

Insurance 2020

Now what? Exploring initiatives for innovation

The IBM Institute for Business Value recently explored the future of insurance as seen through the eyes of global industry executives and created a study entitled, “Insurance 2020: Innovating beyond old models,” which provided insight into the question of why insurance appears to be a lethargic industry in the use of innovation. This study shows that insurers focus on the optimization of products and processes and accept it as though it were innovation. However, the power of innovation does not come simply from the use of a specific technology to overcome a problem, but from the willingness to try something different. We believe insurers should move to adopt a new approach or new technology to address persistent operational challenges.

A recent study by the IBM Institute for Business Value, “Insurance 2020: Innovating beyond old models,” provided insight into the apparent lethargy of the insurance industry in terms of innovation. In summary, the study showed that while market forces demand real innovation in business models, insurers consistently focus on the optimization of products, processes and services. This activity often leveraged information technology (IT) advances over the course of many decades. For many carriers, the result was an organization that mistook optimization for innovation.

This approach has produced two outcomes. First, although it is clear that there are some insurance carriers, agencies and brokers that are exceptions, many have little to show for the many years

of optimization they practiced. For example, from 1955 to 2006, the U.S. property and casualty (P&C) insurance industry had a return on equity (ROE) below the average for all U.S. industries more than 87 percent of the time. Changes in value chain automation, data management, and the use of online mechanisms made over the course of the last several decades were at the tail end of larger technological or societal changes and were directed toward improving existing processes and mechanisms. If they continue to follow this course, carriers will logically see diminishing results. It is likely that either an existing competitor or a new entrant from outside of traditional insurance – such as a retailer, social computing purveyor or other service industry constituent – will capture a portion of the market.

The second outcome from the industry’s focus on optimization is in opportunity costs. There is an uncalculated cost from the insufficient, or even absent, application of innovation, especially in business models. So, although making improvements in processes and operations via the use of increasingly advanced technology felt like the right thing to do, those activities became a proxy for innovation and supplied a stream of revenue enhancements of sufficient stability to please executives.

Now what? Practicing innovation

It is worth repeating over and over: we believe innovation is the key to future success for insurance. This statement is more evident in other industries. Without its continuous innovative spirit in product design, Apple’s products likely would have been off the market a long time ago. In the insurance industry, modifications of existing products advertised as “new” were deemed sufficient. As long as the markets were regulated and customers had to buy what they got, this was true enough. But as we move forward in time toward 2020, this situation will no longer be the case. Customers will know what they want and do not want – the insurer that does not innovate soon will not be ready in time for inevitable change.



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We believe that carriers from all lines of business need to challenge themselves to push innovation to the top of the agenda. The idea is not to always be the first to use a new technology, or to invent a new product or even to establish a new collaboration; the idea is to encourage thinking and actions that allow innovation to take place intentionally.

Following are a few ideas to begin the process:

- Establish an internal patent mechanism that goes beyond a simple suggestion box; reward idea generation and implementation.
- Assign management and staff to be internal change agents on a rotating basis. Develop an internal school for innovative thinking. Leverage social computing mechanisms for internal and external research.
- Understand your own processes thoroughly by modeling the components of your business – what are you good at, what are you not, where are your investments? Why?
- Seek to understand when and what you are optimizing – there's nothing wrong with optimization, but you need

to understand there are likely to be diminishing returns from such activity.

- Collaborate – look to all your partners, peers and competitors to, at the very least, learn from them and, at best, work with them on achieving something new – or learn how to approach opportunities from a different perspective.

As highlighted in the IBM Global Innovation Outlook 2.0, "innovation is a culture, not a department." This means a culture of experimentation, of allowing for mistakes and of everybody with a stake or an interest in the organization participating in idea generation for innovation. IBM itself expressed this with the InnovationJam 2006 – a worldwide online collaboration and idea collection effort with participation from employees, customers and business partners.

Innovating means taking controlled risks – something insurance is supposed to be good at. Still, projects or activities such as the InnovationJam are seldom seen in the insurance industry – this is surprising, as the risk involved is very low and the insights gained quite high. Insurance will have to overcome its sluggishness if there is to be a culture of innovation within the industry.

How can IBM help?

- **Strategy and Change:** Help to define your strategy and manage change
- **Component Business Modeling (CBM) tools and Service-oriented Architecture (SOA):** Help with selecting where to focus your organization and building flexible IT infrastructures
- **Selected Insurance Sector Solutions:** Insurance Core Systems solutions, Insurance Operations of the Future, Customer Care and Insight solution

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