The Future of Insurance

Insurance Reimagined

The global insurance industry is facing an inflection point.

We aim to have this publication inspire business leaders and entrepreneurs in the insurance industry to reimagine the future of Insurance for sustainable and holistic impact creation, and usher in the desired transformational change.

This publication is a collaborative effort by Chander Nagpal, Clint Undseth, Lance Peppler, Magdalena Iordanova, and Thomas Anthony from the OpenExO community.

Contents

Executive Summary

We are in an era when our world is evolving at an increasingly accelerated pace. We are seeing radical shifts in demographics, consumer behaviors, global geopolitics, societal fabrics, and perhaps most significantly, wave upon wave of converging and rapidly progressing technological advancements.

The adage, "slow and steady wins the race," is not pragmatic anymore.

No surprise, **Agility**, **Adaptability**, and **Resilience** are no longer mere buzzwords. They **have become the essentials** for organizations across sizes, geographies, and industries to stay relevant in the short term and, more importantly, thrive over the mid to long term.

The Insurance industry is no exception.

As a protector of different risks, Insurance plays a critical role in socio-economic development, making it a strategic industry. And it's not just strategic. It's significant as well. It is one of the largest industries in the world.

In 2022, the global gross written premiums were an estimated $6.78 trillion, with the Property and Casualty business segment accounting for 60%.

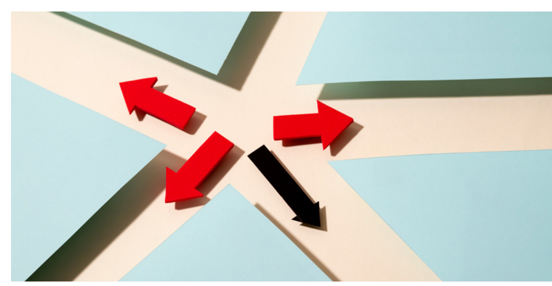
While being large, the insurance industry is perceived to be slow, risk-averse, and, in fact, often described as "the coal industry minus the smokestacks."

Given the industry's fundamental role, strategic significance, and the apparent need for disruption and transformation, we at OpenExO* set out to dive deep into the arena.

Through this publication, we share insights drawn from insurance's evolution over centuries, various changes currently taking place, and our perspectives on what we believe are the ten most critical shifts that offer both challenges and opportunities.

We present nine transformation and evolution initiatives and four vital strategic actions we believe the industry players (startups, scaleups, and incumbents alike) must take to 'improve' the current Core and, more importantly, 'innovate' at the Edges – To be future-ready and deliver holistic, sustainable growth and impact.

The ten critical shifts involve changes, some in the direct control of the insurers, others exogenous. Some are quite clear, others not. One thing is sure: they will all deeply affect the industry's evolution and performance over the coming years.



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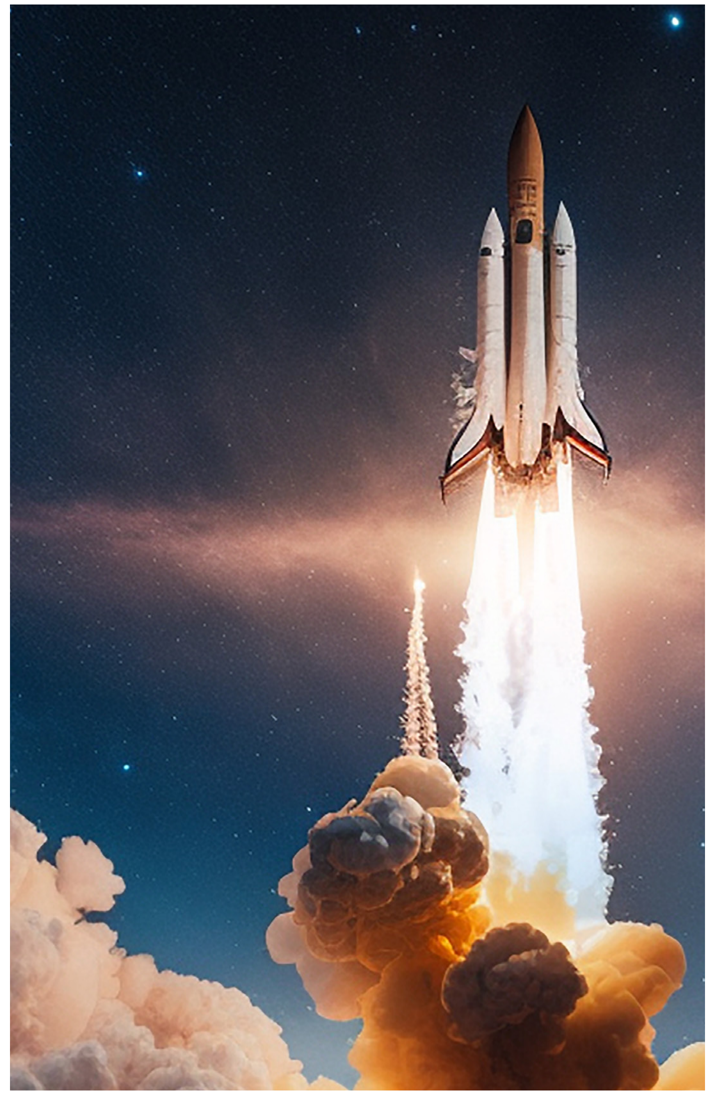
- **Portfolio Sustainability**
- **New Customer Persona**
- **Protection Gap**
- **Ever Increasing Competition**
- **Emergence of Collaboration**
- **Talent Relevance**

Given these shifts,

We believe that insurance companies (incumbents, startups, and scaleups alike) must focus on **nine transformation and evolution initiatives**, some focused on building **organizational capabilities (people, processes, technology)**, while others being specific **business opportunities.**

We strongly believe that executing these initiatives would enable the players in the insurance industry to **address the headwinds, capture the tailwinds**, and **fuel the much-needed innovation.**

- Go Beyond Risk Transfer
- Embrace Artificial Intelligence
- Embed Blockchain for Efficiency
- Products for the Audience of One
- Launch Peer to Peer Insurance
- Offer Pay as You Use
- Build Integrated Healthcare
- Become an Ecosystem Builder
- Foster Experimentation



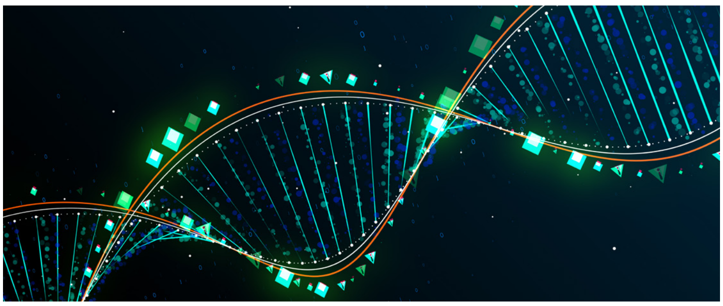
These insights and recommendations are based on 125+ years of combined experience of the team of authors involved in multiple transformation endeavors in the Insurance and other industries, conversations with several senior insurance business leaders, and performance analysis of the publicly listed insurance firms.

We hope this publication **inspires business leaders** at the incumbent insurers **and entrepreneurs** to embark on the much-needed **transformation journey** – towards a competitive, sustainable, and **reimagined insurance.**

**OpenExO, established in 2014, is a global community of 33,000+ professionals leading and enabling exponential evolution and transformation journeys towards growth and impact for hundreds of startups, scaleups, and mid to large-sized incumbent organizations across industries and geographies.*

Evolution of Insurance

In antiquity, risk was often seen through the lens of fate and met with acceptance rather than defiance. Protecting against misfortunes was perceived as tantamount to interfering with divine providence. Prayers and pilgrimages were the means to protect against the risks.



But around 3000 years ago, the Babylonian and Chinese traders are believed to have started the first forms of insurance. To limit the loss of goods, merchants would divide their items among various ships that had to cross treacherous waters. Spreading risk in such a way had its limits. Ship owners sailing the same route often experienced accumulated losses, and a single disaster could far exceed the capacities of a burial club.

As the ancient world evolved, maritime loans with rates based on favorable travel seasons surfaced. Around 600 BC, the Greeks and Romans are considered to have formed the first life and health insurance types within their respective societies.

Over the centuries, insurance became a fledging business of protecting people from various risks. Standalone insurance policies not tied to contracts or loans surfaced in Genoa, with the first standalone insurance policy being issued in 1347. This major change influenced insurance for the rest of the time.

As the Renaissance ended in Europe, insurance evolved into a much more sophisticated form of protection with several varieties of coverage.

The roots of Modern insurance can be traced back to the Great Fire of London in 1666. After it destroyed more than 30,000 homes, a man named Nicholas Barbon started a building insurance business. And, towards the end of the 18th century, the **first global insurance company**, the Phoenix, was founded by an association of sugar refinery owners in London.

As the 1800s passed, insurance companies started offering individual health and life insurance. German Chancellor Otto von Bismarck introduced social security programs in the 1880s. Germany's system was the first of its kind in the world. Old age pensions, accident insurance, medical care, and unemployment insurance were soon introduced worldwide.

Over the 19th and 20th centuries, insurance companies started covering different kinds of life, health, property, and casualty risks. Also, insuring against certain risks became mandatory, albeit not consistently across risk categories and more so geographically. For example, it wasn't until the 1980s that car insurance was made mandatory. That's almost 80 years after the mass production of cars began in the early 20th century! Similarly, while basic Health Insurance is not mandatory globally, it has been in Europe!

And, as the industry evolved, so did the size and number of risks. Soon, it began outstripping the capacities of the insurance industry towards the second half of the 19th century, and Insurers resorted to sharing risks with each other. By implication, if not by design, this practice required competitors to grant each other access to their books. It also increased the likelihood of accumulating risks regionally and in certain specific lines of business. **This led to the birth of reinsurers.**

During the 20th century, the insurance industry went through some troughs (especially WW1, the Great Recession, and WW2), but overall, it witnessed growth and was quite profitable.

However, the **opening decade of the 21st century** changed things dramatically. Over the last two decades, we have witnessed several high-impact events and developments, such as the attack on the World Trade Center (WTC) in 2001, Hurricane Katrina in 2005, the Global Financial crisis in 2007, the Tohoku Tsunami in 2011, Australian Bushfires in 2019, COVID-19, and now the Russia Ukraine conflict.

These incidents have triggered insurers to rethink the global interconnectivity and accumulation of seemingly unrelated risks.

From acceptance of fate to the first forms of insurance by ancient traders, the insurance industry has gradually advanced with standalone policies, social security programs, and mandatory insurance emerging over time to handle growing risks. The recent major events have prompted insurers to reassess risk distribution and interconnectedness.

Industry Performance

The Gross Written Premiums for the global insurance industry stood at a staggering $6.78 trillion in 2022, with the top 10 countries accounting for 80% of these volumes. The USA alone accounted for 44% of the market.

