

Carrier Management

Why Insurers Need a Real Strategy; 12 Steps to Get There

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April 23, 2018 by Alexander Farley, Donna Galer and Joanne Stone Morrissey

How do insurance company leaders keep their companies current while facing rapid and fundamental changes in their markets?

Executive Summary

Getting there is more than half the battle when it comes to developing a strategy document, insurance industry advisers at Hanover Stone Solutions suggest. While the strategy document is the end deliverable, it is the process of thinking strategically that can propel growth and success, they write. Here they provide a step-by-step template that can lead to an informed and well-considered strategy.

Think strategy.

Accelerating changes include:

- The digitization of business processes.
- The profusion of rich external data and customer-centric content.

In addition to technology, executives must consider social changes driving customer behavior and preferences led by millennials; evolving uncertainty in global economies impacting supply chains and business exposure; emerging risks such as cyber crime and extreme weather events driven by climate change; and pandemics coupled with vaccine immunity, as experienced with this year's deadly flu strain.

The challenge: How can leaders drive change in so many areas with finite resources and constraints of legacy processes?

No matter how big or small an insurer may be, it needs to have a real strategy.

What's a Strategy?

A real strategy is not just a standalone vision or mission statement, albeit these are critical starting points. It is not merely a risk mitigation plan or new marketing campaign. Nor is it a list of new initiatives or a set of growth objectives.



A real strategy is achieved through a disciplined process. The process will quell the distracting noise of change; crystalize leadership's vision of the future; detail near- and longer-term objectives; and create a clear, actionable plan for the entire organization. A real strategy's deliverable is a documented set of specific, coordinated approaches for addressing customer needs and services, product offerings and design, channels of distribution, technology advancement, investment management, and the right talent and use of resources to get there.

A real strategy is a dynamic and detailed three- to five-year road map that recognizes the interconnections among all company functions: claims, underwriting, marketing, reserving, finance, risk management, human resources, IT, etc.

Why Is a Strategy Needed?

Without an integrated and comprehensive strategy, insurers can face a plethora of difficulties. These problems can adversely impact reserving, investments and operations, and ultimately the long-term viability of the company. All of these troubles can lead to regulatory actions and fines but most importantly customer alienation.

Problems that can arise without a holistic, integrated strategy include:

- Diminished profitability as operations and products lag behind competitor advances, demographics, technology developments, economic trends, regulatory requirements and climate change.
- With no shared vision, managers may make decisions that lead an organization away from board and senior management's desired goals and objectives.
- Profits are jeopardized and opportunities lost when business units are not allocated capital based on targeted financial or growth objectives.

- Resources are wasted when not allocated by a strategically set hierarchy.
- Initiatives lacking coordination may overlap, requiring additional management time and capital to unravel.
- Without an effectively documented strategy, stakeholders can become confused, investors can be concerned, and rating agencies may penalize the company.

Key Components of a Real Strategy

Strategies are typically articulated in a strategic plan document. Strategy development can become too formulaic and unwieldy. The recent focus on enterprise risk management (ERM) has sometimes overshadowed strategy, a separate, essential function of board governance.



The strategy process that board members and management follow creates deep insight into the organization and competitive environment that is invaluable in guiding the company's future.

While the strategy document is the end deliverable, it is the process of thinking strategically, the supporting analyses and effective decisions that come from creating strategy that propel company growth and success. The strategy process that board members and management follow creates deep insight into the organization and competitive environment that is invaluable in guiding the company's future.

The format of the plan document and process provides a framework for management's strategic thinking and analysis. Unless there is such a framework, the planning process can get sidetracked. There are numerous effective strategy plan templates. Here is one step-by-step template that can lead to an informed and considered strategy.

1. Develop mission and vision statements setting an overarching context for leading the company.
2. Identify and promote core values guiding the conduct of business.
3. Thoroughly understand your customer.

4. Know your competition, the trends in your marketplace and emerging risks.
5. Assess current state operating performance, capital adequacy and set benchmarks to measure progress.
6. Evaluate operations to understand strengths, weaknesses, opportunities and threats.
7. Understand your competitive advantage and develop or refine your unique value proposition.
8. State near- and longer-term qualitative and quantitative goals and objectives.
9. Develop and identify strategic initiatives through a rigorous vetting and selection process.
10. Couple strategic initiatives with implementation priorities, prudent timelines and the assignment accountabilities.
11. Thoroughly document the strategic plan.
12. Share the strategic plan with employees and other stakeholders.

These may follow a different order. A successful strategic plan is one developed with broad participation and effective communication, achieving buy-in and consensus. It is also flexible enough to recognize and plan for necessary and often unanticipated modifications.

Bold Ideas



The status quo is not sustainable in any industry, particularly not in insurance.

The more dynamic the marketplace, the more a strategy should include bold ideas. Bold ideas are already responsible for major change. Consider, for example, the sharing economy (AirBnB , Snapgoods, RelayRides, Fon and Uber), the rapid development in artificial intelligence such as self-driving cars, [reinforcement learning](#), the use of drones, cryptocurrencies and blockchain. Keeping pace with these forces requires something different than doing more of the same. The status quo is not sustainable in any industry, particularly not in insurance.

But doing something big and bold should not be based on mimicking a competitor or grabbing an opportunity. Instead, it should be based on a deep understanding of the company's strengths and weaknesses as well as its values and competitive advantage. For example, there may be times when an opportunistic M&A deal can be value positive. However, a transaction that has been carefully cultivated and aligns with a company's current situation and planned trajectory stands a much better chance of being accretive to profitability, in both the short and long term.

Assessing the present talent pool and future talent needs are paramount if the company is considering a bold new direction. Everyone must be on board, informed and technically prepared if the strategy is going to succeed

The Question

As the management team, ask yourselves: “Have we invested enough time and thought to prepare for the future? Do we have a coherent, comprehensive and sufficiently robust strategy to meet the challenges ahead and to meet the results expected by our stakeholders?”

If the answer is no, then it is time for a real strategy.

How to Conduct Strategy Development

Organizations use different methods to develop their strategies. A strategy developed by one or two key players in a company or by copying initiatives from one or more competitors or produced over time, being stitched together from executive committee meetings, can lead to issues ranging from a lack of objectivity to a fragmented and uncoordinated strategy.

Alternatively, a strategy developed primarily from an executive workshop, preceded by preparation including a review of the current technological and competitive landscape, as well as the company’s strengths and weaknesses, can yield a robust road map for the future.

Such workshops should be expertly facilitated, allowing for objectivity. The workshop should be sufficiently structured to produce a real strategy that management and the board can agree upon.

Simply stated, insurers need a sound strategic plan to ensure their success.

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CONTRIBUTORS



Alexander Farley, Hanover Stone Solutions

Alexander Farley is a Senior Advisor at Hanover Stone Solutions. He is a former broker with Rollins Burdick Hunter, reinsurance intermediary with Alexander Re, strategy/operations consultant with Tillinghast, cofounder of runoff and reinsurance advisory practice for Aon and founder of American Insurance Management Group, Inc. (AIM).



Donna Galer, Hanover Stone Solutions

Donna Galer is Senior Advisor at Hanover Stone Solutions. She is an author and presenter, former executive vice president at Zurich Insurance and chairwoman of the Spencer Educational Foundation.



Joanne Stone Morrissey, Hanover Stone Solutions

Joanne Stone Morrissey, PhD, is a Senior Advisor at Hanover Stone Solutions. She is also an Adjunct Professor of Risk Management and Insurance St. John's University and author. Morrissey is also a former President and COO of The Firemark Group and a former insurance company executive.