next normal. Smart business strategies are critical to succeed in this environment. But with their traditional, siloed, hierarchical operating models, many large incumbents are in danger of failing to deliver strategies set by their executive committees.

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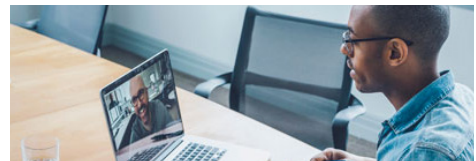
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