



WHEN WILL INSURERS GO AGILE?

By Bodo von Hülsen, James Sattler, Michael Schachtner, László Juhász, Sara Codella, Simone Schwemer, and Rob Koentopp

IT'S HARD TO FIND an insurance company anywhere that has not piloted agile ways of working. It's just as tough to find insurers that have adopted agile at scale—that is, insurers that are applying agile principles and ways of working to the operations of a full business unit or to the enterprise as a whole. (See Exhibit 1.)

The reasons for the experimentation are well documented. Companies in multiple industries that have transitioned to agile at scale have accelerated new-product delivery by 200% to 400%, reduced development costs by 15% to 25%, multiplied their return on digital investment by 200% to 300%, improved customer satisfaction, and achieved better than 90% employee engagement.

Agile has had a well-recognized impact in banking: major institutions around the world are pursuing large-scale operations-wide transformations aimed at, for example, accelerating product development and time to market. Other industries have also advanced much further along the road to agile at scale.

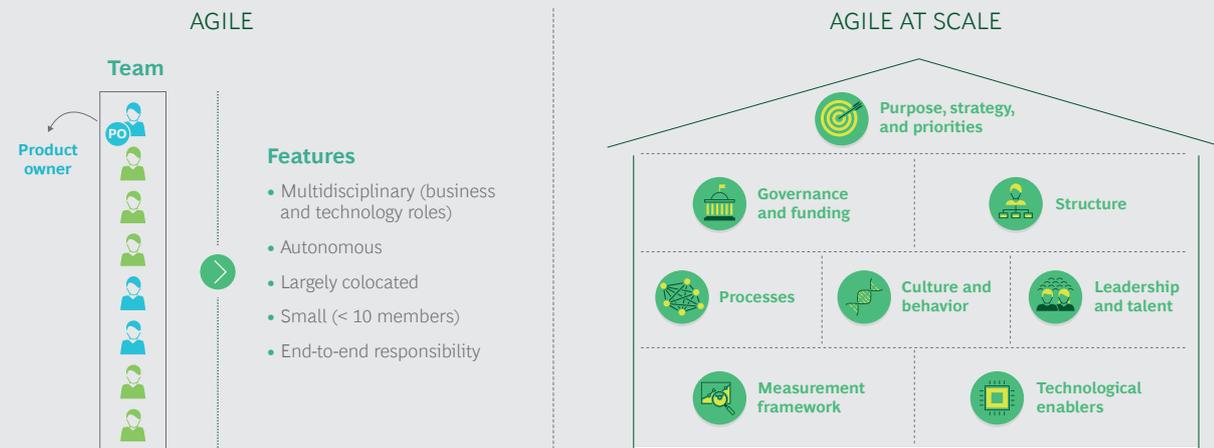
BCG recently interviewed a dozen senior insurance industry executives at companies in Europe, North America, and Asia-Pacific about making the jump to agile at scale. We found a clear dichotomy between the few early movers, who see greater speed, flexibility, and simplicity as competitive imperatives for the future, and the much larger majority, who see only some benefits to agile at scale. They argue that, among other things, working in cross-functional teams and short, iterative sprints is not well suited to the insurance industry, whose product cycles are long and customer churn is low. They are taking a wait-and-see attitude.

Which side is more prescient? We have a point of view, but first, here's what the executives had to say.

Maybe Someday, but...

Given agile's origins in software development, perhaps it is no surprise that agile gains the most traction in IT. For example, one German multiline insurer has about 50 teams of some 400 people working within

EXHIBIT 1 | Lots of Insurers Experiment with Agile Pilots; Few Have Scaled Agile Throughout the Organization



Source: BCG analysis.

IT on agile projects, while another 200 are working with agile on special larger projects.

Many insurers encounter difficulties when they try to take agile to scale in the business units. IT managers understand that they can go only so far without dedicated, active business unit involvement in agile teams and squads, but business unit managers often have other priorities.

“We have a lot more squads in IT, but without business participation, there is a ceiling on how much they can accomplish,” said the executive who oversees agile for a North American life insurance company. “In theory there is no reason you can’t go agile at scale across the business. But the reality is that there’s only a handful of businesses for which this is a priority. You need a clear top-down mandate to get functions to adapt.”

