



A New Competitive Strategy for Insurance Industry Leaders

By [Dayna Hubenthal and Scott Burr](#)

Abstract

'Competitive leadership' means doggedly addressing change: evolving conditions, developing technology, fluctuating attitudes, demands and pressures.

Most business gurus espouse two effective paths to competitive competence. The first creates value by focusing leadership efforts on opportunity management and continuously increasing benefits to their consumers. Companies who walk this path have product/opportunity-based cultures like The Standard and Zurich Financial Services Group. The second path creates value by focusing leadership attention on continually reducing costs. Companies who walk this path have process-based cultures like AIG and Prudential.

If there is too much corporate focus on either one of these choices, problems will arise that strain competitiveness.

Of course all insurance companies strive to balance both - opportunities & new products with operational efficiencies & consolidations. But in the privacy of the boardroom, when it comes right down to choices to be made, each company leader puts their dollars and attention on one path more often than the other. And that has consequences.

There is a third path to perpetual competitive leadership. The third path enables a new way of creating value. It allows for the integration of opportunity *and* process rather than trading off one against the other.

The third path creates value through a practice of identifying the most desirable future situation and then overcoming barriers to achieving that goal - it is the path of resolving problems. Corporate culture no longer needs to tilt towards opportunity *or* process; it can embrace both by focusing on issue-solving. This third path to competitive leadership has been quietly evolving into a powerful discipline that is called [Structured Innovation](#).

Introduction

In recent financial reports, industry analysts state that competitive challenges continue to impact insurance companies. Analysts claim that the insurance industry will benefit from developing innovative products and expansions (create value by increasing benefits) as well as cost-cutting measures and business restructurings (value achieved through cost reduction).

The question is will insurance companies compete better in today's environment if management focuses on opportunity or process? And how will that focus affect the company's standing with customers, within the industry and with employees?



- Examples of increasing benefits - developing innovative products and expansions
 - Improve premium growth rates, which remain below long-term goals; speed up premium base
 - Grow rate of fee income since many insurers have shifted from traditional premium-based products to fee-based offerings like annuities
 - Develop a broad range of products in the life and health sub-industry for retirement services
 - Achieve greater than 15 percent return on equity - earn more on company's existing capital base
 - Find, hire, train and retain key talent to offset maturing workers and management
 - Position company for M&A activities and partnerships
- Examples of reducing costs - process improvements and business restructurings
 - Sustain loss ratio improvements; wring out more operating income from incremental revenues - improve operating margins
 - Improve processes and design optimizations or re-engineer; improve troubleshooting skills
 - Avoid operational miscues - predict prevent and eliminate failure
 - Streamline market reporting, compliance & various regulation interactions
 - Develop the capability to flexibly align departments along with geographic expansion, outsourcing and off-shoring and adjust to globe consolidation

Increase benefits



Reduce costs

Of course, both paths are important and companies usually do some work on each. Having said that, insurance companies are generally reputed as being more competent in either process or opportunity - and that limits competitiveness.

External pressures also impinge on insurance companies' competitiveness. For example, compliance and regulatory requirements demand immediate attention and punitive

actions are inflicted on the slow-to-comply. Other examples include:

- Deviant experiences in certain sector benefit loss ratios can create industry risk;
- A drop in new money yields could put pressure on claim discount rates;
- Future technology systems constantly emerge creating risk and competitive pressures;
- Customer demographics are changing;
- Climate and disease patterns appear to be changing;
- Global competitive pressures are altering industry-wide best-practices;
- Competitors develop new systems and products that need to be analyzed for risk and verified for safety.

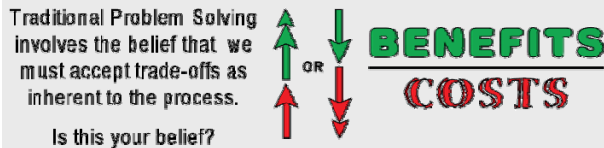
Managing risk is important for both opportunity creation and process improvement. Managing risk well is a competitive advantage but it is difficult because of the ever-changing parameters with risk

management. Change, then, is the key concept; because competitive leadership means continuously addressing change.

Today, insurance companies need to do it all - develop new products, expand growth, cut costs & continuously restructure. And companies need to do it faster and more carefully, and at the same time

Traditional Problem Solving

Increasing **Benefits** causes **Costs** to Rise
OR
Reducing **Costs** decreases **Benefits**



they need to be mindful of the impact that change has on all other aspects of business. It is no longer competitively savvy to concentrate on one value-creation path over the other or build a corporate culture that is stronger in opportunity or in process.

