

Creating a Culture for a Digital Age:

A How-To Guide for P/C Insurers

Executive Summary: Leaders believe that cultural challenges are the biggest barriers their companies face in meeting digital objectives, but making a cultural shift isn't easy. Here, consultants from McKinsey and Bain outline three key steps for insurers, including one that may be particularly difficult for cautious underwriters: taking more risks.

By Emily Holbrook

A company culture that can meet the demands of a digital age will make or break a company, no matter size, industry or geographic location. While waiting for cultural change to occur within your company organically may sound nice, it will leave you in the dust of your competitors.

As *Harvard Business Review's* "The Leader's Guide to Corporate Culture" states, "Culture can unleash tremendous amounts of energy toward a shared purpose and foster an organization's capacity to thrive" (*Harvard Business Review*, Jan/Feb 2018 edition, by Boris

Groysberg, Jeremiah Lee, Jesse Price and J. Yo-Jud Cheng, p. 44).

Insurance companies typically have cultures that emphasize stability; they prioritize consistency, predictability and maintenance of the status quo. They follow rules, use hierarchies as control structures and strive for efficiency. The digital age, however, requires cultures that emphasize flexibility, adaptability and receptiveness to change. According to *Harvard Business Review*, cultures that favor flexibility "tend to prioritize innovation, openness, diversity and a longer-term orientation."

Many insurers are seeking to remodel their cultures to meet the demands of a digital era. The problem is that most are still failing to translate their high-level intentions into real changes in the way their people behave and make decisions during the moments that matter. And having a stagnant corporate culture can—and oftentimes does—result in poor adoption of innovative thinking and customer-centricity, which is required in a digital age. In fact, a July 2017 McKinsey Quarterly report, "Culture For a Digital

Age," states that culture is the most significant self-reported barrier to digital effectiveness (with 33 percent of 2,135 respondents to a 2016 survey citing cultural challenges as their biggest barrier to meeting digital priorities—greater than lack of talent, data or IT infrastructure). That remains true. So, how can P/C insurance executives guide their company cultures in the right direction?

A Three-Step Plan

Julie Goran, partner at McKinsey and co-author of the firm's July 2017 report, has been analyzing organizational design and digital transformation among corporations for close to 20 years. Goran and her team take the culture question head on and quite seriously.

"When you ask executives what the No. 1 thing is that stood in the way of successful digital transformation, they said culture—not strategy or talent," said Goran. "But how do you motivate employees to work in a fundamentally different way? That's the challenge. You have to pay attention, and you have to take it seriously."

Sean O'Neill, a partner with Bain & Company specializing in insurance, has seen his share of digital transformation during his more than 20 years in consulting, working with large banks and insurers in North America and Europe. "Every major

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insurance company I'm involved with or know of is shifting to the digital age," said O'Neill. He believes there are several crucial points insurance company executives should focus on in order to successfully bring about a cultural shift toward digital.

1. Forget the Silos

Insurance companies are notoriously



siloeed. But in a digital era, siloeed organizations can spell disaster.

"You have to break down barriers," said O'Neill. "Insurance companies are structured around claims and underwriting functions. That's a little incompatible with how they need to operate in a more digital world. Insurance companies need to soften lines and potentially break them down over time."

Easier said than done, according to Goran. She's seen many companies in the insurance and financial services industry that are "kind of stuck" when it comes to a culture shift.

"When I think of insurance companies in particular, I think silos," said Goran. "And when it comes to breaking out of hierarchy and sharing ideas across companies, we see them really, really struggle. It's how they're structured and have been for so long, and it's how they're incentivized."

According to O'Neill, while eliminating

many cross-departmental barriers is important to incorporating a culture for a digital era, it's also necessary to evaluate resources and talent to understand if such things are assets or liabilities for a digital culture.

"Claims people remain claims people," he said. "How do you shift away from deep specialization in an area to build 'general purpose athletes'? It does no good to break down the barriers if you don't change how the people operate within those silos."

2. Understand the Customer More Than You Ever Have

The digital age is forcing companies in all industries to know their customers better than they ever have—and it's providing the means to do just that. Companies like Amazon and Apple paved the way for providing a customer-centric organizational culture that provides best-in-class user experiences. Today's consumer expects companies to respond quickly to inquiries, provide easy-to-access information, tailor products and services to fit their lives, and do all of this based on an anticipatory time frame.

