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Creating and Sustaining
Value in the Insurance
Industry Through Operating
Model Transformation

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Organizations are looking to enable agility, profitable growth, and relevance within the market. A focus on evolving their respective operating models and delivery transformation will support this, thus enabling lasting value creation for the organization and its policyholders.

Why Operating Model Matters

Change is occurring at an unprecedented rate, influenced by rapid developments in climate, technology, workforce dynamics, and evolving expectations from customers and society. This, combined with macroeconomic shifts and geopolitical uncertainties, is driving organizations worldwide to overhaul their technological infrastructure, products, services, business models, and corporate cultures. Such transformations are crucial not only for maintaining profitability but also for ensuring relevance and survival. The US insurance sector is particularly impacted by these changes. These converging forces may serve as a pivotal trigger for the industry to rethink its operational approaches and redefine its broader societal role and purpose. In this context, an insurer's operating model can either be a key enabler or a significant barrier to transformation, determining the speed and effectiveness with which it can adapt to these changes.

Introduction to Insurance Operating Models

The term "operating model" is often misunderstood to mean anything from organizational design to go-to-market strategy. In the context of this document, **we define an operating model as an interconnected set of capabilities that must work in concert to deliver on an insurer's strategy and business objectives.** Translating this academic view into a tactical one for US insurance carriers, operating models encompass business elements, such as:

- How they present their products and services to both clients and distribution partners
- How they create scale across operational capabilities (e.g., policy servicing)
- How they assess risks and underwriting decisions across product lines

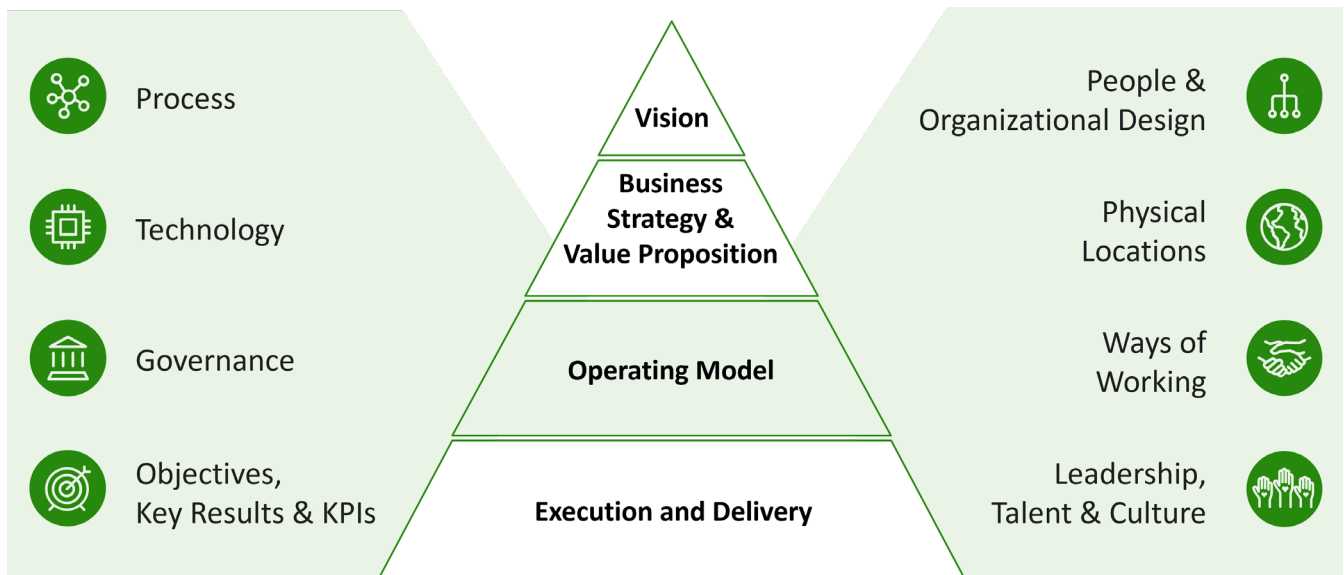


Figure 1: The Operating Model Construct

Well-defined operating models position organizations to adapt to changing markets, capitalize on new opportunities, and weather industry-wide headwinds. *Insurers that focus on operating model clarity and/or transformation are positioned to realize outsized financial outcomes along with measurable results across four underlying value drivers: Growth, Profitability, Customer Experience, and Speed to Market.*



