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Innovation:

The opportunity for insurers

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Entrenched conservatism paradoxically creates an opening for insurance companies who understand how innovation can help them gain competitive advantage—and how to make it happen.

Accenture research reveals that companies across most industries are not harvesting the benefits from innovation they may have anticipated. Insurance is no exception, and lags other industries in certain areas such as funding. Insurers see innovation as less important than do their peers in other industries, and their expectations are correspondingly lower. And, in line with companies across all sectors, carriers have become more risk-averse when it comes to innovation.

Their innovation activities are more focused on optimizing and extending current products and services rather than looking for breakthroughs that could redefine the market and confer sustained competitive advantage.

While there is no empirical data to indicate what underlies insurers' reduced expectations, the fact that this is a cross-industry trend probably indicates that it can be related to a combination of factors.

It seems likely that the general climate of financial uncertainty is playing a role. Making big bets on breakthrough ideas is inherently risky and, in the current circumstances, smaller, cheaper projects with less risk probably seem more sensible.

However, there is a fine line between being realistic and setting oneself up for failure over the long term. Restricting one's company only to incremental innovation—the apparently safe option—in fact risks condemning it to also-ran status. By contrast, experience has shown us that companies that develop breakthrough innovations can create dominant positions for themselves in existing markets and even create new ones.

One good example of this type of success is Direct Line, which started from scratch in the UK market in 1985, offering car insurance over the telephone. It was the first UK insurer to use the telephone as its main channel. Direct Line now offers a range of insurance options, employs some 10 000 people and serves more than 10 million customers. In the process, it redefined the UK insurance market, disintermediating agents and brokers to talk directly to clients via a new channel.

By contrast, the story of Kodak must serve as a morality tale. The company *was* open to the possibilities for innovation opened up by digital technology, but it bet the farm on the wrong horse. Innovation initiatives can backfire badly.

Accenture set out to survey the state of innovation across companies and industries in the United States, the United Kingdom and France. Based on this research, and especially when one compares insurance-specific findings with the average across the total sample, it's clear that insurers face some major challenges when it comes to innovation. On the flipside, companies that successfully overcome these challenges will be positioned to steal a march on competitors.

This opportunity is particularly apparent in insurance because the drivers for change are so strong. Chief among these drivers are:

- **Rise of the connected consumer.** Thanks to the sustained uptake of mobile devices and declining bandwidth costs, today's consumers are connected virtually all the time. They are empowered with a wealth of comparative information, and they are accustomed to switching providers easily.

- **Dramatic increase in customer expectations.** These connected customers see the online world as single marketplace, and they expect the same levels of service and personalization from all service providers online—as they would do in the real world. Insurers need to be able to offer a consistent, personalized experience across multiple channels backed up by highly tailored products. Amazon was one of the pioneers of this type of experience, consciously building up a profile of each customer and tailoring recommendations for him or her.

- **Disruption of the insurance value chain.** The digitization of business processes is revolutionizing customer expectations and distribution; it is also making it easier for non-insurers to enter the industry. Banks, telecommunications providers, retailers and even manufacturers are muscling in, making insurance a value-add to their main product or service.

In short, the insurance industry is in flux and ripe for change—exactly the circumstances to favor the development of breakthrough ideas.

Despite all of this, many insurers seem trapped in a conservative mindset that is fixated on incremental innovation. Others focus their innovation efforts at the product level. As any product manufacturer will tell you, manufacturing has become a high-volume, low-margin game because products are so easy to copy. The same is true for insurance.

Companies that remain focused on incremental innovation, or that innovate solely at the product level, risk relegation to the second rank and are vulnerable to new ideas that change the industry.

True innovation will require insurers to look beyond incremental innovation and product innovation, developing new business models that respond to rapid change with new services and customer approaches. A minority of insurance companies, in Accenture's experience, is working to change its business models in order to do just this.

One example is USAA, originally an insurance company for the US Military that now delivers a full range of financial services. USAA has become a major vendor of diamond rings. Crazy? No, it is leveraging its deep customer understanding to deliver the kind of experience that breeds loyalty. (In this case, if you're on war duty in Afghanistan, there's nowhere to buy a ring.) Such innovation is only possible if a company is prepared to question fundamentally what its business model actually is: selling insurance or selling experience. It all depends on what the customers want.

This kind of questioning is important as non-insurance companies enter the insurance market. Insurers could easily find themselves fulfilling the role of product factory while the new entrant—Google, Amazon or Walmart, for example—takes on the more profitable and sustainable role of "experience aggregator" that today's and tomorrow's consumers increasingly value.

