Scoring and Assessing Innovation

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## Why Is Innovation Important?

### Structural changes taking place

- Defined benefits/pensions disappearing
- Healthcare becoming more expensive
- Gig economy becoming more prevalent
- Collaborative consumption trends

### Demographic Shifts

- Weather events increasing in severity
- Migration to coastal regions
- Urbanization leading to topological changes

### Climate-Related Trends

- Cloud computing
- IoT
- Big Data
- Artificial intelligence/machine learning
- Blockchain

### Technology
Why Is Innovation Important?

- Structural changes taking place

- Demographic Shifts
- Climate-Related Trends
- Technology

Our plan is to further understand and evaluate companies’ innovativeness, including:

- How (re)insurers adapt to changes in the marketplace
- How (re)insurers change to improve operating efficiencies
- How these changes influence the financial strength and success of (re)insurers
How Critical Is Innovation to the Success of Your Organization?

1% Not critical
12% Somewhat critical
30% Moderately critical
42% Very critical
Extremely critical

Source: AM Best data and research
How Well Has the Insurance Industry Adopted and Implemented Innovation?

- Well: 64%
- Somewhat well: 13%
- Not well: 23%

Source: AM Best data and research
Why Is AM Best Releasing This Criteria Now?

- Historically, AM Best has captured innovation indirectly through the various building blocks of its rating process.

- We launched the innovation criteria to consider a more explicit analysis of innovation in the rating process.
Innovation – AM Best Definition

- A multi-stage process…
- … that transforms ideas into new or significantly improved:
  - Products
  - Processes
  - Services
  - Business models
- … that have measurable positive impact over time and enable an organization to stay relevant and successful …
- … and can be organically grown or adopted from external sources.
Scoring Innovation
Innovation Score

AM Best scoring:

Innovation Input Score

+ Innovation Output Score

= Innovation Score
Innovation Input Score (1 to 4 for each component)

Leadership

Culture

Resources

Processes and Structure

Leadership Score + Culture Score + Resources Score + Processes and Structure Score = Innovation Input Score
Leadership

Buy-in at the senior management level

Leadership clearly enumerates corporate goals which are understood throughout the organization

Innovation strategy dovetails with corporate mission statement

Leadership embraces a mindset that supports cross-functional collaboration
Culture

- Innovation is part of the corporate mission
- Allows for risk-taking and possibility of failure
- Ability to kill ineffective projects without fear of retribution
- Fosters ownership and transparency
- Openness to external solutions
Resources

Systems and data allocation

Talent management

Budgeting

Technical

Creative

Financial

Allocation, Strategy and Management of Resources
Without a proper structure in place, innovation will be hard to implement:

### Data Management
- Data governance well defined
- Access and transparency

### Strategy
- Assess capabilities
- Well defined and aligned with corporate objectives
- Flexible development plan

### Governance
- Customer privacy/regulatory concerns
Innovation Output Score (1 to 4 for each component)

\[ 2 \times (\text{Results} + \text{Level of Transformation}) = \text{Innovation Output Score} \]
Results

- Incremental and disruptive innovation
- Mix between operational and growth
- Should be replicable
- Impact must be tangible and quantifiable
- Output reviewed over a five-year period
Level of Transformation

How innovative compared to the rest of the industry and versus other industries

Near-term vs long-term impact

• Bring company up to speed with others or propel ahead
• Relate to value creation: customer engagement, better business model, enhance growth

View of insurance industry relative to customer expectations from other experiences
Scoring System

Highest

Innovation leader
Innovator
Adopter
Reactor
Non-innovator

Lowest
Where Does Innovation fit in?

• Historically, AM Best has captured innovation indirectly through the various building blocks of its rating process.

• Plan is to incorporate as part of Business Profile.
Summary-Comments

- Comment period concluded on May 13, 2019
- Significant interest from the industry
- AM Best is in the process of evaluating the comments received
- Commenters supportive of need to highlight the importance of innovation
Summary

• Innovation score does not automatically translate into a rating positive or negative; absolute and relative
• Not an endorsement of insurtech for all companies
• Not telling companies to take on “window-dressing” innovation projects; goal is to understand the innovation strategy
• Anticipate that the importance of innovation will increase over time
• No rating changes expected at the time of criteria release
• Publication of individual company assessments not likely at time of final release
Questions & Comments