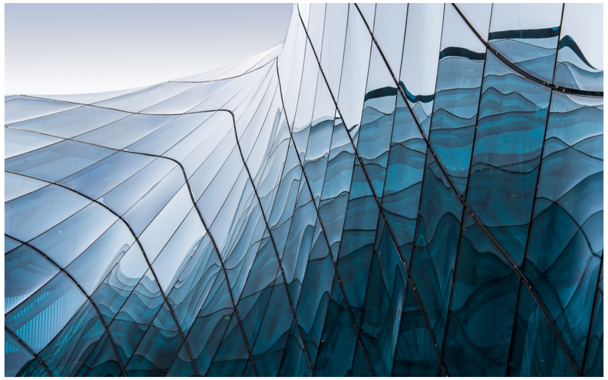

Shoreline Asia White Paper

Reflections on Strategy for Insurance Companies

Paper 1 of 3: The Strategic Environment and Strategic Choices.

Introduction

One of our most popular training programs is our Insurance Governance Masterclass.

This Masterclass is particularly targeted towards Insurance Company Board members who, while experts in their field, e.g., Law, are not necessarily as experienced when it comes to insurance.

We also include 'C Suite' members along with those charged with providing governance support to the organisation and the Board as well as people with an interest in increasing their understanding of governance and the role and operation of The Board in an insurance context.

We recently updated the final session of the Masterclass; this is the session where we look at strategy from the perspective of The Board.

This is the first of a three-paper series discussing some of our key learnings and observations on strategy for insurance companies gathered as we updated the session.

The Role of The Board

A key question, and one of the Elephants in the room is: "What is the role of the Board in setting strategy anyway"? Opinions vary, but probably the best response is that the CEO is responsible for strategy and the Board is responsible for ensuring an iterative process where they are engaged in assisting the CEO to prepare the strategy through periodic input into its development.

Once satisfied, the Board approves the strategy, the CEO executes, and the Board ensures that it has clear line of sight into the success or otherwise of that execution as well as always retaining the right to intervene if necessary.

In terms of the alternatives:

If the Board sees itself as responsible for setting the strategy, through, say, offsite strategy weekends etc, then that would appear to be a vote of no confidence in the CEO.

A hands-off approach, without appropriate engagement due process along the way, runs the risk of essentially limiting the Board's role to either accepting or rejecting the strategy once it is presented. Again, this could also be construed as vote of no confidence in the CEO if the strategy is rejected.

Current State of Play

'Staid old insurance' (sic) is undergoing more upheaval at this point in time than any just about any other industry. What we find interesting about this statement is that we are now so enmeshed in the disruption going on around us that we have forgotten it was not so long ago that forecasting such a state of affairs would have been rejected as fanciful.

Regardless, when surveying the landscape as a part of any strategy development exercise, we now need to be deeply cognisant of the many forces of disruption that are pushing and pulling at the industry e.g.

- **Changes in industry regulation** such as new reporting standards around financial solvency, market conduct ESG, stress testing, advisor licencing, disclosure regimes -and the list goes on.

- **Customer behaviour**, not just 'they're going online' but matters such as their willingness to allow you to harvest their data in return for a superior customer experience, or their changing expectations on what a corporation should stand for.

  There is also the not insignificant matter of the great demographic transition as baby boomers head into mass retirement.

- **Proliferating distribution channels**. Selling insurance is all about having distribution channels that are delivering. Relying on 'traditional' distribution channels is to rely on a distribution strategy that is in the decline phase of its lifecycle.

- **New and emerging risks**. The pandemic and climate change in particular have disrupted old certainties, which is another way of saying, they have upended risk.

  New technologies such as A.I will only accelerate that disruption.

  There is challenge and most certainly opportunity in this climate (sic) of accelerating disruption for an industry whose entire value proposition is founded on risk.

- **Traditional and new competitors**. For thousands of years, innovation in insurance was largely internal. Around 2008 the baton changed due to technology and changing expectations from consumers. As a result, innovation became largely external.

  This resulted in a massive threat to the traditional ways of conducting an insurance business.

