IBM Institute for Business Value

Winning strategies for insurers

How industry leaders are excelling outside the comfort zone

Overview

For a long time, the insurance industry has led a sheltered existence. Due to tight regulation and strict solvency requirements in most markets, bankruptcies are rare. Currently, there are more than 10,000 insurers globally and when insurers do leave the market, it is mostly due to mergers and acquisitions. Even then, the brand often stays in place, including sales channels and back-end infrastructures, leaving the new, bigger insurer with a cumbersome legacy. Insurance has always tended to be a seller's market; some deregulatory measures have increased competition somewhat, but overall, insurers seldom had to fear for their profits—and even less for their survival.

This comfortable situation is changing. In the recent past, a multitude of disruptive forces has altered the landscape: economic forces such as globalization and the financial crisis of 2008; technological forces which ubiquitously connect and inform individuals and organizations; and societal forces that include changing demographics and increasing democratization worldwide. Their combined effect currently leaves many insurers struggling to grow or stay profitable.

Yet even in this environment, how are some insurers managing to stay ahead? What overall strategies do industry leaders follow? Are there strategic elements that distinguish the leaders from non-leaders? And how are they related to the type of market they operate in? To answer these questions and identify common elements of successful strategies, we interviewed senior executives from 80 insurers operating around the globe.

Our analysis of the study findings show that leading insurers excel in four strategic dimensions:

- *Customers.* Plan for the customers of the future—not of the past
- *Interactions.* Integrate interactions across all channels including social media
- *Services.* Offer broad insurance services, looking beyond simple coverage products
- *Structures.* Proactively invest in flexible structures instead reacting to market or regulatory pressures.

Strategic archetypes help shape winning strategies

Leading insurers combine elements from each of the four strategic dimensions—customers, interactions, services and structures—into a coherent overall strategy that fits their company and their market. What combination of elements work, and in which markets? From our data on leading insurers, we derived five of these combinations that we call "strategic archetypes":

- *Market developer*—Capability focus is on the structures and interactions dimensions
- *Customer attractor*—The key feature is accessibility.
- *Price competitor*—Highly technology- and efficiency-focused
- *Quality competitor*—The most flexible in terms of differentiation, yet still requiring a tight strategic focus
- *Specialist*—A unique archetype, in that it can be used instead of, or in addition to, one of the four others.

Each strategic archetype builds a set of capabilities by emphasizing the four strategic dimensions in different ways and to different degrees (see Figure 1). By definition, the archetypes will not work equally well in all markets. For example, while finding the right price to charge is important everywhere, a price competitor strategy makes little sense in a young market with low growth where the market must first be nurtured to start using insurance.

Strategic archetype	Dimensions			
	Customers	Interactions	Services	Structures
Market developer	◔	●	◔	●
Customer attractor	◑	●	◑	◑
Price competitor	◑	●	◑	●
Quality competitor	●	◕	●	◕
Specialist	**Varies**			

◔ *Low importance* ◑ *Medium importance* ◕ *High importance* ● *Very high importance*

Source: IBM Institute for Business Value analysis.

Figure 1: **Each archetype needs to focus on the strategic dimensions in different ways.**

Where to start

Leading insurers have common traits across the dimensions that strategically differentiate them. In addition to the winning capabilities needed in each dimension, these traits are natural starting points for insurers who are willing to catch up. Important first steps include:

- *Commit to an archetype.* How do you plan to compete? Decide on an archetype that fits your market type and is reasonably achievable with the available skills and capabilities.
- *Invest in analytics.* Analytics can help you identify and understand customers, improve interaction quality, help define new services by creating real-time feedback loops with customer needs, and improve both the claims experience for customers and claims results for insurers.
- *Think ahead.* Start by streamlining internal processes and creating external networks that you can use later to focus on your core capabilities, allowing you to find your niches in the ecosystems of the future.

On top of these points, it is important—and often difficult for insurers—to cultivate an innovative mindset across the enterprise. Flexibility comes from trying things and being allowed to fail, as long as the experience offers insight into what to tweak next for better results. Over time, being innovative and flexible can help insurers find the winning strategies for their companies.

How can IBM help?

Maturing markets, tight capital, increasing risk: these are just some of the pressures facing the insurance industry today. Faced with a host of challenges from technologically sophisticated customers to a demanding financial climate, insurers have to work faster, more efficiently and above all smarter. Those that do will survive; those that don't will fail. This is why the customer strategies of the past—endlessly swapping disloyal and dissatisfied customers by competing over rates alone—will not satisfy these savvy consumers and will not lead to sustainable retention or significant growth. To meet these and other challenges, insurers will have to be more nimble, more innovative and better able to communicate with their customers, internally and within the industry. The IBM Global Insurance practice reinvents itself to provide solutions to help clients meet the demands of today's insurance business with smarter solutions. From improved customer service, to more efficiency in the back-office and better risk management, there's a smarter solution for you.

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Produced in the United States of America
July 2014

Reference

1. Note: The observant reader might be missing a "scale player" archetype. In fact, scale was not a significant factor either for growth or for profit leaders. This finding is in line with an IBM study from 2005, which compared the financial performance of approximately 10,000 insurers globally and concluded that "overall, scale did not lead to measurable improvement in financial or operating performance;" Sterner, David and Kathy-Ann Hutson. "The value of scale: A closer look for insurance." Nordisk Forsikringstidskrift. 3/2005. http://www.nft.nu/nb/content/article/value-scale-closer-look-insurance. Accessed on June 5, 2014.

GBE03615-USEN-00