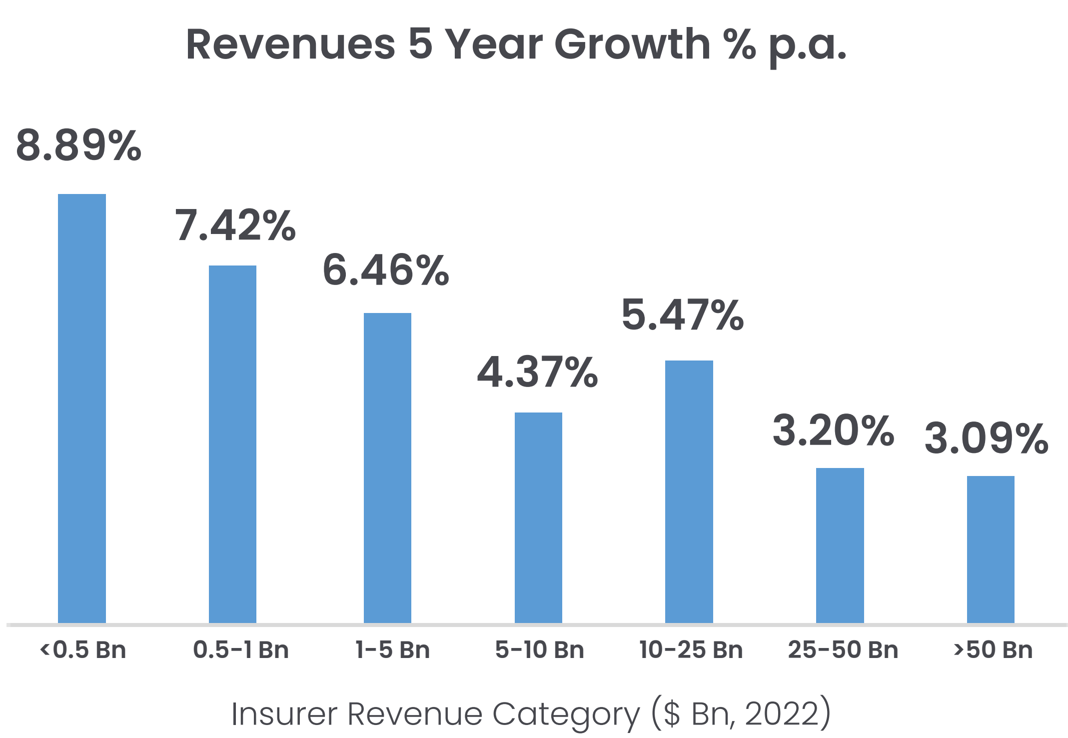
So, how has the industry been performing?

Given the absence of robust datasets providing performance information across the operational, customer, employee, and social metrics - we focused on the financial metrics and used **Refinitiv as the golden data source.**

As representatives of the broader industry, we analyzed the 814 publicly listed insurers and established **some key insights.**

For the financial year 2022, these 814 insurers had total revenues of $3.4 trillion, premiums of $2.9 trillion, market capitalization of $3 trillion, and an asset base of $24.7 trillion.

The **average revenue growth rate** over the last five years has been **7.7% per annum** between 2018-2022. Compared to this, the banking industry peers have delivered a healthier 10.1% average revenue growth during the same period.



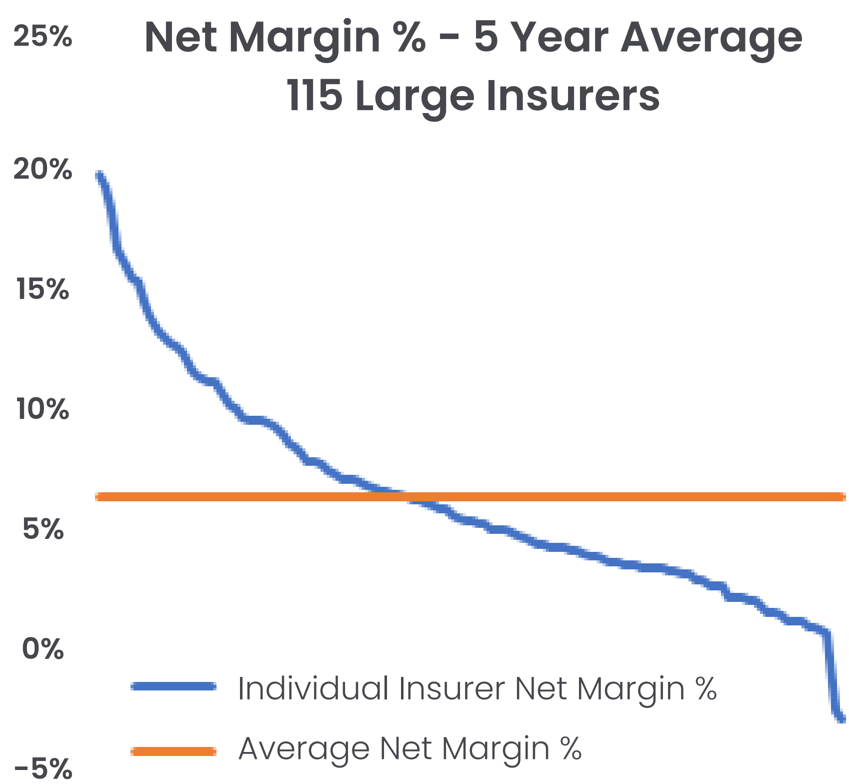
Interestingly, the **38 biggest insurers** with 2022 revenues of >$25 billion had **the lowest growth** in their revenues over the last five years.

Amongst these big insurers,

Fairfax Financial of Canada, Progressive Corp of USA, and Hannover Re of Germany delivered **double-digit revenue growth.** But we also witnessed **a significant fall in revenues** for some of the large insurers, most notably, UK-based Aviva with a negative CAGR of 10.5%, and Swiss- based Zurich Insurance and Dutch Aegon with a negative 8% CAGR each.

In terms of profitability, the 814 listed insurance firms delivered **average net margins of a dismal 1.4%** over the last five years.

For the larger 115 insurers having revenues of more than $5 billion in 2022, the average net margins were higher at 6.5%, albeit with considerable variations.



Some of the prominent insurers, Phoenix Group and Brighthouse Financials, with negative average net margins of 2.5% each, and Life Insurance Corporation of India, SCOR, Swiss Re, and T&D Holdings, each with only 1% average net margins, stand out for their dismal performance.

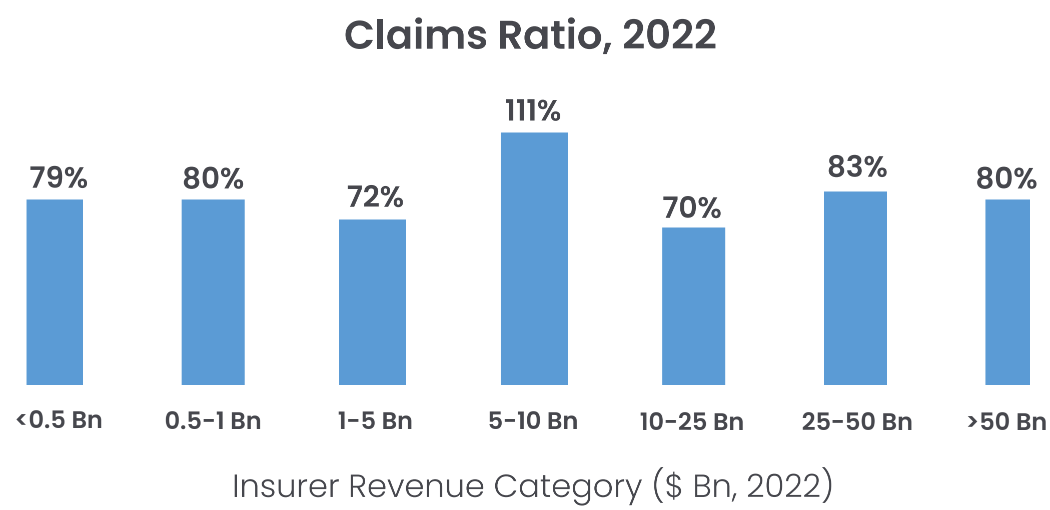
The more critical point, however, is the relative performance of insurers. **The banking peers significantly outperformed once again,** delivering average net margins of 24.5% over the same five-year period.

openexo

One of the most important drivers of an insurer's profitability is the Claims / Loss Ratio.

Last year, in 2022, the industry had an average Claims ratio of 80%, with the mid-tier insurers looking to be struggling the most.

A high Claims ratio implies that the insurer is required to focus intensively on cost reduction since the avenues to increase pricing are rare – which resonates well with the common view that **the industry has had to grapple with operational topics instead of focusing on growth and impact.**



The average 5-year TSR (total shareholder returns) for the 115 larger insurers having 2022 revenues of more than $5 billion has been only 19.8%, with nearly **40 percent of the insurers, in fact, delivering a negative TSR.**

Only 15 percent of these large insurers delivered TSR higher than the global benchmark index, the S&P500, which had a 60% TSR over the last five years.

Over the last few years, insurance firms, especially the large incumbents, have been witnessing slow growth rates, low profitability levels, high underlying claims ratios, and haven't been able to create shareholder wealth.

The Shifting Sandbox

Insurance is not just a fundamental and strategic industry but also complex. The industry has been characterized by dense legislation, the need for sophisticated underwriting and actuarial capabilities, large and entrenched incumbents with deep-rooted distribution networks, and significant capital requirements. These conditions have traditionally minimized incentives for incumbents to change and discouraged newcomers and disruptors from entering this industry. However, over the last few years, some of these MOATs have weakened, and some even become irrelevant.

At the same time, as highlighted in the 'evolution of insurance' section, we have witnessed a significant number of crucial risk events over the last few years: some white elephants (known knowns), some gray rhinos (known unknowns), and some black swans (unknown unknowns) that have impacted insurance firms both positively and negatively due to the external headwinds and tailwinds.

> *We've recently seen several events that have had significant impacts on business and society: the pandemic, the challenges of a warming climate, the Great Resignation, the Russia and Ukraine conflict, and the impact on energy. These types of events can cause challenges for business operations and their supply chains, so it's essential that we consider environmental and social risks as critical to how we and our clients build resilience.*
>
> *Also, society, driven by capitalism, has been built on the belief that we have infinite natural resources. But global industries are beginning to realize that natural and social capital is not free and infinite. The challenge, however, is that today's consumerism-driven economy does not yet value natural and social capital in quantifiable financial terms.*
>
> ***Suzanne Scatliffe, Global Director of Sustainability, AXA Global***

We leveraged our ongoing engagements with different insurance firms globally and conversations with industry business leaders to identify 56 different strategic and operational changes that have been happening/are likely to happen in the external and internal environment of the insurance players.

We narrowed them down to the ten most critical shifts, some in the direct control of the insurers, others exogenous. Some are clear, others not. One thing is certain, though: they will all deeply affect the industry's evolution and performance over the coming years.

Struggle to Generate Returns
Lack of returns, high volatility in earnings, and opacity of risks drive low investor confidence.

End of Low-Interest Rates
Impact on loss ratio, expense ratio, pricing, and returns on invested portfolio causing volatility in margins.

Risk Landscape Getting Riskier
Volatile era is testing resilience, with environmental, geopolitical, and societal issues becoming prominent.

Evolving Regulations
Focused on disclosures, capital adequacy, democratization, and customer protection.

Portfolio Sustainability
Expected to drive the sustainability agenda through insuring and investing in decarbonizing businesses.

New Customer Persona
Changing demographics, digitalization, environmental awareness, and the need for proactive risk management.

Protection Gap
Need to increase awareness about benefits to seize the growing purchasing power and new risks.

Ever Increasing Competition
Incumbents and Insuretechs battle out amid sluggish growth and geopolitics affecting globalization.

Emergence of Collaboration
Challenging insurance's traditional siloed approach and fostering disruptive partnerships becomes vital.

Talent Relevance
Need for Future-ready skill sets and mindsets to address the immune system and transform the DNA.

Struggle to Generate Returns

As highlighted in the earlier section focused on our financial performance analysis of the 814 publicly listed insurance firms, it's pretty evident that the industry (especially the large incumbents) has been struggling to grow, generate profits, and create value.

In fact, as per an analysis published by McKinsey recently, the total market capitalization for the largest US-based life insurance firms relative to other financial services peers has decreased consistently over the past 35 years, from 40% in 1985 to 17% in 2005 to only 9% in 2020.

