



Innovations in the Insurance Industry

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INNOVATION IN THE INSURANCE INDUSTRY: A DIAGNOSTIC PERSPECTIVE

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ABSTRACT

Traditionally, competition in the insurance industry favoured efficiency strategies with exploitation-type business models founded on command and control management models. Managerial conversations focused on cost and risk metrics. In an industry with intangible, knowledge-rich products, 21st century digitalization, paired with the changing nature of work, offers nearly limitless opportunities for innovation. Successfully capturing innovation and growth opportunities paired with more flexibility in dealing with dynamic market conditions, requires exploration-type strategic thinking and enabling management models. Executives must engage the knowledge, skills, and resources of people in unprecedented ways. The need to transform business and management models poses a risk to insurance executives in ways that stretch beyond the experience of most senior executives. Building on dynamic capabilities concepts, insurance companies should embrace management models that remove traditional management barriers. We employ the Performance Triangle (PT), Agile Maturity (AM), and the Context Framework (CF) models to explore the industry's current capabilities and management model. We build on our previous work and conducted surveys with managerial teams in insurance companies between 2018 to 2021. The study concluded that capability-based management models with dynamic capabilities can enhance the industry's capacity to capture the benefits of digitalization and the changing nature of work. Using PT, AM, and CF frameworks and diagnostic tools we attempt to advance the understanding of management models and dynamic capabilities in the insurance industry. The results identify numerous gaps or mismatches between the current and optimal future management structures and systems needed to transform traditional command and control management styles into a people-centric and dynamic model that is needed to encourage innovation.

Keywords: insurance, dynamic capabilities, management model, VUCA, agile, people-centric

1. INTRODUCTION

Insurance companies were innovative in the nineteen sixties and seventies. Since then, the industry has lost the innovative capacity in favor of exploitation-type strategies predominantly focused on competition based on decreasing costs and improving efficiency (Garth, 2011). In the 21st century new technologies, readily available discounted capital, new competitors such as InsurTech, and banks have entered the industry with more innovative business models that transformed traditional value chains. Disruptive business models have caused the insurance industry to become more dynamic and competitive. Digitalization forced prices to drop which squeezed the operating profit margins of traditional insurance companies (FINMA, 2020). Declining profit margins forced established insurance companies to rethink existing business models to improve efficiencies and identify new sources of revenue more than ever before.

The choice of management model determines much of an organization's ability to innovate (Barney, 1991). Business models and management models must align to maximize value creation. In the industrial 20th century stability, efficiency, and control dominated management thinking and models. In the 21st century the focus has shifted toward designing organizations that facilitate knowledge sharing and accelerate learning which stimulates innovation (Nold, 2012; Prahalad & Krishnan, 2008; Schramm, 2006). There is clear evidence of negative consequences resulting from traditional hierarchical structures and rigid

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