

Workforce challenges as insurance companies go digital

As the insurance industry undergoes a digital transformation, companies that engage employees will outpace their competitors.



Introduction

“I’m not worried about other insurance companies. I’m worried about when Google decides to get into insurance.”

—Anonymous Insurance CEO

The rapidly increasing pace of innovation expected by both insurance buyers and insurance employees has created a substantial list of challenges for insurers. The migration to the digital economy has heightened the focus on such hurdles. Namely, traditional organizations that historically led and optimized for risk mitigation and execution are now required to develop new products at faster rates, meet the larger financial industry’s pace in customer service and take advantage of data analytics in a manner far beyond typical of underwriters. Insurers, in the

midst of this digital transformation, are being called upon to be more agile—to learn quickly and react to the unexpected; those who embolden the workforce to do so successfully will gain a competitive edge. However, according to employee engagement data we collected across more than 60,000 respondents in the industry, leaders are having a tough time responding to these challenges. Over the last three years, we’ve seen significant drops or consistently low scores on the items in the table below.

Table 1.

Four survey items saw significant negative changes for insurance companies when compared to changes in general industry norms.¹ Numbers indicate the percentage of respondents who provided a favorable response to the item. Favorable ratings above 75% are considered Clearly Favorable; between 65% and 75% are Moderately Favorable; between 50% and 60% are Warning Signs; below 50% are Red Flags.

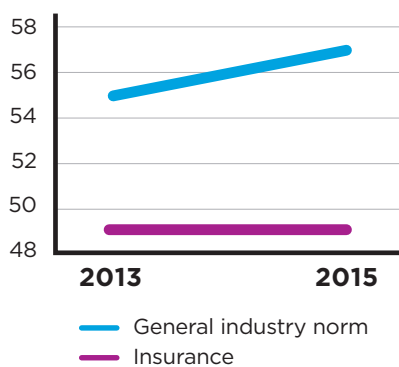
Statement	General Industry Norm 2013	General Industry Norm 2015	Gap for General Ind. Norm	Insurance 2013	Insurance 2015	Gap for Insurance
<i>The company is effectively managed and well-run.</i>	62	63	+1	75	68	-7
<i>The company provides a high-quality customer experience.</i>	66	69	+3	73	67	-6
<i>I believe my pay is fair considering the pay of people doing similar work in other companies.</i>	49	43	-6	53	48	-5
<i>There is a clear link between my performance and my compensation.</i>	44	45	+1	58	54	-4

¹ The data presented in this white paper comes from Korn Ferry’s employee engagement benchmarking data. This data consists of more than 68,000 employees in the insurance industry and more than 6,800,000 employees in the global norm group. Korn Ferry does not make use of polling data, but rather populates its database exclusively from administering surveys with our clients.

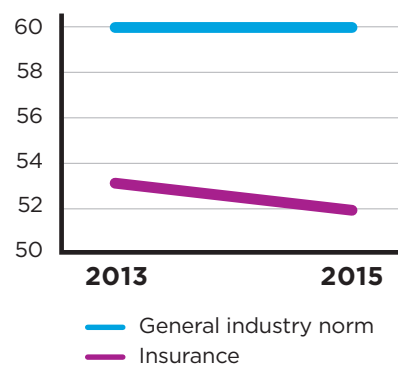
Figures 1 and 2.

Two survey items, regarding innovation and cooperation, were found to be consistently lower for insurance companies compared to the general industry norm.

Percent favorable responses to the statement, “The company is innovative in how work is done (using new technologies or creative approaches to continuously improve).”



Percent favorable responses to the statement, “There is good cooperation between departments in the company.”



As we consider these items, each will also be highly relevant as insurance companies design and implement their own digital strategies.

As described in our white paper *Leaders for a digital transformation* (2016), digitization isn't just about technology investment. We noted that “a successful business strategy for a digital transformation ... requires a comprehensive digitization talent strategy to complete the mission” (p. 2). Our insurance clients have ranged from the more traditional insurer to those that were “born digital,” and both require different types of leadership capabilities in order to execute on digital transformation. Functional expertise is critical in leading a product line, but it's becoming increasingly insufficient to bring that product line through the requisite digital transformation to remain relevant. Herein lies the opportunity and the threat. If insurance companies view “going digital” as simply their next technology upgrade, they will likely miss the opportunity to achieve game-changing results. However, if insurance leaders are willing to unleash the organization's talent to design and implement the digital strategy, there is a greater probability of achieving transformative business results.

