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Building momentum for cultural change

Being told to abandon old ways of thinking and working and embrace without delay a new, and seemingly riskier, digital culture can be unnerving for insurance companies. But there are certain actions insurers can take to kick-start change while minimizing the risks—and they do not have to alter everything at the same pace.

Introduction

Few CEOs need convincing that a digitally enabled transformation of their companies is the path to lower costs, growth, and perhaps even survival as technology and changing customer expectations usher in new competitors, new value drivers, and new business models. Nor do they need telling that at the heart of a digital transformation lies a cultural one, equipping them to support new ways of thinking and working. Rare is the CEO who does not have cultural change high on his or her agenda. But making that change can seem a daunting task. Indeed, McKinsey research has shown that 46 percent of financial services executives feel cultural or behavioral change is the biggest challenge they face in pursuing their digital strategies.

Perhaps not surprisingly then, insurers scored poorly when we measured their cultural preparedness for a digital world (see “Measuring your digital maturity”).

Cultural change is of course hard for any long-established organization. And so it is with insurers, the largest of which often have a century-old record of creating value for policyholders and shareholders.[1] Unlike digital newcomers to the industry that are building up a new business, incumbents suspect change might undermine the health of their existing one.

But beyond a general reluctance to tamper with approaches that have served them well, there are more specific reasons why cultural change can be particularly hard for insurers to contemplate. To begin with, the industry is highly regulated, making insurers extremely cautious about changing the way they work. There are also certain aspects of a digital culture that seem designed to undermine the very things that have made insurance companies so successful in the past.

> “The companies that will stand out are the ones that are going to find ways to move a bit faster, at the pace of the people they’re insuring.”
>
> – Scott Simony, head of industry, Google

For example, a digital culture demands an unswerving focus on customer needs. And while there are exceptions, most insurers have built their success on the products they offer and their underwriting skills, and by focusing on agent and broker relationships—not customers. A change of focus will therefore be hard not only culturally, but also operationally: administrative

1 Average age of the top ten P&C and top ten life insurance companies in the United States based on 2015 premiums, SNL Financial.

systems that are built around policies rather than customers will need to be reconfigured, for instance. And disturbing the long-established intermediated distribution system carries risks when 84 percent of sales in US P&C and 90 percent of US life policies go through agents or brokers.[2, 3]

About 25 percent of people who shop for auto insurance in the US buy online directly from the carrier.

Another digital mantra is experimentation with new products and services—requiring an ability to test and learn quickly and a willingness to fail sometimes in order to keep pace with market change. But the idea of experimenting can make insurers feel distinctly uncomfortable. They spend a great deal of time meticulously planning to ensure nothing they do falls foul of regulatory or compliance requirements, while the job of actuaries is to be absolutely certain about the carrier's predicted losses. Will a new culture that demands more speed and experimentation put their value and brands at risk?

2 Market Share Report, Independent Insurance Agents and Brokers of America, 2016.

3 *Rethinking US life insurance distribution,* May 2016, McKinsey.com.

Of course, fear of change is no reason for maintaining the status quo; history is full of the corpses of companies that failed to keep ahead of industry disruption. Moreover, building a digital culture does not mean destroying the skills and values that have sustained the company. Rather, it is about renewing that heritage with new ways of thinking and working.

In addition, not everything has to alter at the same pace. It is important to distinguish between those segments of the industry that are being transformed quickly due to digital technology, where cultural adjustment is thus urgent, and those where change is slower. With these parameters drawn, cultural shifts become a less unnerving prospect. We do not pretend there is an obstacle-free method to instilling new ways of working and thinking, and a digital culture will need to take hold across the entire organization before long. Nevertheless, certain actions can kick-start change, and build support and momentum for more.

Where to start?

Wholesale, rapid change is neither necessary nor possible. Culture, by definition, takes time to root. To know where to concentrate their efforts, insurers should first consider how quickly digital technology will affect different business lines, then different functions within those businesses. With this clear, they need to improve those elements of a digital culture where they are weakest.

