HEIDRICK & STRUGGLES

Insurance industry disruption starts with talent

Insurers' traditional agent-led model is less and less able to keep up with consumer expectations. To succeed in the future, insurers will need to attract "digital natives" and give them opportunities to make a difference.

The insurance industry has a major talent problem: there's a mismatch between where the market is going and the skills of the employee base. That's because insurers are experiencing a consumer-driven disruption. Until recently, insurance companies' go-to-market model centered on having as many agents as possible to engage with consumers anytime, anywhere, and in any way they could. But today's consumers—drawn to the customer-centric approach of enterprises such as Amazon and Netflix—want to hear from insurers when it's the right moment for them, not when it's convenient for the company.

To move in this direction requires a digital transformation. But most insurers are unable to attract the kind of talent needed to carry out the profound operational changes this transformation requires. They find themselves competing for talent with the likes of Google and Amazon, which have been hiring bankers—a clear indication of their intention to enter financial services.

In some ways, this is not a new problem—the insurance industry has always had trouble recruiting young people. Most don't graduate from college thinking, "I want to make my career in insurance." What is new is the difficulty in engaging high-quality "digital natives," the kind of talent that could help insurance companies meet the expectations of their digitally inclined consumers. Layer on top another big issue facing most companies—how to train and retain millennials—and it's clear that the industry has a tough road ahead in regard to talent.

How should insurers respond to these hurdles? They must upend their approach to hiring and development. At the top, the C-suite and the board must recognize that their businesses require different kinds of talent than before and that the people they are hiring want different things from their work lives than did previous employees. Moreover, companies must engage this new generation of talent in novel ways, such as presenting them with the chance to actively participate in the transformational programs that will define the insurers of the future. This article reviews the industry's talent issues and offers insurance executives some ideas on a way forward.

Insurance's talent challenge

The insurance industry faces three main talent challenges.

First, a long-standing issue is that most college or business school students—and certainly most of the top graduates—don't aspire to work for insurance companies. The industry projects a dusty, 19th-century image. One professional services executive once told us, "The insurance industry is like the coal industry minus the smokestacks."

This is a branding problem. People tend to think of insurance as looking backward as opposed to looking forward, a necessary evil rather than a positive force. Most graduates in the job market don't roll out of bed thinking, "I want to be an insurance executive one day." They may think this for the banking and technology industries, but historically not insurance.

Recruitment difficulty informs a second, newer challenge for insurers. The industry is facing a consumer-driven disruption, underpinned by customers' changing expectations about how they want to interact with an insurance company—for example, through technology and with real-time service offerings. The problem for insurers is that they are having trouble attracting the digital natives who may better understand the needs of these digitally inclined consumers.

A third hurdle for insurers comes once recruits are in the door. Historically, companies had effective, well-regarded training programs in which they would bring in junior people right out of college and give them an opportunity to learn core insurance skills, including underwriting, claims, servicing, and selling. But many of these programs were eliminated in the 1990s and 2000s in cost-cutting moves. So the pipeline of talent developed through this rotational work experience has more or less disappeared. In addition, the industry is facing a wave of retirements as baby boomers leave the workforce, compounding the need for talent.

An irony is that, once workers enter the insurance industry, employment there is sticky. People tend to stay in the industry for much of their careers. We think this happens for two reasons. First, at the risk of sounding grandiose, people absorb the noble purpose of the industry and the social and economic good that comes from it. Second, they see many opportunities to have an impact on the business—there is considerable room for improvement across the organization. These are positive factors; nonetheless, the employee base is aging and needs to be replenished at the front end by digitally savvy younger people.

Hiring in the digital age

If insurance companies are to thrive, they will need to attract, train, and retain members of the millennial generation. These are people in their 20s and 30s who have grown up with digital technology—the digital natives who are likely to have a better feel for what their contemporaries in the marketplace want from today's businesses. As many companies are finding, this generation has different expectations about work; insurance executives ignore these points of view at their own risk. As important, insurers must improve their record at attracting experienced outsiders to the business. They need to diversify their talent DNA if they hope to achieve the digital transformations so many of them want to undertake.

Recruiting, developing, and retaining employees

It may seem obvious, but insurers need a corporate mission that potential employees, especially millennials, can relate to. It's a branding challenge, and its importance cannot be overstated. Surveys show that millennials are purpose-driven and want meaningful work—indeed, they may be attracted to the social good offered by insurance's stability and long-term focus.

