

Innovation: Insurance Company C-Suite's Concern in the Era of Disruption

July 2019, No. 2019-2

Yunah Song, Research Fellow

ABSTRACT

Along with cyber risk, innovation became the biggest concern among global insurance companies' C-suites. A. M. Best, a credit rating company for insurance companies, announced that it would add an innovation component to its ratings. A. M. Best will evaluate a company's innovation level based on six sub-components: leadership, culture, resources, processes and structure, results, and level of transformation. A. M. Best's innovation evaluation looks for successful innovation that improves efficiency and supports for financial strength, and implies the innovative competitiveness that goes beyond the frontiers of the industry.

Insurers should accomplish innovation-led growth with innovation strategies, which are consistent with long-term business strategies, and vigorous innovative activities beyond the boundaries of traditional insurance ecosystems.

1. Main contents

According to a survey of approximately 2,000 global insurance companies' C-suites, conducted by the Institutes, innovation was the biggest concern after cybersecurity. Insurance company C-suite's concerns varied with the region – innovation in the Asia-Pacific and cybersecurity in North America. Also, A. M. Best conducted the survey in 2018 and it showed that most of the insurers acknowledged the importance of innovation. The main motivations for innovation are to meet customer needs, to secure competitive advantage, and to improve operational efficiency.

While innovation is a crucial topic of the global insurance industry, in March, A. M.

Best announced that it would add an innovation component to its ratings. A. M. Best defines innovation as “a multi-stage process whereby an organization transforms ideas into new or significantly improved products, processes, services, or business models that have a measurable positive impact over time and enable the organization to remain relevant and successful.”

A. M. Best will evaluate a company’s innovation level based on six sub-components: leadership, culture, resources, processes and structure, performance, and level of transformation. To receive a high innovation score, the following has to be satisfied:

❶ leadership which embraces and fosters a culture of innovation; ❷ organizational culture that inspires innovation while allowing for risk-taking as well as the possibility of failure and being open to both internal and external innovative solutions; ❸ strategical allocation efficient management of resources for innovation; ❹ processes and structure supporting innovation strategy which are aligned with the insurer's long-term strategic objectives; ❺ positive outcomes of innovation that are sustainable and measurable; and ❻ a transformation level which can be comparable to leaders not only in the insurance industry but also outside the insurance industry. Insurers will be categorized according to innovation scores – non-innovator (score of less than 12), reactor (score between 12 and 17), adopter (score between 18 and 22), innovator (score between 23 and 27), and innovation leader (score of 28 or higher).

A. M. Best’s innovation assessment recognizes the value of successful innovation that improves efficiency and financial strength and encourages insurers to achieve innovative competitiveness that goes beyond the industry boundaries. Companies that invested significantly in innovation infrastructure (systems, talent, and processes) but made no tangible quantitative outcomes will score poorly on the assessment. Moreover, although companies created tangible positive results, if the level of transformation was lower than the leaders in and outside the insurance industry, the innovation score would be low.

2. Recommendations

First, Insurers should accomplish innovation-led growth with innovation strategies, which are consistent with long-term business strategies, and vigorous innovative

activities beyond the boundaries of traditional insurance ecosystems. According to the survey of A. M. Best, 73% of insurers allocated more than 5% of their total budget to innovation. Also, if insurance companies are ranked by the proportion of the innovation budget to the total budget, the order is life and pension insurance companies, reinsurance companies, property insurance companies, and health insurance companies. Moreover, 79% of insurers had invested or were planning to invest in technology such as cloud computing, big data, AI, IoT, and blockchain.

Second, it is necessary to review whether there are regulations that impede the innovative activities of insurers and to revise them where necessary. Recently, the insurance regulations have been deregulated in the areas of using cloud computing, incorporating a fintech as a subsidiary, and providing healthcare services as an ancillary business. However, there still exist obstacles to insurers' innovative business, such as product report process or sanctions during the ex-post examination.