When we ask insurance employees about significant barriers to doing their jobs, they typically refer to one of two things: legacy technology platforms and their accompanying processes, or leadership's focus on execution rather than innovation. Both deal with a lack of investment in resources that will meet the current and future needs of the insurance consumer. But the focus on executing against the current book of business, instead of making sufficient investment into all the elements of digitization (including communication and leadership) to meet the future expectations of the insurance consumer, is particularly costly from an engagement perspective. The extent to which leadership is signaling a balanced approach to risk, creating an infrastructure for new and innovative ideas to be heard and implemented, and creating compelling communications in response have had a major impact on employee engagement and confidence for our insurance clients.

In the insurance industry, we see five major challenges to leading a digital transformation and maintaining an engaged workforce in the process (see Table 2).

1. Evolving customer expectations.

Over the past three years, we've seen drops on two key metrics that we evaluate on the core survey for our insurance clients. The first deals with the quality of customer support provided by the organization, and the second deals with the company being committed to delivering high-quality products and services. We looked at global data trends across organizations over the last three years and compared them with trends in insurance. Relative to the global trends, insurance employees' favorable responses dropped 9 percentage points with regards to seeing the organization as providing a high-quality customer experience. Compared to other industries we work with, insurance employees are notably aware of and concerned with customer expectations. They are typically very aware of the impact that process changes or management decisions will have on the customer experiences, in part, because they interact with customers frequently. This awareness applies both to current client needs as well as the future needs of insurance consumers. For one of our large, multiple-line insurers, we found that this question was most significantly correlated with confidence in the future of the business. In addition, compared to global norms, insurance employees are 8 percentage points lower in seeing good cooperation between functions, which hinders an organization's ability to meet customer needs in a timely and complete manner. The heavy demand on evolving products and processes for evaluating risk are impacting employee confidence in the future of their organizations.

What you can do: Recognizing the need for deep, substantial organizational change to meet digitization is only the first step. Employers will need to fully leverage their communications teams both internally and externally to offer a roadmap to meeting the future needs of the insurance consumer. Operationally, as customer expectations for immediate and complete information increase, they will no longer tolerate finger-pointing to other functions when there are service issues or errors. Companies will need to provide employees with technology that provides more complete information regarding the status of

insurance applications or claims and also empowers employees to communicate seamlessly with other functional areas when needed information is not available within the digital technology platform.

2. Low growth rate and confidence.

Low interest rates, increased competition, and an evolving marketplace have equaled out to modest growth rates for most insurers. From 2011 to 2015, the U.S. insurance market experienced a compound annual growth rate of only 2.1%. Confidence in the future business prospects of the organization is a key driver of employee engagement, and it has gone down for insurers relative to global trends. In addition, insurance employees' perceptions of innovation at their companies is 8 percentage points lower than the global norms. Lastly, employees' understanding of the company's overall strategy has dropped 4 percentage points in the last three years compared to the global norm, which underlies the increasing ambiguity of how insurers are responding to the market. Altogether, these results suggest insurance employees are not only concerned about the future, but they also question their organization's ability to innovate in order to improve prospects for the future.

What you can do: Connecting employees to financials has been consistently shown to improve employee engagement, but that needs to be moderated by maintaining confidence in the future of the company. Consider leveraging and communicating progress against industry benchmarks; this will serve to contextualize performance, guide decision-making, and moderate concerns that the business is in trouble. One of our traditional P&C, health, and life insurance clients saw a large drop in confidence in the future of the organization. It's responding with a broader and more purposeful communication strategy on how the organization's product and technology roadmap is poised to meet the future expectations of its customers and its employees. Connecting employees to how the organization is going to maintain stability and growth through a tough financial market will help guide them in adopting new digital technology and channel their thoughts on new ideas in a manner consistent with your strategy.