In addition, millennials are looking for experiences as opposed to careers. They tend to reevaluate more quickly how much they are learning and what their growth potential is. They expect to be continuously challenged. Some of that may be a by-product of being digital natives. They are accustomed to having everything here and now, and they have that same expectation about their careers. As a result, the velocity of changing jobs and potentially companies is increasing.

Keeping people challenged, learning, and growing while trying to transform the company is a real issue. How might an insurer tackle this?

We think insurers should make sure to use millennials on projects aimed at addressing this cohort's biggest issues—and to make clear in their recruiting campaigns that this is their intent. In other words, new employees shouldn't be relegated to the "same old, same old" kind of work that previous generations might have had to undertake at the start of their careers. For example, teams including millennials could explore how to drastically reduce the time it takes to issue policies using digital technology. Some insurers are using millennial teams as a "laboratory" to study emerging customer needs. Millennials could also help coach senior executives to demonstrate new technologies before rolling them out to customers.

Other insurers are peering into their organizational "permafrost" to engage and empower foundational talent. The board of directors' line of sight is often limited to the top 20% of the organization. Leading companies find a way to tap into the remaining 80% of employees and engage them in critical projects. Many are frontline employees, who have a better understanding of what's happening day to day than do most senior executives. They have the institutional and tacit knowledge about how things really work in the company. These people are a resource that few companies take advantage of, a waste of what we call organizational IQ. One effective way for companies to tap into this organizational knowledge is to make these employees part of cross-functional teams on key projects, especially those addressing consumer-facing challenges. Not only will the insurer benefit from the distinctive insights of the front line but also the employees will feel more valued and thus more likely to stay with the company.

As we'll discuss in greater detail, insurers undertaking a digital transformation may be tempted to bring in an executive from an established high-tech company or start-up. That's fine, but sometimes the new person will come in and say, "I have a vision of our future, and I can tell you that our current employee base is incapable of carrying out the necessary transformation. We must let them go and bring in new people from the tech field." That's one path to pursue, but it must be understood that the new employees may not have a clue about the nuances of insurance. In our experience, a better way to proceed is to assume that the current employees—who hold all that institutional knowledge—want to learn, improve, and be part of the transformation. It's up to management to engage and help them transition to the new way of working (see sidebar, "Empowering millennials and frontline employees").

Putting millennials to work on critical issues and taking advantage of frontline talent are two approaches insurers can employ in their transformation programs. In addition, leading insurers are pursuing a host of other training and retention efforts, seeking to build much closer relationships with employees in terms of expectations and growth. Some examples include the following:

- They are trying to identify employees with high potential. In other words, they are searching for the "Ferrari stuck behind the school bus."
- They employ informal rotational programs as an onboarding tool—for example, with stops in treasury, corporate development/M&A, and business unit operations. Internal mobility is essential.
- They communicate constantly. Many leaders are using internal blogs, although, as one CEO said, "Employees seem to be less interested about my views on market impact and more about where I go on vacation." Millennials want to get to know senior leaders as individuals and have access to them. "Employees who are one week on the job routinely hit me with LinkedIn invites," another CEO said. They expect senior executives to be social and walk the hallways and eat in the cafeteria.
- They are creating centralized data analytics organizations, with teams of scientists that are charged back to each business segment, to incentivize employees to use their services. Some insurers have started converting actuaries to data scientist roles. Others have organized "hackathons," not just to create the next "killer app," but also to have fun and effectively engage all employees.
- They have started "dress for the day" programs to allow employees to wear jeans when they are not meeting with clients. A relaxed dress code can be a motivational tool that fosters innovation.

Recruiting from outside the insurance industry

Competition for talent in the industry has historically been confined to traditional insurers. In the future, however, true competition is more likely to come from an Amazon or a Google. So it is critical for insurers to expand their recruiting horizons to include candidates who bring different views and skills to the table. In short, we need to diversify the DNA of insurance.

The industry needs people who can bring a more customer-centric perspective and to harness the power of data and consumer insights. After all, insurance was the first "big data industry." For example, companies need more data scientists who can focus on predicting consumer behaviors and anticipate their needs.

In fact, insurance executives and board members are well aware that they need to bring fresh thinking, different perspectives, and digital skills into the industry. But recruiting experienced people from outside the industry has its own challenges. The industry is fighting the perception that it's a closed fraternity speaking an arcane language, not to mention highly regulated.

There's a cultural dimension that plays out and can prove difficult to address. The insurance industry has historically been extremely conservative and slow to innovate. For example, a company may find itself with a 30-something, T-shirt-wearing, long-haired individual who has grown up in Silicon Valley and speaks and acts quite differently than the typical insurance executive.

