Separating the signal from the noise

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Mention the word "transformation" to insurance executives and expect some squirming. It's a concept that can trigger many emotions, primarily because it so often isn't really understood.

Does transformation mean the business wants to be much more efficient? How about possessing the ability to enable cost savings? Transformation can mean either: Cost savings and efficiency aren't necessarily synonymous in this context.

Does transformation mean being able to quickly scale a new technology to better serve customers and boost the rate of revenue growth?

How about having the capacity to extract meaningful information from your data flows? What about shifting ingrained cultures to the point where real change can take root?

Regardless of how those questions are answered, we believe that an essential step in business transformation is having the aptitude to harness the ***signals*** contained in an organization's store of data. The signals—or indicators—help eliminate outliers in data, create cleaner data, and reduce the noise (the unusable exhaust in the data deluge) to deliver a better overall data set—accelerating the path from challenge to solution.

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However, in our experience we find that many insurers are struggling in their desire to reach that goal. Part of the challenge is that geysers of data spouting from innumerable sensors and personal devices create so much noise that signals are difficult to uncover.

Better understanding of the signals that data emit can enable insurers to understand, and act on, changing customer habits and demands, learn more about where risks are located, and then enable solutions to be created.

Insurers that can gain such a level of understanding—in real time—should be better able to take a leap forward and find success in advancing such critical industry aspects as underwriting, sales, marketing, and claims—all of which can go a long way toward satisfying customers.

Even with such abilities, insurers still must commit to being much more strategic and coordinated across business units and layers of management.

In short, insurers must think less like insurers of yesterday and more like other industries that are using technologies and new ways of working to reach customers more quickly and provide much better experiences. Those steps demand insurers embrace a culture of change—not an easy step in a business that effectively operates much like it did 200 years ago.

The credo "If it ain't broke, don't fix it," is engrained in this industry.

But, when disruption and transformation take root on a larger scale, we expect to see a very different industry landscape than the one we see today. And, we think that day is not too far away.

Seize new opportunities

The risk of irrelevance continues to increase in insurance. Yes, new insurance technologies, new platforms, and apps abound. But, end-to-end, strategic transformation at traditional insurers appears to be rare.

We believe the risks associated with delaying coming to grips with transformation are very real.

A famous bit of dialogue between two characters in the 1926 novel, *The Sun Also Rises*, by famed novelist Ernest Hemingway, contains this question and answer:

"How did you go bankrupt?" one of the characters asks another.

"Two ways," the second one responds. "Gradually, then suddenly."

Macroeconomist Rudiger Dornbusch, in discussing Mexico's economic crisis in the 1990s, said, "A crisis takes a much longer time coming than you think, and then it happens much faster than you would have thought."

Hemingway's dialogue and Dornbusch's comment are pertinent today when we think where insurance is on the path of transformation.

Irrelevance is perched on a slippery slope.

A colleague at KPMG is fond of saying that we act like *The Jetsons* when we are at home and like *The Flintstones* when we are at work. That line may be as much true as it is humorous. We grab our tablets and smartphones to buy shoes, books, music, cars, clothes, computers, and all sorts of services. Almost immediately, we receive an email confirming our purchases … and we typically find suggestions in the email about buying another product or service that others just like us have ordered.

Is that activity common in insurance?

Aren't some of our biggest businesses still requiring customers to have holes poked in their bodies or deliver other bodily fluids to a medical center in order to buy a life policy?

Why are existing customers, year after year, required to send the same information to their property and casualty insurer—on paper sent through the mail service, no less—to renew coverage for homes or cars?

Despite all of these head-scratching demands, we see opportunity in insurance for the forward-thinking (and forward-acting) among us.

Still, we are compelled to ask: Is this industry prepared for transformation? Maybe. Maybe not.

Consider this question: Can an industry survive when (at least in the case of life insurance) it has just a very few interactions each year with its customers when it sends a bill or receives a payment? Is there anything in that scenario that bears any resemblance to a strong customer relationship?

"How did you go bankrupt?"

"Two ways. Gradually, then suddenly."

