From Stagnation to Growth

How insurance companies can improve their competitiveness via digital transformation

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Introduction

In recent years, we have seen some interesting changes in the Nordic insurance market. Several external factors are creating pressure on the insurance industry, fostering new risks that incumbents must by necessity be prepared to manage. On top of that, new competitors are entering the insurance market, and customers are more willing than ever to change insurers.

Four key factors that push changes in the insurance industry

- Tech: Challenger brands and legacy systems put pressure on incumbents
- Cyber: Global cost related to cybercrime expected to reach $10.5 trillion a year in 2025[1]
- Climate Change: Damage from natural disasters in 2019 estimated at $71 billion[2]
- Geopolitical Volatility: For example the war in Ukraine

At Kraftvaerk, we are interested in seeing how the insurance industry responds to the changes we are witnessing. Based on research and interviews with selected insurance companies within the Scandinavian insurance market, we are going to shine a light on three areas, which are vital elements in driving insurance forward:

1. Ecosystems
2. Customer Experience
3. Product Innovation

Within these areas, we will explore how competitiveness can be boosted and turbulent times navigated by prioritising the right digital tools, projects and focus points. Navigating various possible digital investments and figuring out what is worth investing in long-term, and what is merely a trend, carries an inherent element of risk, which can paralyse some insurers into staking out a wait-and-see position and essentially doing nothing.

The challenge for insurance providers will be staying progressive and maintaining their focus on digital investments. The research on digital investments is clear[3]; there is an undeniable correlation between digital maturity and increased financial performance, both in terms of total shareholder returns, and in terms of indexed relative profit.

On top of that, the performance gap, between the insurance providers who are already highly digitised, and the ones who have adopted a wait-and-see position or are stuck in analysis paralysis, continues to grow with each passing year. Digital investment is no longer one of several options – it is the difference between growth and survival on one hand, and gradual stagnation and loss on the other.

[1] Cybersecurity trends: Looking over the horizon | McKinsey

[2] Comprehensive evidence implies a higher social cost of CO_2 | Nature

[3] A Wake-Up Call for Insurers | Insurance Thought Leadership

Methodology Section

Our interviews are conducted in a semi-structured style, with prepared questions and potential follow-ups, but leaving room for the interviewees to delve into areas they are particularly knowledgeable or passionate about.

The interviewees we have spoken with for this report are a selection of handpicked market leaders from top insurance companies in Scandinavia. During the selection process, we have made sure to include people from both incumbents and challengers in the insurance market.

On top of the data from our interviews, we are relying on reports and articles from well-established consultancy houses, scientific publications and industry-specific news outlets. We are also drawing on our own experience from 20 years in the business of IT consulting.

Ecosystems

Imagine buying a house. Traditionally, a customer journey will include an estate agent, a bank, legal counsel, insurance and so on. The customer will often have to handle most of the touch points separately, as they represent different businesses and industries. An ecosystem is meant to unify that process, designing the customer journey around the task the customer needs to solve.

Why talk about ecosystems?

There are two primary reasons for why we're talking about ecosystems with regards to the insurance sector: cost-optimisation and differentiation. Ecosystems establish smoother digital user journeys across sectors, as part of a customer-centric strategy.

Defining an Ecosystem

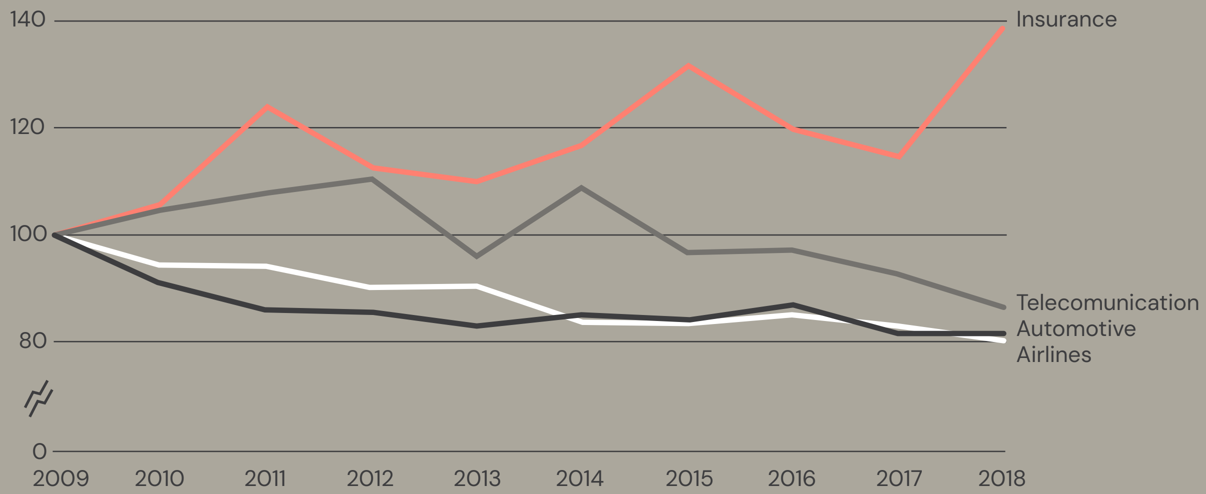
For the purposes of this report, we understand an ecosystem as a seamless customer journey, spanning multiple partners and transcending the traditional boundaries between industries. Within an ecosystem, there are different roles that can be filled, such as participator and orchestrator. We'll return to that part later in this section of the report.