Portrait of an insurer

Before looking at solutions, it is valuable to gain a quick understanding of the state of innovation within the insurance sector, using the overall results as a contrast.

Innovation is important—just not that important. Seventy-five percent of respondents said that innovation was among their top five priorities, a figure that declines to 65 percent in the insurance sector. Seventy-seven percent of the total sample said they were extremely or very dependent on innovation for long-term success; only 53 percent of insurers made that claim.

A significantly lower number of insurers (38 percent versus 51 percent of the total sample) plan to increase funding for innovation over the coming year, and only 50 percent of them have a chief innovation officer (or similar position), as compared with the average of 60 percent across the total sample.

And yet, 84 percent of insurers said that their long-term success depends on their ability to innovate—less than the 93 percent average but still a substantial proportion.

This inconsistency might be traced back to the long-held belief that the fundamental business of insurers—protecting against risk—remains stable. This apparent stability co-exists uneasily with the growing realization that customers do not face the same risks or levels of risk. Big Data and analytics, geo-localization, telematics and other new developments are showing that risk is itself highly nuanced.

Insurers have low expectations of innovation. Only 16 percent of insurers (18 percent average across the total sample) believed that their innovation strategy delivers competitive advantage, and only 18 percent of insurers saw the purpose of innovation to be market disruption. Forty-seven percent of insurance respondents (slightly more than the 46 percent of the total) said that their companies had become risk-averse when it comes to innovation, while only 34 percent said their companies looked for breakthrough ideas (significantly below the 45 percent of the total sample).

One could argue that insurers might be focused on what they see as more important goals in the short term; for example, digitization and mobile strategies. However, these in themselves suggest or even require high levels of innovation.

Insurers have begun to put in place the formal structures to deliver innovation. Although 50 percent of insurers have a chief innovation officer or equivalent position, only 31 percent (below the 36 percent of the total sample) have a formal innovation organization. Nevertheless 63 percent of insurers (62 percent of the total sample) have a formal system for achieving innovation in place.

Taken as a whole, it could be argued that these research findings paint a fairly clear portrait of a sector that is skeptical about innovation. It recognizes innovation's importance but it is not really putting money behind it, and it does have low expectations. Perhaps it's not going too far to categorize this overall mindset as "business as usual".

It's worth adding that insurers are in step with a general disenchantment relating to innovation, but in key areas that disenchantment is exaggerated.

About the research

Accenture conducted a Web-based survey on innovation during November 2012. The respondent base numbered 519 managers within large US, UK and French organizations with revenues in excess of $100 million. Of these, 32 respondents were drawn from the insurance industry.

Similar research was conducted in 2009.

Preparing to reap the innovation dividend

On the one hand, the insurance industry as a whole seems unconvinced by the wider claims of innovation. On the other, as noted earlier, there are several strong drivers of change: to remain relevant to customers and defend their businesses against new market entrants, it seems unarguable that insurers need to change their attitude.

Successful innovation, one could convincingly argue, will ultimately separate the high-performance businesses from the rest—in many sectors but certainly in insurance.

So what can insurers do to improve the benefits they receive from innovation? If this can be done, the attitude of insurers will surely improve and a virtuous cycle of reinforcement will begin.

Perhaps unsurprisingly, the research itself holds the key to the solution. It shows that organizations with a holistic, formal system in place for innovation consistently report better outcomes and higher levels of satisfaction. This trend is very evident in the total sample, but less so when insurance only is considered.

In three areas, it is clear that those insurance companies with a formal system of innovation in place are more satisfied than those with only an informal system in place (see Figure 1):