—*The Sun Also Rises*
Ernest Hemingway

For every Lemonade, Trōv, and Slice, there are many, many more traditional insurers operating at the fringe of the opportunity set. This situation, then, begs the question: When does all of this become mainstream, and will mainstream insurers begin to realize new streams of revenue and produce products and services that are customer friendly? Ultimately, insurers must be thinking about where they go from here.

Customer, data, and talent

In our opinion, insurers can only enable growth if they embrace three key priorities:

— Be relentless in enhancing the customer experience

— Aggressively pursue excellence in data management and analytics

— Become creative in attracting (and retaining) highly skilled talent to the industry.

We are encouraged that insurers are making up ground in offering better customer experience, even though the effort at times appears to be uncoordinated.

The data story is not as encouraging: The industry remains data rich and information poor. Insurers too often have duplicate pools of data across the value chain, business units, and geographies. Insights remain buried in mountains of uncoordinated data.

In the competition for talent, the industry is not attracting enough data scientists and engineers. We think much of the problem can be attributed to the industry being unable to offer a compelling story to those individuals.

Where do you want to be?

Insurers are faced with three operating model options.

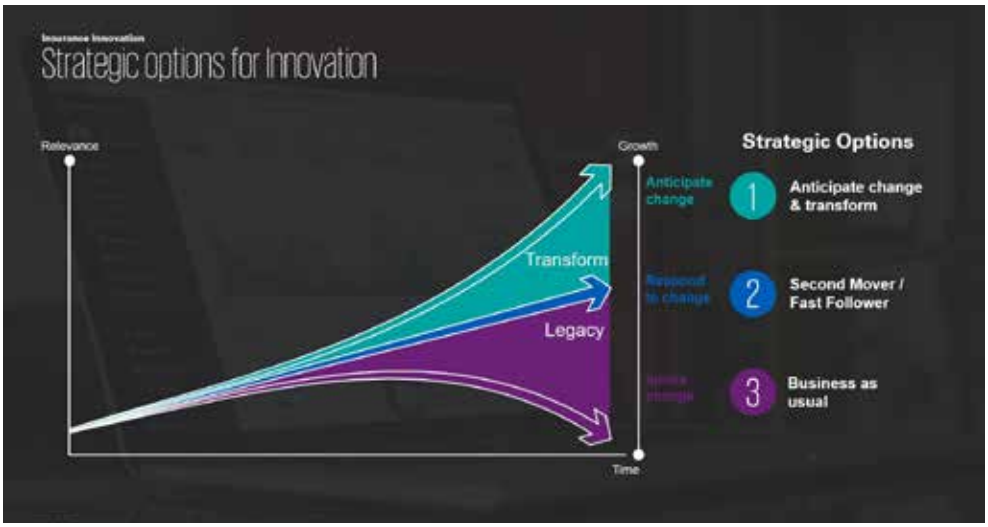

Figure 2

First, the high-growth, high-relevance option, where change and transformation are anticipated:

This is where insurers must answer these questions. "Who are we?" "What kind of company are we?" "What are we doing as a business?" "Can we anticipate change and transform?"

Some have created changes on the periphery, but they must ask if they can do it at their core. Can they bring it home and overcome inertia and change their culture?

Second, where the organization adopts a second-mover/fast-follower posture and can quickly respond to change, and where growth and relevance are slightly higher than a "medium pace."

There is nothing wrong with being a fast follower. Not every organization wants to be a Progressive or Lemonade.

Insurers who are focused on this operating model have learned to leverage fast-follower capabilities. And, we would challenge everyone in an insurance organization to consider this thought: Insurers should avoid comparing what they are considering doing only against other insurers. What are others businesses, such as big technology companies or other powerful potential entrants doing in terms of customer connectivity, talent attraction, managing data, and embracing change?

Third, is where the organization adopts a business-as-usual posture. It's an option that raises the risk of irrelevance. Who would expect "no change" to produce more growth?

If insurers are going to transform, they will need to make new bets. Some are not going to pay off, but bets must continue to be made.

Gary Plotkin was a keynote speaker at the April 11 Financial Times 2019 Insurance Innovation Conference in New York City.

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