The business

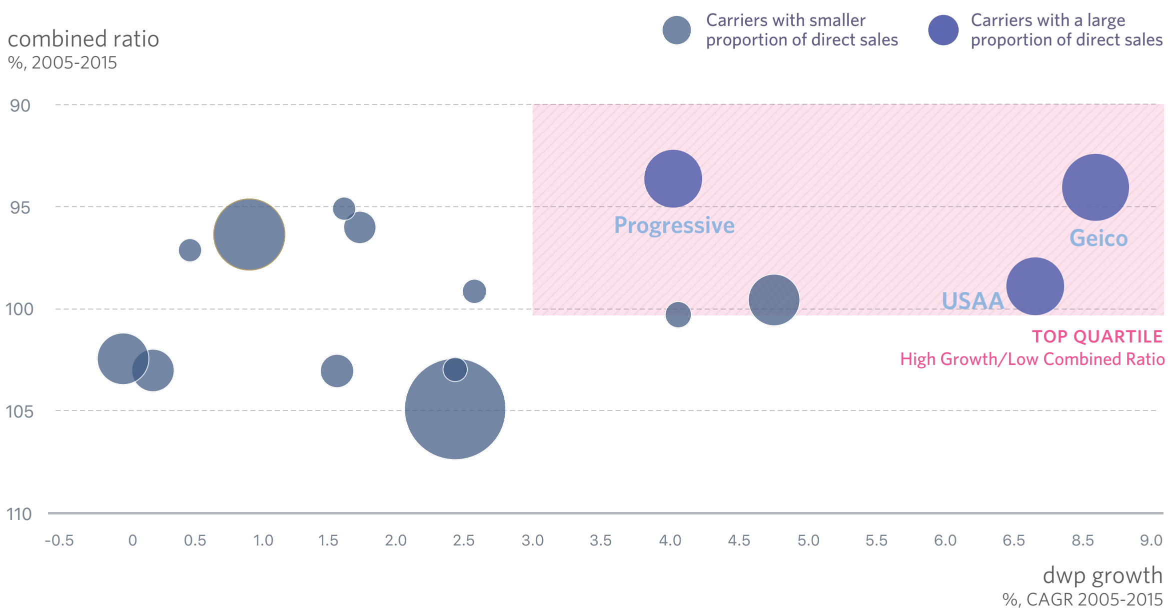
Personal lines insurance has felt the greatest impact from digital technology. About 25 percent of people who shop for auto insurance in the United States, for example, buy online directly from the carrier,[4] with several direct underwriters enjoying high growth and profitability as a result. In the United States, carriers that mostly sell directly have the lowest combined ratios (losses and loss-adjustment expenses divided by earned premiums) and enjoy some of the highest growth in direct written premiums (Exhibit 1). Arguably, their success stems from their digital culture: they have moved swiftly to embrace technological innovation and focus on changing customer needs. The outcome is a high level of automation that enables them to cut costs and price keenly, and a determination to make buying insurance easy for customers. Personal lines insurers that fail to act similarly will surely struggle to compete.

4 J.D. Power US Insurance Shopping Study, 2016.

Exhibit 1

Direct sales can enhance growth for personal lines insurers[1]

The top 15 personal lines carriers by size in 2015[2]



[1] Figures refer only to the direct written premium (DWP) growth and combined ratio of the personal lines of each insurer

[2] Size of the bubble represents size of 2015 personal lines DWP

Source: AM Best, McKinsey analysis

Small commercial and simple term life policies will be next to go the direct route, both as customers grow increasingly comfortable using virtual channels and as the combination of more data and technology enables insurers to underwrite a large share of these risks automatically, limiting the need for intermediaries. Movement is already apparent in the life segment. Jennifer Fitzgerald, CEO of PolicyGenius, a US-based aggregator of term life quotes that aims to make buying a life policy simple for consumers, says people cannot understand why, if they can do something as seemingly complicated as their tax returns on their own, they cannot figure out how to buy a life insurance policy unaided. Haven Life, a direct term life carrier in the United States, offers an online application process that takes less than 20 minutes and makes an immediate decision on term coverage up to $1 million.