Figure 2: Value Drivers of Operating Model Transformations

Grounding the Operating Model in the Organization’s Vision, Strategy, and Value Proposition

Before embarking on any effort to transform an operating model, insurers must first have clarity of – and alignment on – their **vision** and **business strategy** (financial and nonfinancial goals) as well as their underlying **value proposition**.

A powerful vision statement articulates the lens of impact an organization wants to make for its customers, employee, and other stakeholders. Relatedly, a well-crafted business strategy consists of an integrated set of decisions which position the insurer to create sustainable advantage that contributes to the realization of its vision.

To deliver on their vision and business strategy, we typically see insurers orienting themselves toward one of four primary value proposition archetypes: Customer First, Operational Efficiency, Product Innovation, and Technology Led.

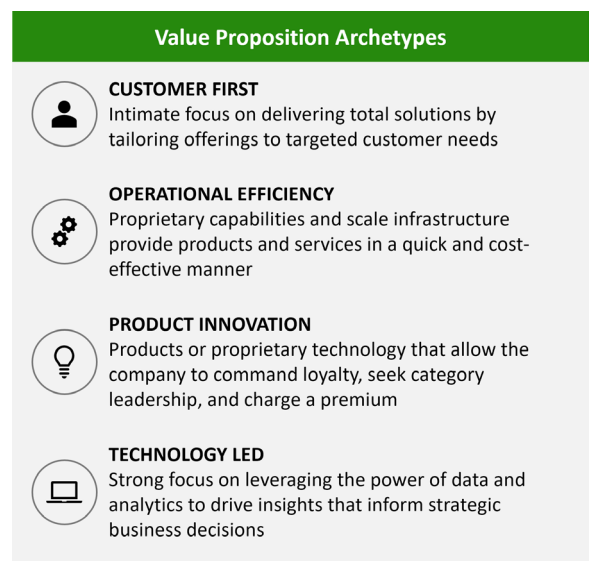


Figure 3: Value Proposition Archetypes

Operating Model Design Decisions to Consider

Preceding the design of an effective operating model, insurers must achieve alignment on the organization’s strategic vision and business goals. From there, operating model design and subsequent transformations are rooted in five strategic decisions: Operating Model Design Archetype, Capability Delivery Model, Service Delivery Model, Organizational Design, and Performance Management and Governance.

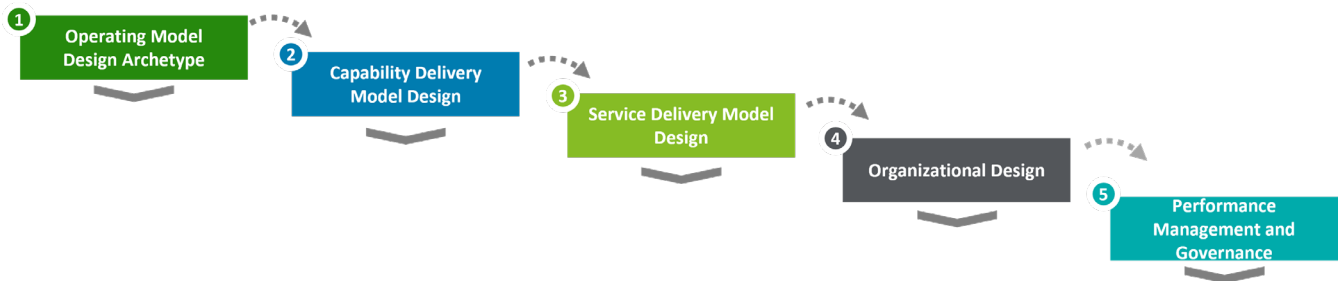


Figure 4: Critical Operating Model Design Decisions

While operating model transformation efforts can be rooted in addressing any one or more of these interrelated strategic decisions, successful transformations may not require addressing each of these decisions in depth (if the insurer already has organizational alignment), nor must they necessarily address the decisions sequentially.

