

ACORD®



Innovation: Essential to Digital Transformation and Evolution

A Joint White Paper by
ACORD and Patricia L. Saporito, CPCU

September 2017

ABOUT THE AUTHOR

Pat Saporito, CPCU is a senior director, Global Center of Excellence for Analytics and Insight at SAP, where she helps insurers and companies in other industries leverage data and analytics for improved business performance. Pat has over 20 years' insurance experience with insurance companies, vendors and technology advisory firms. Pat is the author of the book *Applied Insurance Analytics*, published by Pearson/FT Press. She is a regular contributor to *Best's Review* magazine on data, analytics and technology.

She has served as on the faculty of the International Institute for Analytics, a research advisory co-founded by Tom Davenport. She is a mentor for the Global Insurance Accelerator and on the advisory board for Stevens Institute of Technology's Big Data and Analytics Master's program.

Blog: www.patsaporito.com

Twitter: [@patsaporito](https://twitter.com/patsaporito)

Linkedin: www.linkedin.com/in/patriciasaporito

ABOUT ACORD

Since 1970, ACORD has been an industry leader in identifying ways to help its members make improvements across the insurance value chain. Implementing ACORD Standards has been shown to improve data quality and flow, increase efficiency, and realize billion-dollar savings to the global insurance industry.

ACORD supports innovation by leveraging its unique position to bring together expertise and thought leadership from across the insurance industry and by providing an idea-sharing platform for industry stakeholders. The ACORD Insurance Innovation Challenge (AIIC) is a live-pitch competition which identifies, promotes, and nurtures sustainable innovation across technology, operations and processes. Through published white papers and conference sessions, ACORD develops and delivers strategic insights supporting innovation efforts across the industry.

Learn more at www.acord.org.

The impact of big data, analytics, and new technologies in every aspect of the insurance value chain is forcing companies to consider the implementation of a digital strategy across business models, partners, products, and services to remain viable in today's market.

In the highest performing insurance organizations, innovation is an executive leadership agenda item. It is also seen externally by financial analysts, rating agencies, business partners, and customers as a key source of competitive differentiation and value creation.

News-breaking stories on innovation centers, partnering with InsurTech companies, and venture capital investments highlight the role of innovation as one of the most important drivers of growth. As a result, companies both large and small are grappling with how to embrace innovation for improved performance and sustained growth, and to secure a competitive advantage.

This white paper seeks to define innovation and provides insights into key drivers and challenges, selected approaches to innovation, and supporting capabilities including KPI's, tools and frameworks. The paper also highlights selected innovation leaders in the insurance industry and explores the role of standards organizations such as ACORD.

OVERVIEW: INNOVATION DEFINED, DRIVERS, AND CHALLENGES

INNOVATION DEFINED

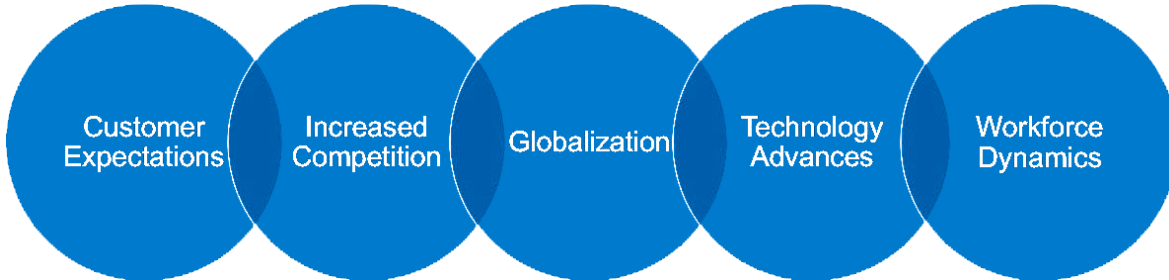
What is innovation? The simplest definition of innovation is a positive outcome that is achieved through a new idea, device, or method. Innovation is the act or process of introducing those new ideas, devices, or methods – most often associated with a new product or service. This outcome must be measurable and expressed in business value. That value is determined by those creating or providing the innovation as well as those buying, using, or consuming it, as measured by the ROI to the creators and by the improvement in the lives of the customers or partners.

Innovation can be divided into major types: Breakthrough, Sustaining, New Market, and Disruptive. Often an innovation is a combination of more than one or even all of these.