Part of the challenge that we are addressing here is that, contrary to expectations, the customer facing side of the insurance industry has not become significantly more cost-efficient and productive as a result of digitalisation.[4] Whereas other industries, such as the banking sector, are seeing boosts to differentiation and cost-optimisation thanks to investments in digitalisation, similar results are not manifesting for insurers.

[4] Insurance industry performance and the productivity imperative | McKinsey

Compared with other industries, the insurance industry has not yet structurally addressed operating costs.

Cost efficiency evolution per industry,[1] %, normalized at 100% in 2009



[1]Indexed; expressed as selling, general, and administrative expenses as % of revenue. Based on large global players for which continuous reporting is available: 10 insurance players with composite offering, 10 telecom players (incl AT&T, China Telecom. Vodafone). 10 automotive players (incl Ford, Toyota, Volkswagen) and 10 airlines (incl Air France-KLM, American Airlines, Emirates).
Source: McKinsey & Company: The productivity imperative in insurance

> *If you're looking at us as an industry, it isn't exactly a land of plenty. Comparing us to the banks, they are at least five years ahead of us* [in customer facing solutions], *maybe more.*
>
> Solutions Manager,
> Scandinavian Insurance Company

On top of that, it is becoming more and more challenging for insurance providers to create lasting, positive differentiation from their competitors – a problem that is exacerbated by the fact that more and more customers are willing to switch insurers.

If insurers are trying to set up an easy to use, customer-centric journey that involves multiple actors, it is worthwhile to look at the benefits provided by an ecosystems approach. However, ecosystems in the insurance industry are still in a relatively nascent stage, so the cases we are seeing are still from early actors trying to see how things work, rather that full-fledged ecosystems.

Unique customers who switched insurance companies in 2021

Private insurance	Customer switches 2021
Motor vehicles	248,640
property insurance	429,540
Pleasure vehicles	1,055
Accident	243,612
Private insurance total	**431,116**
Business insurance	
Motor vehicles	10,002
Business insurances	21,429
Agriculture	10,800
Business insurance total	**20,437**
Customer switches total	**451,553**

Note: the calculation of unique customers is calculated per insurance area. A unique customer can therefore have changed insurance in several insurance areas at once.

Source: Ritzau: 450,000 Danes switched insurance companies last year

How to succeed with ecosystems

Through our research and interviews, we have identified 5 key areas that are important to succeeding with any ecosystem venture.

Build for the future

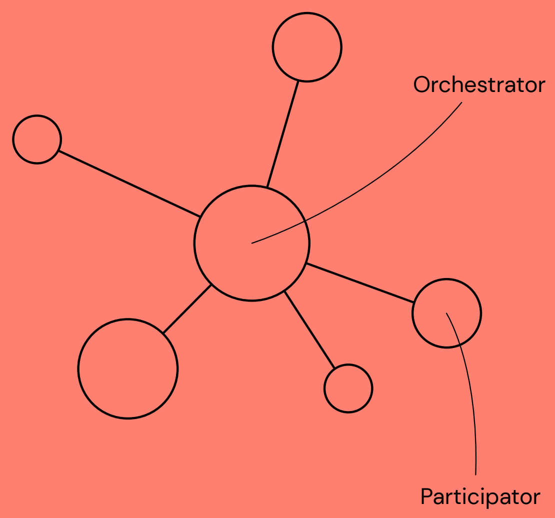
Most insurance companies are in the middle of their digital transformations. To succeed, it is imperative to build systems that can support business many years into the future, rather than systems that only support today's business needs. The ecosystem business model affords insurers a high degree of adaptability, which allows a continuous fit with customer journeys and expectations.

Based on our research, we have identified the following requirements as crucial for supporting an ecosystem long term:

1. Security and governance need to be built for many 3rd party providers and a very dynamic setup.
2. Dataflows need to be designed into a central database to give one view of the customer that can be continuously scaled.
3. API management tools should be used to enable business flexibility. A low code or no code platform with strict governance is advisable, since otherwise there will be a very complex and very expensive middle layer.
4. The technical architecture and development principles must accommodate the fact that new business needs continuously arise. Micro-service architecture and agile workflows should be adopted to able to do so.

Orchestrator or participator

Two broad strategic options exist within the sphere of ecosystems, both with their own advantages and risks. On one hand, there is the road of the participator, and on the other, that of an ecosystem orchestrator.



Ecosystem Participator: Become a part of a larger ecosystem orchestrated by another entity, which carries less inherent risk, but also less opportunity for profit. It is, in other words, the safer option, and the one that requires less from the insurance provider in question.