Adequate alignment on the aspirations of a given organization is a necessary precursor to design and transform their respective operating and delivery model(s). Through a structured process and hearty dialogue, insurers should seek answers to align on the following strategic choices:

1. Operating Model Design Archetype: Considerations for Organizing Capabilities

To set the foundation for forthcoming transformation efforts, insurers must evaluate and align on the most appropriate operating model design archetype for their organization, which refers to the high-level structure and design of the business operations (capabilities) required to support their respective strategy and objectives. Aligning on the appropriate design archetype enables:

- Organizational clarity** on mutually exclusive, collectively exhaustive capabilities to support its customers and business outcomes
- Alignment on desired structure** for each capability (product/geography/customer/process/hybrid)
- Inputs to the organizational structure** required to support downstream design decisions

There are multiple operating model design archetypes as illustrated below – often insurers will employ a hybrid structure combining one or more of the below to tailor to their unique needs:

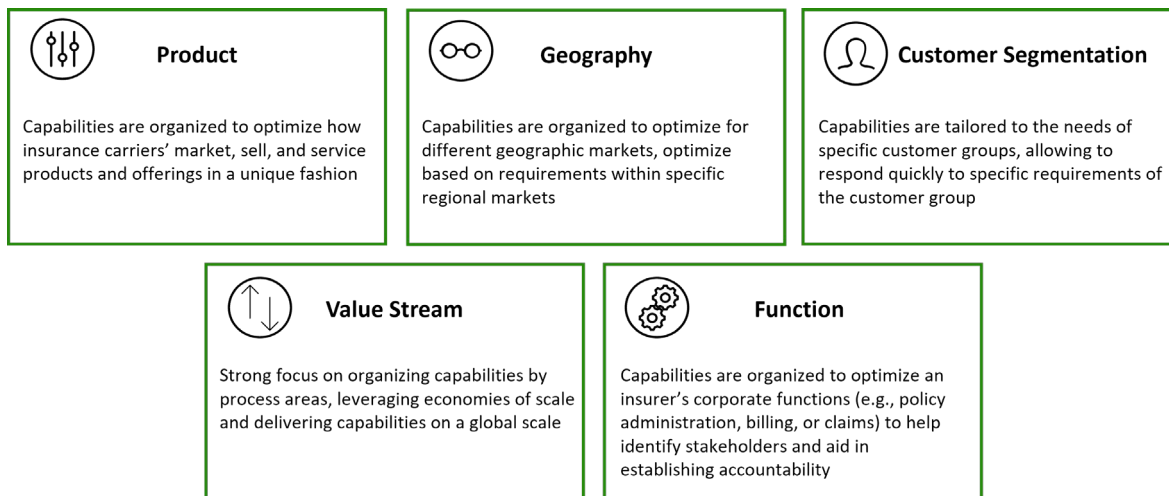


Figure 5: Operating Model Design Archetypes

An example of an operating model design archetype decision driving a real-life operating model transformation occurred recently when one large U.S. Life & Annuities insurer announced a shift in its operating model – reorganizing the core business away from traditional functional and product silos into value streams to better support their agents and advisors in establishing and maintaining long-term client relationships. The value stream model aligned people, systems, information, and business capabilities to eliminate silos between business and technology and to put the agent and client experience at the heart of the organization and reinforced the insurer’s value proposition.

Key Considerations

- What is your strategic ambition? Does the current organizational structure support the long-term ambitions?
- What is your go-to-market strategy? Does it vary significantly by geography / customers / products?
- What is your value proposition? Are there specific capabilities that are critical to enable the value proposition?
- How do you connect with your customers? Does it vary significantly by customer type?