INNOVATION DRIVERS

Some companies have innovation in their DNA, typically those in high-tech, telecommunications, chemical, or industrial products industries. Most companies in other industries approach innovation incrementally, such as by expanding into adjacent markets and expanding product lines or distribution channels. Most aggressive innovation is driven by external forces such as changing customer expectations, increased competition, globalization, technology advances, and changing workforce dynamics.

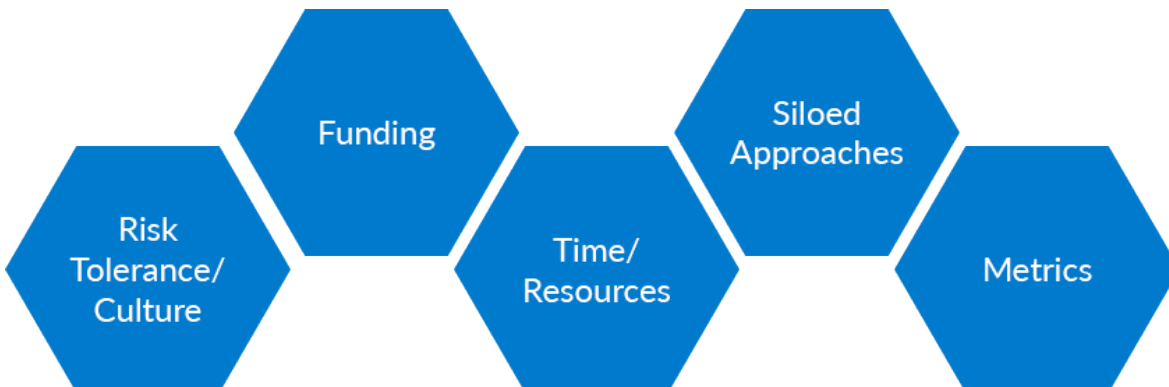


Insurance innovation is being driven by all these factors, but most significantly by competition from InsurTech startups and from outside the financial services industry. For example, telematics and autonomous vehicles have driven auto insurers to re-examine products, rating, and underwriting.

While technology can be a threat, it can also be used to identify new opportunities, especially by the use of analytics tools, which can help identify new trends, potential partners, and competitive threats from external data sources.

INNOVATION CHALLENGES & BARRIERS

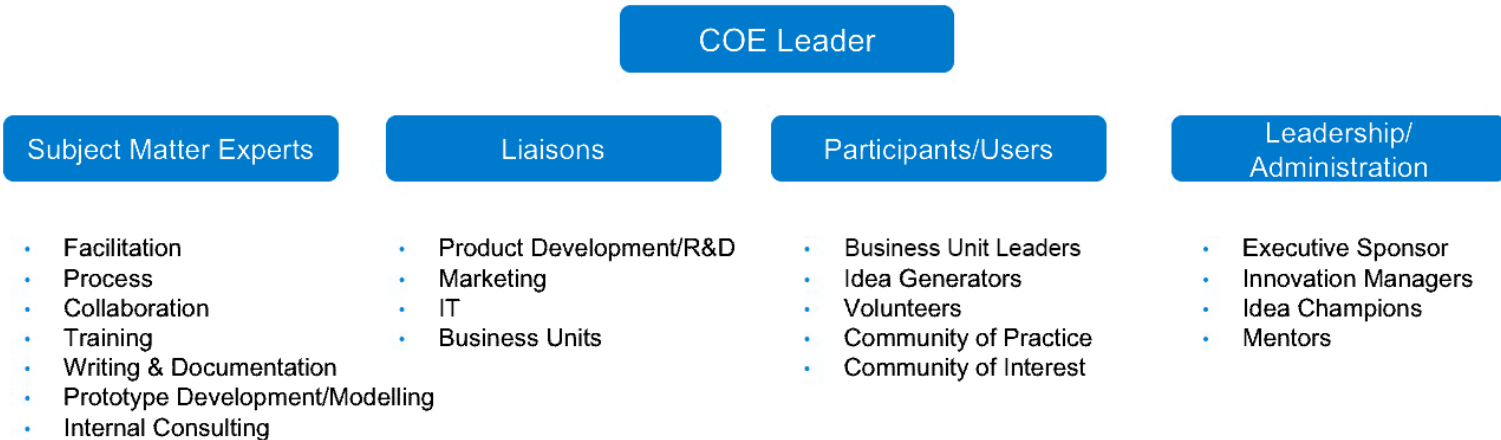
Despite the desire to innovate, most organizations have difficulty sustaining a continuous innovation culture, mindset and discipline. Key contributing factors include a lack of funding, siloed approaches which cannot be leveraged, a lack of time commitments or dedicated resources, a lack of measures, and risk tolerance and culture.



