Insurers: Avoid the InsurTech autoimmune disorder

Five ways to boost the corporate immune system

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Management tenents that protect an insurance company's core business are not always compatible with innovation. How must insurers adapt to thrive in the InsurTech age?

As experienced corporate executives know, highly successful, large companies tend to do three basic things extremely well: They protect the core business, manage risk and avoid big mistakes. Over time they build strong internal forces that are extremely capable in these three critical functions, acting much like corporate antibodies.

While great for the core business, these antibodies can stifle innovation. The same corporate immune system that protects the core business can be detrimental if it misidentifies something as a threat. This is even more pronounced in the insurance industry. Why? Because when the core operation of a successful, centuries-old enterprise is the identification, quantification and mitigation of risk, it should come as no surprise that rapid innovation represents risks that can be misread as threats to the system.

Today's rapid proliferation of InsurTech has triggered the business equivalent of an autoimmune disorder in the insurance industry. Left untreated, it will ultimately threaten the industry's health and impede its ability to adapt in a rapidly changing environment. The good news is – the condition is treatable.

Recognizing the condition

An important first phase in developing a healthier approach to innovation is for insurers to understand the barriers inside their own organizations *(Figure 1)*. An initial instinct of many management teams is simply to tear down barriers, a plan that is neither practical nor helpful. Some barriers actually play important roles as organizational checks and balances against impulsive or poor decisions. Instead, thoughtful work-arounds are needed.

New business processes, partnerships and organizational structures can work in parallel to the core business and allow sustainable innovation to occur. In particular, five key attributes can, in our view, help insurers manage the autoimmune problem and cultivate innovation.

Figure 1. **Five innovation barriers and key attributes for success**

Internal innovation barriers	Success attributes
▪ We could do this ourselves; why do we need them?	▪ Sponsorship
▪ We thought about this a couple of years ago.	▪ Sight
▪ They won't be able to meet our IT or procurement protocols. IT can't look at it for six months.	▪ Separation
▪ Too early for us; needs to develop; we'll monitor.	▪ Speed
▪ We saw this; not new.	▪ Stealth

Source: Willis Towers Watson

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"What we learned" not "what failed" may seem nuanced, but it is important so as not to stimulate corporate antibodies.

- **Sponsorship:** Sponsorship starts at the top. Establishing sustainable innovation as a core competency requires executive sponsorship from the CEO and the board. That sponsorship needs to come with commitment, conviction and a clear vision.

  But innovation should not be just a top-down exercise. Messaging should be inclusive and holistic. It needs to draw elements of the operating business into the process as partners with a clear value proposition. Creating alignment with messaging can help mitigate the risk of antibody rejection at some later point in the process.

  Messaging must be regularly reinforced with the board, investors, the street and employees. Updates on programs and progress should define and continuously refine goals, celebrate successes and acknowledge inevitable failures as essential learning experiences. When proofs of concept or pilots fall short of their original goals (and they will), companies must use these to set a stronger foundation for the next project's success. Being clear about "what we learned" not "what failed" may seem nuanced, but it is vital so as not to stimulate established corporate antibodies.

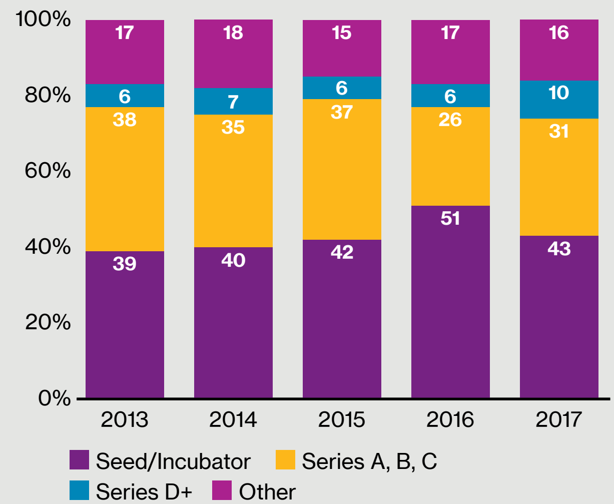
- **Sight:** Sight or direct line of sight into the InsurTech ecosystem is a key component of innovation. Getting this step right may be the most important of the five attributes because it's a critical inflection point. It's also frequently where a lot of companies lose momentum and direction.

  After some early enthusiasm and initial venture capital forays, many will not be able to filter the noise of early-stage companies and new technologies to connect with the essence of InsurTech *(Figure 2)*. Insurance companies typically do not have line of sight or know how to navigate in this community. Establishing a corporate venture capital function can help but does not ensure successful commercialization of new technologies.

  Sophisticated technology accelerator platforms like Plug and Play, and Y Combinator are great aggregators of early-stage companies and offer a quick way to create a line of sight, but they embody different characteristics that insurers need to understand. For instance, each accelerator platform has its own business model and financial interests. Understanding these are key to ensuring alignment with commercial interests. Do they make direct investments? How do they invest? When do they invest? How does this impact the businesses that potential partners see or don't see?