Ecosystem Orchestrator: Become the orchestrator of an entire ecosystem, which is certainly a more profitable option – when it succeeds. Not only is there a greater inherent difficulty involved in orchestrating an entire digital ecosystem, it is also more risky and more costly even if it works. On top of that, the digital maturity required from the insurance provider that aims for this role should not be discounted.

One of the challenges with insurance is that it is a low-interest product. That issue can be resolved through acceptance, by joining an ecosystem as a participator. In that situation, the orchestrator of the ecosystem carries the responsibility for engaging customers. Alternatively, an insurer can choose to challenge the truism by becoming an orchestrator and building a product that people engage with.

Though most of the profit tends to gravitate towards the orchestrator, with some sources mentioning up to 75% of profits[5], that role isn't for everyone – with greater profit comes more effort required and more risk taken. Of course, taking on the role of orchestrator in one context doesn't exclude playing the role of participator in another. Choosing the role that best serves the company requires a frank evaluation of each business case – not a blanket approach.

[5] Ecosystems in insurance: what winners do differently | EY - Global

Collaborate with partners that bring value
When orchestrating an ecosystem, make sure that it is obvious to the customer what value an external partner brings to the journey. A partner should either make the ecosystem more efficient in delivering the primary value or add new services to the value offering. On top of that, any potential partner needs to have the necessary digital maturity to be able to participate in an ecosystem.

> *Everyone is hyper focused on saying 'we should exhibit our data, we need to set up API's, we have to enable others to use our data'. But the maturity of external partners is also a parameter, which people sometimes forget to add to the equation.*
>
> VP of Tech, Kraftvaerk

For instance, external partners specialising in prevention rather than after-the-fact reactive services can have an especially significant impact on differentiation, enabling an insurance provider to stand out in a way that cannot be mimicked by a simple policy adjustment. However, if the potential partner lacks the necessary digital maturity, the costs of having them participate in the ecosystem are likely to outweigh the benefits.

One example of successful orchestration is a large Scandinavian insurer partnering with a smaller tech company specialising in an IoT device designed to track potential water leakage in pipes before they happen. Once installed, the device can warn homeowners ahead of time, giving them the ability to react before the damage is done.

This partnership benefits both sides – the smaller tech company gains access to a strong distribution engine, and the insurance company gets an innovative product that would have taken substantial time to develop on their own. In this way, the insurer gains a competitive advantage in what is in many cases a highly commoditised industry.

Control data and infrastructure
Orchestrating an ecosystem isn't easy, and a significant part of the challenge is having the right technological foundation in place. Our experience shows that seamless integration and collaboration with partners and systems is necessary to deliver the sort of customer journey that'll make an ecosystem profitable. We recommend the following to secure the cornerstones of a functional ecosystem from a tech perspective:

1. **Industry-standard protocols and data formats** to ensure the kind of seamless communication and data exchange that'll be needed among participants.
2. **Robust cloud infrastructure** to provide scalability, flexibility and easy data sharing among partners in the ecosystem.

3. **API Service Management** to enable secure and controlled access to shared data and services in the ecosystem, allowing for integration and collaboration among systems and partners.
4. **Strong and up-to-date data analytics and AI tools** to help gather actionable insights and value adding personalisation from large amounts of data generated in the ecosystem.
5. **Reliable cybersecurity, using encryption, authentication and regular monitoring** to ensure the confidentiality and security of shared data across ecosystem participants.

Shape the organisation accordingly
In an ecosystem model, a company needs to collaborate effectively with multiple partners, often with varying interests, capabilities, and goals. This can create complex logistical challenges in terms of coordination, communication, and management. To meet these challenges, we recommend the following steps:

1. **Coordinate and Manage Partnerships:** The orchestrator must take care to maintain trust, transparency, and mutual benefit to keep the ecosystem healthy. Failure in one part of the ecosystem will often have ripple effects, causing problems throughout the entire network.
2. **Balance Competition and Cooperation:** Balancing competition and cooperation can be difficult, especially when partners compete in some areas while needing to collaborate in others. Orchestrators must learn skilful navigation, diplomacy, and negotiation to ensure a harmonious and productive ecosystem.
3. **Innovate and Adapt:** On one hand, the orchestrator must stimulate and incorporate innovations from various partners. On the other hand, they must ensure that these innovations don't disrupt the ecosystem's overall functionality.

In short

Insurance providers should strongly consider the benefits of adopting an ecosystem mindset, to put themselves in a position to deliver competitive customer journeys. Adopting the mindset now puts insurers in a better position to lay the foundations for competitive viability in the future.

On top of that, insurers need to begin the process of evaluating which of their offerings make sense in an orchestrator context, and which ones make sense from in participator role.

The business model and business structure provided by the ecosystem approach is designed to support good customer experience (CX). In turn, good CX is a primary driver for becoming more competitive. The ecosystem mindset is also what's causing incumbents to see growing competition from out-of-sector actors like Amazon and Tesla[6], who are seeing a chance to gain a foothold in the insurance market.