Direct insurance for small commercial is still rare, but a McKinsey survey of more than 1,500 customers with small commercial policies showed 60 percent would be interested in buying directly. Large commercial and specialty policies will be the last to feel digital's pull given their complexity, the fact that brokers fully control distribution, and the lesser price elasticity of buyers compared to other segments.

The function

It is already the case that consumer-facing functions such as marketing, customer service, and claims can fulfill customers' expectations only if they are strongly digitally enabled. Because these areas lend themselves to digital experimentation, bringing about change should not be overly difficult. In marketing, for example, testing messages and channels in order to find out what is most effective presents little risk for an insurer and can produce answers quickly if A/B tests are used (whereby two versions of a web page or app are tried out to decide which one performs better).

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Before long, however, companies will need to be prepared to broaden their change efforts to wherever the adoption of digital technologies will enhance competitiveness. In underwriting auto insurance, for instance, real-time data from the Internet of Things is leading to more accurate pricing and risk selection based on factors such as how fast a person is driving or how hard they are braking.

Strengths and weaknesses

Our research suggests there are certain cultural attributes that underpin a mature digital environment and help drive superior performance: an appetite for risk, a test-and-learn mind-set, organizational agility, and a desire to collaborate internally and externally. Often, of course, these cultural attributes are nurtured by certain management or organizational practices. Is the leadership team a good role model, for example, or are functions set up in a way that makes collaboration possible?

Various tools exist to help a company ascertain its cultural starting position and to indicate what needs to change and what does not. These include McKinsey's Digital Quotient® and the Organizational Health Index.

How to start

There are myriad ways to achieve a digital culture, and the path each company chooses will be unique. In general, there are a number of actions companies can take to kick-start change and speed them on their way. Here we describe some that reinforce three particular traits of high-performing digital companies—customer-centricity, collaboration, and comfort with (calculated) risk-taking.

Customer-centricity

Most businesses make decisions by considering the business case and what competitors are up to. Customer-centric companies expand the framework for decision making, putting the customer's point of view among their top considerations. A question on the table should always be, "How does this create value for the customer?"

> "You'll be penalized if you fail over a long period of time, so fail fast."
>
> – Eric Gewirtzman, CEO of US online insurance agency Bolt

At Amazon, for example, internal presentations addressing business problems are known as "working backwards documents." They start by identifying how a proposed solution would help improve the customer experience, be it a better price, improvement in service, or increased selection. Only then does the presenter work backwards to present the business case. It is a mind-set that some insurance incumbents are endeavoring to enforce. Sandeep Bakshi, the CEO and managing director of Indian life insurer ICICI Prudential, insists decisions made by employees, whatever their rank, must have one of three outcomes: improved customer experience, more business, or less risk.

Many other businesses are engaging customers in the product development process, as there is no point asking what they think of a new product or service once it has been launched. If they are dissatisfied, the development has been a waste of time and money. Customer needs should be understood at the outset and feedback sought continually as the product is developed.

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The more people reached by that feedback, the better. To this end, Aviva has an internal app that connects employees to the digital insight the company has about its consumers, including live feeds from social media or curated calls from its contact centers. “The purpose is to give our people the ability to nibble on real consumer feedback in an entirely raw fashion without making a huge event of it,” says chief digital officer Andrew Brem. “So if you’ve got two minutes, you could read a few tweets about what our customers are really saying to us or hear a few calls. The idea is just to get our people connected with our customers.”

A sure way to quicken a shift toward a customer-centric culture, of course, is to link employee compensation to metrics that promote it—for example, metrics that measure customer satisfaction directly, or relate to other attributes of high-performing digital companies that affect customers indirectly, such as speed to market.

