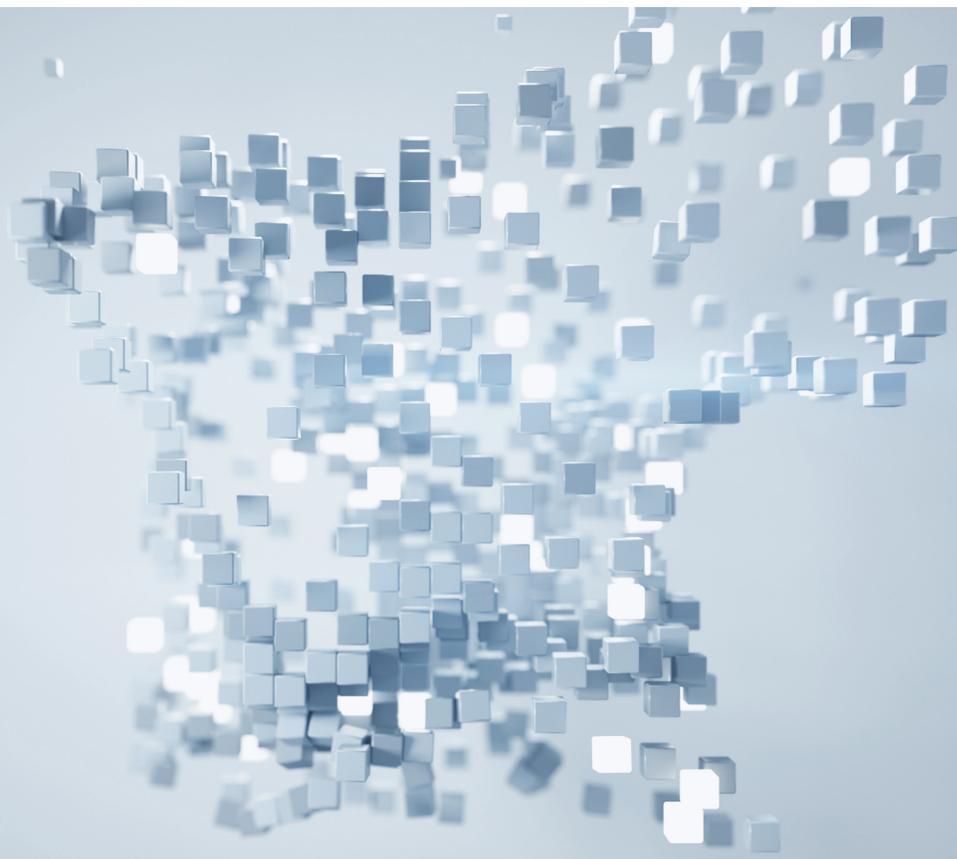


Insurance Practice

Reimagine insurance: Five keys to innovation

The pandemic could usher in a new era for the global industry, with implications for strategy and organization. McKinsey's three regional practice leaders share insights on what the future holds.

By Stephan Binder, Brad Mendelson, and Kurt Strovink



Insurers around the world have scrambled to weather the sudden disruption brought on by COVID-19. Many were able to quickly adapt to their new reality, from transitioning to remote-working arrangements to embracing digital technologies for customer engagement. Such sweeping change—for example, several years of digital acceleration accomplished in a matter of months—has the benefit of freeing organizations to embrace new ways of working. Leaders should not miss their chance to push even further for innovation and pursue bold strategies.

McKinsey senior partners Stephan Binder, Brad Mendelson, and Kurt Strovink have had discussions with hundreds of insurance leaders since the pandemic began. In this virtual roundtable, they weigh in on five strategic factors that could have an outsized impact on innovation in the industry during the recovery and share insights from the Asian, European, and North American markets.

How the pandemic has forced CEOs to evolve

Kurt Strovink: Broadly, there have been four shifts. I would describe the first one as “aspire 10X higher.” It’s the idea that CEOs are pushing, appropriately, for broader change in their companies in terms of extent and speed. They are rethinking business models, distribution, and cost innovation.

Second, the CEO role is focusing more on “to be” versus “to do.” Executives are focusing on what it means to be an emotional leader in an organization where people need different things than they might have before. One CEO said, “I feel like my role is more ministerial right now, that I actually have an obligation to my people in a different way than I might have had before.”