End of Low-Interest Rate Era

The insurance firms benefited from the stable and low inflation and interest rate environment we witnessed, especially in the developed part of the world post the 2008 financial crisis. It enabled insurance firms to manage their investment portfolios more effectively, as low-interest rates typically resulted in increased bond prices. Moreover, with reduced inflation, insurance payouts and liabilities remained relatively predictable, fostering better risk assessment and pricing accuracy. Additionally, policyholders had found it more affordable to obtain coverage, encouraging higher participation rates.

This is no longer the case. We have seen a rapid rise in inflation and interest rates across regions worldwide over the last two years.

Inflation adds pressure to the top line as clients review their expenses related to insurance coverage and make decisions, in some cases, to retain more risks to reduce costs. At the same time, loss costs and reserve requirements grow, negatively affecting the bottom line.

On the positive side, with the rising interest rates, insurance firms are likely to see an increase in investment returns - with effects varying across insurers depending on their investment portfolio profile and the strength of their asset liability management.

The more significant challenge is with respect to pricing economics, wherein modeling the rates over the short-medium-long term has undoubtedly become subject to lots of complexity and uncertainty. Several of the incumbents and, more so, the recent entrants haven't experienced such an economic cycle in recent history.

Risk Landscape Getting Riskier

We are living in an era that is often characterized as VUCA (volatile, uncertain, complex, and ambiguous). It's also turbulent, where expectations are constantly challenged, and predictions often fail. These times tax the resilience of individuals, organizations, and society at large.

It's interesting to see the evolution of Risk Trends over the years, as per the World Economic Forum (WEF) Annual Risk reports.

Top 5 Global Risks in Terms of Likelihood

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1st	Infrastructure breakdown	Blow up in asset prices	Asset price collapse	Asset price collapse	Storms and cyclones	Income disparity	Income disparity	Income disparity	Interstate conflict	Involuntary migration	Extreme weather	Extreme weather	Extreme weather	Extreme weather
2nd	Chronic diseases	Middle East instability	China economic slowdown	China economic slowdown	Flooding	Fiscal imbalances	Fiscal imbalances	Extreme weather	Extreme weather	Extreme weather	Involuntary migration	Natural disasters	Climate action failure	Climate action failure
3rd	Oil price shock	Failed and failing states	Chronic diseases	Chronic disease	Corruption	Greenhouse gas emissions	Greenhouse gas emissions	Unemployment	Failure of national governance	Climate action failure	Natural disasters	Cyberattacks	Natural disasters	Natural disasters
4th	China hard landing	Oil price shock	Global governance gaps	Fiscal crises	Biodiversity loss	Cyberattacks	Water crises	Climate action failure	State collapse or crisis	Interstate conflict	Terrorist attacks	Data fraud or theft	Data fraud or theft	Biodiversity loss
5th	Blow up in asset prices	Chronic diseases	Deglobalization (emerging)	Global governance gaps	Climate change	Water crises	Population ageing	Cyberattacks	Unemployment	Natural catastrophes	Data fraud or theft	Climate action failure	Cyberattacks	Human-made environmental disaster

Top 5 Global Risks in Terms of Impact

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1st	Blow up in asset prices	Blow up in asset prices	Asset price collapse	Asset price collapse	Fiscal crises	Financial failure	Financial failure	Fiscal crises	Water crises	Climate action failure	Weapons of mass destruction	Weapons of mass destruction	Weapons of mass destruction	Climate action failure
2nd	Deglobalization	Deglobalization (developed)	Deglobalization (developed)	Deglobalization (developed)	Climate change	Water crises	Water crises	Climate action failure	Infectious diseases	Weapons of mass destruction	Extreme weather	Extreme weather	Climate action failure	Weapons of mass destruction
3rd	Interstate and civil wars	China hard landing	Oil and gas price spike	Oil price spikes	Geopolitical conflict	Food crises	Fiscal imbalances	Water crises	Weapons of mass destruction	Water crises	Water crises	Natural disasters	Extreme weather	Biodiversity loss
4th	Pandemics	Oil price shock	Chronic diseases	Chronic disease	Asset price collapse	Fiscal imbalances	Weapons of mass destruction	Unemployment	Interstate conflict	Involuntary migration	Natural disasters	Climate action failure	Water crises	Extreme weather
5th	Oil price shock	Pandemics	Fiscal crises	Fiscal crises	Energy price volatility	Energy price volatility	Climate action failure	Infrastructure breakdown	Climate action failure	Energy price shock	Climate action failure	Water crises	Natural disasters	Water crises

Economic | Environmental | Geopolitical | Societal | Technological

Global Risks Report 2023

WORLD ECONOMIC FORUM

Top 10 Risks

"Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period"

	2 years		10 years
1	Cost of living crisis	1	Failure to mitigate climate change
2	Natural disasters and extreme weather events	2	Failure of climate-change adaption
3	Geoeconomic confrontation	3	Natural disasters and extreme weather events
4	Failure to mitigate climate change	4	Biodiversity loss and ecosystem collapse
5	Erosion of social cohesion and societal polarization	5	Large-scale involuntary migration
6	Large-scale environmental damage incidents	6	Natural resource crises
7	Failure of climate-change adaption	7	Erosion of social cohesion and societal polarization
8	Widespread cybercrime and cyber insecurity	8	Widespread cybercrime and cyber insecurity
9	Natural resource crises	9	Geoeconomic confrontation
10	Large-scale involuntary migration	10	Large-scale environmental damage incidents

Risk categories
Economic | Environmental | Geopolitical | Societal | Technological

Source: World Economic Forum, Global Risks Perception Survey 2022-2023

Economic and even Technological risks have seemingly become non-critical as the focus with respect to severity has shifted toward environmental, geopolitical, and societal topics.

This is despite the fact that the last decade was the slowest period in terms of growth since the 1970s – the world economy has been stuck at approximately 3% growth since the Great Recession. Perhaps the newer generations no longer see the precarious economy as a risk but simply a reality.

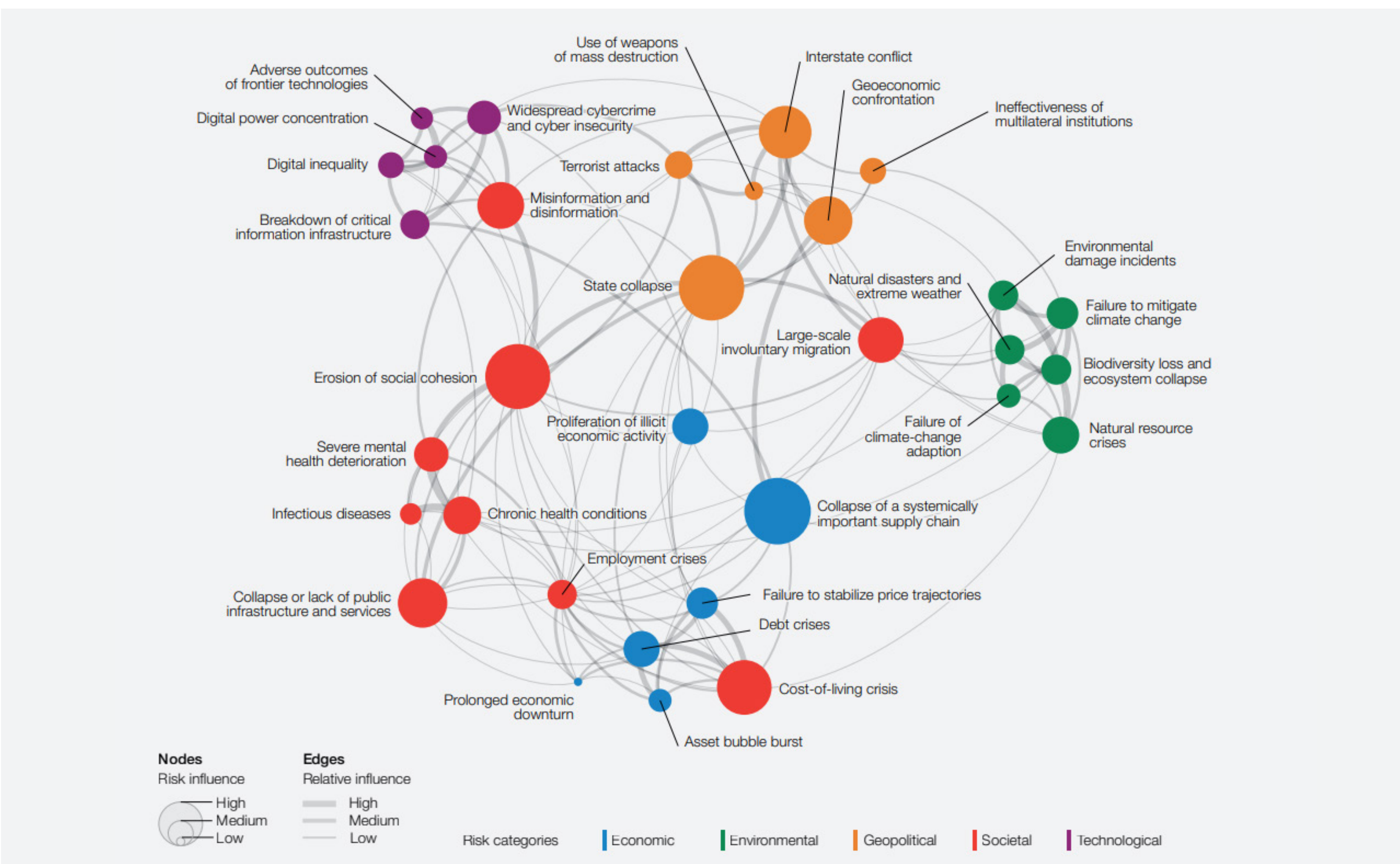
Globally, extreme weather events are wreaking havoc, with increased flooding, tropical storms, wildfires, and droughts challenging traditional risk assessment and underwriting models in property insurance. For example, since 2017, the US has experienced an average of 15 NatCats (with damages exceeding $1 billion)/year. This is 50% higher than the previous decade and, in fact, 2.5x the number in the decade before 2007.

But, besides Climate, there are several other risk topics that are becoming increasingly relevant for the insurance industry. The more significant challenge, perhaps, is the complex interconnectedness within the risk landscape, as represented well in the Global Risk Report published by WEF in Jan'23.

There are a multitude of risks, of course. Natural Catastrophes constitute the most significant challenge. This includes the frequency, but perhaps more importantly, the severity of these natural catastrophes getting worse. We have governments all recognizing climate change is a risk.

Others include water damage to properties. Water damage claims are increasing at a dramatic pace. Property portfolios we know have an impact on energy and environmental footprint, and this is part of the climate risk equation.

Scott Ewing, Risk Consulting Leader, Americas, AXA



Evolving Regulations

In recent years, we have seen significant changes in the global regulatory landscape, with some key countries introducing reforms that will likely have a global impact over time.

While it's been almost six years, the introduction of Solvency II (governing the amount of capital insurers must hold to cover their risks, like in Banking) and IFRS17 (accounting standard that governs how insurers account for their contracts) has led insurers to completely redo their risk models and dramatically increase disclosure levels.

The fast-growing Indian market has seen the introduction of regulations to address market concentration and consumer protection.

> *In India, the government is slowly tightening the screws around some of the 'practices' of the insurance industry - for example, pure investment-based products. Over the last three years, high-value investments in unit-linked products and, more recently, non-linked or participating /non-participating products have become taxable, reducing their attractiveness.*
>
> *Secondly, with a focus on every Indian household to be covered by 2047, a new digital and composite product (life, health, and general) is under development by the central government to enable insurance democratization, like that witnessed for digital payment mechanisms.*
>
> ***Ashish Rao, Former Head CX and EX, ICICI Prudential, India***

Within Europe, regulations are often country-specific, and the local regulators in Switzerland, for example, have made changes recently to foster consumer protection and transparency.

