



*General  
Insurance  
& Specialty  
Barometer*

**20  
23**



# Introduction



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As I step into my new role as Global Head of Insurance, I couldn't be more excited to support our insurance clients navigate these uncertain economic and political times. Against an uncertain backdrop, it is an energizing time for the industry as insurers grapple with how to pivot their operating and business models to tackle emerging opportunity and threats.

We are delighted to introduce the first edition of Alpha's General Insurance & Specialty Barometer.

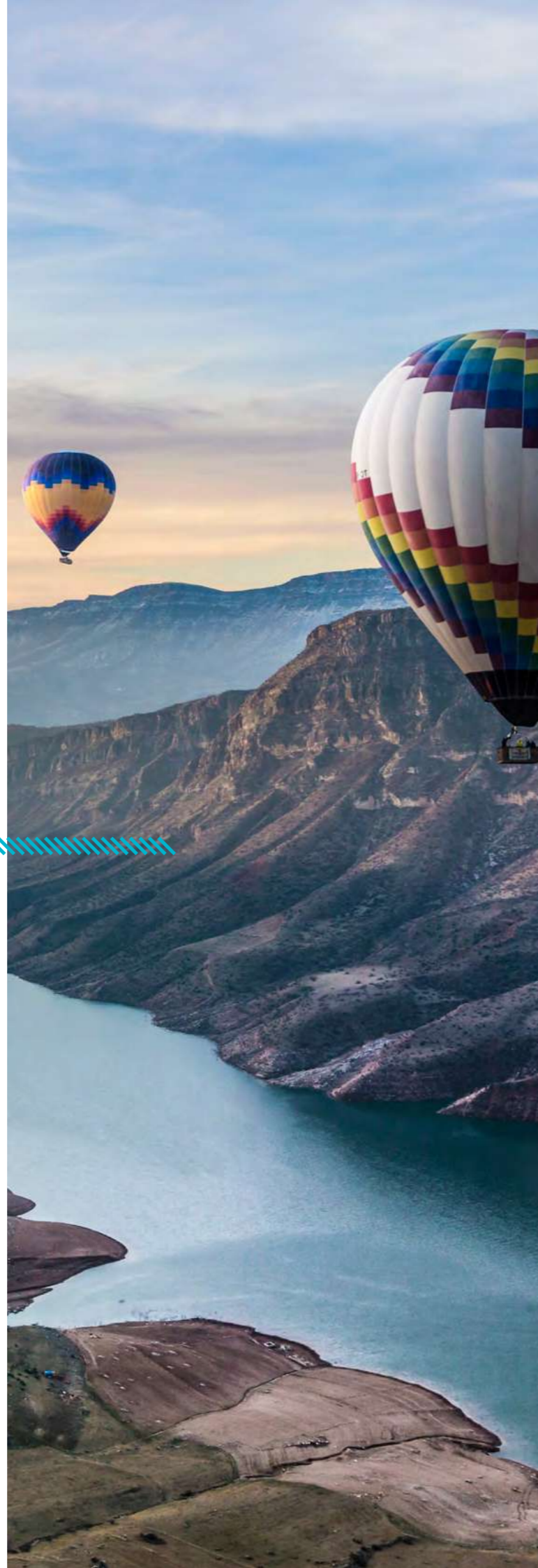
There has been a lot of uncertainty over the last few years. Whilst at the start of last year, the worst of the COVID-19 pandemic seemed to be behind us, inflation and problems with global supply chains and energy prices are now firmly taking hold. These problems have been exacerbated by the Ukrainian conflict, which has sent inflation rising sharply as the West seeks alternative supplies of basic essentials and energy commodities. These factors continue to be strong headwinds. Across the industry, it is evident that two years into the pandemic, digital strategy continues to be a strategic focus, with cost optimization gaining renewed attention. We can't ignore the meteoric rise of insurtechs, companies using technology to innovate and disrupt the insurance industry. Insurtech funding reached \$15.8bn in 2021, doubling the total reached in 2020. Many carriers have the depth of capital but limited technology and are seeking partnerships with insurtechs to leap ahead.