3. Insufficient staff.

In response to diminished growth, many insurers have turned to reductions in staff and white-knuckled compensation policies. As staff is reduced, employees are frequently required to do more with little or no change in compensation. This cycle leads to the following result: In comparison with global trends over the last three years, insurance employees have dropped 8 percentage points on seeing their pay as fair compared to the market, and dropped 5 percentage points on seeing a link between their pay and their performance. Additionally, insurance employees are now more likely to voice that there aren't enough people to do the work in their area than there were three years ago. While the subsequently high work volume can be engaging (challenge is good for engagement), hindrances to performing your job efficiently (e.g., adopting new technology, adopting new processes, lack of authority, lack of visibility of the whole process) can severely damage employee engagement over the long term (Tadić, Bakker & Oerlemans, 2015).

What you can do: We caution our clients that a call for reduced workload and a call for increased staffing can be very different. Hiring new employees to compensate for inefficient processes will hinder long-term solution development and ultimately fail to solve workload issues when the company grows. It's more important to focus on the automation and simplification of work than responding with increased staff (unless the staffing is going to fill a talent gap required to develop the solution). Implementing a digital strategy successfully requires a review of all processes for efficiency and relevance, and engaging employees in the change to meet workload demands. Moreover, artificial intelligence can automate routine process steps or common analyses, which reduces the workload so employees can devote their time to value-added activities. Organizations now transform themselves using principles initially used by software development teams. In addition, it requires a new look at how performance is defined after the company goes digital, and a review of how rewards programs will recognize effective performance. Insurance employees are largely being asked to deliver more work and receive less in total compensation. It's important to keep a consistent eye on how the leader-member exchange relationship is shifting, both internally and against the market.

Table 3.

There are five major challenges in the insurance industry to leading a digital transformation while maintaining an engaged workforce. These challenges represent a potential lever for leadership to pull as they execute the digitization strategy for their organizations.

Evolving customer expectations

Employees are less confident in insurers' quality of customer support and commitment to delivering high-quality products and services.

What you can do

- Embrace organizational change to meet digitization needs.
- Leverage internal and external communications teams.
- Empower employees to communicate across functions.

Low growth rate and confidence

Slowed performance numbers coupled with perceptions of falling behind customer expectations are challenging employees' confidence in their employer's future.

What you can do

- Contextualize company performance against industry benchmarks.
- Communicate technology and product roadmap while drawing connections to customer feedback.

Insufficient staff

Many insurers have reduced staff, thereby challenging employees to keep pace with customer service expectations and leaving little slack for technology migration and adoption.

What you can do

- When employees call for reduced workload, focus on the process before the headcount.
- Evaluate whether there's a need for more of the current talent profiles, or a need for a different talent profile to create a long-term solution.

Focus on deep, technical expertise

Attractive talent is often narrowly defined as those that execute with excellence on day-to-day activities.

What you can do

- Recognize which parts of your business require talent focused on execution versus innovation.
- Identify opportunities for collaboration across product lines.

Operating as "one company"

Focusing on centralization and a uniform culture has a lot of appeal, but carefully consider what parts of the business need uniformity versus more localized specialization.

What you can do

- Exercise caution when determining where the organization needs to behave uniformly.
- Separate efforts and communications to create back-office synergies from efforts to create a more unified and collaborative organization.

4. Focus on deep, technical expertise.

With modest growth rates and business leaders challenged by insufficient staff, hiring profiles are retaining a narrow outlook on what good talent looks like. At a time when insurance needs new and better ways of doing things and process disruption, organizations are hiring and promoting staff to keep the lights on, with staff who are long-tenured in the insurance field, but not the type of agile talent capable of reshaping the industry. Combined with marginal focus on cross-training between different lines of business, employees are struggling with confidence in the future of the organization, feeling stimulated by growth and development, and engaging in change processes that stretch their skill set.

What you can do: Functional expertise is “here to stay” in the insurance industry. Credentials and experiences required for underwriting, actuarial, and other functional areas are not fungible and require a substantial career investment to attain them. However, as a digital strategy is implemented, it will be important for cross-functional teams to redefine processes in an integrated manner, as opposed to viewing processes as a series of hand-offs from one team to the next. This can lead to knowledge sharing across different functional areas, and members of cross-functional teams become “ambassadors” for other areas. Another approach is to assign individuals who are considered as high-potentials for senior leadership roles to perform in one or two roles outside of their area of functional expertise in order to achieve an understanding of the full process.