Executives can no longer build a career out of expansion-benefit skills while trading off cost-reduction efforts (or visa versa). In fact, business leaders need to abandon the trade-off perspective

altogether. Management needs a skill set that enables solving more complex problems across a wider set of conditions.

Basics of Structured Innovation

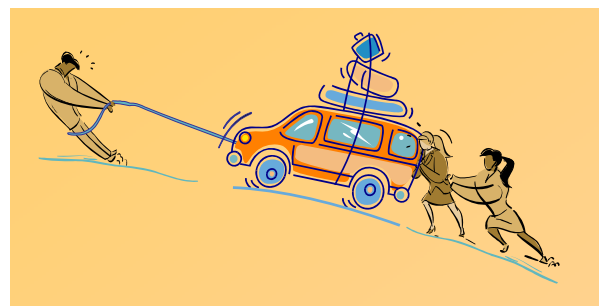
Here is critical information. There are three absolutely necessary requirements to solving any problem. The most important (because you have to do it first) is "be willing to believe an ideal solution is possible". It sounds so easy that it seems silly; but let's delve deeper.

When pushing a car from point A to Point B, is it easier to push a stationary car or push a car that is already moving in the direction you want it to go?

Of course, a rolling car is easier to push. That's because of Inertia. Inertia is the tendency of a resting object to remain at rest and the tendency of a moving object to remain moving. Thus, when management sets a direction of reducing costs, the company culture strengthens in that area and it is easier to continue moving the company in that direction. Constant reinforcement of certain behaviors and processes does indeed reinforce a cultural mindset. This is beneficial because every team member works on the same initiatives and knows what their top priorities are. A strong corporate culture creates momentum and branding.

The downside of all this momentum, however, is that constant reinforcement and predictable behaviors limit possibilities and, at the same time, less-used skills atrophy. When people learn something very well, assumptions and preferences set like cement in the corporate mindset. People turn preferences into 'facts'; assumptions become 'truths'. And these 'facts' and 'truths' are no longer questioned.

It becomes very difficult to overcome inertia; imagine trying to push a car forward when it is already moving backwards. The same difficulty arises when trying to change your management team, your employees and even your own mindset. This form of corporate resistance is called *psychological inertia*.



When positive outcomes (rewarded and reinforced actions) begin to justify future behaviors, then stability becomes more important than growth or change. And since competitiveness is founded on the ability to adjust to change, psychological inertia undermines competitiveness. The importance of this dynamic is often underestimated.

Recognizing Psychological inertia

Today, a foundational management skill is the ability to recognize when corporate culture is moving in a beneficial direction and when it crosses over into psychological inertia. Is the company growing, gaining momentum and flourishing? Or are processes controlled by unexamined assumptions and resistance, or stagnation?

The secret to recognizing this cross-over point is 'problems'. When problems suddenly sprout all over the company especially in a patterned way, then there is an underlying thread of psychological inertia in play. When problems become extremely complex or contradictory, then psychological inertia is at the core. Here's what it looks like.

Humans seek patterns. When we find a helpful pattern (or paradigm) we use it over and over again. We tend to do what we are most skilled at; therefore, we like to solve problems that are easy for us. We repeat what we have successfully done before and what we have been rewarded for doing. We believe ourselves to be efficient and experienced. It is very satisfying. Processes flow. Teams work diligently and work well together.

Then obstacles crop up or conditions change. The path gets a bit bumpy. The team is a little more irritable. Fingers start pointing. Systems are getting in the way. There are bottlenecks. Growth begins to slow and companies turn to optimization to get more out of the system. Eventually no more can be gotten out of the system, but more must be achieved. These problems become too difficult for the current level of experience.