Collaboration

Collaboration is key not only because it improves customer understanding and decision making, but also because it does so quickly. Our research shows that more than 70 percent of insurers take from six months to more than a year to move a digital initiative from idea to implementation. That is too slow. Scott Simony, head of industry at Google, explains why. “Insurance is a highly regulated industry and it is not easy to move quickly—but the fact is consumers are moving at exceptional rates. So I’d say that the companies that will stand out are the ones that are going to find ways to move a bit faster, at the pace of the people they’re insuring.”

The way to achieve this pace and cut development time dramatically is to set up small, cross-functional teams that take an agile approach to their work. In a functional setup, no one owns the full customer experience and it can take many work sessions to cobble together a complete view of it. But a cross-functional team, focused on the single goal of improving the customer experience, can do that rapidly.

The team, located together and working in sprints to meet specific weekly development targets, introduces early prototypes or minimum viable products (MVPs) that satisfy some—not all—customer needs and can be improved with customer feedback. If the team is also empowered to make decisions without seeking higher authority, it can cut delivery time to as little as three to four months.

> "It's really hard to stop a prototype because it's touchable, feasible."
>
> – John Straw, investor, Bought by Many

Pure digital companies such as Spotify were among the first to adopt this agile approach, and insurance companies are increasingly following their lead. John Straw, an entrepreneur with investments in the insurance industry, and formerly the chairman of the digital advisory board at UK travel agent Thomas Cook, recalls his experience building a new insurance website for the company. "It was the prototyping part that made the big difference. Rather than put the plans through a committee, I took some of my budget and went to a WordPress developer and said, 'Build me a working prototype of the new insurance website.' It took four weeks. I then took it to the innovation committee, and it was relatively simple from there. It's really hard to stop a prototype because it's touchable, feasible."

Risk taking

On the subject of experimentation, the inventor Thomas Edison is reputed to have said, "I haven't failed, I've just found 10,000 ways that won't work."

In a digital age, insurers need the same mind-set. Concern over the costs of failure can be minimized by the use of the test-and-learn approach encapsulated in MVPs—the frequent gathering of feedback means a company will not travel far in the wrong direction before correcting course. United Services Automobile Association, a US-based insurer, now tests some 8,000 ideas each year, generating roughly 250 patents. Yet a culture that understands the value of calculated risk-taking is one that also accepts failure, and learns from setbacks. Some organizations openly celebrate the lessons learned in order to encourage their employees to take risks.

Organizational changes and the role of the CEO

The way a company chooses to organize itself can significantly affect the pace of cultural change. There are many options. For example, some companies tackle the cultural challenge from within, in the belief that this is the only way it will take hold, while others set up a separate division for digital initiatives on the basis that they need distance and a degree of autonomy from the old business to flourish. That division will look more like a start-up, with its own goals, new digital talent, agile processes, and the autonomy to act toward these goals.

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Youse Seguros, the online insurance sales platform of Brazilian insurance company Caixa Seguradora, was set up in this way. According to CEO Eldes Mattiuso, "It was an essential move. You have to start from scratch. You have to forget about the rules of the old company and think like a start-up. If I'd had to follow the traditional product development procedures it would have proved impossible to move quickly, or to use the cloud, for example. It would have taken us a year and a half to launch a single product." Eventually, once the new culture takes hold, the division can be reintegrated.

Aside from these considerations, or other actions a company might take, the element that underpins all efforts to embark upon cultural change, and sustain it, is the commitment of the CEO and the leadership team. It falls to them to explain to the organization why cultural change is so important and to model the required behaviors. Some gain inspiration and conviction for this by visiting other companies around the world; Dean Connor, CEO of Sunlife, takes his management team to Silicon Valley once a year, for example. Others spend time with customers, then share what they have learned, perhaps in a live-streaming interview, or underscore the importance of a changed culture in every meeting. Whatever the specific tactics, it is the demonstration of senior commitment that is the surest way to bring about change. Everything emanates from there. □

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