Insurance business executives cite plenty of reasons for this. One is the set-it-and-forget-it nature of the industry’s products that distinguishes insurance (especially life insurance) from banking, with which it is often compared. Many insurers simply do not see a big need for rapid innovation in either product development or customer engagement. “We don’t need agile to drive in-force premiums,” a North American life insur-

ance executive said. “Banks often build a “NewCo” in-house to fully establish agile at scale. It’s more difficult to do this in insurance because value lies so much in existing products,” said a German executive, adding that those products tend to be built on legacy tariffs, systems, and processes.

Another reason is distribution: because many insurers sell through agents and brokers, their engagement with actual end users is limited. A third is talent. “I reckon that the ability to attract talent in banking is higher than in insurance,” said the CEO of an Asia-Pacific (APAC) insurance group. “Banking executives tend to be more engaged in tech choices than insurance executives. We say tech is important, but it’s mostly lip service. Insurance companies are also less close to the customer, less transactional than banks.” The CIO of a North American commercial-property and casualty insurer made the same point.

Legacy systems and the products and processes that depend on them add one more reason. Many companies continue to use conventional “waterfall” methods for large projects, especially in their IT functions. We’ve also seen companies default to waterfall approaches for compliance and regulatory projects that have hard deadlines or that involve financial penalties when they lack confidence in agile’s ability to deliver

in such circumstances. “Rebuilding insurance from scratch for new business would be great, but it is not possible due to legacy systems,” said a German executive.

A final reason—and this is a big one—comprises industry culture and conservative management. The CEO of a European full-service insurance company cited broad cultural reticence. “I’m not sure how far we will go within our company. Employees do enjoy the collaboration in agile projects. On the other side, there is an emotional fear of cultural change.” The CEO of another European insurer put it this way: “The culture of insurers is different and a bit more old school or slower than in banks.” The chief customer officer of an APAC health insurance provider was more direct: “Management is dominated by actuaries who worry more about risk than customer experience.”

Perhaps the conventional wisdom on agile in insurance today is best summed up by the head of strategy and innovation for a European property and casualty insurer: “We don’t see much risk of falling behind, from a competitive perspective. Whoever tries to press the old-world products and systems on an agile world will be busier organizing than better serving customers. However, if competitors build new digital attackers with agile business models, we will have a problem. Therefore, anything with a digital agenda is started in agile.”

It’s About the Customer

A few insurers are singing a different tune, and it is a song about the customer. “For me, it is not about agile at scale; it is more about making insurance fit for the future customer and employee needs,” said the country CEO of a European group. “The rationale for the shift is really to drive the customer experience and to be more efficient in development of a better customer experience,” said a Japan-based life and health insurance executive.

Customers want financial solutions woven into their daily lives. They see no reason why these solutions could not be integrat-

ed with answers to adjacent or underlying needs, in many cases, through ecosystems. As one European executive put it, “Many companies are not connecting the change in customer expectations and digital with the necessity of changing the organization. They treat agile on its own and not as an organic part of something strategic around customer expectations. You have to provide a lot of different things in a digital way and, for example, have them better embedded in the organization. Companies do not yet link digitalization with organizational change.”

Younger consumers are fueling the sharing economy with their evolving views of buying and owning, which have big implications for traditional products such as life, homeowners, and auto insurance. These changes will drive development of new solutions. Two North American executives pointed out that when companies become aware of the need to get closer to the end customer, that recognition will trigger heightened interest in agile at scale.