We'll explore what good CX entails for the insurance market in the next section.

[6] Amazon Insurance Store   Insurance | Tesla

Customer Experience (CX)

The insurance industry is falling behind on CX, and customer expectations are increasingly being driven by industries such as banking and retail, that are well ahead of the insurance sector. As such, prioritising good CX in the digital space is more important than ever.

Why talk about CX?

With customers more willing than ever to change insurance provider, positive differentiation is by necessity becoming a significant part of the broader customer retention strategy.

> Historically, however, Scandinavian insurers have focused on managing internal complexity rather than creating substantial improvements to customer facing solutions. This tendency has contributed to the emergence of a commoditised insurance market, where good CX is one of the few ways to boost positive differentiation.

> “*Part of it* [digital CX] *is also that our customers are increasingly asking for it. There's a push-and-pull effect, which is the thing about living in a country like Denmark, that is hyper-digitised, also in the public sector. That has a knock-on effect on us. When customers are used to being able to go to borger.dk, which we've been raised to expect, they obviously expect the same from their insurance provider, like with their bank and so on.*
>
> Anne Høgdal Larsen, Head of CX, Scandinavian Insurance Company

Apart from differentiation there is the ever-present factor of cost optimisation. Our interviews show that good digital CX doesn't merely facilitate better customer journeys, it's also a way to reduce costs by facilitating online self-service and automating processes.

How to succeed with CX

Thanks to customer-facing advances in other industries such as banking, alongside challenges from insurtech companies and out-of-sector powerhouses such as Amazon and Tesla, incumbents in the insurance market need to actively prioritise building good digital CX.

Start with the full customer journey

In our experience, it's crucial that insurance providers remember to look at the entire insurance process from a customer point of view when trying to create good digital CX. Visualising and mapping out the customer journey is beneficial for two reasons:

1. Customers tend to have a fragmented, multichannel experience with a variety of isolated communication and service channels.
2. The customer demand for a connected and coherent experience flows across different touchpoints.

Mapping out the customer journey creates value by:

1. Creating a clear representation of the customers' experience with the as-is situation and contributing to a clearer vision of the desired state.
2. Showing the insurance provider where the greatest value lies for customers.
3. Enabling insurers to focus on the areas of the customer journey that create the biggest impact while keeping the broader picture in mind.

On top of that, charting the customer journey in the ecosystem also helps to clarify where and how external partners come in – and how customers experience that transition. While an insurance provider might see a clear delineation between where they can be held accountable, and where they transfer their customer to an external partner, the customer doesn't necessarily see it that way.

> “
> *When we send the customer to that* [external partner] *they've still (legally) bought the product from us, and therefore we are held accountable from end to end* [...] *the arrow points at us, because the customer feels that we are responsible for the quality of the entire experience, when we've chosen a partner who helps distribute our products.*
>
> Head of Digital and User Experience,
> Scandinavian Insurance Company

Based on the responses we can see in our interviews, we recommend actively taking responsibility for how external partners behave and making sure they're on the same page with regards to customer experience. Doing so is a necessary part of fostering high-end CX.

Establish an organisation-wide approach
Looking across the responses from the different insurance companies we are drawing on in this report, there is no doubt that a significant part of the journey to better CX is taking a comprehensive, company-wide approach, rather than trying to improve CX in a piecemeal fashion.

Some of the key factors in a comprehensive approach are:

1. **Nurture across the company.** One pattern that has emerged from the interviews we have conducted is that good digital CX can't be achieved by isolating efforts in some out-of-the-way division. It needs to be addressed and coordinated across the company, by embedding the work in all divisions, sharing data and insights as they appear and working towards a common goal of improving CX.
2. **CX must be anchored at C-level.** All too often, if the effort to improve CX isn't anchored at the top, it risks becoming fragmented, unfocused and underfunded. If insurance providers are serious about trying to reap the benefits of good CX, we recommend that leadership take ownership of the effort.
3. **Avoid vanity metrics.** Make sure that the metrics and KPI's that are used to guide the development of CX are commercially significant. There are all sorts of metrics that can seem tempting to lean on, but which add very little, if anything, to the company. Avoid them – the ones that are significant might be less appealing on the face of it, but they'll be worth more down the line.

> “
> *We have no vanity metrics. We have no need for people to hang out in our app. Because it's insurance, we don't expect that. All our KPI's are business metrics or CSAT.*
>
> CEO,
> Scandinavian Insurance Agency

4. **Have the C-suite use customer insights.** Rooting out vanity metrics and setting up sound commercial KPI's that take CX into account will go a long way towards the C-suite having the insights they need. However, our research shows that adding qualitative insights in the format of personas or user stories can help top leadership to emphasise with the customer.
5. **Remember the customer's point of view.** Internally, it might make sense to see each customer touchpoint as distinct from the others. Customers, on the other hand, see them as part of a single journey to get to where they want to be. We recommend that insurance providers keep the customer's point of view in mind to create a smoother user journey.