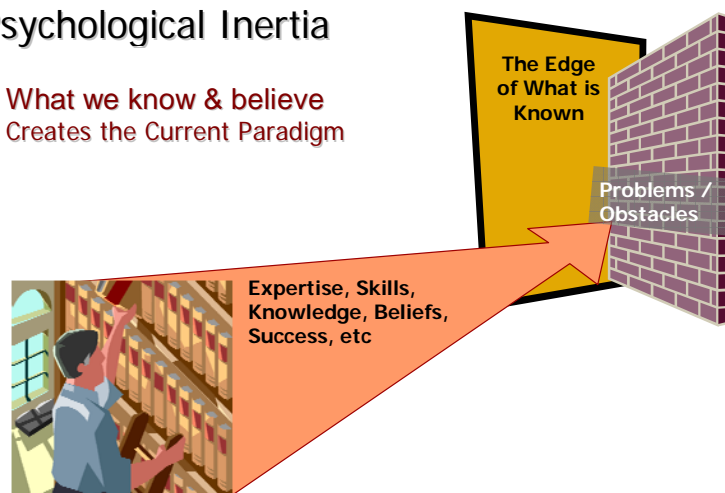
When conditions get to this point, management typically chooses to consult with experts (outsource) or invest in education to gain knowledge. New initiatives are incorporated into the corporate culture. Some are accepted but the initiatives that clash with heritage-type patterns (comfort levels) are resisted and if they take too much management attention they fall by the wayside. Overall, successful integration of new initiatives does increase corporate expertise and then those tougher problems are addressed. Most departments flourish but a few departments drag at the company. Attitudes can become spotty. Some psychological inertia remains in play, but overall, things are okay.

Real trouble comes when problems become too complex or contradictory for our skills, experience, knowledge, beliefs, or support systems.

Albert Einstein said, "The significant problems we have cannot be solved at the same level of thinking with which we created them." In other words, sometimes our own desire to use a helpful pattern over and over again blinds us to other possibilities. Our own successes, experience, knowledge, skills, styles, beliefs, and expertise create problems we cannot solve.

Psychological Inertia

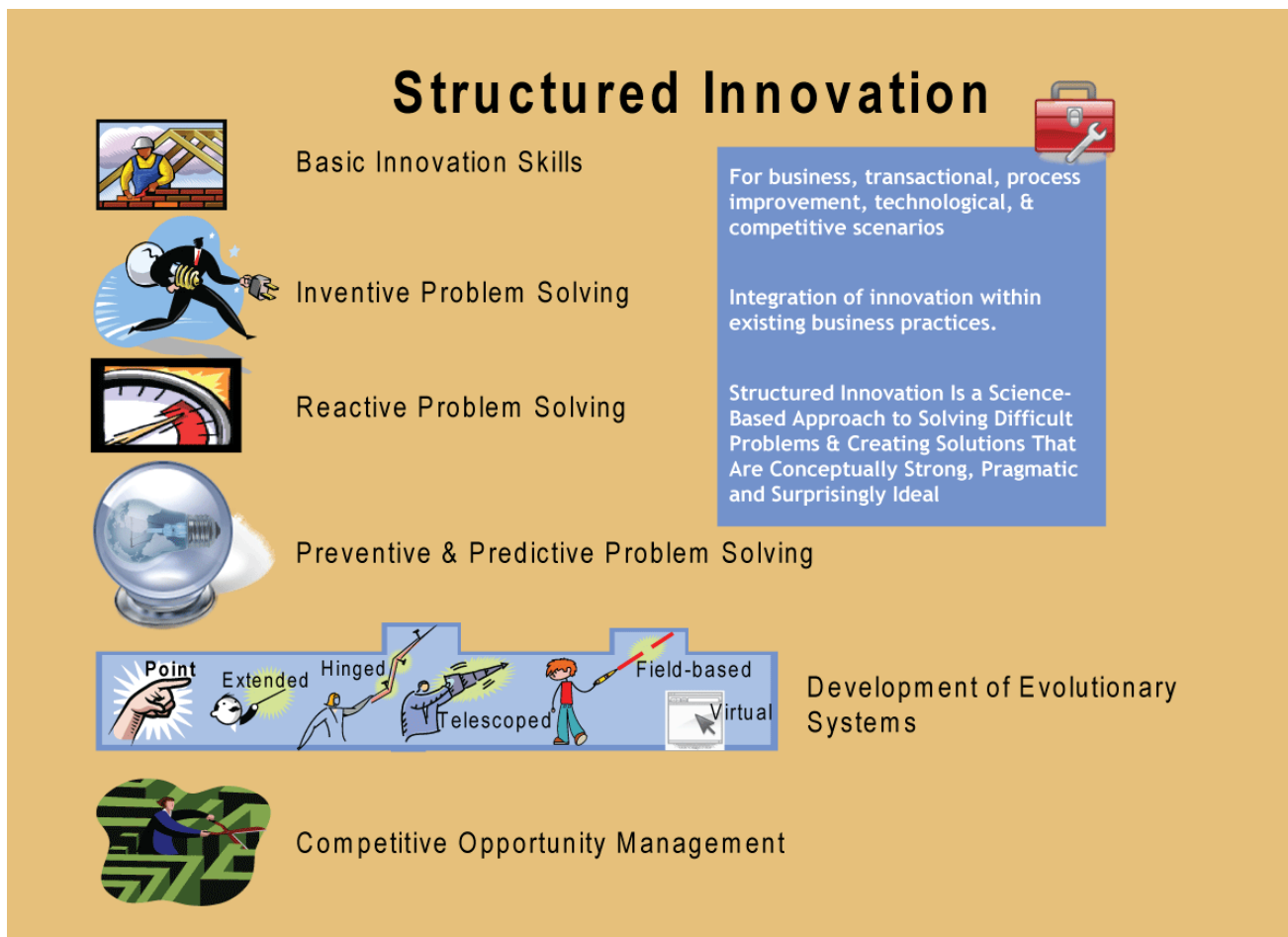
What we know & believe
Creates the Current Paradigm