> *P&C policies usually had a duration of five years. With the recent change, the customer now has the right to cancel after three years. With this, about half of all contracts can be terminated. This presents an opportunity to gain policies from the competition while developing new approaches to customer retention.*
>
> ***Christof Tremp, Former Head Transformation, Generali Switzerland***

Portfolio Sustainability

Insurance players are expected to play a significant role in decarbonization because economic activities are driven, in part, by the availability of insurance coverage.

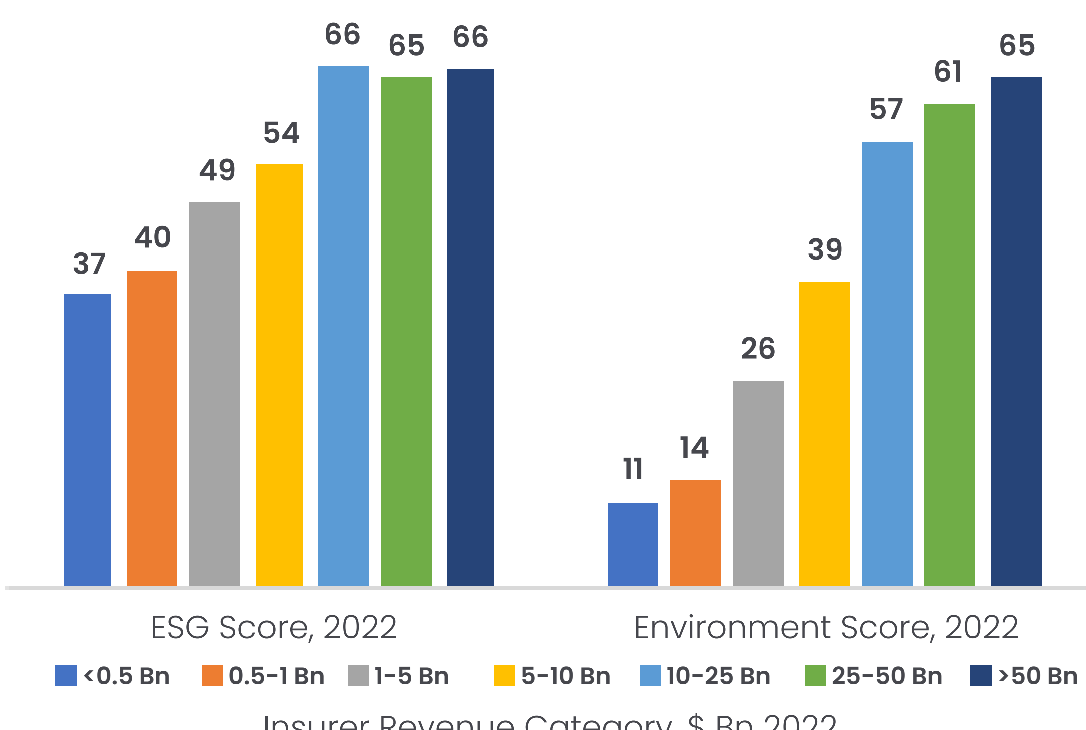
Intending to increase accountability, the Net Zero Insurance Alliance (NZIA), established by the insurance players, has committed to disclosing its underwriting portfolio's emissions. It would be crucial to see how the industry operates collectively in the times to come.

Insurers are expected to **move capacity toward industries with lower emissions,** faster decarbonization pathways, and net-zero supporting technologies. This trend will undoubtedly affect pricing in industries with higher emissions. But cracks could certainly emerge, and we might see continued prioritization of profits over the planet!

> *Today, we see massive amounts of data available and changes with regulatory policy frameworks, which has introduced a distinct prevailing perspective that ESG and managing climate risk only creates so much more work, and clients see this as cost.*
>
> *Insurance and its clients operate on a twelve-month window, but sustainability brings longer-term challenges. It all comes down to how we will change from a transactional to a collaborative model.*
>
> ***Suzanne Scatliffe, Global Director of Sustainability, and Andrew MacFarlane, Global Director Climate Risk, AXA Global***

Managing the insurance and investment portfolio through the ESG lenses would certainly involve efforts putting pressure on costs. But it also offers a distinct opportunity for insights and risk consulting services, and to be creative in forging relevant partnerships.

But, with an average overall ESG score of 50 (out of 100) as per Refinitiv, and just 30 (out of 100) for the Environment Pillar, the industry clearly needs to **put its own house in order** before it can act as a custodian of the ESG agenda for the broader corporate world.



New Customer Persona

As the cliché goes, change is the only constant

The shifts in customer demographics, behaviors, expectations, and the jobs that customers (both retail and institutional) in the context of insurance need to do have continued to evolve over the years. In some ways, gradually and incrementally, while in others, radically.

A significant demographic shift is occurring, with the global population aged over 65 projected to nearly double in the next 30 years, increasing from 9.8% to 17.0%.

The digital era is in full swing, and the COVID-19 pandemic has really accelerated the adoption of digital. Customers are increasingly turning to websites and mobile apps to research and purchase insurance. Notably, 74% of individual retail customers now research insurance products online before buying, while 56% use digital channels for insurance purchases, according to a study by JD Power in the USA.

With this shift towards digitalization, customers expect insurers to provide seamless, omnichannel experiences and self-service capabilities. Retail and institutional clients alike demand access to their policies, the ability to file claims, and receive support through online portals and mobile apps. Timely and hassle-free claims processing is essential, along with transparent communication throughout the claims settlement process.

And while digital is key, it doesn't negate the need for advice. Beyond traditional coverage, customers now **seek proactive risk management solutions.** Insurance products are no longer just about protection against risks; consumers expect insurers to offer products and services that help them manage and mitigate risks effectively. They want guidance and support from insurers to safeguard their assets and reduce potential vulnerabilities.

Moreover, transparency and trust have become paramount for customers. They want assurance that their insurance providers act in their best interests and handle their personal data responsibly and securely.

Further, with growing environmental awareness, consumers are increasingly drawn to insurers that are driven by not just profits, promote eco-friendly practices, and offer sustainable insurance products.

Protection Gap

Despite the massive increase in insurance premiums and penetration rates over the last few decades, several of the developing economies and even the developed part of the world remain underinsured.

Consider this: over 400 natural catastrophe events in 2019 generated economic losses of $232 billion, yet only $71 billion was insured!

Non-mandatory products such as homeowners' insurance still represent a small portion of people's income – driven mainly by limited purchasing power, but more so the lack of awareness of the benefits. For example, personal property insurance stands at just 0.12% of GDP in Latin America and even lower at 0.07% in Asia, compared with 0.32% for Western Europe.

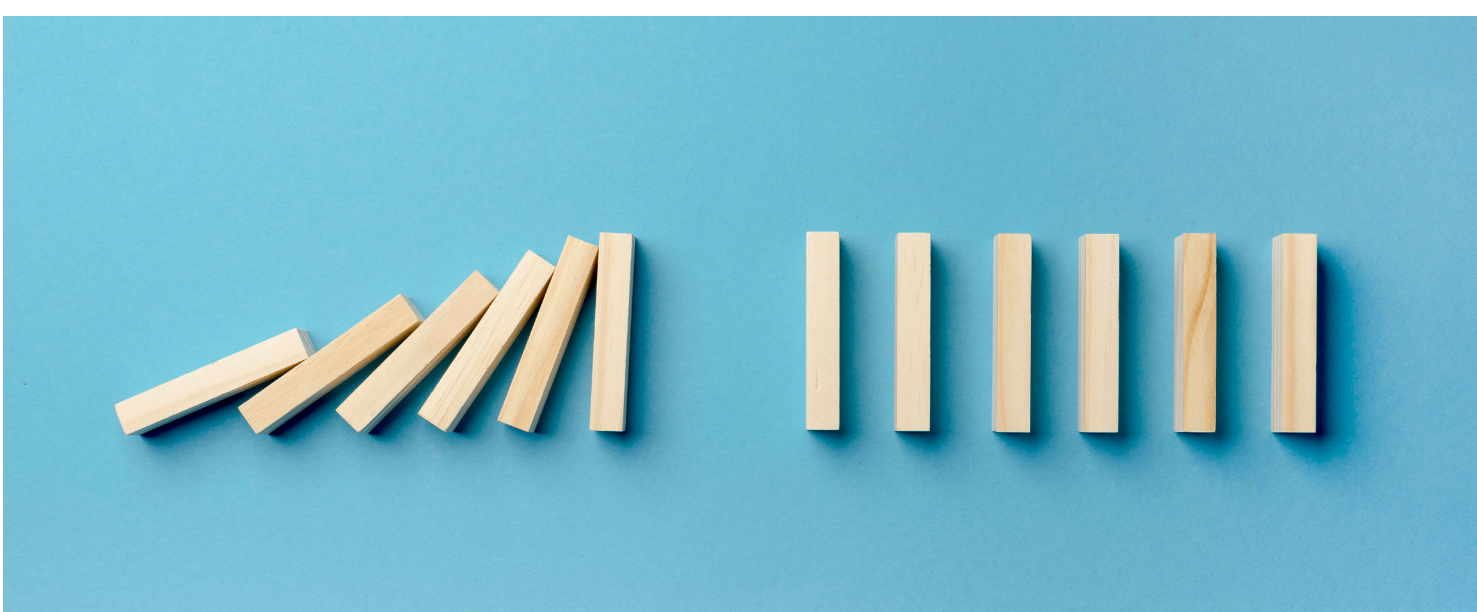
As per a recent report by GFIA (Global Federation for Insurance Associations) released in March'23, the Pension, Cyber, Health, and NatCat **protection gaps** put together **stand at an estimated staggering $2.9 trillion p.a.** – besides the severe impact on human lives and business continuity.

Cybersecurity alone is valued at having the potential of $0.9 trillion within the next few years. With digital commerce becoming indispensable, it brings along a heightened risk of online fraud and theft.

A recent survey of more than 400 SMEs without cyber insurance coverage found that 80% were either unaware of available insurance products or unaware of their exposure to cyber risks in the first place. Cyber economic losses in 2020 totaled an estimated $945 billion, more than 100x the estimated total premium market of $9 billion in 2021 - indicating a massive protection gap.