6. **Reduce business complexity.** From both our research and our interviews, we can see a clear tendency towards incumbents being burdened with outdated business rules, born from a long-passed need or risk. These must be pruned if CX efforts are ever to succeed. Not only will this kind of legacy greatly increase the digital implementation cost, it also makes it highly difficult to create an acceptable customer experience.

Use data as foundation
Without collecting data, such as customer interviews, competitor analysis and existing product system audits, the journeys and any future design will be based on guesswork or potentially outdated historical data. However, research and testing can often become unnecessarily comprehensive and time-consuming activities – especially if the insurance provider uses the traditional customer interviews and usability tests.

When validating e.g., ideas and concepts, we recommend focusing on "smart testing", meaning identifying and testing the hypothesis with the biggest uncertainty and risk, as early in the process as possible. This should be done using the most efficient method available.

The three factors we recommend focusing on are:

- Desirability: Will the customer use it / does it create user value?
- Viability: Is there a business case?
- Feasibility: How should it be built?

These three questions feed into the overall question of whether genuine value will be created for the user as well as the insurance provider. We recommend moving on to usability tests (Usability) only once this has been answered in the affirmative.

Utilise functionalities within the product systems
Based both on our own experience and the research we are using for this report, many insurance providers do not have full insight into the technological possibilities within their systems. Examples of the areas where this holds true include personalisation and marketing automation.

We recommend bringing in tech capabilities early in the design process, to make sure that the full technological potential of the current system landscape is utilised, and that alternative systems are identified and evaluated. This evaluation should include both user experience, business and technical points of view to make sure that all angles are covered.

Don't aim for 100% digital
Despite the value and necessity of good digital CX in the insurance industry, insurance providers need to remember the limits of what digitalisation can achieve. To avoid plunging headlong over the cliff of too much optimism, we recommend keeping the following caveats in mind:

1. Insurance is a highly complex product, and digitalisation isn't going to change that. Customer journeys can and should be made more user friendly, but there will always be many different customer journeys and a significant number of edge cases in insurance.
2. Human interaction can't be digitised away. There will always be nervous first-time customers, just as there will always be claims that, due to their complex or emotional nature, need to be handled personally.

> *Something like 75-80% of our claims are made through the app.* [...] *But we know that the last 20% needs to be over the phone, and it can never be anything other than that.*
>
> CEO,
> Scandinavian Insurance Agency

In short

To summarise, good CX is, and increasingly will be, a key aspect of positive differentiation. Incumbents who want to retain their existing customer base and expand into a bigger part of the market need to prioritise improving CX. This applies both to CX in its own right, and to the broader idea of digital CX as part of an ecosystem mindset, as we mention in the previous section of this report.

Part of that process is also going to be improving existing products, and determining whether existing systems and tools are being used to their full potential. In addition, it will be necessary to design new products to accommodate the new needs and patterns that exist in the insurance market.

With new tech emerging, and new external factors pushing new risk profiles, insurers are highly incentivised to be innovative and launch new products onto the market.

We'll cover product innovation in more detail in the next section.

Product Innovation

New technologies, risks due to climate change and cyber, more channels for customer interaction and changes in consumer behaviour all serve to create new needs and potentials in the insurance market. To meet these challenges, product innovation is going to be key.

Innovation is a spectrum of possibilities rather than a fixed thing. However, for the purposes of this report, we will distinguish between two types of innovation; incremental and radical innovation. Within that distinction, we will focus most of our attention on radical innovation. Based on our research and interviews, we estimate that there is a greater call for radical innovation in the present market, and that this kind of innovation is harder to come to grips with than incremental innovation.

Incremental innovations are small, gradual improvements to existing products. Optimising a sales flow is an example of gradually improving a product or service.

Radical innovation typically happens as a combination of new technology and new ways of conducting business. Radical innovations will often have the potential to change how both customers and companies operate. Telematics-based car insurance is an example of radical innovation.

Why talk about product innovation?

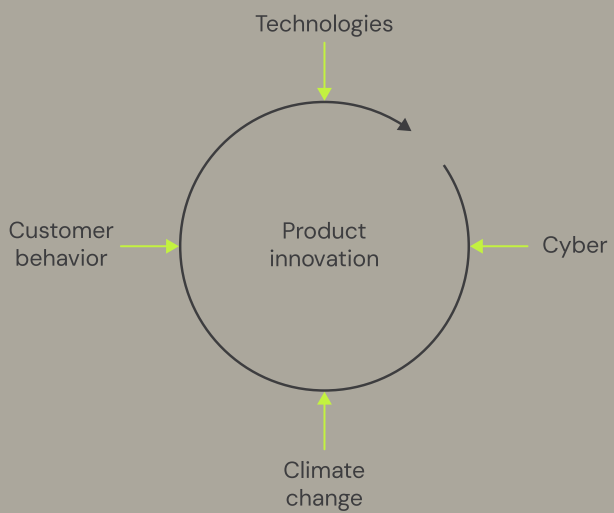
For a long time, insurers have seen few challenges from new startups, due to the high barrier of entry in the insurance market. However, as we mention in the CX section of this report, we are beginning to see challengers emerging.