As we look at the insurance landscape, we ask:

- **Growth** - how can innovation and digital transformation support insurers to differentiate their core offering to drive competitive advantage?
- **Cost** - what are the key considerations for insurers to optimize their cost base over the long run?
- **Risk** - how should insurers set-up and mobilize their transformation program to mitigate against execution risk?

Strategy considerations can be separated into three broad themes of growth, cost and risk. Growth will be driven through new products and digital differentiators underpinned by a true enterprise innovation model. Cost control should be seen as an enterprise capability, using it as springboard for growth by investing in areas like claims to drive differentiation and value creation. Risk will need to be managed through bold but small steps including clear executive alignment on ambition and a willingness and acceptance to start small and fail fast.

Thank you for reading, we hope you enjoy it. Please do reach out to us if you wish to discuss or provide feedback.



## Growth

## The revolution is (nearly) here... products fit for 2023 instead of 1723

It is no secret that the industry product and service offering has remained stoically unchanged for a long time. While there have been new products and coverages introduced to the market, fundamentally the proposition is the same today as it always has been, other than for some niche, low-volume plays. However, there are glimmers of hope that across the insurance landscape, we can see some potential disruptors to the status quo in both General Insurance and Specialty.

In GI, the advent of pricing reforms – which look to address a well-known market practice of offering a competitive price for new business, while increasing the price to existing customers year on year depending on a customer's likelihood to renew – came into effect in January 2022. The reform has brought a sharper focus on product offering and ancillary services, as insurers must now compete on more than just price. It will not be an overnight shift, but many insurance firms, but many insurance firms are considering how they can develop their price and service offering in a way that is not a pure pricing play. The reform has brought with it more competition from players that have adhered to traditional market norms but now may have a degree of competitive advantage – for example, bancassurers and retailers who can leverage their customer data to offer tailored products.

In Specialty, alongside an expected period of price volatility, insurers will need to look at both their core product and service offering with renewed attention. That attention must focus on gaps created by a change in behaviours since the pandemic and be mindful of clients' increasing desire for sustainable/low impact products that will help them fulfil their own ESG obligations to customers and shareholders. Increasing competition from new capital entering the market, underpinned by more nimble and data-led capabilities, means a competitive response is inevitable.

The push from big tech companies into the industry will put further pressure on insurers to address their core offerings. For example, Tesla now features real-

time telematics insurance in some of its models. Premiums are based on driving patterns rather than traditional risk factors like credit, age and claims history used by most traditional insurers. They claim that an average driver with safe driving habits could save between 20%-40%.<sup>1</sup> Meanwhile, Amazon has partnered with Marsh to offer affordable product liability cover to small businesses. The threat to incumbents is not insignificant as big tech companies have a sizeable advantage due to a wealth of data, a powerful distribution platform and significant customer base. Insurers need to be on the front foot to maintain and grow market share.

It's an exciting time for the industry with the potential emergence of new products, new and emerging risks and intangible assets. The insurtech-enabled, parametric and event-driven panacea that many predicted a few years ago has not yet materialized, but there is evidence that insurers are getting more capable – and savvy – at offering increasingly customized and data-driven propositions

### Alpha's key takeaways:

- **Be clear on your organization's core value proposition** – who do you serve and why? If you don't have clear objectives, it will translate into a generic and commoditized offering. You will end up competing in a race to the bottom on price.
- **Once you have clarity of purpose, you need to build a longer-term and modular product roadmap**, starting with the 'customer first, digitally' as obvious as that sounds. Two-year, multi-million-pound product development cycles might be a thing of the past. Developing un-sexy, traditional products will not create long-term value.
- **Invest time and capital in your servicing and distribution channels** – customer experience is now firmly a hotly contested battleground for insurers.
- **Take a holistic approach to partnerships** – assess where strategic alliances, for example, with insurtechs, would be beneficial along the entirety of your value chain. Harnessing the value of complementary providers is the smart way to inject business agility into your organization.