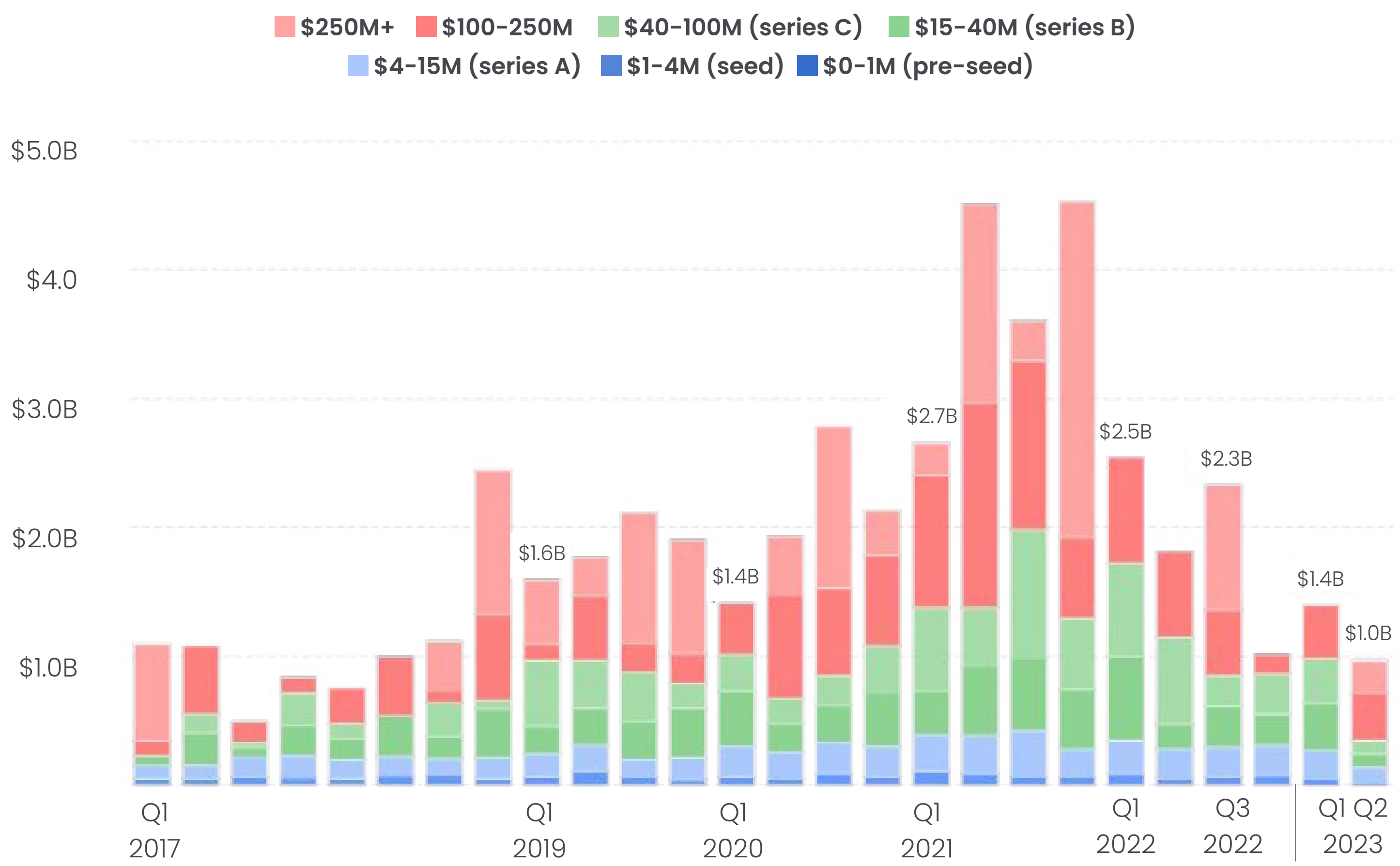
However, such **new risks also present significant challenges** for insurance providers, especially in terms of properly quantifying risk exposure, adjusting terms and conditions, and consequently winning the conviction of reinsurance capacity. Insurers at large are considered to have under-invested and hence not having the requisite people and technological expertise to do the relevant risk assessment and due diligence.

Further, the industry is also facing the **risk of radical reduction in the market size** for a few mature and critical product segments, for example, Auto Insurance. In the US alone, two-thirds of the consumers are expected to increase their use of shared mobility over the next 5-10 years, making the need for auto insurance potentially redundant!



Ever Increasing Competition

The competitive landscape in the insurance industry has continued to intensify. And the competition is not coming just from existing players expanding in new geographies or product market segments, but more so from the Insuretechs, and incumbents from other industries companies as new contenders. The **global insuretech** funding, including for challenger and full-stack startups has been more than **$50 billion over the last 6 years.**



Amongst the **incumbent competitors, retailers,** who used to be partners with insurers, are now developing in-house insurance solutions to monetize their customer access and relationships further. They are increasingly embedding insurance in the sales process - and even post-sale services; and some are even building their own insurance or brokerage companies.

Similarly, in car insurance, OEMs are broadening their service offerings for customers and wielding their natural advantages: a network of connected vehicles and a vast trove of data, which can enable OEMs to offer “no quote” products embedded in the car sale.

Lastly, another significant development with respect to the competitive landscape is the **changing dynamics of globalization.** Historically, large insurers from mature markets like the US, UK, Europe, and Japan expanded independently or through local partnerships in other countries across LATAM, Africa, and Asia. But, as the geopolitics of the world have evolved over the last two years, insurers are weighing the risks and fiscal costs of operating in several regions. Although many developing regions still present attractive opportunities, geopolitical risk, capital and profit repatriation regulations, and specific local consumer demands have made insurers rethink their decision to enter new markets or to stay in ones where they already have a footprint.

Emergence of Collaboration

One prominent feature of the ongoing fourth industrial revolution has been the emergence of **platforms and ecosystems** that link specialized service providers to partners in both the traditional and emerging business spheres. At the root of this is the reconstitution of value chains, which happens as organizations and industries blend and combine in an emerging digital context.

As increasingly specialized roles and functions become valued as stand-alone entities, platforms provide a technological scaffold supporting value chain disaggregation.

In today's interconnected and rapidly changing business landscape, collaboration has emerged as a cornerstone of success. Companies across various industries are embracing a collaborative mindset to drive innovation, share expertise, and collectively address complex challenges.

Unlike the traditional model of competition, where companies fiercely guarded their knowledge and resources, the new paradigm emphasizes cooperation and open exchange of ideas. Collaborative networks and ecosystems are flourishing, where organizations pool their strengths, knowledge, and capabilities to create value far beyond what they could achieve in isolation.

Historically, insurance companies have operated in silos, with limited interaction among competitors, and have kept their processes and data closely guarded. This isolated approach has hindered their ability to fully leverage the power of collective intelligence and explore the untapped potential of collaborative partnerships.

But, things have started to change. In the fast-paced and interconnected business environment, **insurtech startups, technology giants, and other industries are joining forces** to disrupt the traditional insurance landscape. These collaborations are bringing together diverse expertise, technology, and customer-centric approaches that challenge the status quo, especially for the incumbents. But, they also present opportunities for the ones who want to and do decide to be different.

Talent Relevance

To address the different risks and opportunities, the insurance industry **needs an infusion of new skill sets and mindsets** across functions and organizational levels, internally as well as at distribution channel partners.

However, the industry is facing **significant challenges in acquiring, developing, and retaining the talent** necessary to deliver the 'business as usual' and the 'change' agenda. It is interesting to see this reality being echoed by two business leaders from two different markets with different sizes and levels of maturity, yet having similar talent conundrums.

> *Most insurers want to grow their network of agents (internal salesforce and external partners) as this is strongly related to growth.*
>
> *Insurers often attract resources who have jobs in other industries involving lower educational requirements. While they mostly end up being successful in product selling, they fail in the advisory of insurance.*
>
> ***Christof Tremp, Former Head Transformation, Generali Switzerland***

> *In a growing market like India, the demand for skills such as underwriting, claims, process and tech design, and data intelligence has increased. This has jacked up the wages in these functions as companies use either organic (upskill) or inorganic (poaching talent) ways to bridge the talent gap.*
>
> *The more critical gap is the quality of front-line sales personnel. Insurers continue to either hire freshers or poach people from other insurance companies, resulting in high attrition, issues of mis-selling, and, most importantly, the looming threat of rising medical non-disclosure and fraud.*
>
> ***Ashish Rao, Former Head of CX and EX, ICICI Prudential, India***

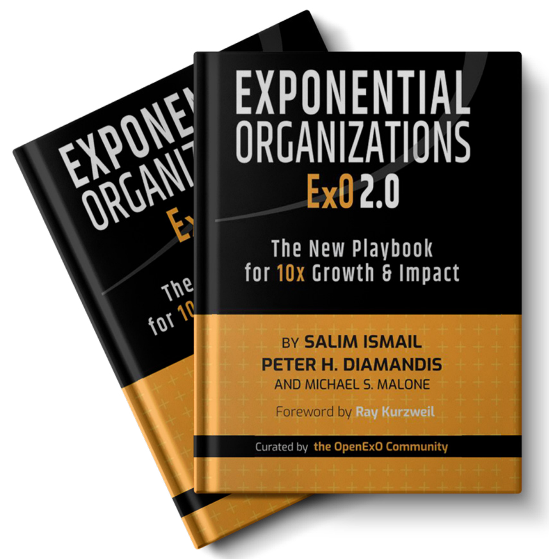
Further, encouraging a **growth mindset is crucial** for driving the much-needed transformation. But, historically, the insurance industry has been quite conservative and risk-averse. The idea of experimenting - trying, failing, and learning - is not part of the industry's nature. So, it is critical for insurers to expand their horizons and transform their DNA.

The Success Imperative

Disruptive Thinking for the Disruptive Era

As highlighted earlier, the onset of the 21st century has witnessed not only accelerated change and disruption but also the emergence of a new breed of organizations that have revolutionized how to achieve superior performance benchmarks and grow significantly better than their peers.

In October 2014, the seminal book **EXPONENTIAL ORGANIZATIONS** by **SALIM ISMAIL** was released, sharing the secret sauce behind the radically better business performance of this new breed of firms in the form of the Exponential Organizations (ExOs) framework. Over the years, the book became an international bestseller, winning several recognitions and awards.



Earlier in June'2023, ExO 2.0, the playbook for 10x Growth and Impact, was released, providing new insights based on case studies of new ExOs that have emerged, and new perspectives based on experiences drawn from collaborating with hundreds of organizations on their exponential journeys over the last decade.

As outlined in both these books, the foundation of the Exponential Organizations is the unique formula for developing 10x better, bolder, and cheaper concepts and driving them 10x faster through to implementation:

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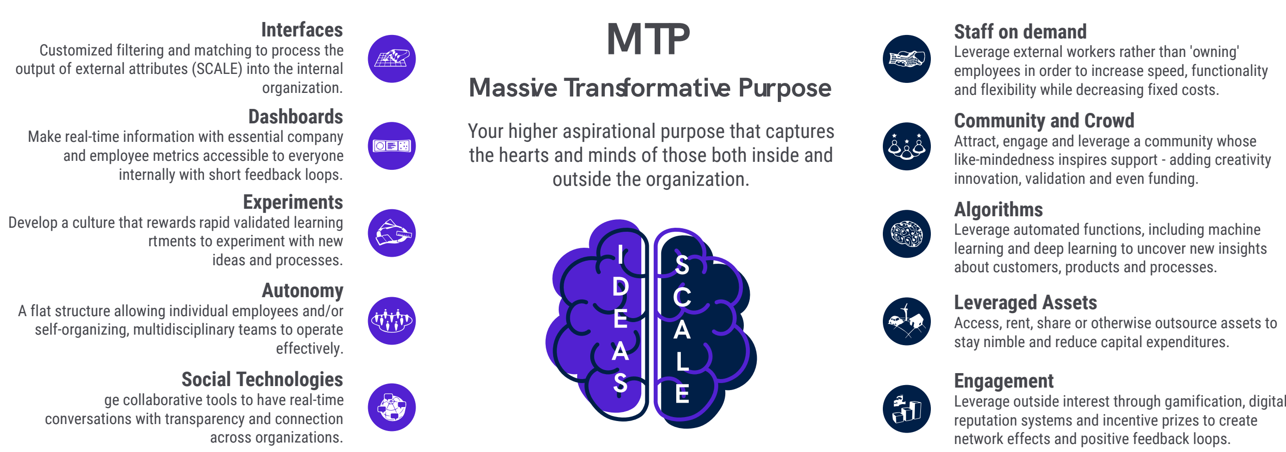
1. **Establish an MTP (Massive Transformative Purpose)** A clear aspirational statement that guides, empowers, and inspires your organization. It is the soul and guiding north-star helping you decide what to do, and more importantly what not to do.