For example, one insurtech agency is using a telematics-based solution to get into the car insurance market. The product is propelling a relatively small insurtech challenger upwards, to a point where they are competing with much larger incumbents in the Danish car insurance market in terms of car insurance sales per month.

In another arena, insurers face challenges in balancing the statistical risks of natural disasters, the potential payouts involved, and consumer demand for policies. The challenge for insurance companies will be finding the balance between providing what the market demands while balancing payouts, given that the frequency of natural disasters seems unlikely to abate in the immediate future[7].

[7] Climate and weather related disasters surge five-fold over 50 years, but early warnings save lives - WMO report | UN News   Climate Change Is Hurting Insurance Industry: Report (insurancejournal.com)

This challenge highlights the usefulness of predictive and preventative technologies. The more these kinds of technologies can be integrated into insurance offerings, the easier it will be for insurance providers to manage the risk, the happier – all else being equal – customers will be. As such, we strongly recommend that insurers keep a keen eye on where and how they can benefit from 'predict and prevent' technologies.



Moreover, our research and interviews show that more and more young people are detached or disengaged from their insurance company and its products.

For example, one insurance agency conducted a survey among close to 100 young people, in order to establish how connected and well served they were by their insurance. The results show that a significant number of young people:

1. Do not understand how they are insured – or think they are insured when they're not
2. Have value for money on paper, but not in practice
3. Experience limited or no connection to their insurance company

The result feeds into the statistics showing that more and more Danes are perfectly happy to change insurance providers. To counter this tendency, insurance companies should focus on increasing their connection to their younger customers – especially if they hope to retain them as they get older and begin to need more, and more expensive, products.

Cybercrime is on the rise, from smaller, less severe breaches such as out of date account breaches, to cases of full-on identity theft. While this naturally creates a market for insurance companies, the nature of the demand presents certain challenges:

1. There is essentially no historical data to draw on, since cybercrime is such a recent phenomenon.
2. Large-scale cascading loss events present a risk, since it quickly becomes a question of how far along the cascade the insurance company is responsible for covering costs and losses.
3. There is a general uncertainty among market participants as to what specifically is covered under cybercrime-related policies.

All this is pushing the insurance industry to rethink their offerings and policies, not just by applying new technological advancements but also by rethinking the insurer's role in the market. The question becomes how to successfully launch the process of innovation in a way that is profitable and beneficial for the insurance company.

How to succeed with product innovation

Based on our research, we have identified a number of key considerations and recommendations to succeed with innovation within the field of insurance.

Incremental innovation must be part of existing departments

The kind of innovation that expresses itself as incremental change can and should be part of everyday business. Minor, gradual improvements to existing products make sense, and are best handled by the people who are sitting with the products in their day-to-day work.

For incremental innovation to be productive and useful, the internal processes that drive it forward must be based on transparent data. In addition, there should be a continuous flow of data across departments and teams, to ensure that insights that emerge in one area don't remain isolated from other areas where they could lead to improvements.

> *We do it by seeing if we can identify the biggest pain points, and then start there. Sometimes we experience that, when we've found a good solution over here, someone says 'hey, we can use that over here too, nice', which is great, because it gives us some easy wins. But then you'll also have times where someone says, 'what about this piece of tech, couldn't that help us?', and then we practically start again from step one.*
>
> Anne Høgdal Larsen, Head of CX,
> Scandinavian Insurance Company

Radical innovation is a thing of its own
Based on the responses from our interviews, radical innovation should be kept separate from other processes and handled by different profiles, as opposed to how incremental innovation should be a part of everyday business.

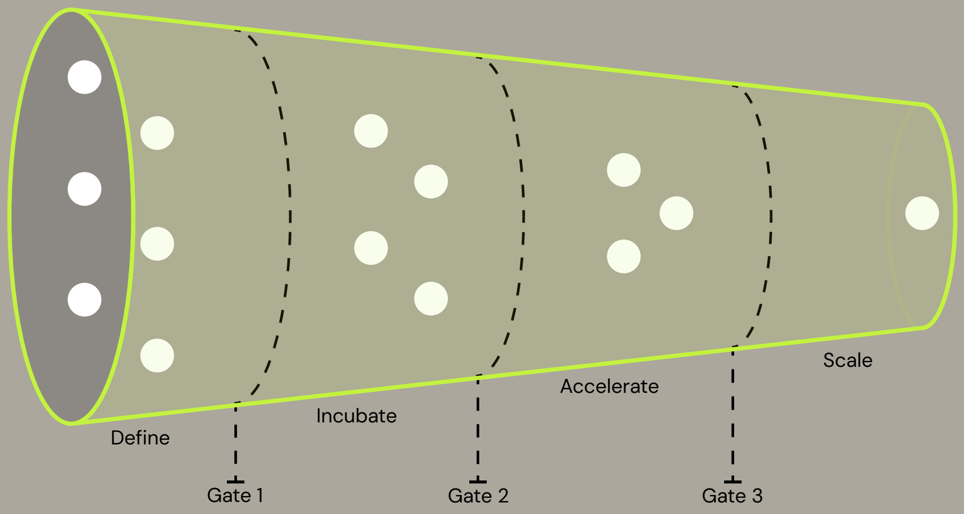
> *The electric light did not come from the continuous improvement of candles.*
>
> Oren Harari
> Business professor, University of San Francisco