Wouldn't it be valuable if, when faced with a problem we couldn't solve, someone could say or could do something that helped us look at the problem in a whole new way? Wouldn't it be valuable if there were tools to help us break through our mental stereotypes and develop new possibilities?

That is the exact and foundational purpose of Structured Innovation: to overcome psychological inertia and create a structured process for realizing breakthroughs. Based on sixty years of research into what great innovators do to create inventive-level solutions, problem-solving has become structured. Organizations (and individuals) can access their expertise to *reliably* achieve breakthrough solutions to heritage problems.

Inventive-level problem-solving has quietly become a predictable and manageable process. And this is good news for insurance leaders.



Ideality

As stated previously, there are three absolutely necessary requirements to solve any problem. The most important (because you have to do it first) is to be willing to believe a problem can be solved (suspend psychological inertia). The second absolutely critical step is to state the problem and your ideal solution as a working or correlated pair. Once again, it sounds easy; but it takes practice.

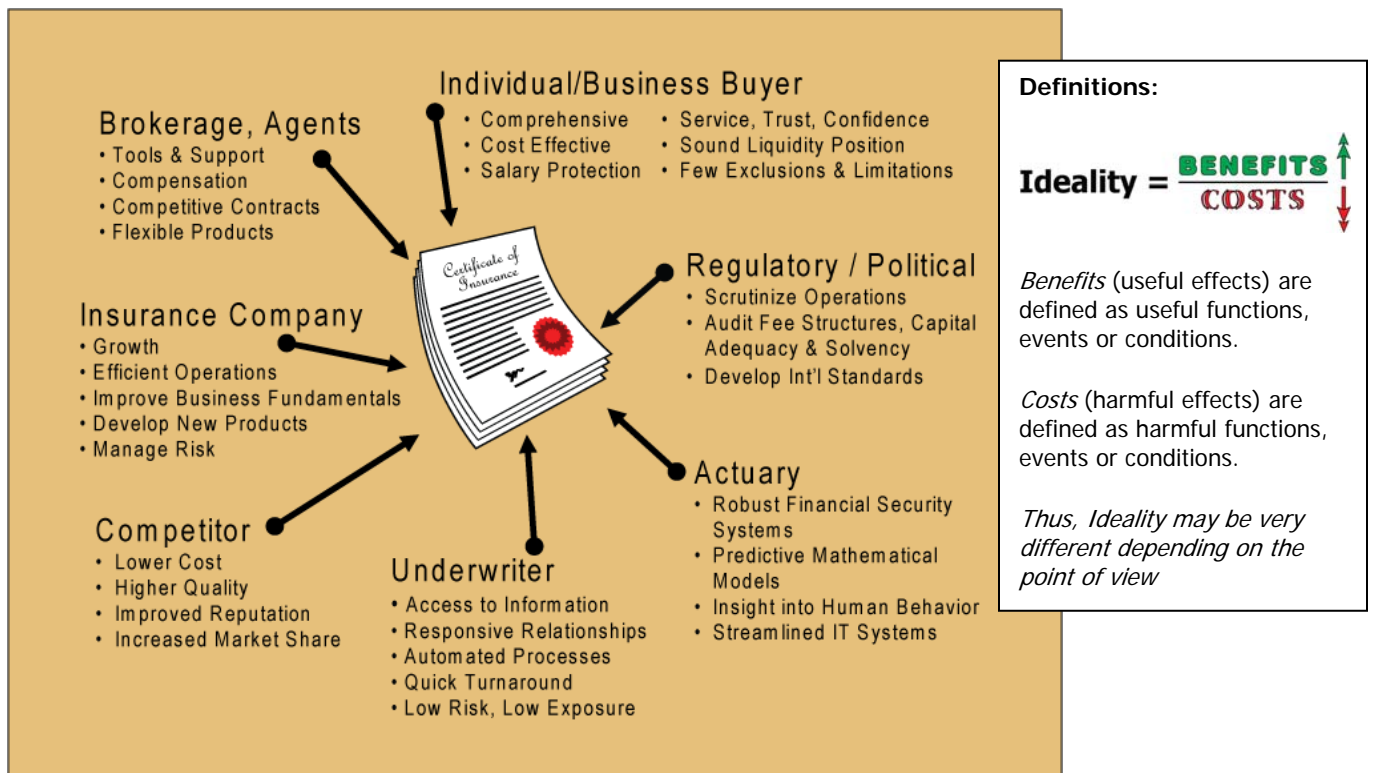
Stating the problem and understanding what is really wanted - this is another basic premise of Structured Innovation - it's called 'working towards ideality'. Ideality is the ratio of benefits to costs. Think "increasing benefits". Think "reducing costs".