Risk tolerance and culture gaps are best exemplified by a “not invented here” mentality. Innovations never get off the ground because the operating units refuse to embrace them. To overcome these challenges and innovate effectively, many companies are developing an Innovation Center of Excellence.

INNOVATION CENTER OF EXCELLENCE (COE)

An Innovation Center of Excellence (COE) is an approach that provides a structure, centralized knowledge, and dedicated resources for innovation. It works with – but does not replace – research and development, product development, finance and IT functions. It has a small number of permanent staff with business and technical skills focused on innovation. A COE provides innovation skills, oversight, a body of knowledge and a community for innovation.



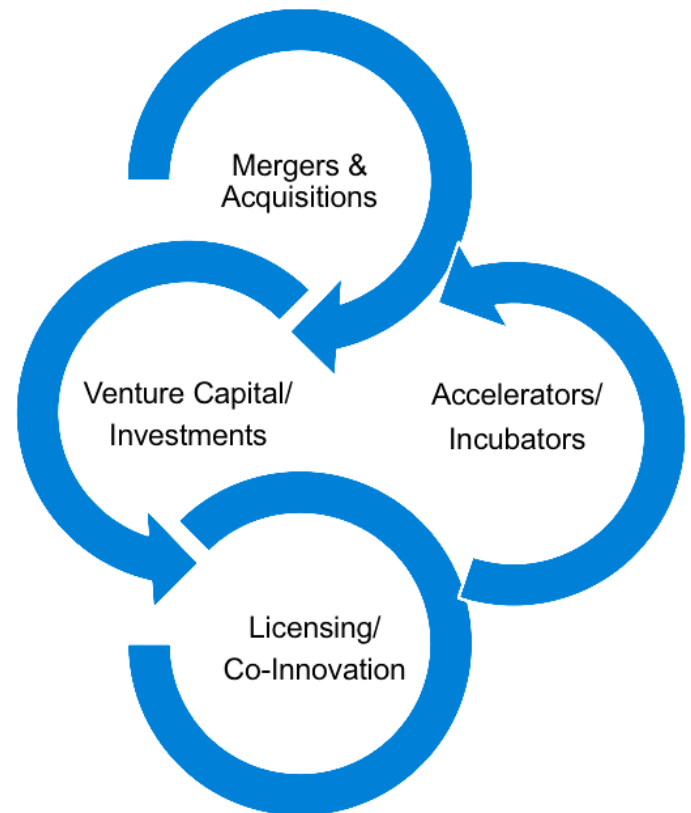
The COE works with internal and external participants on innovation projects or initiatives. It engages internal stakeholders during a prototype or proof of concept and then seeds innovation by returning the participants to their operating units to embed the innovation in the business processes. Many COEs focus on extending or expanding existing products and services.

To be successful, the COE must have a clear mission, leadership, and a budget. In addition it must have an Executive Sponsor who champions innovation. Doing so helps ensure a continuous innovation culture, mindset, and discipline within and across the organization by promoting innovation, communicating innovation successes, and building reusable knowledge repositories.

Innovation COEs need to approach projects like a lean startup. They develop proofs of concept in a “fail fast” mode before sinking too much effort into an idea that ultimately may not be viable. They learn from unsuccessful projects as well as successful ones. The organization needs to adapt to this agile development mode.

EXTERNAL INNOVATION APPROACHES

Not all innovation needs to be – or can be – developed internally. Companies use a variety of external approaches for innovation as well. In some cases, acquisition of a company or licensing its products or services is the best option. Several insurers are participating in InsurTech Accelerators such as the Global Insurance Accelerator or Silicon Valley Insurance Accelerator and partnering with startups, some of which they may ultimately acquire. Yet others have made venture capital investments, or have even formed dedicated venture capital arms to incent startups. Some have formed special-purpose consortia, such as the B3i Blockchain Insurance Industry Initiative founded by Munich Re and Swiss Re. The best approach varies from company to company, according to its needs and culture.