Since radical innovation is all about connecting new things and pushing radically new products into the market, some types of experience are more useful than others. Three groups that we recommend insurance providers prioritise for a radical innovation team are:

1. People who bring experience from the insurance industry and understand how the business works.
2. People with entrepreneurial experience, because they bring the passion for and experience with getting new products up and running.
3. Former consultants with backgrounds in areas like management consulting or similar fields, who are comfortable with being both creative and explorative on one hand and able to drive a project forward on the other.

In addition, we recommend introducing methods with a proven track record of uncovering results. The Double Diamond from the field of design thinking is a well-tested framework that we recommend, which provides a reliable process for fostering innovation.

Not all radical innovation projects have the same timeframe – and it's important to leave room for both long-term and short-term projects to balance the long-term value creation. Innovations with a shorter time-to-market will have more immediate appeal to the parts of the company that deal with everyday business. However, the innovations that push out further can have a greater potential to radically innovate and transform insurance offerings.



Manage with commercial stage gates
To keep radical innovation productive, it's a good idea to set up a pipeline that can take innovation from exploration to market launch. Along the way, any given innovative product can be tested against particular criteria for success, moving forward in the pipeline or getting shut down depending on whether they measure up or not.

By the same token, benchmarks should be put into place to ensure that the division responsible for innovation is justifying its existence – and is incentivised to do so. The challenge is doing so in a way that takes the goals and limitations of an innovation team into account, while still making sure that the expensive innovation efforts are worth the investment.

> *"The way we do it is that we force ourselves to maintain a balance in our portfolio. Which is that some things are transformative and long term, we'll call it Engine Two, and some things are more short term, we'll call it Engine One. We can't be too unbalanced; we can't have everything on Engine One or Engine Two.*
>
> Adam Petersen, Head of Nordic Innovation, Scandinavian Insurance Company

On one hand, measuring an innovation team on how much business is being generated by new products creates a problem, since the team is unlikely to have much to do with the product post-launch. At that point, it'll have become part of the core business. So, in that scenario, an innovation team is being measured using something they have little to no control over. On the other hand, measuring purely on how many new products and services are being generated creates an incentive in the innovation team to prioritise quantity over quality – hardly a desirable model.

Based on the interviews we have conducted, we recommend that leadership accepts that innovation cannot be easily measured and must be handled differently. Adapting performance metrics to include and recognise progress, learning and experimentation, and taking a non-traditional approach to evaluating performance is a good place to start.

For an example of how it's done in practice, one insurance company has adopted a points-based approach. Each product launch gives the team one point – but if the product is estimated to generate sufficiently high sales, it gives two points. This provides a degree of balance between the two previously mentioned factors; the innovation team is measured on something they can control, and they are incentivised to launch things that generate good sales numbers in the market.

New products don't survive on their own
Once a new, innovative product is launched into the market, it's crucial that the sales and marketing teams are ready to support it. Based on the responses we collected in our interviews, there is a risk that, should this support remain absent, the market potential of a new product becomes truncated.

> *It is true that innovation doesn't stop when you launch a new product. Often, you need to follow the product tightly after launch and invest heavily in marketing and growth hacking in order to get the desired uptake. It is a lesson that we constantly need to remind ourselves of, as we have seen examples in the past where newly launched products have been suffering a slow death in the market.*
>
> Adam Petersen, Head of Nordic Innovation, Scandinavian Insurance Company

This ties into the idea of value for money. There isn't much point in spending time and money on creating innovative new products in-house, only for them to wither on vine for lack of post-launch support. No new product completely hits the mark right from launch, so it's crucial to continuously provide support and incremental improvements after go-to-market.

One solution to this could be to build the initial set of performance KPI's into the proof of concept and ensure that the user behaviour tracking is set up from the first day the product goes live. That way, potential issues and challenges with the product will become quite clear. If acquisition is low, then the marketing support is not up to par. If retention is low, the product either doesn't make sense or doesn't deliver enough value.

Backed by top management

Innovation, regardless of its nature, must be anchored at the top of the company. The C-suite needs to take ownership of the innovative process. The patterns we see in our interviews show that, without ownership, there is a significant risk that efforts towards innovation become fragmented and unfocused. However, this does not mean that all innovative processes should be treated in the same way.