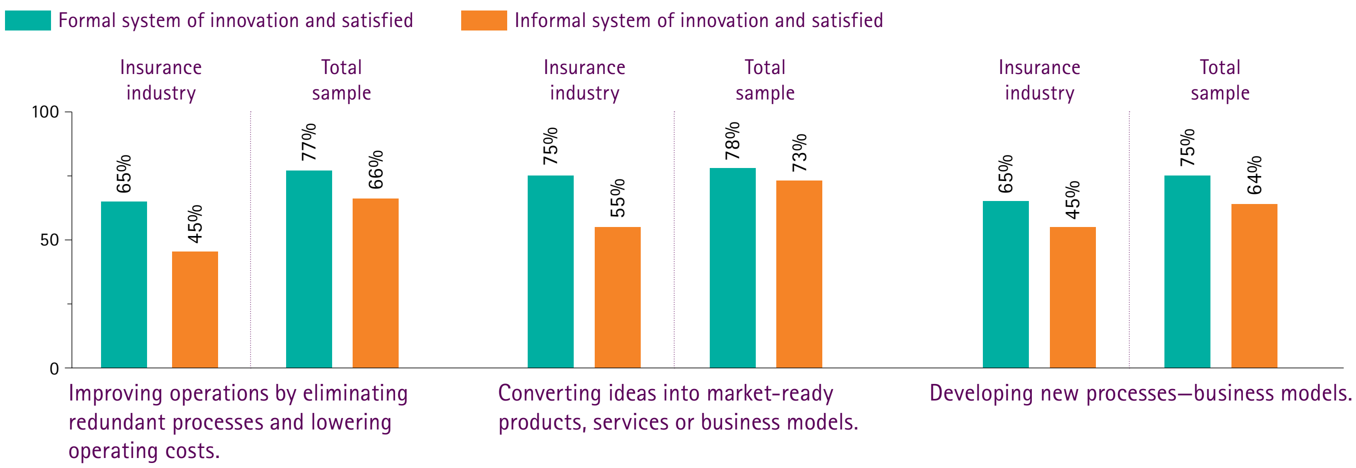
- Improving operations by eliminating redundant processes and lowering operating costs.
- Converting ideas into market-ready products, services or business models.
- Developing new processes—business models.

In other areas, while the overall results show a marked increase in satisfaction when a formal system for innovation exists, insurance does not, as a whole, follow suit.

Some results do indicate certain areas in which insurers are moving towards the best practice of a formal system of innovation. For example, 65 percent of insurers who are "very dependent" or "extremely dependent" on innovation to achieve their strategy have a formal system of innovation in place—as compared with 36 percent who have only an informal one. One would argue that companies who see innovation as critical to success are more likely to have thought carefully about how best to achieve it, and to have researched how others do it.

Supporting this conclusion is the fact that 30 percent of insurers that say they have "an effective, holistic approach to new product or service development" report that they have a formal system of innovation in place—almost double the 18 percent that have only an informal system (see Figure 2).

Figure 1: Companies with formal systems of innovation are more satisfied than those with informal systems: Total sample compared with insurance



These results seem to indicate that having a formal system and process in place delivers better results, and so leads to greater satisfaction. Insurers that grasp the importance of innovation, and that see the competitive advantages of improving their ability to innovate, must therefore adopt such an approach by developing and implementing a formal system of innovation.

Based on its own experience globally, and within the insurance sector in particular, Accenture believes that a formal system for successful innovation has six key characteristics:

Run innovation as an end-to-end value chain emphasizing speed and flexibility. Product life cycles in insurance are shrinking in line with competitor pressures and volatile consumer demand. Speed has become a critical success factor in innovation. Insurance organizations tend to be highly siloed, so finding ways to integrate innovation across the organization is vital. This integrated approach needs to have the customer as the end goal.

Move from product to business innovation, integrating elements of product, service, technology and personalization. To drive substantial revenue, innovation has to go beyond simply introducing new products with good features or adding new features to existing products. It must be backed up by a business model that delivers a personalized, unique consumer experience and, ideally, a service element that builds the relationship and guarantees a revenue stream. Good news is that insurers understand this dimension already: 88 percent say personalization and customization is already a large part of their innovation strategy (as compared with 87 percent of the total sample), and 81 percent (versus 79 percent of the total) say it is already offered in current core business. Only 9 percent do not plan to offer personalization and customization.

However, only 13 percent of insurers said their most successful innovation brought to market in the past two years was related to a new process or business model. The majority cited the improvement or modification of an existing product or service (44 percent), with 34 percent citing a new product or service.

