

THE ENTERPRISE OF THE FUTURE

...IN THE INSURANCE INDUSTRY



Analysis of the 2008 Global CEO Study and the five themes that emerged from it show that insurance executives recognize the essential nature of change and acknowledge the need to invigorate their innovation agendas—what other implications should insurance leaders consider?¹

HUNGRY FOR CHANGE

Many insurance CEOs (89 percent) indicate that their organizations will need to implement substantial change over the next several years to deal with a broad range of external forces. The challenge across the industry is that only 65 percent say that they have successful track records of implementing change, leaving a 24 percentage point gap between the need and the ability to execute change. CEOs recognize that change is not simply about changing “things” such as technology, but is also about breaking down cultural and political barriers.

Implications: Insurers are particularly interested in how market forces that include changing demographics and shifting regulations, as well as emerging trends such as social computing can be leveraged to meet their strategic goals. Insurance enterprises of the future as envisioned by their leaders will be more agile and able to execute on their strategic visions by leveraging more automation and raising knowledge management to something more than a bullet in a slide presentation.



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“One of the key constraints to change is the conservative nature of our industry ...”

CEO, Insurance Company, United Kingdom
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“Leading innovation comes from a robust, comfortable relationship with customers – that’s where the reality is.”
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CEO, Insurance Company, Australia
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INNOVATIVE BEYOND CUSTOMER IMAGINATION

Over 80 percent of insurance executives ranked the rise of informed and collaborative customers as having a positive impact on their businesses. This puts them among the top third of all CEOs. They recognize that customers have higher expectations for their interactions with insurance providers as a result of their dealings with other businesses. Insurance leaders are inclined to drive innovation by exploring new markets and developing new products and services. The question is whether or not the typical modification to existing wares is the type of innovation for which customers are looking.

Implications: Carriers have to decide whether investments in the optimization of existing capabilities and business paradigms will be sufficient to attract new policyholders and to retain existing ones. They’ll need to pay continued and deeper attention to demographic flux to understand consumer polling that indicates a level of frustration with complex products coupled with a lack of choice and flexibility.² And, as all CEOs indicate the need to adapt to changing business and regulatory environments, executives must begin to focus on agility – the ability to adapt to change rather than be impeded by it.

GLOBALLY INTEGRATED

The insurance industry operates across a broad range of geographies. However, the number of truly globalized organizations is in the minority. These firms have the scale and scope of operations to take advantage of rapidly increasing numbers of middle-income consumers in emerging and maturing economies. In addition to the standard challenges facing all insurers such as underwriting profitability, regulatory issues, and maintaining a highly skilled professional workforce, carriers that operate on a worldwide basis must struggle with operational efficiency across borders and oceans. The challenge is to integrate their operations so that they are making the most efficient use of their operational and monetary resources, and most importantly, their knowledge capital. To that end, 46 percent of insurance CEOs say that they plan to partner extensively and change their businesses’ mix of capabilities, knowledge and assets. Insurance companies that are committed to domestic operations will need to consider the impact of international players in their market space. At the same time, local players can make use of the skills and techniques used to integrate across broader geographies.

Implications: The basic nature of insurance requires deep knowledge of local risks in order to price them correctly, but that does not preclude making use of operational and governance capability on broad scales. Global integration requires the insurance enterprise of the future to optimize information technology to prudently support the mix of local knowledge and global management needed for profitable operations. The integration of local cultural knowledge and demographic data can help ease marketing and business challenges associated with expansion across any geography. The role of enterprise risk management must be elevated and empowered within a company to account for the nature of a dynamic world.

 **DISRUPTIVE BY NATURE**

Insurers have shown that they plan to focus on Enterprise Model Innovation and Revenue Model Innovation when they consider how they will be “disruptive” in the future. To achieve results via these business model innovations, 71 percent of insurance respondents plan to leverage intense collaboration with external partners. When thinking about Industry Model Innovation, 81 percent indicated that they would look to redefine their existing industry, rather than move into another industry or create an entirely new one.

Implications: To successfully execute these planned business model changes, insurance companies will need to inform and involve key value and service chain participants early in the innovation cycle. Consumers and policyholders must be included as part of this effort to assure the level of communications needed to manage expectations as changes are implemented.

 **GENUINE, NOT JUST GENEROUS**

Insurance industry CEOs place emphasis on new operations, new products and services, as well as environmental (“green”) initiatives as a way to meet customer expectations for corporate social responsibility (CSR). Carriers are beginning to appreciate the value of actively integrating sustainable operations, products and services as more than a passing fad. As more companies explore enterprise risk management, exposures to reputation impediments and energy shortages become more pertinent and less abstract. While insurance companies provide annual support and funding in excess of US\$147 million to community programs and charitable causes, there may be room for CSR innovation beyond philanthropy.³

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“We are developing ‘green’ products and services, leveraging the trust our customers have in us, and have implemented a substantial program to understand customer needs and grow our customer advocacy base.”

CEO, Global Insurance Company, United States

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Implications: In addition to the monetary benefits of reducing the energy footprint in data centers by means of server consolidation, carriers will be investing in a culture of social responsibility that will be part of the package that attracts new generations of professionals. For example, a company that invests in automation to enhance operational agility will also reduce paper consumption, putting less strain on the environment. Emerging concepts such as microinsurance and pro bono insurance will cause the industry to reevaluate previously held views of what constitutes a good corporate citizen.

BUILDING YOUR ENTERPRISE OF THE FUTURE

We look forward to learning more about where you think business is heading – and working with you, as you build your Enterprise of the Future.

For additional information about the IBM Global CEO Study, please visit ibm.com/enterpriseofthefuture or e-mail one of the following contacts:

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NOTES AND SOURCES:

- 1 Of the 1,130 interviews conducted for the IBM CEO Study, 74 were from the insurance industry. Of this subset, 18 percent were from Asia Pacific, 23 percent from the Americas and 59 percent from Europe, the Middle East and Africa.
- 2 Maas, Peter, Albert Graf and Christian Bieck. "Trust, transparency and technology: European customers' perspectives on insurance and innovation." IBM Institute for Business Value. January 2008.
- 3 Kao, Amy. "The 2006 Corporate Contributions Report." The Conference Board. Report 1414-07-RR.