Figure 6: Key Operating Model Design Considerations

2. Capability Delivery Model Design: Capability Execution and Accountability

Insurers seeking to better understand how to win in their chosen markets are right to analyze the capabilities required to do so, along with the nuances of which capabilities are table stakes and which can be truly differentiating. To activate this information and ensure their organizations are equipped to deliver the capabilities most effectively, insurers should thoughtfully assess their capabilities across two dimensions: execution (performing the capability) and accountability (responsibility for setting strategy, standards, and diverging results). On each dimension, a capability might be considered tailored (where regional/business unit considerations are critical) or standardized (where consistency is more highly valued).

Alignment on the appropriate capability architecture enables clarity on downstream **decision rights, roles, responsibilities,** and **appropriate servicing architecture**. Ultimately, assessing the optimal delivery model for each priority capability requires consideration of several factors in alignment with a given insurer’s underlying strategic business objectives.

One large Property & Casualty insurer has been undergoing a capability delivery-driven transformation over the last few years to better meet its global objectives. The company restructured one of its primary business units to bring together its commercial, specialty, and reinsurance lines of business. As part of the transformation, the insurer established global functions around operations and underwriting to promote efficiency and scale, while retaining local inputs, where necessary. The transformation contributed to an overall improvement in combined ratio of 5% for more than three years.

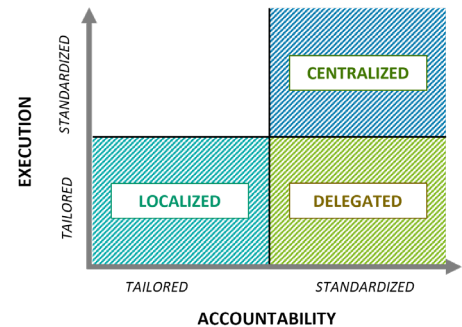


Figure 7: Capability Delivery Model Design Matrix

3. Service Delivery Model Design: Where Capabilities are Delivered

A service delivery model is a framework to organize and classify services provided, typically evaluated across the dimensions of 1) **method of adding value** and 2) **relationship to the business**. Service delivery model design plays a crucial role in determining how an organization delivers value to its customers, and thus, directly impacts customer satisfaction and business success.

In determining optimal service delivery model design, it is critical to rationalize service levels to align with capability-specific customer needs while also optimizing the trade-off between cost and service. Successful service operation transformations deliver improvements in experience, efficiency, and expense outcomes. In making service delivery model design choices, insurers should consider the following decisions:




	<p>In-House vs. Outsource – Should the capability be supported by full-time employees or by a trusted third-party?</p>		<p>Onshore / Nearshore vs. Offshore – Does the capability require localized employees, or can it be supported remotely?</p>		<p>Generalization vs. Specialization – Can anyone support the capability or does it require specialized knowledge, certifications, etc.</p>
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Figure 8: Service Delivery Model Design Decisions

In making the decisions outlined above, it is important to note that they need not be set in stone and could benefit from regular reassessment to ensure alignment with the organization’s objectives. One well-known example saw the sale and buyback of services related to a leading insurer’s offshore service delivery center. Though the insurer was once able to leverage this offshore captive model for cost-effective business and technology operations capabilities, the decision to alter its service delivery model and underlying financial arrangement was driven by a broader transformation agenda with a mandate of optimizing its technology spend and investments. Ultimately, the insurer was able to match existing experience and efficiency outcomes and improve their expense position by monetizing the service delivery center.

4. Organizational Design: Creating an Adaptable and Agile Organization

Insurers going through operating model transformation imperatives should consider how to enable an *adaptable organization* that delivers on agility, connectivity, and customer-centricity. *Organizational design may seem like a natural first step to take, but creating a new organizational chart before aligning on the earlier decisions in the operating model design cascade often means constructing the operating model around specific people, rather than in proper alignment with the strategic vision, thus putting at risk the sustainable advantage, optimal design is meant to establish and protect.*

Tactical organizational design considerations include spans of control, organizational layers, and reporting lines, but insurers driving successful transformation are increasingly doing so by driving accountability toward specific business outcomes through matrixed or even helixed operating models. The goal of organizational design should be to support the insurer’s strategic objectives while balancing adaptability with scale and growth with profitability. To enable successful realization of strategic business objectives through dedicated operating model transformation efforts, insurers should structure their organizational design such that demand and supply functions can partner effectively.