- **Incremental innovation:** upper management needs to foster a culture that encourages constant minor improvements, small experiments and taking limited risks. Nurturing a culture that encourages a growth mindset and allows employees to take intelligent risks, innovate and learn without fearing reprisal for mistakes is key. By the same token, upper management should make sure that employees feel comfortable asking questions, admitting mistakes and taking on new challenges.
- **Radical innovation:** needs closer involvement from management, like having the head of the innovation team refer directly to the C-level. This is crucial, as radical innovation entails a greater risk and so demands a deeper understanding on a management level. In addition, management should help set a clear vision for the innovation team, since one of the risks with radical innovation is that it can go in a dozen different directions and become unfocused.

Cannibalisation concerns

One worry that we see rear its head when speaking of innovation is that of cannibalisation – launching new products that end up simply moving customers from an existing product to a new and expensive product.

The best way to think about that risk is to look at it as a business case. If the new product provides a substantial benefit, the concern about cannibalising existing products is less pressing. Example of benefits include:

1. Targeting a new customer segment
2. Significant improvements to CX
3. Quality improvements through new partnerships

> “We sometimes experience a degree of cannibalisation when we push a competing product onto the market. However, we always try to handle such dilemmas with a sound business case judgement. For instance, if it turns out that the product targets a group that we aren’t well represented in, the cannibalisation effect will be marginal, and we will continue.
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As an example of how to gain a foothold with a new group of customers, we advise looking at niche segments and how best to target them. One example of this is an insurtech competitor launching an insurance offering for cosmetics. Targeting a niche like that carries a twofold benefit:

1. It defines and targets a niche market that so far hasn’t been given much attention, and which could prove profitable down the line when other policies and products are hopefully added.
2. By targeting a new market segment – which cosmetics insurance can surely be said to do – much of the in-house fear of cannibalisation can be alleviated.

For an example of improved CX, consider the case of an insurance agency which started gaining traction with a telematics-based car insurance product in 2022. Here, the argument goes as follows:

1. Telematics relies on prediction and measurement of performance to determine premiums, and as such offers substantial product improvements over traditional car insurance products in terms of CX.
2. There are relatively few car insurances in the Scandinavian market that rely on telematics, and as such, the product can be positioned as offering something new and better, rather than more of the same.

The partnership between one of the larger Scandinavian insurance companies, and a tech company specialising in IoT-based preemptive tracking of leakage in water pipes, is a good example of how partnerships can substantially boost the quality of an offering. Two things are particularly important to note about this kind of case:

1. The solution is preventative rather than reactive – providing a significant, positive boost to the experience of the customer.
2. The development, updating and maintenance of the IoT device rests with the external partner, further reducing the cost and risk for the insurance company.

In short

In light of the evolving insurance market and the rising demands of consumers, insurance providers must prioritise product innovation to stay competitive. Both incremental and radical innovation play their role in a successful insurance company, but we see more companies struggle with succeeding in the field of radical innovation. While incremental changes should be part of daily business, radical innovation needs a specialised team and a distinct process.

Innovation is in many ways a tightrope walk between producing quantifiable value and venturing into the uncertain territory of radical ideas. It requires the finesse to simultaneously uphold the business’s tangible success metrics while daring to gamble on unproven concepts with potential for groundbreaking success. This delicate balancing act is the essence of leading a successful innovative insurance company.

Conclusion

Times are changing in the insurance market. Challengers are emerging, and out-of-sector competitors are making their presence known. To succeed going forward, we advise insurers to maintain and upscale their digital investments.

We recommend that insurers prioritise mapping out and implementing competitive, user-friendly customer journeys using the ecosystem business model. Expanding on that, there are also significant dividends to be gained from starting the process of evaluating business cases in terms of being a participator or an orchestrator now.

Positive differentiation through superior digital CX is increasingly going to be key to a sustainable business strategy. Given how commoditised the market has become, the way insurers treat their customers will invariably play a larger role in retaining existing customers and acquiring new ones.

We advise insurance providers to make sure that their approach to boosting digital CX is comprehensive, and that they take advantage of new technologies to make their offerings and processes more customer friendly.

With new risks making their presence felt in the world, insurance companies are highly incentivised to make creating and refining innovation processes a priority. Both incremental improvements to existing products and the daring to create radical new products will be necessary to adapt and thrive going forward.

We encourage insurers to adopt different evaluation mindsets, and to secure proper post-launch support, for the radical innovation teams and the offerings they come up with. Doing so is going to be key to ensuring that investments in radical innovation become productive and profitable.

While the first wave of insurtech hasn't been as disruptive as predicted, it is serving to inspire and evolve the way players in the insurance market think about digital development. What we are beginning to see is the second wave of digital innovation, which consists of digitally stronger companies from the old guard, as well as out-of-market players like Amazon and Tesla. At Kraftvaerk, we are excited to help our partners in the insurance industry leverage the right digital possibilities to win a greater share of the market.

Author:
Esben Højmark Gimbel

Co-Authors:
Magnus Schmidt
Malene Rolsted

Contributors:
Niels Truong
Peter Wivel
Trine Jensen

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