<sup>1</sup> Tesla Insurance Using Real-Time Driving Behavior, Tesla, 2022

## Growth

### Does your digital strategy make sense for today and tomorrow?

Current estimates suggest investment in digital transformation across all sectors will almost double from \$1.25 trillion in 2019 to \$2.3 trillion in 2023.<sup>1</sup> A significant proportion of this will be spent in the insurance sector, but as we have seen in the past, high expenditure is no guarantee of desired outcomes. Digital is not a stand-alone topic and needs to be carefully woven into the strategy, operating model and wider DNA of any enterprise, including having a digitally driven workforce. In recent years, progressive organizations have spent time putting the customer at the heart of their businesses, but this narrows thinking to the 'what' and omits the 'how.' We believe these both should be equal priority.

Digital transformation is underway. However, the mindset is largely one of digitizing legacy operating models over a fundamental reassessment of the opportunities presented by new technology. Effective digital strategies need to recognize that investments must balance addressing the demands of today, whilst also building the foundations of a radically different digital business for tomorrow.

In the short term, your digital strategy needs to look externally and internally. As the existing markets collectively develop their capabilities, companies need to ensure they are digitally open for business. Internally, tactical gains from developing technologies can continue to be applied to legacy processes and IT infrastructure. At the heart of digital is data – a coherent data strategy will begin to unlock value if it can be embedded into decision making processes.

In the medium term, companies should look to be 'digitally-led' across the value chain, starting with product design and distribution. This will inform your architecture (both business and technology) to ensure it is nimble and flexible enough to be able to change at pace; that your current operating model, governance and decision-making processes can keep up with the changing digital and technological landscape.

Longer-term, leading organizations will challenge the status quo – asking themselves 'how would a digital business be built to sell insurance?' rather than 'how do we digitize our analogue business?' We have seen the profound effect digital can have in the tangible world of retail, music and media – to think insurance will not change as radically is a risky position to take. As with other sectors, incumbent players may face challenges from new entrants with deep pockets.

The digital challenge for insurance is complex, with the nature and timing of the future uncertain. However, the best prepared companies will develop a robust offering.

#### Alpha's key takeaways:

- **Invest the time to align on your short, medium and longer term digital thinking** – they will serve as foundations of your digital strategy. They should not be used to force decision making, but to hold the owners of the digital strategy to account. In the event something is in conflict with a principle, either the principle or strategy will change or a decision will be made to remove the point of conflict.
- **Your digital architecture and supporting roadmap are critical** – they will enable you to set out the revenue flow between old vs. new, helping business stakeholders understand the impact the evolving technology estate is having on the organization's bottom line.
- **Keep in mind that the "middle" will digitize itself** – it's already happening. One of the most important things you need to bear in mind is ensuring your business and technology architectures are nimble and flexible enough to adapt at pace.

<sup>1</sup> Spending on Digital Transformation Technologies and Services Worldwide, Statista, 2023

## Growth

# Innovation. Disruption. Digital.

## Innovation - is it a reality in insurance or simply a case of emperor's new clothes?

Despite a decade of talking about the three key buzzwords, the insurance industry continues to grapple with how to be 'innovative'. For example, the Lloyd's Blueprint Two Programme and the development of the Core Data Record tells us that it's taken 300 years for the insurance market to agree that it needs a centralized data record.

It's a common trope to reference organizations like Apple as a shining light of innovation – but the company fundamentally changed its operating model in the late 1990s to foster a culture of innovation and lay the foundations for success. Shifting to a single P&L and combining disparate functional units made a material difference – three years later came the iPod, and the rest is history.

The question for insurers is 'why should I invest in innovation?' In our experience, insurers who are embedding innovation at the heart of business strategy are seeing top and bottom-line benefits. Competitors are viewing them enviously. Intermediaries seek them out as partners. And if the marketing machine has done its job properly, customers want to engage with them. All in all, a compelling argument.

The more innovative insurers have similar characteristics:

- There is explicit agreement amongst the executive around the level of ambition and investment and why the organization wants to do things in a different way.
- Innovation is not a fringe activity siloed to the side – it's embedded across the organization both functionally and, more importantly, culturally.
- Early success should not create complacency – innovation requires a mindset of constantly looking over your shoulder, an imperative to establishing and maintaining their competitive edge

To achieve the true potential from innovation, it needs to be an inherent part of your operating model from distribution, product and underwriting, through to claims and customer service. The complexity of the insurance value chain means there is ample opportunity to differentiate from your competitors. The imperative to act now is growing and it starts with embedding innovation at the heart of your organizational psyche.