2. Tap into and manage the abundance of opportunities by **embracing the exponential attributes of S.C.A.L.E. + I.D.E.A.S.**



3. **Use accelerating technologies** to digitize, dematerialize, democratize, and demonetize products and services.

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Both books emphasize that an **Exponential Organization** will see **powerful outcomes**

Greater customer responsiveness, higher employee and partner engagement, better financial performance in terms of revenues, profitability, return on capital, and, most importantly, higher resilience and impact.

After the release of the Exponential Organizations book in 2014, a study was undertaken to analyze the US Fortune 100 organizations through the lens of the ExO success formula, using a set of 21 questions to establish their Exponential Quotient (ExQ).

The study identified the Top10 exponential organizations (the most scalable and adaptable) and the Bottom10 non-exponential organizations among the Fortune 100 firms. The analysis results were shared in CNBC's Squawk Box program in June 2015.

Fast Forward eight years. Last year, in August 2022, we at **OpenExO published the report "The Success Imperative,"** which was based on the analysis of the financial performance levels of these organizations over the eight-year period of 2014-2021.

During the 8-year assessment period between 2014 and 2021, we witnessed a 23% churn rate amongst the Fortune100 organizations. 12 of the Fortune100 organizations from the 2014 rankings were acquired by their competitors or private equity organizations.

Another 11 lost the tag of being one of the largest 100 organizations since their revenues were lower than the $31.5 billion threshold (Tesla's revenues ranked 100th in the 2021 list). Except for one, all these 23 organizations had scored low on the Exponential Quotient.

More significantly, the **Top10 ExOs** amongst the Fortune100 marched ahead compared to their bottom10 non-exponential peers and delivered a staggering

40x HIGHER SHAREHOLDER RETURNS

2.6x BETTER REVENUE GROWTH

6.8x HIGHER PROFITABILITY

11.7x BETTER ASSET TURNOVER

This analysis established and confirmed that **being an Exponential Organization matters.** Exponential Organizations outperform their peers, achieve superior business performance levels, are agile and resilient, and hence able to thrive in the current disruptive era.

Further, in our work at OpenExO (and that being done by our broader community of Exponential Organizations coaches and entrepreneurs) with various startups, scaleups, and incumbents in the business world, as well as with different non-profits and government institutions, we have witnessed fantastic results being delivered by hundreds of entities when they embrace the different exponential attributes as part of their exponential transformation journey.

> We strongly believe that the successful insurers of the future will be the ones who will aspire and embark on the journey to become **Exponential Insurers.**

Shifting Gears, to Thrive and Reimagine the Future

The insurance industry has been plagued by different uncertainties, often verging on chaos, which has led business leaders in most incumbents to concentrate on short-term performance, quarter by quarter. This myopic approach has negatively impacted long-term planning, preventing insurance organizations from embracing innovative thinking and adopting transformative actions.

Their reaction to innovations has also been revealing. “Will this become dangerous for us?” instead of, “What can we learn that will help us become more innovative ourselves?”.

As shared in the previous section, an Exponential Organization, characterized by agility and adaptability, challenges the widely held assumption that innovation and efficiency can’t co-exist.

We strongly believe that the **‘thriving’ insurers** will be the ones who **reimagine the future** and **reignite growth** to reclaim the insurance industry’s fundamental and strategic role. The path to doing so will undoubtedly vary based on specific nuances and opportunities across different geographies. One common denominator will be to focus on capturing market tailwinds and building a few critical and distinctive capabilities.

Based on our transformation experiences within insurance and across other industries, and conversations with various insurance business leaders, **we identified 31 distinct ‘initiatives’** to address the different challenges and opportunities shared in the previous section, ‘Shifting Sandbox.’

We then prioritized these 31 initiatives for their potential impact (3Ps – People, Planet, Profit) and feasibility of execution. We deprioritized some of the initiatives either because of their lack of non-holistic impact or the fact that they are already mainstream. For example, offering risk-protection products for the Metaverse; Digitization through RPA, CRM, Cloud, Digital Twins, etc.; specific product solutions for pandemic or supply chain disruptions; foray into Wealth Management.

We have **shortlisted nine transformation and evolution initiatives** we believe the industry players (startups, scaleups, and incumbents) could take to ‘improve’ the current Core and, more importantly, ‘innovate’ at the Edges – **To be future-ready and deliver holistic, sustainable growth and impact.**

Go Beyond Risk Transfer
Think transformative and shift from “detect and repair” to “predict and prevent” for building resilience.

Embrace Artificial Intelligence
Reinvent business models and Optimize processes through strategic AI deployment.

Embed Blockchain for Efficiency
Revolutionize the end-to-end value chain to enhance trust, prevent fraud, and improve efficiency.

Products For an Audience of One
Empower customers through personalized optimal coverage and risk management.

Peer-to-Peer Insurance
Through collaborative consumption, reduce inefficiencies, and increase transparency and trust.

Pay as You Use
Leverage Sensors, Blockchain, AI, and Gamification to drive positive behaviors, lower risks, and pricing.

Build Integrated Healthcare
Empower elderly patients with prevention, early detection, and healthcare-insurance collaboration.

Become an Ecosystem
Reimagine distribution through partnerships to seize unprotected risks and engage with customers.

Foster Experimentation
Empower People to unlock their innovation potential, paving the way for disruptive innovation and profitable growth.

Go Beyond Risk Transfer

Insurance firms have traditionally been playing the role of risk transfer agents by reducing financial uncertainty and making accidental loss manageable. While that role had been fit for purpose and an enabler of socio-economic development over centuries, the insurance industry needs to step up.

Some of the largest global insurance firms' purpose/vision/mission statements show their current limiting and linear focus.

Ping An, China	Be a world-leading financial services group.	**AXA, France**	Act for human progress by protecting what matters.
Allianz, Germany	We secure your future and give courage to our customers for what's ahead.	**Japan Post, Japan**	Be a trustful partner for people, always being close at hand and endeavoring to protect their well-being.
Generali, Italy	Enable people to shape a safer and more sustainable future by caring for their lives and dreams.	**Life Insurance Corporation, India**	Ensure and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns, and by rendering resources for economic development.
China Life Insurance, China	Provide sustainable financial solutions to policyholders, employees, shareholders, and society by embracing innovation and talent.	**Munich Re, Germany**	To prepare people to cope with risk and to improve their living conditions.

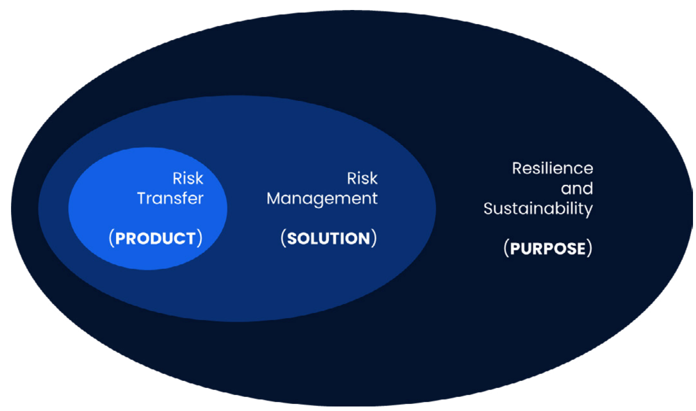
Source: *Company Websites, Authors' Analysis*

The opportunity is to focus on helping our customers be future fit. We must help our customers see sustainability as a business imperative. We see a future involving a shift from the current non-sustainable world, where the risk of stagnation is high, to thrive in a measurably sustainable future.

Suzanne Scatliffe, Global Director of Sustainability, and Andrew MacFarlane, Global Director of Climate Risk, AXA Global

Insurers can accelerate and help realize a massive and transformative purpose of creating a resilient and sustainable future, for example, through risk consulting and risk mitigation solutions. To serve as a long-term partner, insurers, especially those who are scoring well on the ESG overall and Environment pillar themselves, can promote ESG risk management strategies and solutions with their customers.

For example, insurers can help clients become more resilient to NatCat risks. Some leading insurers already work with governments and regulators to ensure that building codes are fit for purpose and adequately address local catastrophe risks. In the future, the progressive insurers would go a step further and help manage clients' exposure by providing extreme weather warnings (such as for floods or hail) or advising large fleet owners (such as marine and aviation clients) to relocate their fleets based on upcoming weather events.



Such services would be especially beneficial and of high value to small and mid-sized enterprises that can't afford to build internal risk management capabilities.

And, beyond the scope of mere insurance, the 'true leaders' would embrace working on a model to enable collaboration in addressing significant world challenges, giving individuals a voice and the means to take impactful action. One can do so by leveraging an existing platform like OpenExO that harnesses global brain power and passion for solving grand challenges and empowers every person, allowing them to act through knowledge contribution, and peer-to-peer value creation.

Successful insurers of the future would need to think massive and transformative. They would need to focus on not just "detect and repair" but "predict and prevent" risks and, more significantly, helping build resilience and creating a better sustainable future for all.

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Embrace Artificial Intelligence

Over the last few years, the insurance industry has undoubtedly embraced Digital at scale (COVID perhaps triggered or accelerated!). However, most digital efforts have focused on improving operational processes through automation, aka 'Digitization.'

The digital landscape has evolved significantly in the last few months. With Large Language Models based Generative AI becoming mainstream (they are not new, but now available at scale), the insurance players have the opportunity to **be the early adopters** and leverage this game-changer at strategic levels towards **'Digitalization,' aka reinventing both the business and operating models.**

> *We are being asked more often to help assess today's risk and forecast climate change and property systems risk impacts ten years forward.*
>
> *We need more data insight and as much data as possible in real-time or near real-time. Data helps calculate probability, enabling us to partner for the long term instead of transactionally working to renew premiums annually.*
>
> ***Scott Ewing, Risk Consulting Leader, Americas, AXA XL***

Embedding Digital can't be a tactical effort. Successful insurance firms would need to develop a strategy that outlines how AI will be incorporated into different business areas, including underwriting, claims processing, customer service, risk assessment, etc.; identify the use cases; and then scale up the deployment over time.

> *The industry must stop flirting with AI and get into a solid marriage. It is advisable to stop looking at tech spending as an expense and treat it like an investment.*
>
> ***Ashish Rao, Former Head of CX and EX, ICICI Prudential, India***

In a recent survey by McKinsey with European insurers, none of them described themselves as an analytics-driven organization. Despite businesses being built on a goldmine of underwriting and pricing data, ironically, **for 80% of the surveyed companies, AI hasn't moved beyond the talking and pilot stages.**

Exponential Insurers would need to **invest in talent acquisition and development** (data scientists, machine learning engineers, and AI specialists) to develop, deploy, and manage AI systems effectively.

Deploying AI strategically would also call for **investing in Data Infrastructure** to handle large volumes of data required for large-scale AI deployment. This would also entail implementing robust data storage, processing, and analysis tools to ensure scalability and compatibility with AI models.

One area of importance is **ethical AI deployment.** Insurance firms would need to establish clear policies and procedures, including ensuring data privacy, addressing bias and fairness in algorithms, and maintaining transparency in decision-making.

To make these effective, the AI programs would need to be tested and Iterated by Implementing pilot programs and conducting thorough testing of AI systems before full-scale deployment. The key to success would be **lean startup principles,** continuous evaluation and refinement of AI models based on short feedback loops, and an iterative approach towards improving the accuracy, efficiency, and effectiveness of AI applications.

By taking these steps, insurance companies can proactively prepare for integrating AI into their operations, optimize processes, improve decision-making, and deliver enhanced services to their customers.

