

# Yes, we change! A vigorous change is the only option for a life insurance company



Frank Genheimer

*Life insurance business is in a transition process. This transformation is no ordinary evolution because it already becomes apparent that the magnitude of change is bigger and the speed at which the change will move through the industry will be significantly higher than ever before. It will be a fundamental change – a revolution – through which life insurance business will reach the next level at last. The basic idea of and the need for insurance will last, but this may not hold true for a life insurance company and the current best practice. For a company it is time to reconsider the existing business model and the way in which it does business today. The present situation requires a vigorous change in thinking and acting from a life insurance company. This article shows how a life insurance company could find its way in the current challenging environment.*

## State of the union

Private retirement provisions are getting more and more important – not least because of low interest rates, increasing longevity, and state pensions that tend to decrease. Best agers treasure up their wealth on savings accounts earning almost zero interest. Tax incentives and unique selling propositions add additional pros to the account of life insurance industry. Safety and peace of mind are some of the essential needs of almost every human being. Life insurance business has delivered that for decades. All in all, a perfect environment for life insurance business. Time to lean back?

Well, the presented status quo offers also some «issues» that make life a little bit hard and that may sound the bell for an end of paradise. Just think about increasing competition, more critical customers, stricter regulations, potential competitors from outside the industry and in gen-

eral, the Fintech and Insurtech movement, respectively (afterwards simply called «Fintech»).

Actually, life insurance industry is in an upheaval and in a life crisis. The industry has to deal with several challenges on several levels. On macro level, the advancing individualism of customers and the low interest rate environment in combination with higher regulations fuel the need for innovation and for processes, products and services that are more flexible. Customers are accustomed to digital experience offered by companies like Amazon and Google, and they will expect the same level of customer experience from an insurer.

On company level, topics such as capital efficiency, a powerful step-in of risk management, de-risking of products, complex processes and expensive administration represent a huge obstacle for innovation. Given systems, processes and organization of most of the existing life insurance companies make digitization and individualization difficult to achieve.

On micro level, the complexity of modern products and their extensive and incomprehensible documentation complicate the sales process, a further circumstance that does not accelerate new business.

On top of all these issues and topics, the sword of Damocles named «disruption in life business» paralyzes present market players. First, disruptive innovations are naturally present from times out of mind and they will stop at nothing – not even at life insurance business. Furthermore, life business is, as a highly regulated industry, a fenced off industry and thus, on the long run, highly vulnerable to disruptive innovations from outside. It is just a question of time, until someone

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will figure out a way to improve product offer and customer approach. Digitization, individualization and efficient administration will help here.

Life business will change because it has to change. Therefore, it is time for companies to reconsider their existing business model and the way in which business is done today. A holistic strategy becomes the compass for the journey into the future.

### **New business strategy as a starting point**

The history of life insurance business is characterized by different, replacing cultural epochs: sales, product and risk culture – not all companies have necessarily already gone through all eras. For all eras, it is typical that they have a one-dimensional perspective. Unfortunately, one-dimensionality does not create satisfactory solutions nowadays. Every now and then, you hear or read about product or sales strategies. Both strategy types overlap: sales commission has an impact on pricing and the customer segment on product design. Single measures in different areas, such as a new product feature or a revised CRM tool, simply fall short – especially, when measures are not matched. Therefore, the starting point for any activity should always be a holistic and individually derived new business strategy.

### **New business strategy brings light**

Hundreds of topics and challenges and dozens of buzzwords characterize the present period. At the same time, profitable and sustainable new business has to be generated. It is the art of separating the wheat from the chaff which is probably the most important and valuable skill nowadays. Instead of acting on each topic with hyperactivity and false urgency, it is time to focus. A new business strategy brings light to the thicket of buzzwords because:

- Strategy development sharpens your senses. A holistic approach secures

that all relevant topics are covered and all interdependencies are made transparent.

- Strategy development brings together the entire company. There is no use in developing a strategy alone in your ivory tower. With such a mode of operation, your efforts are doomed to fail because you will go and lose your organization. A liberal and networked approach includes all relevant departments, stakeholders and experts. If you manage this sensitive project step, your organization will act in concert when it comes to implementation.
- New business strategy is more than just a product or sales strategy. In recent days, some other strategies have emerged, too: risk strategy, digital strategy and IT strategy. Unfortunately, departments develop their local strategies independently. What will be the outcome of a puzzle if you join puzzle pieces randomly?
- New business strategy is also about doing. Development and implementation of a strategy follows three simple steps: Think! Decide! Do! Doing is the most important, challenging and most exciting step of all. Persistence, transparency, communication and change management are the glue between thinking, deciding and doing. Your efforts will all be in vain, if no decisions are made or no right implementation takes place.
- New business strategy makes the difference. While other companies are struggling in the quicksand of topics and challenges, your strategy will turn out to be a real and valuable competitive edge that brings your company further ahead in the game.

### **How to build a strategy**

A new business strategy is a holistic view of all relevant subjects and areas of a company. It answers the question whether and how a company will carry on new business in the next few years.