### Alpha's key takeaways:

- **Create a genuine mandate for innovation and the space to explore it** – strong and consistent executive sponsorship is required for innovation to become reflexive behaviour. Innovation leaders need to be at the top table and in possession of the right tools to do their jobs effectively.
- **It doesn't have to be big and expensive** – necessity and scarcity often breed some of the best results. Investing in building something with low investment but high scalability is prudent.
- **Explicitly embed innovation in your strategy** – this means OKR's (objectives and key results) and KPIs (key performance indicators) – after all, 'what is measured is managed' – and accountability needs to have a home. If nobody is held responsible, don't expect anything to happen.
- **Normalize taking chances and making mistakes** – successful, innovative cultures will embrace risk-taking and understand the consequences. Your middle management is critical to this and will make or break the success of innovative culture at any organization.

## Cost

### Why are we still talking about cost cutting?

Cost control and cost reduction are back at the top of the agenda – but it begs the question, if done properly and sustainably, why do we see a three to five year cycle of cost programmes? Carriers typically run a cost programme only 18-24 months after one has finished. This is not a healthy or enduring way to manage cost. The need for a sustainable, scalable and optimized cost base at insurance firms and brokers is clear – but achieving this has evaded most companies.

Heavy, enterprise wide, cost programmes to achieve short-term cost cutting targets often have adverse impacts – knocking employee morale, impacting key value drivers and only delivering short-term cost cutting targets without addressing the systemic cost challenges in your organization. Cost programmes are notoriously challenging: they can send the wrong signals to shareholders and employees, breed a hostile and uncertain environment and ultimately they rarely deliver their business case benefits. A slash and burn, scorched earth cost programme may prop the financial results up temporarily, but the consequence is often a heavy price to pay.

So how do you break this cycle? Several insurance players have started to optimize their cost base to become more sustainable. Their secret? Investing to save.

The importance of this should not be underestimated. In the long run, this means 'change capacity' and investment that might have been previously deployed on short-term cost suppression, can instead be deployed on strategic growth initiatives and fixing the underlying issues that create the cost problem (e.g. legacy technology, under-utilized resources, poor focus on business outcomes etc.) This creates the ability to 'feed the business' frequently and appropriately with more discreet levels of funding. It also allows the business to progress top-line growth at the same time as bottom-line control – there are less feast and famine swings – providing greater stability in the organization.

In addition, cost programmes have not delivered the lasting improvements in cost ratios due to a lack of joined up planning with other strategic transformation programmes. Understanding the areas which need further investment to deliver your longer-term growth agenda goes hand in hand with understanding where there is scope for efficiencies, capacity creation and resource optimization.

The challenge for many is that this is not always a quick fix. Those that have broken this cycle have done so by being clear on the time horizon – often opting for a longer term view – and as a result have built enduring cost control as a robust capability. The most mature insurance leaders have embedded a culture of fiscal responsibility and use it as springboard for growth.

#### Alpha's key takeaways:

- **Align the ExCo on the message that sustainable cost optimization is a continuous priority activity regardless of market conditions** – there needs to be an understanding that a long-term, multi-year view is required.
- **Shift your mindset from short-term cost suppression to longer term value creation** – in the simplest of terms this means looking for opportunities for enablement rather than myopically removing costs.
- **Most cost reduction / optimization programmes are bereft of emotional intelligence** – as an oversight it has disastrous consequences, impacting morale and in some cases threatening the success of the programme. They are often opportunities to redeploy the workforce into positions that enable value creation.

## Cost

### How does your claims function move from cost differentiator to competitive differentiator?

Shifting customers away from the muscle memory of shopping around on price, at least in the short term, is a hard habit to break. Previous claims experience will have bearing on renewal rates. A study of over 140,000 insurance customers in 14 countries found that customers who had a good claims experience gave an NPS that ranged from 14 to 40 percentage points higher than all other customers. However, insurers have spent years considering claims as a cost control capability, rather than one that makes a genuine impact on acquisition and retention. This has led to the familiar claims transformation programmes over the last decade, promising to deliver new and improved customer service, but in practice new technology is often deployed without resolving issues core to the function.