INNOVATION IN PRACTICE: SELECTED CARRIERS

Instances of innovation in practice are becoming more common as carriers seek to capitalize on emerging opportunities and leverage new technologies to develop successful new products and services, and change their business models. The following are a select number of recent efforts focused on innovation.

ALLIANZ

The Allianz Group is a global financial services provider with services predominantly in insurance and asset management. Innovation at Allianz is firmly embedded in the company’s strategy. Allianz has a group-wide innovation initiative, “Ideas to Success,” which was launched in 2006. Allianz’s Global Innovation Awards recognize innovation in three categories: Excellence in Digitalization, Excellence in Global/Local Collaboration and Excellence in Employee Business.

AVIVA

Aviva provides life insurance, general insurance, health insurance, and asset management. Aviva was an early adopter of telematics, the first in the UK, where it worked in partnership with IBM and Orange for “Pay as You Drive” insurance. Aviva has a “Digital First” customer strategy and describes itself in its strategic report as dedicating to becoming a “320-year-old digital disruptor.” It supports innovation through its Aviva Ventures arm.

AXA

AXA Group, a worldwide leader in insurance and asset management, has created an entire ecosystem dedicated to innovation, which encompasses four structures to support various stages of innovation. Its AXA Labs in Shanghai and San Francisco scout and connect innovations in their regions. Kamet is a startup studio dedicated to creating innovative companies in insurance and asset management. AXA Strategic Ventures is its dedicated FinTech and InsureTech investment fund. The AXA Partners and Digital Partnerships team engages AXA in partnerships with innovative companies.

MUNICH RE

Munich Re Group is one of the world's largest reinsurers; its products also include primary insurance and asset management. Munich Re, US is intensifying partner collaboration using its US Innovation Lab and has employees on the ground in Silicon Valley, forming partnerships with startups to stay ahead of the InsureTech wave. Munich Re has also invested in several IoT startups including Helium, Waugym and Augury through its corporate venture arm, Munich Re/HSB Ventures; and it has backed P2P P&C insurance startup Lemonade with reinsurance capital. Through its Digital Partners program, Munich Re has also developed a number of underwriting partnerships with other startups including Trov, Simpleurance, and Slice. Munich Re was one of the founders of the B3i Blockchain Initiative.

SWISS RE

The Swiss Re Group is a leading global wholesale provider of insurance, reinsurance, and other insurance-based forms of risk transfer. It has long been recognized for its industry and economic research, including its Sigma research publications. In 2016, Swiss Re launched the InsurTech Accelerator in India, focused on "Internet of things (IoT), systems of engagement, and smart analytics." The Accelerator is a 20-week intensive program through which it mentors and helps curate startups with the potential of disrupting insurance practices. In addition, Swiss Re was a founding member of the B3i Blockchain Initiative.