Besides, a new business strategy covers all topics that are important and relevant for new business. Some very important

parts therein are operations (e.g. processes from front to back-office, service level agreements, tools and applications), finance and risk management (e.g. financing of new business, profitability, evaluation and controlling of risks) as well as cooperation (e.g. outsourcing of administration, usage of external service and product components, alternative sales channels). The product is a central service of a company and therefore product details are a central part, too. However, a product strategy is derived from a new business strategy and not the other way round.

It is elementary that all participants are aware of the need for change and that urgency for action is present. Joint kick-off workshops may help to smooth the way towards a new business strategy.

After a classical project initiation, e.g. the clarification of mandate, budget and project setup, the analysis of the status quo starts. Combining both the internal view (status of business, key figures, etc.) and the external view (competitors, trends, etc.) reveals the big picture. This picture needs to be validated within the company because a common base is essential for all subsequent steps.

In the next phase, that is strategy formulation, all identified areas of action are explored and options for action are identified and evaluated. A scenario analysis facilitates the evaluation. The result of this stage is a validated and fully formulated strategy plan that covers all decisions. A key aspect in the preparation of the implementation plan is the identification of dependencies between all activities in terms of time, resources and content.

A project portfolio management is indispensable and will contribute to a successful implementation. A defined reporting framework («cockpit») supports controlling and monitoring of the implementation.

The process may look like a recipe or an algorithm. In reality, elaboration and implementation of a new strategy are high-

ly individual, since already the starting point for different companies differ in most dimensions (e.g. systems, business in-force). A central aspect of developing a strategy is that it brings the whole company together. This is a perfect starting point for doing something great. A successful new business strategy aims at hand, head and heart.

### We do it in cooperation

In the initially described conflict situation, Fintech steps into the insurance market. Present challenges and opportunities of life insurance business offer a promising target for Fintech, which may support a life insurance company from back office to front office. Fintech is able to improve the central processes of life insurance companies, such as issue and administration of policies and all related financial processes in accounting and asset management. An automation and flexibilization related to product development allow a much shorter time to market. Foremost, Fintech allows for totally new, flexible and individual products and related services. It brings in modular product concepts, which are already common in other, more technologized, sectors like the automobile industry. Modular product concepts enable an efficient development and administration as well as an individualization of a product offer. Consequently, product development could be more interactive and more customer centric than ever before. In general, companies are provided with an easier access to digitization by relying on Fintech. The present gateway for Fintech is the interface with the customer. Sales and customer service will be more web-based and it will allow as much human-interaction as the client needs and demands.

Fintech is not afraid of leaving beaten paths. (R)Evolution is part of its DNA. The need for change and continuous improvement, like given in the Japanese «kaizen» concept, is the impulse for acting. Fintech proves that it is neither necessary nor sufficient to be a large company in order to innovate or to be dis-

ruptive. This attitude will help life insurance business to reach the next level.

Apart from the present hype surrounding Fintech, there are many further options for cooperation. As we have classical partners like reinsurers, asset managers and investment banks, there are new sales channels and new partners arising in the area of big data and data analytics. Cooperation is a huge playground that offers unlimited options for innovation and allows for differentiating from competitors.

To implement and to keep a cooperation running is a big challenge. To choose the right and suitable cooperation partner as well as the appropriate cooperation mode is the key and comes first. Cooperation is not always easy and does not always go smoothly; even then if it takes place between close related industries such as life insurance and banking. Cooperation may fail because of several (individual) reasons; however, a key challenge that becomes apparent during initiation of a cooperation is that the life insurer and the cooperation partner do not speak the same «language». How could they reach a common understanding in terms of content and procedure?

A cooperation management is therefore not only nice to have but a central element of the cooperation process and it starts in the very beginning.

### It is all about change

Life insurance business is in a transition process and this transformation is no ordinary evolution. It will be a fundamental change, a revolution.

Therefore, it is time for the companies to reconsider their existing business models and the way in which they do business today. A holistic strategy becomes the compass for the journey into the future. One important element of a new business strategy is cooperation.

Fintech is a big opportunity for a life insurance company. Fintech can help an

insurance company to a breakthrough in the seemingly hopeless world of regulation, low interest rates and stagnating new business. Fintech is capable of creating a «win-win-win»-situation because retail clients will benefit, too. Clients will be served quicker, more flexibly and more transparent – or to put it briefly: simply better than today!

Disruptive innovation in life insurance business is not science fiction any more. A successful and sustainable cooperation between Fintech and a life insurer is close to be realized. The revolution in life insurance business has already started and Fintech will change life business more than regulation can ever do.

New strategy means change, just as new cooperation means change. Therefore, it is elementary to understand the power of change management, which can develop its full potential if and only if it is considered from the very beginning. Change must be proactively prepared and planned in order to overcome natural adhesion reflexes of an organization and to handle accompanying fears of employees.

«No new business» is probably for a company not the right solution and definitively not an option for the entire life insurance industry and society. If the option is «change or be disrupted» the answer is clear: Yes, we change!