Third, CEOs are much more open to a broader notion of stakeholder capitalism that includes multiple groups: employees, government, suppliers, boards, shareholders, customers, and communities. That is changing the way they think about their obligations to customers and to society.

Fourth, it seems CEOs are spending more time with one another across industry boundaries—up to a threefold increase. They’re looking for CEOs who are making changes in response to COVID-19 across industries, and they’re comparing notes much more. Examples include insurance CEOs learning from the pharmaceuticals sector on analytics and distribution, and from high tech regarding distribution and agility.

Stephan Binder: The pandemic has forced CEOs to be much more engaged, and to reemphasize top-down leadership. While that’s true for every crisis, the characteristics of the current crisis make this shift even more imperative. But this crisis is not just an economic crisis; it’s bringing new operating models, changing consumer behaviors, and the acceleration of existing trends.

Every crisis calls for great leadership. CEOs see things they thought would take five or ten years happening in two years, and that presents an enormously difficult challenge for these large organizations. CEOs who provide strong, engaged leadership can help their organizations get through these situations and be successful in a rapidly changing environment.

CEOs are also focusing much more on the role of technology in their organizations. This can’t be done in a decentralized way; it will require more leadership from the top in terms of defining what the technology journey looks like. The investments are very costly, and the time periods needed to make them can be quite long. There’s no margin for error, so very strong leadership is a must. That’s difficult because many of these technologies are new, and many CEOs have to figure them out for themselves.

Brad Mendelson: As we’ve talked to CEOs, a number have said they actually feel better connected to their organizations today than they did prior to the pandemic. That has a lot to do with the ease with which they are able to communicate with employees. One CEO mentioned that previously he would have to travel to a location, and it would be a big production when he arrived. Now he can just schedule video calls

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—Brad Mendelson

with various locations and do it more informally, more quickly, and with greater frequency.

Another CEO mentioned that she’s able to skip levels much more easily. This ability to connect with multiple levels of the organization, understand what’s going on, and feel the pulse of the organization has been surprisingly good, if not better, in this environment, she said.

Numerous CEOs have said they are going to rethink their travel schedules coming out of the pandemic. They’ve been amazed at how much time has been freed up in their diary from not living on a plane and in airports. You’re never going to fully replace the need to be face to face and the personal connection that’s created, but I think you’re going to see many CEOs opt for less travel and more remote interactions with their employees.

Rethinking the operating model

Brad Mendelson: Insurance has historically been a very relationship-oriented business and relationships among employees have been quite important. Think about the interactions between underwriters, product folks, executives, brokers, agents, and bank partners. Insurers are finding they are able to maintain and build those relationships remotely.

We’re also going to see some element of remote work infused into the operating models of almost all insurers. I don’t think all employees are going to go completely remote, but we do think there’s

a real opportunity for many employees to spend part of their week working from home. We’ve heard from employees and management teams that this flexibility is hugely helpful for employees as they look to manage their lives. It has a neutral, if not positive, impact on productivity, so insurance companies are going to be willing to embrace this model going forward.

We also see insurers embracing agile practices across the enterprise. Companies have been forced to adopt flatter organizations and faster decision making during this pandemic. Many executives have told us they have been impressed by how quickly their organizations have been able to gather the relevant facts, get the right people together from across the organization, and make decisions. This is what enterprise agile is all about. We’ve seen increasing interest among insurance carriers around how they make these benefits stick, and how they expand them across their organizations. Agile is the way to do that.

Stephan Binder: Insurance is a little less intense than many industries in terms of constant interactions with customers, so companies have looked to create a different way of interacting with customers that flows all the way through the organization. If you have more digital interaction at the front end that requires simpler products and processes, then it’s also much easier to automate tasks on the back end to improve performance.

The bancassurance model in most places has relied on customers physically visiting a branch and being

addressed by a bank employee. This model can't work anymore: in Europe, around 50 percent of branches closed at some point during lockdowns. It's very unclear how many are going to reopen as customers are quite comfortable using digital channels, and banks are under major cost pressure. Similarly, having an insurance agent in your living room is not really a high priority for most people, so we will be in an environment where face-to-face channels will be continuously disrupted because people want to interact remotely.

Kurt Strovink: To pick up on Stephan's insights, one of the main things insurers can do is to think about digital acceleration in multiple forms. This is playing out with a number of firms leaning into core tech. They're pulling forward many of their investments on the technology side. Things that were happening in a four-year road map are happening in year one now.