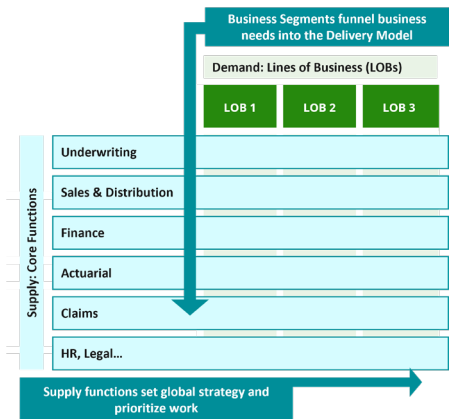


Figure 9: Supply and Demand Framework

5. Performance Management and Governance: Scaffolding for the Operating Model

An insurer’s ability to effectively transform its governance model hinges on a sound and purpose-built governance framework that reinforces the design decisions in pursuit of the organizations’ strategic objectives. A successful operating model requires a governance structure that underpins and supports its operating model design archetype, while also being in alignment with the insurer’s capability and service delivery models. Governance includes outlining key roles and responsibilities, decision-making processes, interaction models, performance tracking, and managing capability investments.

Key Questions to Answer in the Target State Operating Model

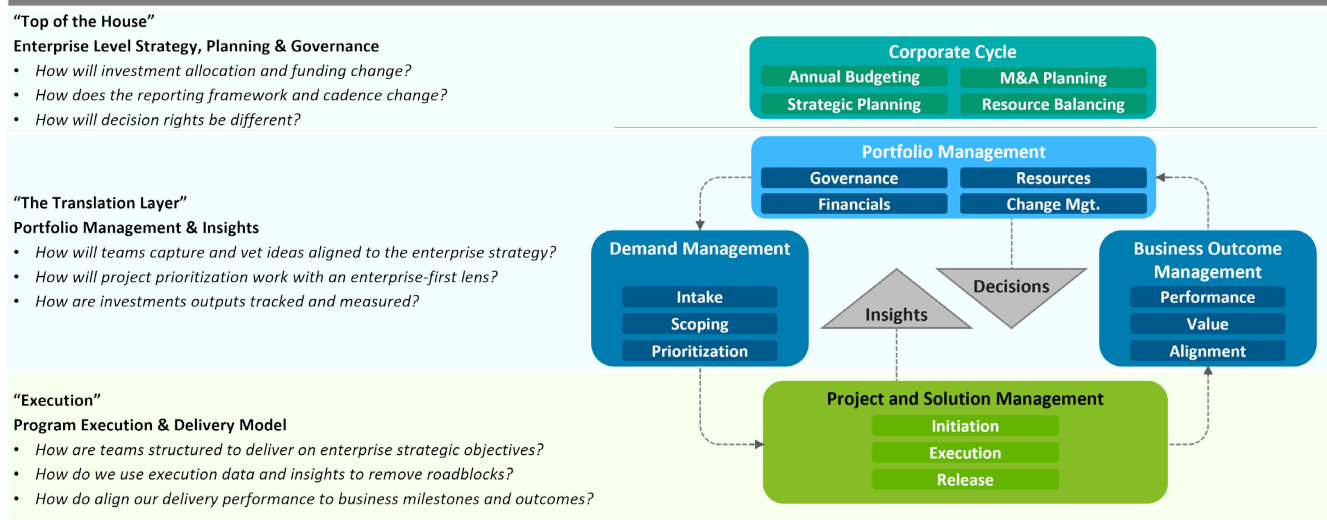


Figure 10: Project and Portfolio Management Racetrack

It can be helpful to visualize these many interrelated concepts as a “racetrack” of self-reinforcing mechanisms spanning three layers, as seen above.