One insurer hired a digital entrepreneur who started out by saying, "We're going to try 10 things, and 8 of them will fail, but that's what we're going to do." The insurance executives couldn't get past the fact that there would be failures and that it wasn't even clear what success would

Empowering millennials and frontline employees

How can insurance companies engage their younger recruits and existing frontline employees in the kind of meaningful work that will empower and excite them? Following, we spotlight one company that employed cross-functional frontline teams to successfully shift the prevailing culture of a large organization. Insurers might consider a similar approach as they pursue their digital transformations.

The retirement division of a leading North American insurance company was facing flat growth. Executives of the division, which managed the pension assets of institutional clients, believed that the best way to grow was to increase the unit's market share of its existing customer base.

For many years, the division's business model revolved around building relationships with brokerages that served institutional clients. The contract to manage a company's pension assets would come up for renewal every few years, and its broker would invite several retirement asset managers, including insurers, to bid on the work.

This North American insurer, a major force in the industry, was almost always invited to bid on the newest opportunities. The insurer maintained a costly, geographically dispersed network of salespeople to stay close to this network of brokers. The job of the sales force was to make sure that the insurer was on the short list of candidates for the latest opportunity. The stakes are high because a successful bid could win a corporate account with the retirement assets of thousands of employees.

The head of institutional sales assembled a cross-functional team—including staffers from sales, knowledge management, information technology, and marketing—to look at the options. The team found that it was winning its fair share of bids. The question was how to increase the number of wins? What would it take to clearly distinguish its offering from that of competitors?

The team concluded that a key to differentiating the insurer in the bidding process was specialized knowledge about the industry of the company shopping its pension fund, believing that healthcare benefits and retirement needs vary by industry. This would mean becoming conversant in industry trends and generating fresh insights so that the insurer could tailor its offerings to the specific challenges of potential pension clients. No other insurer was taking this approach.

To accomplish this, the team proposed that the sales function transition from a geographically oriented model to a practice model. In this arrangement, professionals specialize in industry sectors, such as consumer products, financial services, healthcare, or utilities.

Adopting such a model demanded a big shift in the mind-set of the 300 members of the sales force. For years, relationship building was the foundation of the sales model; salespeople who had mastered that art were well compensated and not especially eager to try something new. In the practice model, they would have to reorient their approach to winning business with ideas and specialty knowledge, not simply relationships. While those relationships had gotten the insurer to the bidding table over the years, the team believed that subject-matter knowledge would help win more requests for proposal now.

To test the approach, the insurer pursued a pilot and selected one industry—technology—to build into a practice. Within several months, the insurer was invited to bid for the retirement portfolio of a big technology company. While its depth of industry knowledge wasn't complete, with a few important insights the insurer was able to show the prospective client the potential of the approach. The technology company was intrigued and agreed to move its assets—amounting to more than $1 billion, the largest portfolio the insurer had ever received.

The pilot proved successful for both parties. The technology company got advice on benefits that was more relevant to its employees. The insurer had a chance to see how the new model worked in reality and, as a result, gained confidence to begin building out practices in other sectors. It wasn't an easy transition for the sales force. The entire group had to be retrained, moving from working as generalists in a specific geographic region to specialists in an industry sector. But the practice model has proved successful, and many other companies in the industry have begun to adopt similar models. In the end, the insurer's ability to change mind-sets on a large scale allowed it to transform the industry's operating model.

look like in the other cases. The idea of experimenting—trying, failing, and learning—is not part of the industry's nature. So what we really see is that the coming digital transformation of the industry must be underpinned by a cultural transformation.

A few companies have had success recruiting talent with digital skills. Some insurers have created Silicon Valley–like technology labs. They have found that some talented individuals are attracted by the opportunity to serve millions of existing policyholders, something a start-up can't offer. That's an advantage insurers should continue to promote.

What it means for the CEO and board

Talent and succession planning are now discussed at most board meetings of insurance companies, as boards continue to get further involved in operating executives' assessment and development. We see three critical areas on which insurance CEOs and boards must further focus to help their companies succeed in this new era.

Redefining the brand

Insurers' ability to attract and retain employees of the millennial generation will largely depend on redefining their brands. That means showing prospective employees that the industry is about more than protection and disaster recovery. That's clearly an important mission, but it fails to resonate with the talent pool. A more positive, constructive message would revolve around the industry's role as a significant economic engine for investment and growth.

Brand redefinition goes beyond image making. Businesses around the world are focusing more than ever on who their customers are. But insurers are still arguing internally about who their customer is. Is it an agent, the end consumer, or the client that gives them access to its employees? It is hard to develop a talent value proposition if you can't tell your recruits who your customers are.