5. Operating as “one company.”

Without fail, every insurance client we’ve partnered with has shared a desire to operate more as one unified company. However, product lines across insurance organizations rarely share clients, rarely move employees between product groups, and rarely sit at consistent stages of maturity. While operating as one company has intuitive appeal (and offers the obvious back-office synergies), a communication strategy focused on increased collaboration and culture integration can offer more harm than help if it isn’t what the company really needs. Effective digitization can offer a multitude

of advantages to decision-making at the product group level, but also in decision-making across products. The organizations that take advantage of those data insights will have a unique advantage over their competitors, but those advantages won’t be accessible without clearly defining to employees the value proposition of how working collaboratively can help them meet their goals.

What you can do: One of our clients had a market-ready app ready for release to the public; they were the first group in a larger organization to have readied the app. When the app reached the board, one member pulled out his phone, downloaded the app, and saw that he could see only one product but not others. The board proceeded to strike down the release of the app until users could see all policies in one place. Releasing this app in its current form would have likely frustrated customers who have policies in multiple business lines—and are typically highly valued customers. It’s imperative to evaluate what you mean by acting as one company. For example, creating a centralized procurement process can offer substantial opportunities from an organization standpoint. But changes to process or governance are very different than adopting similar orientations to risk management, innovation, product development, and culture. Overall, you’ll need to determine whether you’re capable of defining a clear benefit of the one-company behavior to employees. If employees won’t directly feel the benefits, don’t confound realizing back-office synergies with one-company transformation.

While the people implications for digital transformation can feel overwhelming, there's tremendous opportunity for insurers to outpace their competitors. Insurers may be identifying new and creative ways to interact with policy holders to position additional offerings, or creating a work environment that attracts top talent away from competitors. Any insurer's going digital strategy needs to keep employees informed and confident in its roadmap, provided with opportunities to be a part of the solution, empowered in new ways of cross-functional collaboration and relentlessly connected to the voice of the customer. Otherwise, going digital becomes yet another technology upgrade, in this case resulting in unfulfilled promises, and more importantly, severely impacting the company's capability to compete in a new business environment.

Insurance companies that are attempting to meet the challenges of digital transformation will not only need to enact changes in policies and practices, but also consider whether they have the right leadership bench strength in order to meet future needs. The work of Vickers et al. (2016) found that leaders who would be successful in a digital transformation needed to possess high learning agility. More specifically, this includes *mental agility*, which includes strong critical-thinking skills and comfort with complexity, scrutinizing problems and making fresh connection. It also consists of *change agility*, or the ability to experiment and deal with the discomfort of change, with a passion for ideas and a high interest in continual development. Moreover, their work found that it was not just about simply hiring executives from pure-play digital companies such as Google or Facebook. Instead, it was about finding an optimal mix of "born digital leaders" and "going digital leaders"—the former group being able to bring their digital experience, with the latter group being more adept at navigating the organization, building relationship networks, and influencing others, all of which are needed to build commitment to digitization initiatives.

With regards to the workforce, it will be important for organizations to attract talent which possesses digital skills and retain them by providing meaningful work in the digital context. A recent client example illustrates the importance of this point. Paying great respect to the need to revamp their employee value proposition to attract skilled and agile talent to their insurance start-up, one insurer broadcasted an employee value proposition similar to that of a technology start-up. However, there were two critical challenges to their talent strategy. First, much of their recruiting efforts were focused on attracting talent away from very large, global insurers that were largely preoccupied with transitioning legacy platforms as opposed to starting from scratch. Effective digital leadership from a classic insurer looks very different from the traits and behaviors of leadership in a born-digital organization (*Leaders for a digital transformation*, p. 3). The leadership they were attracting from classic, going-digital insurers greatly hampered the formation of a start-up culture. Second, the start-up culture was only desired for their P&C business. Therefore, applicants seeing a start-up culture but arriving to find something similar to their previous employer found themselves very frustrated. Overall, it is critical for insurers to assess which parts of their organization need more agile talent and to create an employee value proposition to the market that is both attractive to agile talent and a realistic reflection of the experience of the current culture.

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