Key considerations in defining an insurer’s optimal governance structure include determining how they can better:

- Enable effective execution
- Support strategic decision making
- Manage risks and issues
- Track benefits realization

Governance comprises more than just roles and responsibilities; insurers must contemplate a host of factors and their interconnections, including **Planning and Prioritization**, **Execution Governance**, and **Measurement and Monitoring** as highlighted in Figure 10: Project and Portfolio Management Racetrack.

Operating Model Transformation Opportunity Indicators

Many insurers’ first challenge with their operating models is diagnosing and prioritizing the most pressing issues and subsequently uncovering the transformation opportunities at hand. Insurers experiencing these symptoms should seek to assess the underlying causes – in many cases, operating model transformations can be used to turn the tides in the insurer’s favor.

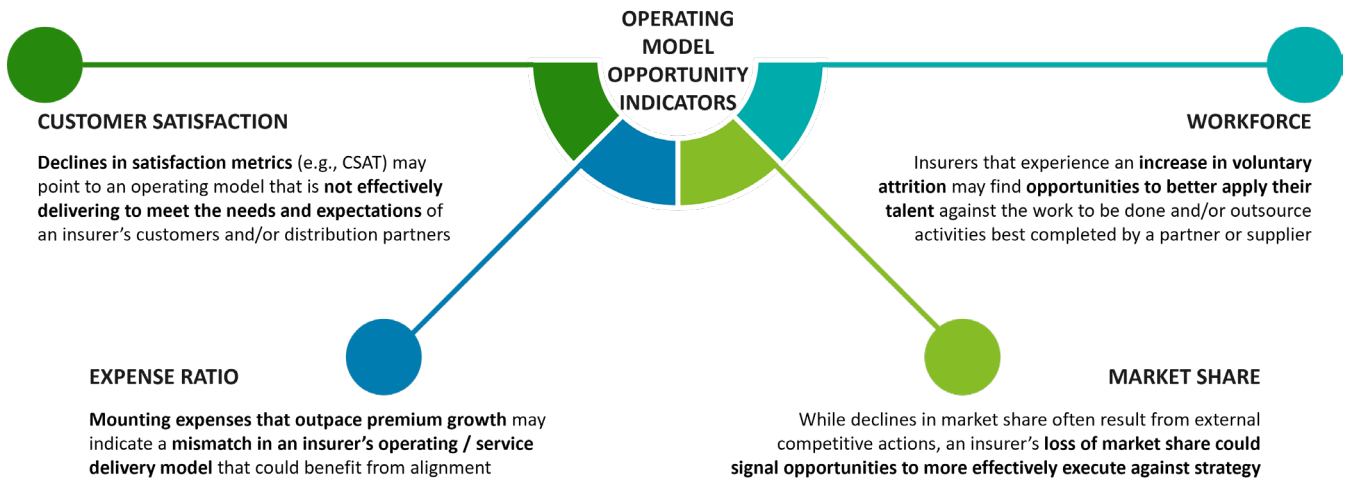


Figure 11: Operating Model Opportunity Indicators

Getting Started

In summary, insurers of all sizes across subsectors (e.g., Life and Annuities, Property and Casualty, and Group) that are aiming to create sustainable value should take the time to consider whether they are set up for success. Designing an operating model that supports an insurer's strategic objectives requires structured consideration of a series of design questions. With a vast array of possible design permutations and an even broader set of possible implications, insurers are wise to enter the operating model assessment process with clear objectives and an openness to rethinking some of the basic components of their business. When the organization has an operating model that is self-reinforcing and allows the insurer to adapt to changes in the market – growth, profitability, improved customer experiences, and/or increased speed to market are theirs for the taking.

Critical enablers of success to execute an impactful Operating Model Transformation include 1) executive leadership engaged and are championing the effort; 2) holistic change management, communication, and incentive strategies that are developed up front; 3) a clear governance model designed to drive accountability and transparency in delivering on business objectives; 4) driving toward streamlined decision rights and establishing a single point of accountability; and 5) a focus on transparency, collaboration, and talent development.

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