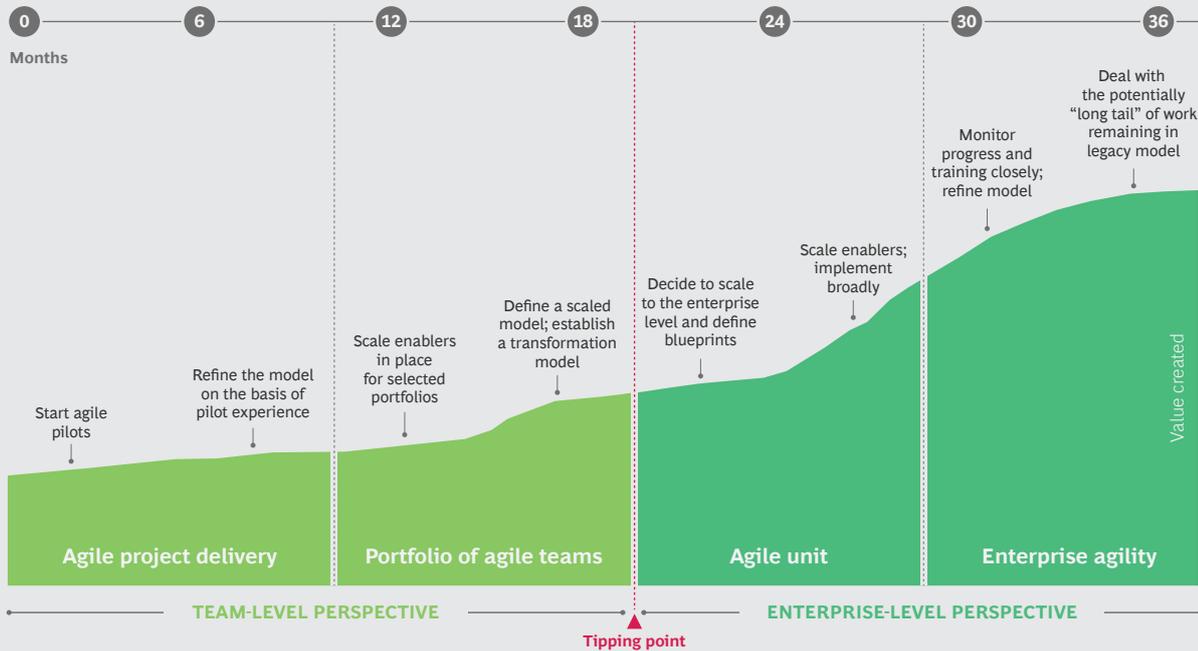
The members of the new generation that is entering the workplace want to work for companies that understand how to use the technologies that they grew up with. In a world suffering from a shortage of technical skills, agile will be absolutely necessary to winning in the war for talent: companies must present themselves to prospective employees as being completely up-to-date.

Time to Get Started

Along with digitization comes the need for increased speed, flexibility, and individualization. Old ways of working and the accompanying organizational structures were not built for this speed or for the scale of change that is taking place. A wait-and-see attitude is self-destructive in the long run; competitors will evolve, and new agile insurgents will enter the market. Those on the sidelines will be confined to managing in-force business, which is tantamount to entering hospice care.

Agile is a journey that takes time. (See Exhibit 2.) It is not uncommon for companies

EXHIBIT 2 | Scaling Agile Is a Journey



Source: BCG analysis.

Note: The actual timing may vary significantly among companies.

to spend 18 months or more in the piloting and experimenting phase, refining the model that fits their needs and building out the enablers required to support the effort to scale. There's no need for an agile "Big Bang" in which the company makes the transition everywhere all at once. The key is the determination to embed agile principles of autonomy, collaboration, speed, and results into the DNA of the organization. Adopting values, principles, and behaviors can be done successfully only by shaping the context in which people work. Inevitably, there will be setbacks and challenges, but strong leaders have the ability to learn, adapt, and change course when things go awry. They stay focused on the outcomes that they are trying to achieve. When the time comes to make the move, commitment is the most important factor.

Companies that want to get started can take a few steps that have proven successful at other insurers. These include developing their own vision of agile at scale and defining the key priorities they are trying to achieve. They can sketch out a potential agile operating model for their own com-

pany. And they can select a few "lighthouse" pilots that address core business challenges to rolling out agile at scale.

In our view, the step change to agile at scale in the insurance industry is closer than most company executives think. Insurers need to increase their speed and the scale of their experiments with agile at scale. They need to engage in developing their own plans for staying competitive and retaining, attracting, and reskilling the necessary talent for the future.

An executive, whose company is aggressively moving toward agile at scale, told us, "Insurance is lagging behind banking, but sometime in the next five to six years, agile at scale will pick up exponentially—once one competitor has visible successes." A few insurers are positioning themselves to be ready. The rest risk being left behind.

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