Exponential Insurers will also leverage AI to drive automation in sales and marketing, bringing **focus on customer lifetime value (LTV), cross-selling, and upselling** rather than just new customer acquisition. Further, they will aim to **own the customer journey** beyond brokers and agents to get access to customer data. This will allow **achieve strong customer engagement** instead of transactional relationship and contract management.

> *The insurance industry must embrace AI ethically while building talent and data infrastructure capabilities, to optimize processes, truly engage with customers, and reinvent business models for growth and impact.*

Embed Blockchain for Efficiency

Blockchain stands out for its potential to complement and supplement the Core Systems at the Insurers, and significantly improve operational processes. One of the most notable advantages is its ability to establish trust through a secure and tamper-proof repository for storing and sharing data. This heightened trust can streamline Know Your Customer (KYC) processes and anti-money laundering measures.

Blockchain's inherent transparency and immutability also play a crucial role in **fostering trust** among stakeholders across the insurance value chain. By providing a transparent and auditable record, blockchain enables better accountability and reduces the potential for fraudulent activities. The technology's audit trail capabilities empower insurers to detect and prevent fraudulent claims effectively, thereby minimizing losses and improving overall risk management.

Moreover, blockchain's decentralized nature ensures that data remains securely distributed across multiple nodes, making it **resilient to hacking or unauthorized alterations.**

Another transformative aspect of blockchain lies in its potential to **automate insurance processes through smart contracts.** These self-executing agreements can be programmed to trigger automatically when specific conditions are met. This automation simplifies policy administration, claims management, and other operational tasks, leading to cost savings and increased operational efficiency for insurers. Policyholders benefit from quicker and more accurate claims processing, resulting in improved customer satisfaction.

Furthermore, blockchain's potential for data interoperability enables seamless data sharing among different stakeholders within the insurance industry. This interoperability can facilitate **better risk assessment and pricing.**

While the insolvency of b3i, the industry-wide blockchain initiative in mid-2022, might have slowed things down, it's imminent that the exponentials insurers will re-embrace Blockchain to reap the potential benefits.

Blockchain technology can revolutionize the insurance operations value chain, and enable enhanced trust, prevent fraud, and reduce manual tasks for radical efficiency improvements.

Product for an Audience of ONE

Right now, insurance operates akin to a Buffet menu of a restaurant. It's product-centric and not customer-centric. Imagine if you had the option to go for an Ala Carte menu!

With the increased quality and granularity of data, insurers can move towards offering more **tailored and personalized solutions,** allowing customers to choose options that align **precisely with their unique needs,** ensuring they are adequately protected without paying for unnecessary coverage.

This targeted approach can **reduce costs** by optimizing the cost-benefit ratio and reducing premiums. Moreover, personalization would address specific risks, minimize the chances of being underinsured or encountering coverage gaps, and allow customers to adjust their coverage as their needs evolve.

This would further **enhance the overall customer experience,** with insurers being able to offer relevant advice, support, and risk management solutions.

> *Insurance firms would need to develop technological capabilities comparable to eCommerce to enable a better Customer Experience for personalized products and services. This implies a compliant processing of customer data and the capability to analyze customer preferences like the eCommerce shopping experience. Through this, an insurer will be able to increase customer loyalty and decrease the costs for sales and marketing.*
>
> ***Korbinian Spann, Founder, INSAAS***

Personalized insurance would also promote **proactive risk mitigation** by providing tailored recommendations and risk prevention strategies. Additionally, it would open the door to innovative coverage options that cater to emerging risks or specific niches, expanding the choices available to customers beyond traditional offerings.

Personalized insurance products would empower individuals and businesses to obtain optimal coverage and hence increase customer satisfaction, while bringing in cost savings, flexibility, and enhanced risk management capabilities for the insurers.

Launch Peer To Peer Insurance

Traditional insurance models pivot around statistically accurate actuarial tables that demand a ton of data. To gather that ton of data, you need an army of customers. You need an army of salespeople to find that army of customers. And, to analyze the ton of data generated by these two armies, you need an army of statisticians. Managing all these armies takes another army of managers. This law of large armies guaranteed that insurance was a game of the Goliaths.

One could also argue that it's not always a zero-sum and a fair game of statistics. Let's take health insurance. The premiums of the healthy cover the costs of the unhealthy. But the healthy end up paying unnecessarily high premiums for this privilege, making them the consistent losers of this game.

Decentralized, **peer-to-peer insurance disrupts this traditional business model.** It basically eliminates the intermediary, the insurer itself. Instead, it involves a technology stack that oversees a network of people who pay premiums and file claims in case of an event, which is automatically assessed and paid out (as appropriate). Such a model removes three of the four armies needed to create an insurance company. Only one stakeholder is still relevant: the Customer.

Bill Gates is quoted to have said, "We don't need Banks; we need Banking." While we haven't seen the elimination of traditional banks (at least not yet), we know that fintechs serve many 'banking' needs today.

Could the same happen to insurers? Sounds like a scene from a fiction movie. Perhaps not. One of the earliest peer-to-peer insurance models was launched in the German insurance market under the brand Friendsurance. Within six years of its launch, the startup had a six-digit number of customers, which is the size of a middle-sized German insurance company. Over the last decade, several niche insurance techs across Europe and the USA have launched their peer-to-peer models. **The time is ripe now to make this mainstream.**

Peer-to-peer insurance is based on the collaborative consumption concept. It helps reduce inefficiencies, increase transparency, and reduce the inherent conflict between insurance carriers and their policyholders at the time of a claim.

Offer Pay as You Use

Exponential technologies such as **networks and sensors** can revolutionize the pricing and distribution of insurance. **The abundance of data generated** can enable insurance providers to gain deeper insights into their clients, leading to new product categories, more personalized pricing, and increasingly real-time service delivery.

We have been witnessing such opportunities being explored, albeit not consistently, and more significantly, not on a scale.

For example, in auto insurance, sensor-based systems that assess driving habits (car usage rates, adherence to speed limits, and low-risk driving times) now determine insurance premiums rather than solely the claims history. Progressive, the USA-based large incumbent insurer, which launched its pay-as-you-use model in the mid-90s, utilizes a black box connected to a car's diagnostic port to collect real-time data on vehicular speed, miles driven, and "hard-braking events" to calculate insurance rates.

Similarly, in the home (or any property) insurance, one can leverage real-time metrics to assess risks instead of pricing policies based solely on the home's condition at the time of purchase. In-pipe temperature sensors and in-wall water detectors provide continuous monitoring, alerting homeowners about potential problems before they occur. An example is the Smart building (Commercial Institutional Residential) home insurance, which utilizes technologies like smoke alarms with facial recognition throughout the house.

While the current costs of such sensors and devices might be a limiting factor, we know well that Moore's law will ensure that the price performance improves exponentially over time. So, as a pioneer and an early adapter insurer, you would need to consider this business model as a **long-term investment** rather than an expensive experiment. The first-mover advantage certainly has its benefits.

Insurance companies can ensure secure and transparent data transmission by integrating IoT data with blockchain technology. For instance, in a fire triggered by a smoke alarm, the blockchain would record relevant details like time, date, location, and the number of people in the house. This information can be instantly shared with fire and police departments, facilitating timely responses. Blockchain could also aid in loss prevention by enabling digital forensics and predictive maintenance of building systems to reduce false claims and loss ratios.

Also, using blockchain, policyholders can activate or deactivate coverage as needed, customize their policies, and adjust premiums based on usage. Further, by analyzing the vast amount of data generated by IoT devices, insurance companies could gather insights from frequent moisture measurements, identify patterns of people's presence, assess energy wastage, and predict service requirements.

Taking this a step further, **imagine combining the data collected from the connected devices with data from social media** and putting that to use to assess risk and provide tailored solutions. Neural AI, a startup focusing on health predictions, employs machine learning algorithms to analyze data from users' connected devices (up to 54 apps!), and helps assess users' behavior and identify health risks, offering personalized risk assessment tools and mitigating long-term health risks.

Exponential Insurers would take it a step further. They can **leverage gamification** (by deploying frameworks such as Octalysis) to make this model genuinely effective, engage customers, and incentivize positive behavior. For example, in the case of auto-insurance, through intuitive interfaces and community platforms, customers could compare their driving behavior with others, potentially earn points, and be invited to exchange information on 'good' routes, thereby helping nudge correct behaviors amongst other members in the community, ultimately improving overall risk profiles and reducing insurance costs.

By leveraging technologies like IoT sensors and blockchain integrated with AI Insurers can revolutionize product pricing and distribution. And through gamification, they can further drive positive customer behavior and lower risks.

Build Integrated Health Care

To address the issue of chronic diseases among the elderly population and ensure the long-term sustainability of the insurance industry, a **comprehensive approach** encompassing prevention, early detection, care, and patient empowerment is imperative to **ensure healthier outcomes.**

Proactive measures like regular health screenings and lifestyle changes are crucial in preventing or slowing down the progression of chronic diseases. Early detection through screenings enables timely interventions and disease management, promoting overall well-being and reducing risks. Coordinating efforts across healthcare providers would help ensure continuity and quality of care while reducing errors and unnecessary hospitalizations, fostering better health and cost savings.

Patient empowerment through education and support would foster self-management and shared decision-making, increasing engagement and satisfaction among policyholders. By offering personalized support for chronic disease management, insurers can enhance customer experience and build long-lasting relationships. USA-based healthcare and insurance major Humana has already started offering specialized programs for individuals with chronic conditions, demonstrating the potential of this approach.

The biggest challenge to bringing this concept to fruition could be that the two industries (healthcare and insurance) potentially operate at cross-purposes. While the healthcare economy tends to grow and benefit from an aging population, traditional insurers may face challenges in managing the associated risks. However, with a forward-looking approach and strategic collaboration between insurers and healthcare providers, it is possible to bridge this gap and deliver more efficient and customer-centric solutions.

An Exponential Insurer would need to **align with an Exponential Healthcare provider** at the purpose level to reimagine the future and deliver on this strategic, pertinent opportunity.

To tackle chronic diseases in the elderly and ensure insurance industry sustainability, a comprehensive approach is crucial, combining prevention, early detection, patient empowerment, and healthcare-insurance collaboration for better health outcomes.

Become an Ecosystem

Winning within the three insurance channel archetypes -bancassurance specialists, direct players, and agent distributors - has often involved trade-offs, required distinctive focus, and perfecting different capabilities.

While optimization opportunities exist across the three-channel archetypes, insurers must **reimagine Distribution.** The opportunity is ripe, given the rise of the purpose-driven, convenience-seeking, and digital-savvy customers on the one hand and the acceptance of 'new ways of working' through collaborating internally and externally in the business world.

Imagine a partnership between an insurer and a wedding planner to offer a 'wedding insurance' policy that covers vendor cancellations, venue damage, or inclement weather. And, how about collaborating with pediatricians to offer medical and life insurance for the 'new-born.' Such **partnerships with businesses** (across significant life and financial events) catering to distinct customer needs and having an existing deeper trusted relationship with the customer would offer several benefits for the customers, partnering businesses, and the insurance companies – a win-win-win.

Firstly, it would enable insurance companies to tap into new uninsured risks, expand their customer base, and increase the size of their role in customers' lives, fundamentally altering the long-term relationship by demonstrating their commitment to customers' well-being. Secondly, having regular touchpoints with customers would pave the way for insurers to **build an engaged community,** currently an Achilles Heel given that the only touch points a customer currently has with the insurer is during contracts, renewals, and claims. The insurance company could create engaging content that resonates with the target audience on relevant topics such as parenting, health and wellness, holidays, and financial planning, etc.

The insurance company can foster **two-way communication with customers and partners** to build trust and loyalty. This could involve setting up feedback mechanisms, responding promptly to customer inquiries and concerns, and soliciting feedback from customers and partners to improve products and services. And all this potentially through a social media platform integrated with the insurer's technology platform.

