INSURANCE INDUSTRY

Five Ways Insurers Can Turn Transformation into Lasting Advantage

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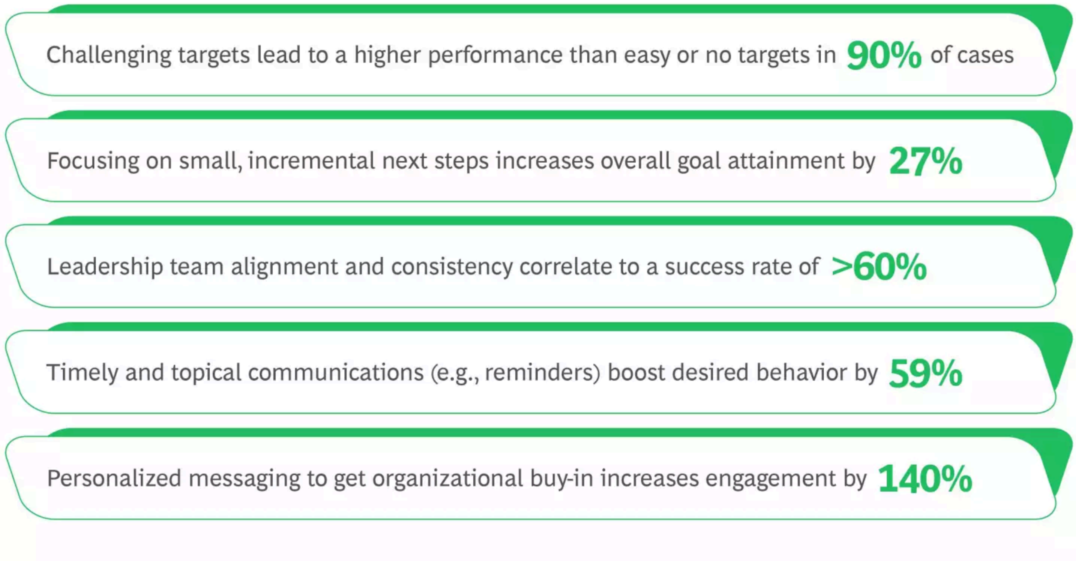
Insurance companies, like businesses everywhere, are facing changes that are shaking up the industry and driving an urgent need to modernize. To stay competitive and relevant, insurers must find ways to transform their business model. And while transformation can be a challenging undertaking, insurance companies that embrace change with strategic intent can achieve a lasting competitive advantage.

Insurance companies are under pressure from multiple structural challenges in the sector, including competitive business models introduced by PE-backed insurers, the growth of independent sales channels, tightening regulations, and a market that is diverging into high- and low-end segments. All these factors are impacting product development, making successful and sustainable transformation initiatives a critical concern for these companies. Insurers also must address general disruptions such as the rapid adoption of AI and accumulated IT debt, rising costs, and changing consumer expectations. These combined stressors mean that transformation is no longer a periodic initiative; rather, it is an ongoing strategic necessity.

According to BCG research, 74% of corporate transformations, across industries, fail to create value in both the short and long terms. Despite this high failure rate, transformation missteps are not inevitable for insurance companies.

On the contrary, when transformations go off track, it is usually because of known challenges that are not technological but rooted in the human side of the equation. These challenges, such as organizational behavior and culture, resistance to change, and skills gaps, can be anticipated and managed. To do so, insurance companies, particularly those with an inflexible culture based on past success and relative economic stability, can take advantage of behavioral science insights that can drive transformation success. (See the exhibit.) Building on such insights, insurance companies can base their initiatives on five behavior-based transformation tactics, as outlined in the following sections, to achieve sustained productivity.

Transformations Succeed When Leaders Understand What Motivates People



Source: BCG's Behavioral Science Lab analysis.

Setting Ambitious Targets Leads to a 90% Success Rate

Poor goal setting tops the list of reasons transformation outcomes don't last. It is critical that senior leaders first agree on overall objectives, not just thematic goals like cutting costs, modernizing systems, and improving the customer experience. Instead, they should focus on measurable financial targets. Leaders can set the tone for transformation success at the outset by establishing targets that are inspiring and meaningful for impacted teams. Findings from BCG's Behavioral Science Lab show that picking challenging targets leads to greater productivity in 90% of cases. Engagement experience also shows that, while the main goal is long-term success, a focus on short-term targets, somewhat counterintuitively, can help focus people's attention, especially when linked to personal incentives.

Ambitious targets are motivating, but they also must be realistic and well explained so that expectations remain reasonable. Overly optimistic or poorly communicated goals can open the door to post-transformation disappointment, blame, and a reversal of hard-won gains. Such a scenario could happen with advanced tools such as agentic AI, which has the potential to reduce underwriting cycles from weeks to days, automate policy service and customer interactions, and speed straight-through processing and payout response times. To be successful, leaders and employees in impacted business units and functions must balance enthusiasm with a realistic understanding of what agentic AI can and cannot do as well as the potential tradeoffs.

Another path that could lead to a crippling mismatch between expectations and reality is a failure to define a specified starting point, the end goal, and the metrics that will be used to gauge success. It is critical that these elements are spelled out clearly, with full leadership agreement, from the get-go. For example, if the objective is cost reduction, a measurable target must be identified—for example, a 10% reduction in unallocated loss adjustment expense.

For insurers, avoiding such a situation often means being explicit about KPIs by line of business, product, and distribution channel and tying levers directly to the targets as the transformation progresses. Specific metrics can include cost savings, direct written premium growth, combined ratio, customer retention, or claims cycle time. The CFO and finance function should oversee measurement of outcomes, establishing protocols and KPIs. A rigorous focus on finance helps enforce accountability by including outcomes in future budget cycles.