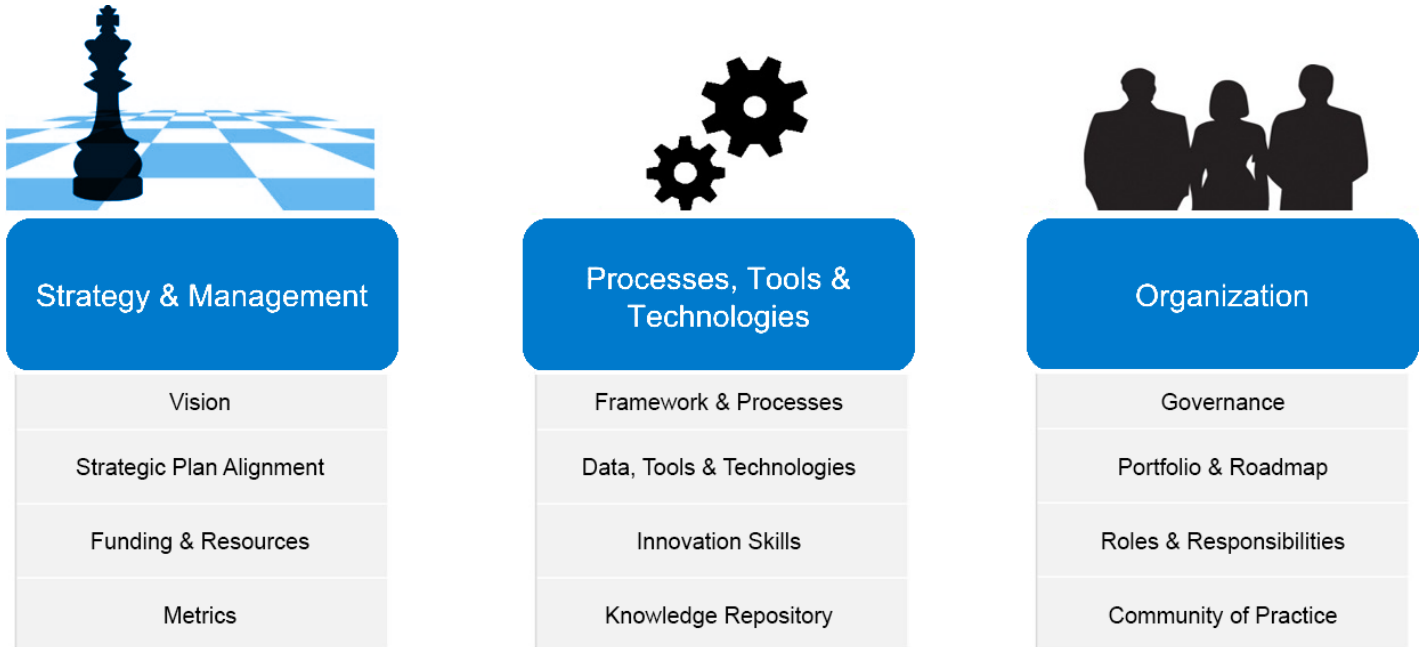
USAA

USAA provides banking, insurance, and investment products to its military members and their families. USAA drives innovation in several ways. Internally, its Innovation Community for the Enterprise is a program where employees have a voice in the innovation process by creating an idea and sharing it, and other employees can build on it. In 2016, around 10,000 ideas were submitted and 1,206 were launched. Externally, USAA brings groups of members into its USAA Labs program, an initiative designed to solicit customer ideas that can help shape improvements and innovations collaboratively. Lastly, USAA uses a venture capital arm to invest on ideas on the outside. USAA was recognized for three innovation awards in 2016 by various organizations for its Digital Virtual Assistant, Biometric Authentication, and Voice-Guided Deposits.

Other carriers driving innovation within their organizations include Admiral, GEICO, Insurance Australia Group, Progressive, and Zhong An.

INNOVATION FRAMEWORK AND CAPABILITIES

Effective innovation requires three key pillars: Strategy & Management; Processes, Tools & Technologies; and Organization.



STRATEGY & MANAGEMENT

Vision: The innovation vision should be defined and broadly communicated.

Strategic Plan Alignment: The vision should be aligned with the strategic plan.

Funding & Resources: Innovation should have a budget and permanent resources.

Metrics: Innovation metrics should be agreed upon and innovation value regularly communicated.

PROCESSES, DATA, TOOLS, AND KNOWLEDGE

Framework & Processes: A framework and processes should be documented and communicated.

Data, Tools & Technologies: Data sources, tools and technologies should be made available.

Skills: Key skills required, training resources, and mentoring should be available.

Knowledge Repository: Innovation projects and outcomes should be documented for re-use.

ORGANIZATION

Governance: Executive governance and working committees should be defined and documented.

Innovation Portfolio and Roadmap: Projects should be prioritized by executive committee based on value to the organization; short- and long-term roadmaps should be in place.

Roles & Responsibilities: Roles and responsibilities should be clearly defined and documented.

Community of Practice: An ongoing community of practice with regular communication should be in place.

THE ROLE OF DATA & ANALYTICS

Data and analytics tools and technologies play a key role in identifying innovation opportunities. Insurers must continually seek new data sources to augment their internal data, as well as keep abreast of new tools and technologies to evaluate and incorporate into their innovation ecosystems.

Big data has increased the number and variety of data sources available for innovation research. But the breadth also brings challenges. In addition to identifying these additional data sources, you must sort, organize and gather insights from disparate resources, including internal proprietary customer and product data, patent data, scientific literature, semantic networks, venture funding data bases, social networks, and more.