$$\text{Ideality} = \frac{\text{BENEFITS} \uparrow}{\text{COSTS} \downarrow}$$

The Ideal Condition can be defined as, “getting more of what you want AND less of what you don’t want”, which may seem impossible to achieve at first but there are many tools in Structured Innovation for achieving the ideal condition.

The great thing about Ideality is that management (or whoever is using the tools & techniques) is able to adjust Ideality to reflect their own definition. In other words, ideality is whatever the definer wants it to be. And because ideality and the problem are paired, the problem definition is flexible, too.

Ideality can be defined so that it addresses concerns across departments or can be set to solve large, entrenched problems that everyone in the insurance industry struggles with. Ideality can support a small but persistent irritation that affects only one operation or an individual. The important point is that *Ideality is defined by the user’s point of view and by the user’s needs*. For example, consider Disability Insurance as a product. Depending on *who* defines Ideality, their point-of view, their priorities, their problems and their goals would look different. See the example below.



Disability Insurance - Ideality Has a Point Of View, Depending on the Participant’s Role

Not only can Ideality be determined based on point of view, Ideality can also be defined by “increasing benefits” in relation to “reducing costs”.

Examples of Defining Ideality	Ways to Define Ideality	How the Ideality Equation Looks
For example, a Director of Business Process Re-Engineering might define ideality as <i>keeping useful functions, events and conditions the same while reducing harmful functions, events and conditions</i> .	Keeping benefits the same	$-\frac{\text{BENEFITS}}{\text{COSTS}}$
	While reducing costs	

Or a Supervisor of Policy Administration might define ideality as increasing <i>useful effects but keeping harmful effects the same.</i>	Increasing benefits	↑ - ↑	BENEFITS <hr/> COSTS
	While keeping costs the same		
A Regional Leader in Risk Management might define ideality as <i>slightly sacrificing useful effects to see a significant reduction in harmful effects, etc.</i>	Sacrifice - benefits reduction	↓ ↓ ↓	BENEFITS <hr/> COSTS
	For a significant reduction in costs		
Or a different Regional Leader in Risk Management might define ideality in the opposite way; useful effects are <i>significantly increased</i> but at a <i>slight increase in harmful effects.</i>	Significant benefits increase	↑ ↑	BENEFITS <hr/> COSTS
	At a sacrifice of slightly increasing costs		
And finally, a Senior Vice President of Insurance Services might define ideality as useful effects are <i>increased</i> while harmful effects are <i>reduced.</i>	Increase in Benefits	↑ ↑ ↓ ↓	BENEFITS <hr/> COSTS
	Decrease in Costs		
Note: there is no trade-off in this last scenario; benefits are not achieved at the expense of costs or visa versa.			

Any one of these definitions can be achieved, even the last, highly-ideal solution. Cost/Benefit increases or decreases may be dramatic depending on management's willingness to push the ideality definition and their ability to identify and overcome psychological inertia. The first step, once again, is to accept that psychological inertia currently constrains the situation and better results are possible.

The second step is to define and pair the problem definition and the ideal condition. Do not settle for incremental improvements or reactive band-aid solutions. Instead, go beyond trade-off-thinking. Doing this gives space for new possibilities to be developed.



Secondary Problems

How is Structured Innovation different than Continuous Process Improvement (CPI) or Lean, Six Sigma, IDEF, Voice-of-the-Customer, Business Process Re-Engineering (BPR) or any current issue-resolving tool? The difference is best illuminated by describing how all of these methodologies are similar and then contrasting them to show how they are different from Structured Innovation.