  In response, ''traditional' insurers are co-opting fintech principles and practices to provide what has become the preferred customer experience. Essentially, if you can't beat 'em……

- **New methods of transferring risk**. Presently, there is a lot of experimentation, largely enabled by technology and predicated on consumer preference, with products and how they offer to manage risk, A lot of these experiments will fall by the wayside (many already have), but some won't.

- **Core technologies of production and service lowering barriers to entry**. If you consider insurance as a 'value chain', rather than one 'thing', then technology has considerably lowered the barriers to entry for some key aspects of the value chain. A question for strategy is: at which points of the value chain will you choose to compete/ invest in and, of course, why?

- **ESG.** Climate change is the existential question of our time. It is not the only factor at play in ESG of course but it has put ESG obligations front and centre. A strategy that does not have ESG as one if its core pillars largely misses the point of what is expected of a modern corporation from its customers, staff, regulators, legislators, stakeholders, financiers, investors and the broader community.

  In short, any organisation that is seen as falling short in its ESG obligations is likely to find that the web of relationships within which it operates will have turned their back on it.

- **Changing demographics**. Many of the institutions in the developed world relied on the Baby Boomers as their core demographic. Well, they are now heading into mass retirement and are taking their capital with them.

- As an aside, the insurance industry has been remarkably lacking in imagination with regards to developing post retirement products and solutions for what was their core demographic.

  The demographics that are now in play e.g., Millennials, think of risk, institutions and brands in very different ways, strategists need to understand that, (and it argues for a younger cohort of strategists too).

  It's also wise to remember that they haven't forgotten how big institutions failed their parents during the GFC….

- **Net Zero**. Organisations that are not on a clear guide path to net zero will at some point become 'cancelled'.

- **Community expectations**. Under the harsh glare of social media in particular, community expectations on the organisations that serve them are becoming ever more demanding and intolerant. Strategy is not 'just' about how you will grow, strategy is also about diversity, inclusion, genuine (not something that, when you break it down, seems like window dressing for the web site) community engagement.

  Community expectation is also that you will engage them in the channels where they are – social media.

  Ill-advised activities and communications that 'offend' community expectations can very quickly evoke a highly (brand) damaging 'woke' response.

Barriers to Entry, a Strategic Perspective

While it is true that there are still barriers to entry in the insurance industry, nimble new competitors are cherry picking the value chain.

Insurers that have an undifferentiated strategy which, at heart, is 'the same, just better next year', may find themselves in the position of being pushed further and further down the value chain to the point where they become, at best, a low margin, commoditized provider of just one piece of the aggregate value that a whole host of upstream value adding providers use to differentiate themselves in the marketplace.

For most organisations, being on the receiving end of someone else's strategy does not seem like a desirable outcome.

Fintech innovation begin in 1867 with the launch of the first transatlantic cable. What really accelerated the phenomenal growth and innovation of Fintech, as we now know, it 'was the launch of the iPhone in 2007 - sixteen years ago.

A lot has happened in the intervening sixteen years and if, upon reflection, your strategy has not been effective in prospering from the challenges and opportunities that have emerged over that time then the window for remaining relevant through meaningful strategic action, beyond 'same but better', must be closing for you.

There are hard, but exciting, ' Big Picture' choices to be made, the next section considers those choices.

Big Picture

The internet has no shortage of prognostications on the future of insurance (and everything else…).

Reviewing the literature, it seems we can identify 5 broadly common themes around the pathways forward to inform our strategy, they are:

1. Data, A.I, Chatbots, Robotic Process Automation.
2. Redefine risk management.
3. Cost Consciousness as a business strategy.
4. Ecosystem Hub.
5. Platform manager.

Note: they are not mutually exclusive.

We recognise that a sixth strategy of course is growth through acquisition, but you still must decide what sort of organisation you are going to be after the acquisitions and that is what we address here.

Pathway 1: Data, A.I, Chatbots, Robotic Process Automation

Carriers are Leveraging advanced tech and data analytics to create a seamless, digital-first experience, from quote and sale all the way through to claims and on to cross sell/upsell. The adoption of this strategy is particularly apparent amongst the General Insurers and motor vehicle insurers in particular.

Robotic Process Automation is used to handle the repetitive tasks of human workers, such as collecting customer information, extracting data in claims, performing background checks and so on.

Features of this approach include simplicity, an efficiency dividend leading to competitive prices, personalised 'push' notifications and sales.