Innovation COEs need to be supported by agile IT analytics environments to help aggregate data, provide semantic context, and apply advanced analytic tools. Recognizing these needs, many IT organizations are providing innovation sandboxes as technology environments to support these efforts.

MEASURING INNOVATION VALUE

Organizations most often measure innovations with tangible metrics such as revenue, profits, and market share. Less tangible measures such as reputation, knowledge, attractiveness to talent, and leadership are also important.

For sustained funding, it is important to measure and communicate innovation success. An innovation dashboard with key metrics should be developed and made visible.

The following are some sample innovation metrics:

Innovation / Innovation Process

- Number of ideas
- Ideas : Ideation Campaigns ratio
- Ideas that Reach Concept : Ideas ratio
- Use of innovation tools & techniques

Financial & Market Measures

- Sales : Sales Leads ratio
- Revenue from new products/services
- Profit from new products/services
- New customers from new products/services
- New segments/sector entry from new products/services

Growth & Sustainability Metrics

- Rate of return on innovation investment
- Market share growth from new products/services
- Brand awareness/stickiness
- Patents created
- Revenue generated by licensing patents created

DATA STANDARDS AND ARCHITECTURE

For many in the industry, the current technology landscape presents a formidable challenge to innovation. Years of custom integrations, proprietary system builds and bespoke software applications, have created an environment marked by high levels of complexity, lack of flexibility to adapt to change and high maintenance costs. As a result, the ability to innovate by leveraging new technologies or through experimentation, is nearly impossible due to the time, budget and resources required to overcome these obstacles.

The use of data and architecture standards enables organizations to address these challenges by mitigating the need to reconfigure the infrastructure in order to support various innovation projects. By creating a technical environment where innovations are more easily integrated, personnel have the freedom to effectively experiment without the need to scratch-build a support system around each innovation.

As the insurance industry ecosystem continues to expand, both globally and across industries, performance is increasingly dependent on the successful exploitation of connections and networks. Interoperability is paramount to this success and standards are a critical component, particularly for organizations attempting to commercialize emerging technologies. Here, standardization lowers the barriers to adoption, enabling companies to bring new products to market more quickly and successfully.

Other ways in which standards support innovation include:

- Improving the ability to capitalize on emerging opportunities by reducing the time required to bring new products and services to market
- Providing the option to leverage “best-of-breed” solutions and to avoid being limited to a single vendor
- Facilitating the consumption of emerging sources of data including sensors, wearables, social media and mobile applications

By improving the efficiency in communications and data integration across the insurance value chain, data and framework standards reduce some of the common barriers to innovation. The use of standards enhances organizational flexibility and adaptability, allowing organizations to innovate more quickly and effectively and enabling them to focus on those capabilities that deliver real existing and future competitive advantage.

CONCLUSION

The insurance industry will continue to face disruption from growing data and new technologies combined with digital transformation pressures. Insurers who can harness and leverage this disruption for innovation will evolve and grow, while those who cannot will be at a distinct competitive disadvantage. The ability to innovate and to develop an innovation culture – both internally and externally, with customers and partners – is fast becoming a core competency. However, even companies with a strong desire to embrace innovation commonly face significant barriers. Suitable culture, mindset, strategy, process, and tools must be cultivated to successfully drive innovation and maximize its benefits.

SOURCES AND ADDITIONAL RESOURCES

WHITE PAPERS / STUDIES

[Innovation in Insurance](#). Deloitte University Press.

[Insurance Innovation Imperative Study](#). KPMG.

[The Most Innovative Companies 2016 - Interactive Guide](#). Boston Consulting Group.

[Measuring Innovation: Sustaining competitive advantage by turning ideas into value](#). Bearing Point.

ACCELERATORS

[Global Insurance Accelerator](#)

[Silicon Valley Insurance Accelerator](#)

ORGANIZATIONS

[ACORD](#)

[Innovation Leader](#)

[Innovation Leaders](#)

OTHER

[ACORD Insurance Innovation Challenge](#)

[Digital Insurer Forum](#)

[Edison Awards](#)

[Sigma Research | Swiss Re Institute](#)



www.acord.org



memberservices@acord.org



1.845.620.1700



1 Blue Hill Plaza, 15th Floor, Pearl River, NY 10965