Figure 2. **Early stage companies have dominated InsurTech deals**

A large number of deals in the past five years have involved early-stage companies (InsurTech: stage of firms being funded)



Source: Willis Towers Watson and CB Insights

Insurers must identify and understand any potential misalignments with accelerators to optimize their use in achieving business objectives. They will find some platforms unfamiliar in an atmosphere that can be highly energized. While the turbulence of innovation and capitalism may seem overwhelming, it's vital for insurers to understand their available paths to innovation in the changing technology landscape.

To prepare, insurers may find it valuable to work with an experienced partner that can help build strong, consistent filtering processes to maintain focus and limit distractions. Think of partnering as acquiring a set of noise-canceling headphones as you embark on your InsurTech journey.

An omnichannel strategy that includes a good partner – as well as independent channels for engagement with venture capitalists, academic institutions and entrepreneurs – can help insurers manage the often misaligned interests of competitors and other parties pursuing accelerators.

Case study: When the immune system works

Certain corporate cultures offer examples of how the keen interest in the art of the possible can overwhelm potential antibodies. This occurred in late 2017 at the Singapore-based Asian headquarters of a large global insurance company. What began as a simple discussion about the opening of a new Plug and Play platform in Singapore between Rajesh Sabhlok, a Willis Towers Watson consultant in Singapore, and me turned into one of those rare events in overcoming corporate antibodies. Rajesh was looking for something interesting to bring to the client's strategy team in Singapore, and I had just returned from a meeting with the new Plug and Play team that was launching the Singapore platform. I asked Rajesh if he thought the client had an interest in emerging technology around InsurTech. The answer was a resounding yes. We began planning an Innovation Day event that would bring several InsurTech start-ups to the client's Singapore-based regional strategy team.

The process started with the client sharing three internally developed themes, which we then used to determine which InsurTech categories we would focus on. Participation in the event was opened up to regional businesses and senior leaders, including country CEOs, COOs, CIOs and CSOs.

Working with Plug and Play Singapore, we presented an initial list of 30 companies to the client, of which 10 were short-listed to do a presentation and demo, and six were eventually selected to present on Innovation Day. The team then took the selected start-ups through a rigorous preparation process to ensure their propositions were aligned with the nuances of the client's businesses and strategic intent. At the event, all the companies were evaluated by the business leadership based on specific criteria concerning strategic alignment and fit. Consequently, a number of proof of concept projects and further work continues for the client fueled by start-up-driven innovation.

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- **Separation:** To embed innovation and new technology successfully into their business, companies intentionally create separation from the status quo to allow the early stages of innovation to run without interference from the corporate immune system. New technology must be tested, iterated, course corrected and modified. Doing this inside the business simply won't work and is better suited for more mature functions. Newer, smaller and perhaps more fragile operations will be slowed or withered by bureaucracy, processes and metrics they cannot cope with or sustain.

  It's imperative to establish a business unit or lab to create separation until the new technology is ready for commercialization and scaling. And building the necessary business processes to develop and migrate the new business or technology into the operating platform is as important as the technology itself. This is where art and science often meet.

  Some companies have created an entirely new business platform with its own separate organization, operations and culture. AIG's new Blackboard platform is a recent example. These fledgling labs, however, retain some ties to the parent for added insulation and protection. They are often staffed both internally and externally to bring a fresh perspective and still maintain some connection to the parent.

- **Speed:** The well-used "fail fast" technology axiom should also include "learn fast." Speed is important in testing, iterating and making decisions around new technology. Empirical data show that getting there first with a solid new opportunity is highly valuable. But most large corporations operate with intentionally complex and difficult decision trees as an internal control to manage risk by discouraging quick, impulsive decisions that could endanger the broader enterprise – in short, smart and necessary, but slow.

  There is a close tie between operating with requisite speed and creating separation. It's very important to provide a safe environment where quick but limited-scale decisions can be made by empowered teams. Separation protects both innovation and the core business from efforts or actions that might not go as planned. So the right environment to fail fast, learn fast and move on is as important as moving quickly itself.

- **Stealth:** The hollow success of issuing an early press release to celebrate innovation is all too prevalent and often amplified by social media outlets. It looks good and feels good, albeit temporarily. Truly valuable innovation requires an element of stealth – both internally and externally – and timing.

  Good ideas need adequate testing before a major launch. Moving a great idea out too early into the operating business or the public domain can end badly. If there is a stumble or setback, competitors and the corporate antibodies will marshal their forces quickly and in large numbers to kill the project before it recovers. It takes discipline and focus to delay an announcement rather than giving in to the urge to show everyone how far ahead of the curve you are or how quickly you're catching up with competitors.

  The risk of excessive stealth or being a little slow in getting significant exposure is minor when compared to a premature stumble. That sort of error could not only kill a project but also cast a shadow on the entire innovation process. Be stealthy, smart and deliberate.

Fit for action

Corporate immune systems and their antibodies are powerful risk sentinels. It takes thoughtful planning, discipline, focus and sound processes for companies to adapt to a culture of innovation, as described in our case study. Sustainable innovation in the insurance industry is not only possible, but can and should thrive. It will require some changes in thinking, and new partners and approaches. That can be uncomfortable for a generally staid and risk-averse industry, but sustainable innovation is critical to long-term success.

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