However, there are signs the market is becoming less price sensitive. In commercial lines, many SME businesses have been scarred by their experience of business interruption (BI) claims through the pandemic. Meanwhile in personal lines, pricing reforms tilt the focus away from price being the only factor at play. Claims functions have traditionally been reactive to changes at the front of the organization – new products, new covers and new customer targets are agreed upstream, with the claims teams subsequently tasked with agreeing how they will satisfy demands. The brave new world provides an opportunity to reorient claims from merely a cost centre to a value creation opportunity that can help insurers attract and retain customers. It is a bold move but reforming claims will make a genuine difference to client experience and create a powerful marketing engine that will drive customer acquisition and retention. There are clear initiatives that can be pursued immediately, for example:

- Increased role in claim avoidance and risk management services, for both personal and commercial lines
- Guaranteed first party resolution timelines with cleaner and clearer supply chains. A report by Evolution Claims found that 96% of insurers consider sustainability to be at least of some importance in their claims supply chain<sup>1</sup>
- Optional, revenue-generating white-glove services
- Portfolio insights, beyond today's standard reporting, to help clients manage their own risk more effectively
- Increased in-force engagement on a variety of topics – not just at claims stage.

What is important is that these are not necessarily at the expense of loosening cost control. When set against the context of the combined operating ratio (COR) as a whole, and with certain pricing/add-on considerations, claims can continue to be a cost differentiator in addition to a competitive differentiator.

#### Alpha's key takeaways:

- **Maintain laser focus when it comes to controlling claims costs**, but it should be in the context of wider opportunities for claims to play a greater role
- **Be bold** – playing at the fringes is unlikely to make a material difference
- **You will need to think differently**. And to think differently, you may need new workforce and technology capabilities

<sup>1</sup> Evolution of Claims, Research in Insurance, 2021

## Risk

### Is your entire ExCo owning your digital agenda?

Everyone is talking about digital, but when ExCos come together it is often seen as the responsibility of the CIO/CTO or COO to bring it to life. Worse still, around the table there are often very different perspectives on key questions, such as 'what does digital mean for us?' 'How hot is the burning platform?' 'How long will it take to get there?' 'How much are we willing to invest?'

Digital already impacts all aspects of the operating model to some degree. Therefore, each ExCo member should be responsible for understanding both the opportunities and threats the changing landscape presents. Understanding and exploiting the power of digital for your organization will require clear executive alignment and ownership. In order to realize the potential of digital there needs to be alignment between all members. Only then can a holistic digital strategy with a prioritized set of initiatives be achievable for the enterprise.

With the explosion and proliferation of technology solutions, it can be tempting to focus on the 'how' i.e., artificial intelligence (AI), machine learning and Big Data, rather than focusing on the 'what'. Executives should take a step back and focus on the outcomes they want to achieve, framing this across the short-term, medium-term and long term. Part of this will require understanding your biggest pain points and most sizeable opportunities for improvement. In our experience, leaders who consider the digital opportunity along a maturity curve – understanding where they are now, where they want to be and how they might get there – are those able to execute a clear strategy. A recent report by BCG found that "digital champions" (those companies near the top of BCG's Digital Acceleration Index), had annual total shareholder returns (TSR) that were five percentage points higher than "digital laggards".<sup>1</sup>

<sup>1</sup> The 2021 Insurance Value Creators Report: Reinvention Paves the Way to a Bright Future, BCG, 2021

Not every company wants to nor needs to be at the bleeding edge of digital – being a fast follower may be pragmatic – but the level of investment must be appropriate. It is critical that the ExCo ensures their vision and ambition is aligned and coherent across all functions in order to effect true change in their digital strategy.

#### Alpha's key takeaways:

- **Accountability equals action** - ExCo leaders must jointly own digital, but individually they need to have measurable, personal accountability for digital within their functions or areas of responsibility.
- **Leaders should align ambition, timescales and investment** - an obvious statement in isolation, but often overlooked. Without harmonization, either one or two of the dimensions will come under pressure, the impact being a loss of momentum and buy-in across executives.
- **Comfortably uncomfortable** - the purpose of a developing a true digital agenda should be to take your organization towards new frontiers. If the digital strategy doesn't make the ExCo feel uncomfortable, the boldness of the endeavour should be questioned. 'Are we doing enough? Are others taking more risk than us? What do we stand to lose playing it safe?' These are reasonable questions to ask to ensure your agenda is pushing the organization forward.