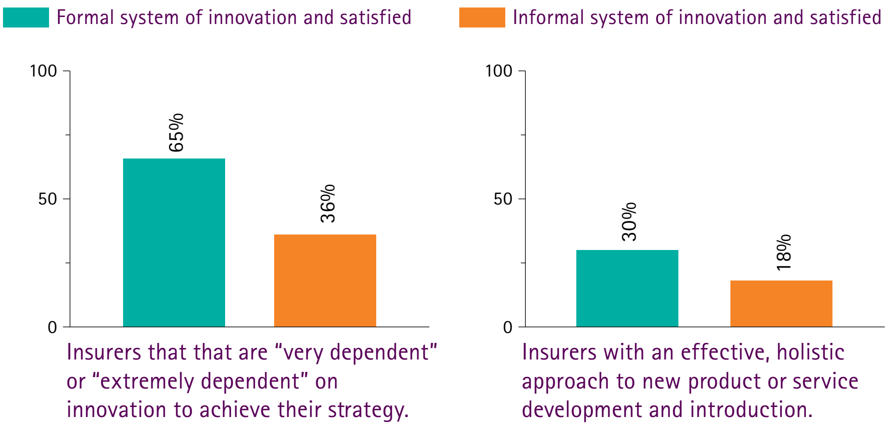
Apply risk management practices specifically tailored to innovation to identify future opportunities and to properly evaluate your innovation portfolio. It stands to reason that as innovation efforts grow and their potential impact expands, insurers will require more advanced capabilities to identify, measure and manage risk. Risk management is a core competence for insurers, something they could easily apply to their innovation efforts.

Leverage the digital power of Big Data and social media to integrate the Voice of the Customer into the development processes and drive a high level of personalized experience. Digital analytics can provide unprecedented real-time access and insights into consumer trends and preferences. Sixty-nine percent of insurers invest in cloud to enhance their innovation capabilities (substantially above the average of 60 percent across the whole sample), while 50 percent invest in mobile for the same reason. Insurers are also slightly ahead of the curve when it comes to social media, with 41 percent (versus 31 percent across the board) investing in this area to improve innovation. With personalization emerging as a decisive factor in the success of innovation, it is imperative that insurers improve these figures still more, especially when it comes to social media.

Pursue frugal innovation both to capture middle-class consumers in emerging economies and also to disrupt markets in developed economies. Frugal innovation—reducing the cost and complexity of a product or service—remains a key strategy for penetrating developing markets. For 41 percent of insurers it is either "critical" or "very important." It is also worth considering whether frugal innovation should be investigated as a way of increasing speed, reducing cost and disrupting value chains in developed markets as well.

Develop an innovation process focused on results. A danger inherent in innovation projects is a tendency to over-analyze everything. While exercising sound risk management, the better approach is to pilot potential innovations quickly, using the results either to fine-tune plans or terminate projects rapidly. This approach will prevent dud projects from consuming too many resources, and also recognizes the fact that today's markets are fast-moving—successful innovation risks irrelevance if delayed.

Figure 2: Satisfaction levels correlate with use of formal system of innovation in two areas: Insurance industry



Conclusions

Insurers face an uncertain future: change is the only certainty on which they can rely. While they recognize the importance of innovation in helping them to rise to the challenge, poor results in the past have led them to reduce their expectations as a way to mitigate risk. This strategy is faulty, making them vulnerable to new entrants and breakthrough ideas.

To turn things around, insurers need to put formal systems in place to manage innovation more effectively. In so doing, they will improve the contribution innovation makes to their businesses, and build its credibility as a business strategy that delivers results.

Insurance innovators

Many insurers around the world are using new technologies and, more importantly, new ways of thinking to develop innovations that meet customer needs and deliver bottom-line results.

Crédit Agricole creates a new market

One of the leading financial groups in France, Crédit Agricole is leveraging its brand strength as a risk mitigator to provide a high-tech remote surveillance and monitoring service for its business clients. Télésurveillance Pro is a complete solution for protecting the assets it insures, creating an entirely new revenue stream for the company and deepening its relationship with clients.

Quixa beats competitors to mobile frontline

Quixa, the Italian subsidiary of Axa, was quick to spot the growing importance of mobility to its current and potential customers. Given that the company has always emphasized the importance of delivering a comprehensive, multi-channel experience, it moved fast to develop the first Italian mobile insurance site to offer real-time services. This was an innovation that confirmed an existing brand promise, and responded to a real client need.

Intesa SanPaolo Assicura launches black box

The Italian insurance innovator is using a "black box" to offer a range of new services to its motor clients. Using global positioning and a cellphone link, the black box allows a customer to communicate an emergency simply by pressing the unit's SOS button. The control center can then dispatch help to the exact location. Known as ViaggiaConMe, this innovative piece of technology can be used to reconstruct accidents in the case of a claim. Clients can add a range of further services enabled by the ViaggiaConMe box as required.

About the authors

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About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 266,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$27.9 billion for the fiscal year ended Aug. 31, 2012. Its home page is www.accenture.com.

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