"On the customer-centric point, we hear stories of clients where senior executives ask, 'What have you heard from a customer in the last week?'" Goran said. "This completely changes the course on the conversation. Instead of focusing on hitting targets, focus on what your customer is saying."

Goran and her team conducted research where they asked executives, "What are

the components of a successful digital culture?" When reviewing the responses, there were several points that stood out—one being a relentless focus on the customer.

"It really is deeper and should be an obsession with the customer," she said.

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- Sean O'Neill, partner, Bain and Company

A recent *Forbes* article titled "How Customer-Centric Design Is Improving the Insurance Industry" said the most successful insurance companies provide a consistent user experience across all channels. Keep in mind that your customer journeys are not static; they will evolve as your competitors, markets and technology change. InsurTechs such as Comparity, Hippo and Lemonade are tailoring their offerings to today's consumer needs. Beyond research and expert opinion, P/C InsurTech success reinforces that a digital culture is a customer-centric one.

3. Encourage Risk-Taking

This sounds counterintuitive to the
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insurance industry as a whole, but encouraging employees at every level to take risks should be instilled within a company culture. Risk-aversion does nothing more than result in underinvestment—both in terms of brain power and money—in strategic opportunities.

“You’ve got to find a way to empower employees to take calculated risks,” said Goran. “There are ways to test and learn and try and fail. From the top down, you must celebrate failures and learn from them.”

Though experimentation and risk-taking is naturally messy by design, it’s imperative for progress in such a fast-changing industry.

“How do you participate and lead by example, encouraging groups to experiment more?” O’Neill asks leaders. “I think they have to shift rewards and incentive structures more toward risk-taking, rewarding success more than punishing failure.”

Leadership, Culture and Mission

Following the above tenets is only a starting point; a change in culture also relies on a strong management and mission. Leadership goes hand-in-hand with the formation of a company’s mission or strategy. Culture, however, is a more elusive thing because much of it is anchored in unspoken behaviors, mindsets and social patterns. That’s where an organization’s leadership team comes in.

“One way to go about [transforming a company’s culture] is to lead by example,” said O’Neill. “Becoming immersed in critical projects is important; don’t just be a reviewer of such projects. I’m an advocate of getting high-level executives embedded in projects across different departments.”

Besides immersing executives in critical projects across department, there are several other ways to lead by example. The first way is to have leaders articulate the objective of the culture. Executives must make sure the company’s purpose, vision and value are clear, tangible and

actionable. Having a clear mission that everyone is behind is crucially important for a healthy company culture and, therefore, the success of a company.

The second is to select and develop leaders who align with the target culture and can communicate it effectively. The world’s leading insurers employ CEOs who have the ability to convey an open, compelling and consistent vision for the company. But of course, it’s not enough to only communicate a company’s new culture and vision. Leaders must behave in line with such stated missions.

The third way to lead by example is for leaders to use organizational conversations about culture to underscore the importance of change. As employees start to recognize that their leaders are talking more about new business opportunities and innovation, instead of quarterly earnings, they will start to think and behave differently.

The fourth is for leaders to reinforce the desired change through modernized reward structures. People need to feel that if they commit to change, they will be recognized for it.

“Insurers are known for being ultraconservative,” said O’Neill. “If you’re trying to build an innovative culture that’s adaptive to change, you have to take more calculated risks and reward risk-taking. The incentive structures are the hardest to break down. Insurers do all this other stuff that makes it look like it’s optically changing, such as open desk designs and casual dress codes, but they need to completely reconfigure incentive structures to align with a new, digital culture.”

For an industry that looks backward to predict the future, instilling a forward-thinking culture necessary for a digital era is a challenge of mammoth proportions. But failing to see the importance and necessity of evolving a corporate culture to fit the needs of today and tomorrow may eventually be the downfall of today’s biggest leaders. [CM](#)

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What Does a Winning Culture Look Like?

According to PwC’s 2016 report, “Insurance 2020 and Beyond: Creating a Winning Culture,” a strong and effective culture is more highly correlated with sustainable high performance than strategy, operating model or product coverage. A successful culture for a digital age has common foundations, such as:

- Clear and compelling sense of purpose, which attracts talent and guides expectations.
- Engaged employees.
- Curiosity, creativity and readiness to challenge or take risks.
- Long-term impact decisions, which includes the outcomes for customers, colleagues and other stakeholders, as well as the financial returns.

The report notes that there should be a shift away from developing and selling



products through the separate silos of design, marketing and distribution. Instead, companies should focus on the needs and expectations of customers and work back to “create the right solutions.”