There has also been a lot more focus around agile development in different forms. New ways of working and formal programs are being introduced that are not just in the IT area, but for the whole workforce, and they are digitally infused for the first time.

Reimagining distribution and new product development

Stephan Binder: Some of the polls we conducted on recent webinars asked, "In which area of the value chain and in which part of the business do you expect the biggest impact?" The consistent

answer has always been, "In distribution." And when we asked, "Are more people switching channels to direct or do customers want to interact more digitally in a hybrid way within current channels?" the answer was always "All of that." So there's massive change there. Everyone was expecting to see a strengthening of direct channels, but there will also be a change within channels—through agents, through banks, and how customers interact with insurance.

In this crisis, people also realize the importance of reliable information. So we see the value of brands is increasing again. Insurance is a business of trust: it's about long-term savings and protection when a crisis hits. Therefore, advice will become even more important, and the way it's delivered is changing quite rapidly. And in distribution, agents and brokers are facing massive change in how they acquire customers, advise them, and support these interactions with the right technology.

Kurt Strovink: One of the areas of greatest innovation is distribution—around remote wholesaling, remote advisory, opening up new channels, and digitally enabling sales forces. In North America, a lot of firms are looking at their core distribution strategies and how they're going to evolve. A number of companies have a remote model today that's probably 10 or 15 percent of what they do, and they are exploring what it could look like if they take it to 50 percent or more.

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On the product-development side, there's also a lot of innovation, especially on the life and annuity side and the retirement side. That's particularly true in product categories where the low interest rate environment makes many current products unprofitable. Insurers are thinking about the different ways in which they can construct these product portfolios to account for lower rates. The market dynamics and shaping factors differ by region, putting pressure on distribution.

Brad Mendelson: Coming out of the pandemic, product innovation is going to be a big priority. Product development and innovation have not historically been strengths of the industry. It's really been driven more from a financial and actuarial standpoint and influenced by the needs of distribution. Many carriers are now starting to think about how to flip that a bit to make product development driven by the emerging needs of customers and how to get much more systematic about embedding customer insight into product innovation.

We're encouraging carriers to look at how digital companies manage their products. They have a very sophisticated approach which leverages a product manager, who's really a mini CEO for that product. They use agile product development squads—cross-functional teams to own and develop a product. They use fast iteration cycles and rapid improvement to move the needle on addressing customer needs, and to roll out those products much more quickly than the competition.

Talent, diversity, and inclusion and making progress during this pandemic

Kurt Strovink: This is an environment where if companies are ambitious, they can be even more aspirational than they might have been before the pandemic in four ways.

First, companies are beginning to broaden how they think about diversity. I like to say they are putting diversity in their diversity programs. They are including gender, ethnicity, and other kinds of diversity.

Second, they are identifying the core qualities they want to see exemplified in the cultures of their organizations around openness, equality, fairness, and what it means to belong.

Third, there's been an explosion of interest in, and strategies around, recruiting. If companies aren't as physically rooted as they once were, they can really think about broadening the addressable market of talent.

The fourth piece is that this is an opportune time to acquire digital talent. Insurers have less digital talent than other companies, and fintechs are laying people off. There's a golden opportunity for insurers to attract some talent that may have been living in the fintech world or even in the big tech world—if they are aggressive about acquiring talent and promoting diversity in this environment.

I also want to reinforce that diversity matters for economics and performance. It's the moral and right thing to do in our societies and companies, and it's also very valuable economically. We've seen a substantial profitability advantage for top-quartile companies on gender diversity versus those in the bottom quartile.

Stephan Binder: The pandemic has reinforced the importance of digital talent and innovation. Some insurance companies that have younger brokers, agents, and financial advisers who are used to technology were able to switch very quickly. One CEO noted that new business in life insurance was up 80 percent. Another CEO, who said business was down the same amount, was working with a much older personnel pool that had a much harder time getting used to technology.

Evolving workplaces and work environments use technology a lot more, and that's what the younger generation is looking for. With a much more technology-driven model and more professional lead generation, insurers could attract a very different type of talent.

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Even before COVID-19, we were talking about how to attract talent with digital experience. In this remote environment, insurers can suddenly tap into talent pools that are not at their doorstep. If a company is in a small town in Germany and all the digital talent is in Berlin, there’s no reason they wouldn’t be able to work with those people now. If half of your people are joining meetings remotely because they work from home, but they work from home in Berlin or even in different countries, it makes no difference.