Distributing Sponsorship Duties at the Right Time Engages All Stakeholders

Successful transformations have a leadership-backed sponsor whose role extends beyond the completion date of the project. The sponsor should be accountable for transformation outcomes and, ideally, should report to the CEO, who will have the authority to enforce decisions across functions. A good sponsor can help avert the sort of foot-dragging that can chip away at project scope and dilute objectives as internal groups seek exceptions. The sponsor is often the head of the function most impacted by the transformation, whether IT, underwriting, or claims, and possesses the subject matter expertise necessary to support a successful outcome.

Once the transformation reaches an advanced or steady state (say, more than 6 to 12 months have elapsed), a good practice is to distribute accountability for objectives from the initial sponsor to a broader group of senior champions. In this way, these champions become stakeholders in the transformation's success. As such, all impacted organizational levels and business units, such as product development, claims, underwriting, and finance, share the same goal. These champions, in turn, can cascade transformation objectives to responsible leaders within their teams. A governance mechanism within finance is a good way to reinforce accountability.

Middle Managers, Properly Engaged, Are Bulwarks of Transformation

When a transformation fails despite having senior leadership backing, it is often because the initiative lacks full support from a key organizational layer: middle managers. Such failures can happen if middle managers don't feel included and empowered in transformation objectives from an early stage. A common result is a loss of momentum due to changes that are superficial and not meaningful, such as mere adoption of new titles instead of real changes in the way people work.

By contrast, proper communication and transparency promote engagement, especially for the high performers companies most want to keep. Findings from BCG's behavioral research indicate that timely communication during transformations boosts desired behaviors by 59%.[1] Teams are empowered when people understand how their role in changed processes, such as shifts in risk assessment and claims handling, support overall business goals. This understanding affects employee retention—people are more likely to quit because they feel unconnected to changes than because of the changes themselves.

One communication challenge that is particularly relevant to engaging middle managers stems from the way people in functions such as underwriting, claims, or actuarial are further siloed across lines of business, like retail, group insurance, and annuities. Leaders who want to encourage buy-in and collaboration from middle managers may need to be intentional about connecting with them in their different siloed areas. In an IT transformation, for example, the IT members who are most impacted and involved are more likely to embrace new ways of working. By contrast, underwriting or claims team members, who feel less involved or only peripherally impacted by IT, may stick to old habits, diluting the intended gains.

Leaders Who Feel Connected Are 54% More Likely to Support the Changes

A frequent challenge in transformations is the misalignment of desired outcomes across departments. This issue can be a particular challenge in insurance, where teams like underwriting, claims, finance, and technology often have different priorities.

Transformations can be perceived as the initiative of a single leader, with other leaders within the organization offering minimal engagement or even actively resisting the changes. For example, leadership often has broad agreement on the need for cost efficiencies, but when making hard decisions, leaders point to opportunities in departments other than their own. In insurance organizations, this type of conflict often arises between lines of business and shared services or between revenue-generating (underwriting) and loss-controlling (claims) functions.

The most effective solution to obtaining buy-in from leaders is for the CEO to take the role of transformation sponsor and encourage leaders to create well-designed, personally linked incentives that support the transformation goals over the long term. BCG's behavioral research suggests that aligning incentives with leaders' personal success significantly impacts their attitude toward change.

Indeed, according to BCG behavioral research, leaders who understand their work is important to success are 54% more likely to support the change. Leaders in underwriting, for example, will be more engaged—and the changes more sustainable—if the target is a 10% cost reduction in underwriting over three years, versus a more general goal. Teams succeed when goals are specific and measurable—such as a 20% reduction in average claims cycle time—and when outcomes are tied to meaningful personal success incentives, whether monetary, recognition, or similar.

Tying Cost Discipline to Policies Can Achieve Change That Lasts

Companies often experience expense drift after a transformation ends. One example is an insurance broker that cuts management costs by 25% but fails to change recruiting policies and within a few years hires people into the previously eliminated roles. Permanent structural changes are needed for cost savings to be sustainable.

This pitfall can be avoided by establishing capabilities to retain cost discipline once the transformation objectives have been reached. Cost discipline enablers—capabilities, procedures, and accountabilities, usually embedded in finance and HR—that make efficiency self-sustaining are important success differentiators in transformations. They are especially important in insurance, where operating costs are increasingly cutting into profitability. Companies that attempt to build these enablers midway through an ongoing transformation often lack the maturity to achieve the transformation's objectives.

A better way to achieve long-term success is to set up functions that enable lasting cost-discipline at the beginning of a transformation. When established at the beginning of the transformation, with the support of the transformation sponsor, cost discipline enablers are an effective way to protect outcomes within impacted functions by addressing risks, resolving issues, and highlighting successes.

Transformation is no longer a one-and-done program but a necessary, ongoing capability. Insurance companies face the task of making the benefits and outcomes of transformation initiatives sustainable for the long term. The factors most likely to reverse or dilute any gains are based in organizational behavior—namely, habits and culture. By managing these challenges, insurers will give themselves the best chance to translate their transformation initiatives into a sustained competitive advantage.

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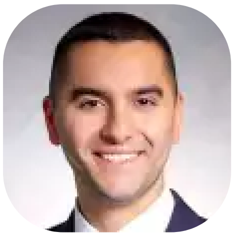

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1 Employee statistics; not specific to middle managers.