- This approach is ideally suited for use with messenger apps such as WhatsApp.
- This approach is also ideal for micro insurance and distribution through agency banking networks.

Note: this should be viewed through a Business Strategy Lens - not an I.T lens.

To be clear, if this is seen as mainly an I.T project it will fail.

Pathway 2: Redefine Risk Management

Technology, changing behaviours and new and emerging risks are bringing pressure to bear on the traditional method that insurers use to transfer risk, which is of course through insurance products.

Here, your focus is on developing innovative differentiated, and customized products to address unserved / underserved segments or new, emerging risks via methods such as advanced analytics, geo-location or on demand, pay-as-you go pricing.

- The ‘Internet of Things’ features prominently in this strategy.
- Life Insurers are likely to be particularly strong adopters of this strategy as innovation in life insurance has been very hard to achieve so far.

A key positioning concept contained in this strategy is that it redefines an insurance company’s value proposition, away from traditional risk transfer and retrospective after-the-fact remediation and more towards a value proposition that speaks to risk avoidance and prospective/pro-active risk management.

And of course there is the ESG ‘dimension’ in redefining risk management. This will come in many guises, but a simple example is an endorsement that allow hybrid replacement—that is, optional coverage whereby, after a total car loss, the insured can replace his or her traditional automobile with a comparable hybrid vehicle.

Gen Y (Millennials), Gen Z and some of the ways they are defined (e.g., ‘digital nomads’)are considered the target markets for this strategy.

Pathway 3: Cost Consciousness as a Business Strategy

The reality is that every insurer needs to be extremely conscious of its costs ,however, in this instance, it is the strategy.

In essence, you make a conscious decision to run a lean operation, focus to compete competitively on price and adopt a rigorous selection criteria for the few strategic investments you choose to make.

This is arguably the toughest strategy to implement as a lot of entrenched interests within the organisation will likely resist its impact on their particular piece of the business.

- Insurers who eschew a 'face to face' sales strategy or whose strategy is to distribute via 3rd parties my find this a viable option.

- 2nd or lower tier insurers seeking to build scale through, say, Bancassurance or MNO partnerships as their primary distribution channel(s) may find this an appropriate strategy.

- It may also be appropriate as a part of an A.I Chatbot led strategy.

- Direct to consumer organisations will likely also adopt this strategy (if they haven't already done so).

- Some insurers of course have adopted this strategy under a new Brand so as not reposition/damage the existing Brand.

Pathway 4: Ecosystem Hub

Here the insurer puts themselves at the centre – the 'Hub' - of an ecosystem.

For example, we have seen Health Insurers put themselves at the centre of a 'wellness' ec system that they use to attract and retain clients.

Or, it may be an ecosystem of small business support and resources – Some Banks have become particularly good at this.

Regardless, it will be an ecosystem largely (but not entirely) delivered through technology.

- Distribution will be via existing channels, and ecosystem partners.

- From a product development perspective, this strategy offers numerous 'bundling' opportunities through the development of targeted bundles of insurance and ecosystem offerings for different market segments

Marketing will need to carefully think through the 4 P's of such an approach and in particularly how the organisation's Brand should be positioned – you are no longer 'just' an insurer.

Pathway 5: Platform Manager

Firstly, this strategy should not be confused with Ecosystem Hub (though there are some similarities…).

Platforms don't own the means of production – instead, they create the means of connection. They are the 'glue' for the network members on both supply and buy sides.

The key point to understand is that, for you, the platform is the product. You can and would include your own insurance products, but they are a part of the platform network.

Platforms rely on the 'network effect' – physical assets and employees don't scale well – networks do, as does the platform that supports them.

- Platforms are amongst the most successful business models -think iPhone and app store.
- Platforms fundamentally disrupt the concept of competitors and, if successful, fundamentally disrupt the competitors in the process.
- White labelling is a distinct opportunity.
- Under the platform business model API's are not just lines of code, they become a way of doing business

Experience suggests there will be a few major 'winners', some marginal niche providers and a lot of losers…..

Experience also suggests that this business model, if it succeeds will likely be dominated by the tech giants.

The platform model probably represents the greatest threat to insurers, as it is the business model most likely to see them relegated to low margin, commoditized providers of one piece of the value chain.

End.