Brad Mendelson: To echo Stephan, insurers that embrace remote work will have greater access to much more diverse talent pools. That should help with being able to attract really deep technical and engineering talent, for example. Every carrier I’ve talked to says it doesn’t have enough technical and software engineers and really wants to figure out how to attract this talent. Flexible working arrangements and remote working will enable carriers to tap into a broader talent set.

The ability to work remotely can also help with diversity and inclusion. Surveys have shown that a company’s ability to attract and retain women, for example, is much higher if it offers flexible working arrangements. This approach could enable insurers to retain employees throughout different life stages, allowing workers to stay engaged with the company and continue to contribute in whatever way fits with their personal lives.

The rising importance of environmental, social, and governance (ESG) and purpose

Kurt Strovink: Clearly, the importance of climate change is making the “E” in ESG move considerably. A number of people are taking the position that climate risk is investment risk. The role of insurance companies within society is about creating the ability for people to take risks, for companies to take risks. That’s going to be heavily affected by the risks associated with climate change, valuations, and how quickly those valuations move across different industries and different parts of sectors.

There’s also a big push on “S” right now. Companies that have thoughtful sustainability strategies will benefit in multiple other ways. We have evidence that more sustainable companies will achieve higher top-line growth and have a lower cost position. Employees, especially next-generation talent and millennials, care a lot about sustainability strategies. Regulatory relationships and the way those actually progress with governments will also be very important.

A number of CEOs and management teams are actively improving ESG initiatives for their organizations. This renewed focus stems partly from a desire to deepen the fundamental role of insurance in society and the relevance of the industry in our communities. In the past six months

alone, a number of CEOs have stepped forward to push this topic in North America. This is an exciting development for the insurance sector as a whole.

Brad Mendelson: ESG is clearly an important issue for the industry, and we're seeing a large increase in the amount of energy, excitement, and impetus around this idea of purpose in the company. This interest is being driven by the top, bottom, and middle of the organization. Employees are demanding, "What's our purpose? What are we here for, and how can we connect with that on an emotional level to really excite us about our work?"

Particularly during crises, insurance is meant to be a stabilizing force or a cushion for segments of society, and that's a quite noble purpose. In the immediate term, we're seeing companies questioning how they deliver on that purpose, asking "How do we make sure that we are the right cushion for society during the pandemic?" Now to be honest, insurance wasn't designed for a pandemic, but the industry has responded in various ways to support people in times of need.

Longer term, carriers are rethinking their purpose across multiple dimensions. How does it deliver on the environment? How does it deliver on the social dimension? Many carriers are making investments in the difference they want to make, and committing to their employees and the outside world.

Stephan Binder: Insurance is an industry that's hundreds of years old. Most insurance companies emerged out of a sense of community and people taking care of each other. People buy insurance because the individual can't always bear the risk and needs a broader community to carry on. That's always been the core function of insurance. You create safety for people, safety for long-term savings, safety that when the house burns down or assets get damaged there is someone there to help put people's lives together again.

In the current crisis, there is a feeling that somehow the promise of insurance has been eroded. We've seen this whole discussion about business interruption and the pandemic being excluded. There are some very good reasons to exclude pandemics, but not every customer was fully aware of that. That erosion of confidence and trust in the industry's purpose has to be addressed.

Many insurance companies are now stepping back and rethinking how they can deliver on this promise. It's not easy to rethink how products are designed. It will probably require partnerships with governments to be able to manage some of these risks, similar to what we've seen in areas like natural catastrophes, earthquakes, and terrorism. So there's a much broader theme beyond ESG on purpose and the value of the industry in society. I think that's a very important debate for the industry to have.

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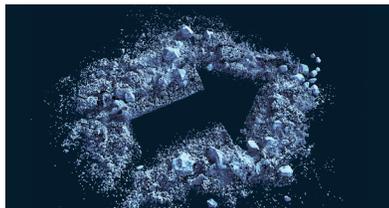
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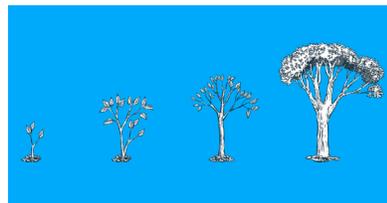
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