Some incumbents have already been exploring such possibilities. For example, Lemonade, the US-based insurer, partnered with WeWork (shared office space provider) to offer its members a 'renters insurance policy' available and operated through the WeWork app. Similarly, AIG, one of the world's largest insurers, has partnered to offer travel insurance to Hilton Honors members, one of the world's largest hospitality chains.

The opportunity exists for Insurers (incumbent, startup, scaleup) to foster such collaborations on scale and across the customer lifecycle. Let's not forget that customers don't always 'plan' for insurance – they look for it when the need arises (which is often triggered by an event). And, if you are already present when they need it – you have won them already.

The best-in-class ecosystem builder would need to be adept at leveraging customer data to **identify significant life and financial events** and then use this information to offer relevant products and services that meet the customer's event-based needs and migrate them across various services in the ecosystem.

The value potential of an ecosystem could be enhanced manifold by establishing multiple **Platform Cooperatives** or **Distributed Autonomous Organizations (DAOs)** across the event verticals empowered to forge partnerships for activities related to sales and marketing, design, launch, and support of bespoke products.

Achieving success in the future would entail reimagining distribution by forging strategic collaborative partnerships with businesses aligned to critical events across the customer lifecycle, seizing untapped risks, and fostering effective customer engagement for long-term growth.

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Foster Experimentation

As stated earlier, Insurance is seen as a sleeping giant, equivalent to the coal industry minus the smokestacks. Insurers need to make paradigm shifts in their thinking and doing, to attract and retain talent, and, more significantly, survive and thrive.

Amazon's Jeff Bezos once said, "Our success is a function of the number of experiments we run per year, per month, and per day."

Insurance firms need to allow and, in fact, **encourage failure as a learning opportunity,** and view feedback as a valuable resource. **By leveraging Lean Startup and Design Thinking methodologies,** which advocate for iterative testing, MVPs (minimum viable product), short feedback loops, adaptive planning, and pivoting as appropriate, insurance firms can build the mindset and skill sets for experimentation-driven innovation.

And, to make innovation continuous (instead of event-based) and part of the DNA, insurance firms would need to let go of the conventional hierarchy-based to **make way for decentralized decision-making** (for all topics except purpose and culture), appropriately empowering employees across levels. Also, it calls for an organizational structure characterized more by **self-organizing, cross-functional teams** (instead of silos), giving them the freedom and authority to adapt and respond to changing circumstances, and fostering a culture of empowered ownership and accountability.

Lastly, insurance firms need to move beyond innovation initiatives being driven primarily out of the corporate center and the board rooms, or from a separate innovation function. We need insurance firms **to embrace open innovation** and build appropriate collaborations or an incubator/accelerator to tap into the innovations being undertaken by startups and scaleups. And they need to do so not for PR (public relations), but to genuinely bring to fruition and leverage initiatives that help improve the current and create new disruptive business models.

Celebrate risk-taking and emerging lessons, empower people to unlock their potential with decentralized decision-making, and adopt open innovation to drive continuous and disruptive innovation.

The Road Ahead

As summarized in the 'Shifting Sandbox' section, the **insurance industry is at an inflection point.** From being an industry that hasn't been very forward-looking and not performing well, the Insurance players **have the chance, perhaps even the duty,** to move beyond underwriting and reimbursing losses, and play a strategic role in **building a resilient, sustainable future.**

Exponential Organizations are an embodiment of acceleration in human enterprise. They are reimagining and reinventing business and operating models across industries and geographies at a scorching pace, rapidly leaving behind the old world of linear organizations. Through the performance analysis of the Fortune 100 firms shared earlier, we have established that Exponential Organizations deliver superior business results and outperform their peers.

If some or several insurance firms were to embrace the above mindset and start operating as Exponential Organizations, it would catalyze a profound shift and enable the realization of the industry's true potential – predict, prevent, and prepare for the risks, and build a more resilient world.

> *The different external and internal challenges put a lot of pressure on the management of each insurer, often leading to tactical actions that end up taking most of the organizational capacity. While some distractions come to an end, there are always new ones. And the capacity to drive innovation and growth is typically restricted due to the short-term profitability goals.*
>
> *Hence, the only way to progress is to be courageous to limit the tactics to a minimum and bear the noise. In parallel, the transformation must be well structured, simple, and with very clear priorities that get the needed focus and resources.*
>
> ***Christof Tremp, Former Head Transformation, Generali Switzerland***

Not that it has been a completely wrong approach, but the business leaders at most insurance incumbents have been working very hard to keep the wheels turning in the current world, so much so that they either haven't bothered or found it hard to think differently and long-term.

So, to enact this much-needed transformation,

To become agile and resilient, and scalable and adaptable – to be future-ready and thrive, **we invite the business leaders and entrepreneurs** from the industry to consider **four vital strategic actions to underpin the nine transformation and evolution initiatives** we have recommended in the earlier section.

1 Review Your Organizational Capabilities.

Surviving and thriving in today's disruptive era requires an entirely different mindset, skillsets, and toolsets compared to what has enabled insurers in the past.

Across the nine transformation and evolution initiatives we have recommended earlier to address the ten key strategic shifts taking place in the insurance industry, we have built-in and highlighted several exponential attributes of MTP + S.C.A.L.E. + I.D.E.A.S. Embracing and embedding these attributes in your organization would be imperative.

To ascertain your current state of readiness to embark on a journey, we strongly recommend leveraging the **free Exponential Quotient (ExQ) assessment.**

Based on your responses to a set of 25 questions, it will provide you with a quantitative score overall and individual exponential attributes to help identify your strengths and opportunities for improvement.

2 Transform Beyond Digital

Different exponential technologies undoubtedly underpin the recommended transformation and evolution journey. But it shouldn't be forgotten that technology has been and will always be an enabler, not a panacea, and certainly not an end.

Hence, entrepreneurs and business leaders should not lose sight of the goal of building scalability, adaptability, agility, and resilience. Otherwise, focusing on technology alone will make your organization what we often call, "Lipstick On A Pig." And the future-ready insurers need to be certainly more than that.

3 Challenge the Execution Gap

Balancing the yin and yang of exploiting the current and exploring at the edges requires ambidextrousness. It also calls for individual and organizational learning (and unlearning) to become a continuous pursuit.

Towards this imperative, we invite you to join the OpenExO Global Community Platform.

OpenExO has created an online platform for any person anywhere in the world to build an Exponential Organization. You can become a member of the global community and access learning, tools, and a network of exponential thinkers and doers. Membership to the platform starts for free, and there are membership tiers that correspond to different requirements. The image below outlines some of the benefits within each of the tiers. More information can be found here.

Free Start your journey	**Basic** Explore an exponential future	**Premium** Stay on top and find opportunities	**Pro** Solve for 10X
$0/month	**$4**/month	**$20**/month	**$97**/month
A.I. ExO Bot Chat Basic Profile Basic Feed Insights	Free+ Weekly ExO Networking calls Online ExO 2.0 Book Engage Build Reputation Web3 Flex Profile	Basic+ Weekly ExO Networking calls Get Certified in ExO Foundations Apply and post to Marketplace Premium Feed Bi-weekly ExO Masterclasses Access to ExO Learning Hub (Courses and ExO Learning content)	Premium+ Advanced Professional Certifications (ExO Consultant, ExO Sprint Coach, ExO Trainer and more)* Pro Marketplace* Content Posts* Enterprise Profiles* Monthly exclusive Masterminds with Salim Ismail ExO Mastermind Sessions *Coming Soon
Select	Select	Select	Select

Within the **Free Tier,** you can **access RayK, our Exponential Organizations AI,** endorsed by Ray Kurzweil (the world's foremost futurist and inventor). You can ask RayK any question related to the ExO framework and, in fact, any questions in your unique context that you want answers to from an ExO Lens.

Within the **Basic Tier,** you can also Read the Living Book Exponential Organizations 2.0 and build up a more comprehensive profile.

At the **Premium Tier level,** you get access to the **ExO Learning Hub** to complete the ExO Foundations and other learning programs, including masterclasses, Access to the community through **networking** and the marketplace, plus access to **AI-curated news feeds, insights, and research.**

The Pro Tier is for those people who want to go even deeper. The tier includes weekly masterminds and a monthly session with Salim Ismail, as well as **advanced learning and certification opportunities.** The OpenExO team is available to Pro members to assist in the creation of Exponential Organizations.

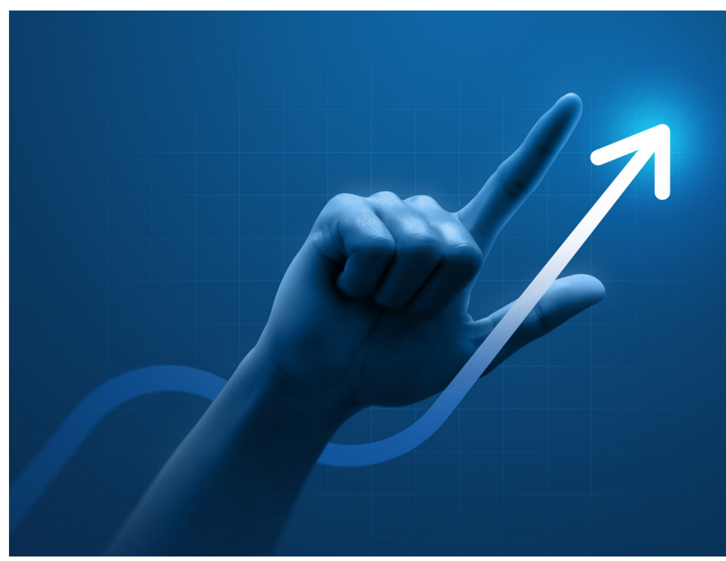
You can sign up for your ExO Pass by clicking here or scanning the QR Code below. By using the **Code INSURE**, you will receive a **20% discount for the first year** of your membership.

4 Run Exponential SPRINTs

In the current disruptive era, the speed of change in the external world far exceeds the rate at which most insurance firms (incumbents and even some startups and scaleups) move. In the past, a company had years to figure out its future bets.

Today, this time frame is down to months or even weeks. Today's executives let go of the status quo, be bold, and aim for 10x growth and impact.

A **ten-week ExO Sprint** (that leverages the lean startup, AGILE, and Design Thinking methodologies) aims to achieve these goals, leapfrogging your thinking and results three years ahead. The SPRINTs help establish a set of initiatives designed to transform the organization (and often, even the industry) by **innovating the current business model,** while disrupting at the edges to **create the next generation of business opportunities** – to enable you to stay ahead of the curve.



To conclude, in the words of Klaus Schwab, Founder and Executive Chairman of the World Economic Forum (WEF), **"It is not the big fish which eats the small fish; it's the fast fish which eats the slow fish."**

We at OpenExO strongly believe that we are living in the "**Decade of Exponential Organizations.**"

We hope and trust that this publication has inspired you, a business leader or an entrepreneur from the insurance industry, to make it the "**Decade of Reimagined and Exponential Insurers.**"

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About the Authors

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Chander, Managing Partner at Enabling Excellence and Head of Research at OpenExO is a strategic advisor with a passion for and a track record of delivering impact through transformation initiatives across industries and geographies.

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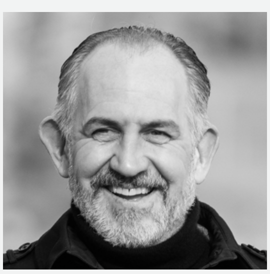

Clint is the founder and CEO of Novem Digital, having the MTP of "Transforming data into monetary assets." He works with executive teams on digital risk mitigation and sustainable building portfolios in the Insurance, Real Estate, and Construction sectors.

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