Offering "rocket ship opportunities"

A speaker at a recent high school commencement offered this compelling advice: "If someone comes to you and offers you a seat on a rocket ship–like mission, take it. Don't ask which seat it is." This recalled for us the importance of "rocket ship opportunities" in insurance companies. That is what will attract ambitious high performers who will, in turn, help spur change in the company.

For example, a CEO says he or she is looking for a chief information technologist or head of operations:

CEO: Find me the best outside-of-the-insurance-industry talent you can to help us change.

Recruiter: Great, but what's the mission? Where is that rocket going?

CEO: Well, the rocket is going to stay in the hangar because we want to tinker with it and we want to just polish it.

That approach rarely goes anywhere. But if the CEO is able to say, "We are looking to really transform our business model and go 100% digital; we want to recenter the business around the customer." Those are the kinds of opportunities that will attract transformative talent—millennials or others. They will be moved by the magnitude of the mandate and won't necessarily care about details such as reporting lines and the size of the team.

Learning to partner

Insurance companies have capital at their disposal, given their large investment portfolios. Many big insurers have carved out a material portion of their portfolios for investment in new technologies and partnerships, offering them access to the flow of new and innovative companies. They have accomplished this through direct partnerships with companies or by teaming up with venture-capital funds. In some cases, the investments have included seats on the board, providing a direct view of how these businesses operate.

Insurtech entrepreneurs and technologists have figured out that it's not practical to reinvent the insurance model.

All you need to do is pick apart the value chain and choose one segment that you can focus on and be the best at, whether it's selling, claims, or service. The issue for them is that they may have good technology and processes, but they don't have the customer base and operational skill to exploit their advantages. So insurance companies have invited the start-ups to work with them to help prove their business model. For example, Chubb recently announced a partnership with insurtech start-up Sure Inc. to sell accident insurance and death coverage to passengers of ride-hailing services such as Uber.

The challenge for insurers is what companies to target and how to structure the partnership agreements. So a core skill for insurance CEOs in the coming years will be the ability to identify promising companies with which to partner and to develop mutually beneficial relationships with them. Boards must sharpen their skills in this area as well, especially with respect to their understanding of technology. There probably will not be an all-transforming Uber of insurance, but there may be a Netflix of insurance—senior executives and boards must figure out how to give customers want they want, when they want it, and how they want it.

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There are some digital innovators in the insurance industry, and they are enjoying a first-mover's advantage based in part on their hiring practices. Many insurers, though, are struggling with talent management. The longer they wait to address recruiting issues, the harder it will be to catch up. The industry must move toward developing a workforce that looks like the markets they serve. That means bringing on board digital natives who have an intrinsic understanding of what today's customers expect and giving them the opportunity to help transform the company. Executives and board members need not apologize for their industry—it has much going for it, and recruits are often surprised by the potential for innovation as well as the level of complexity and financial sophistication of its products. These should be strong selling points for creative talent, both recent graduates and potential experienced hires. While the industry has a big talent job ahead of it, it has the management experience and attractive societal mission needed to succeed. ■

About the authors

Brian Klapper (bklapper@heidrick.com) is a partner in Heidrick & Struggles' New York office and a member of Heidrick Consulting; he is the founder of The Corporate Lab.

François Kouroriez (fkouroriez@heidrick.com) is a partner in the Boston office and a member of the CEO & Board and Financial Services practices; he leads the Insurance Sector in the Americas.

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Leaders of Heidrick & Struggles' Financial Services Practice

David Boehmer
Global Practice Managing Partner
dboehmer@heidrick.com

Jenni Hibbert
Regional Managing Partner, Europe and Africa
jhibbert@heidrick.com

Frazer Wilson
Regional Managing Partner, Asia Pacific and Middle East
fwilson@heidrick.com

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Leaders of Heidrick Consulting

Global

Andrew LeSueur
New York
alesueur@heidrick.com

Americas

Matthew Herzberg
Huntington Beach
mherzberg@senndelaney.com

Europe and Africa

Hervé Borensztejn
Paris
hborensztejn@heidrick.com

Ian Johnston
London
ijohnston@senndelaney.com

Asia Pacific

Stephen Wyatt
Singapore
swyatt@heidrick.com

Heidrick Consulting's Centers of Excellence leaders

Alice Breeden
Team and Organization Acceleration
abreeden@heidrick.com

Rose Gailey
Culture
rgailey@senndelaney.com

Sharon Sands
Leadership Assessment and Development
ssands@heidrick.com