## Risk

### Change is changing – are you keeping up?

As a result of years of chronic under-investment and an endemic reluctance to adopt new ways of working, the insurance sector has set itself a massive hurdle to clear.

Key issues for the insurance sector include: the compounding effect of external factors; the hunt for growth in a challenging macroeconomic environment; a workforce with higher expectations about how they do their jobs; and the market's demand for more flexible/ appropriate products.

As insurers respond, they are looking to the power of technology and new revenue models to transform their business models - there is significant opportunity for delivering change differently.

The challenges of delivering large transformation programmes are well-known: over budget, prone to delays and scope creep. Often it risks leaving outcomes unachieved, or, at worst, abandoned after significant human and financial cost. The answer? Starting small.

Specifically, we see two approaches insurers should be employing when de-risking their transformation programmes. The first being an Outcome Validation (OV) and the second being Minimum Viable Product (MVP).

OV focuses on 'pressure testing' the product / service / functionalities that you are looking to develop. By assessing the targeted outcome for viability, feasibility and desirability, OV can quantify your probability of success.

Building a true MVP focuses on creating something that can validate your Proof of Concept and scale it quickly. All too often we see insurers start out with PoCs or MVPs that end up being end-to-end, bloated, over-scoped projects that lose sight of intended outcomes and take too long to scale.

Changes in how technology is delivered is finally gaining momentum as more and more insurers and carriers demonstrate that this is not just the standard of start-

ups and big tech companies. Agile has been a path well-trodden by some, but this is not the focus of our point of view – methodology only gets you so far and agile should not be seen as a mechanism to strong-arm existing corporate culture.

Starting small means encouraging multiple experimental projects to validate the use case. There needs to be an understanding that not all of these will succeed and that is acceptable and even welcome. The purpose is to only pursue projects that have validated a use case and demonstrable value.

Along this journey, the business should be coached to understand what MVP means. For many years, business users have come to expect the 'all singing all dancing' product at the end of a multiyear programme, so expectations need to be recalibrated. For many executives, there is comfort in multiyear programmes, but in practice MVP minimizes risk to a much higher degree.

Finally, embedding capabilities to take prototyping from MVP into fully scaled robust solutions requires cross disciplinary teams from both the business and technology working hand in hand. Classic insurer organizational design often prevents this from happening easily, but there are examples of insurers who completely reinvent their internal structures to facilitate faster deployment of initiatives and foster a closer, more team-driven culture.

#### Alpha's key takeaways:

- **Do your homework upfront and get rid of your change inertia** – investing in your Outcome Validation framework and approach to Minimum Viable Product should be considered a priority. If you already have these techniques and tools in place, it is worth reviewing their efficacy – the truest test is how often your change projects are failing due to issues that weren't picked up during the design phase.
- **Incremental delivery is your friend** – breaking down anything into smaller pieces often makes the transition more manageable and palatable to your existing workforce. Using this same principle for your business and technology change programmes creates natural firebreaks to protect against overruns. Smaller change reduces the risk and cost per change – this is the approach modern insurtechs and start-ups are harnessing with great success.
- **Promote a risk and failure culture** – by this we mean encourage a culture where fast-failure is recognized as a learning mechanism to de-risk future delivery. At the same time, embed a conscious mindset of 'what if' that promotes employees at all levels to think about broader risk implications when it comes to innovation, delivery, and new products / services.

## Conclusion

*The insurance industry is at an interesting juncture. For those at these crossroads, the choice is limited. Innovate or risk having your market share eroded by more agile competitors and new entrants with no legacy considerations. Execs can be apprehensive about committing to significant upfront investments. However, there are ways to approach innovative ways of working that do not require large scale transformation – starting small is critical to success and typically yields the best results. Innovation is not a one and done deal as per change initiatives in the traditional sense, it is a continuous investment and the “churn” needs to be enabled by leadership.*

Please contact Alpha's General Insurance & Specialty team if you wish to provide feedback on any topic discussed within this publication.



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