- All current tool-sets are used to improve problems, discover and eliminate the main causes of specific types of problems and/or to recognize and implement relevant market needs.
 - With the exception of Voice-of-the-Customer, they are heavily focused on process improvement and not on revenue generation, new product creation, or opportunity development.
- They all basically analyze the current AS-IS conditions.
- Then they all develop a new TO-BE process that strives to be better, faster, and cheaper.
- They all try to incorporate findings and changes into the old corporate culture.
- They do not address unknown problem-types or strive for inventive-level solutions. They work within the boundaries of what is already known.

Same goal + same foundational methodology = various degrees of successful change.

And therein lays the heart of the issue. *Change* of any kind introduces issues. This is so important that it needs to be said again.

Change = Problems

Bad change = problems; good change = different problems. Change = Problems, especially when anyone reaches the edge of what is known. Structured Innovation calls this phenomenon, [Secondary Problems](#), because new issues are always introduced as a secondary result of solving the original problem. These problems may be anticipated (if the issues are well understood) or they may be surprises (there are tools to avoid surprises).

CPI, Six Sigma, BPR, etc. may indeed change the situation for the better but problems are a fact of life around change. The discipline of Structured Innovation addresses this fact and that is its main difference and its advantage.

So, the foundational skill that a leader must deliver to their company is the ability to solve the correct problems at the right time with the correct mindset. The wonderful thing about Structured Innovation is that by its very nature it is a set of tools and techniques that resolves issues, reduces psychological inertia, finds greater uses for resources, and drives towards ideality.

A leader that aligns their company with the principles of Structured Innovation can create a culture that is focused on opportunities/new products AND on cost reduction/process excellence at the same time because this tool-set is designed to work at the frontier of what is known. No need for traditional tradeoffs. The over-reaching corporate mindset (and skill set) is problem-solving and with that comes innovation. It does not matter whether your company is entrepreneurial, creative, process-oriented, risk-averse, quality-focused, customer-driven or marketing-competent. Problem-solving fits all cultures. It is a structured methodology. It is assessable.



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In a nutshell, Structured Innovation is different than Continuous Process Improvement, Lean, Six Sigma, IDEF, BPR, Voice-of-the-Customer, Branding, Channel Management or any current issue-resolving initiative because all of these tools create change and change causes new problems and what is really needed is a core competency in solving problems - all problems, as they arise (or before they happen), quickly and effectively, on-demand, and for good.

The beauty of Structured Innovation is that it works well with current tools. It does not need to replace what is currently in force; it supports. Structured Innovation enables CPI's ability to find root causes in order to improve processes, improve customer satisfaction, and remove activities that have no value to the organization. Structured Innovation supports Voice-of-the-Customer. Structured Innovation enhances Six Sigma. In fact it aligns extraordinarily well with Six Sigma. Structured Innovation enables Six Sigma practitioners to expand their problem-solving capabilities and go on to solve all types of problems that do not conveniently fit with process-based methods, including issues that need inventive-level solutions.

When IDEF models fail to dissolve resistances because of undiscovered inertia or when system interdependencies are in direct conflict or if a model fails to anticipate failures, Structured Innovation offers step-by-step processes to resolve these issues.

Structured Innovation resolves constraints in process, cost, reliability, quality, test, compliance and regulatory issues or other events while improving performance.

Because the method is scalable, when applied as a management tool, it can resolve internal cultural issues, create industry level breakthroughs, and advanced tools can even 'manage' competitors. Through strategies based on these advanced tools you can create a market landscape that 'encourages' competitors into behaviors that support your vision and your roadmap.

As stated previously, there are three absolutely necessary requirements to solve any problem. The most important (because you have to do it first) is to be willing to believe an ideal solution is possible and that the problem can be solved (suspend psychological inertia). The second absolutely critical step is to state the problem and your ideal solution as a working/correlated pair. The third is to take the step-by-step actions of structured problem-solving.

Historical Example

Psychological Inertia, Ideality, & Secondary Problems - The insurance industry solved a basic problem that most businesses face; and they solved it early on. In fact, the solution was first recorded c. 1750 BC in the Code of Hammurabi. The insurance industry has continued using this solution steadily through today. Even though that solution would have enabled a breakthrough long before the 1990s AD, no one in the computer manufacturing arena even thought to ask the insurance industry for help or insights into the tough competitive challenges facing them (Psychological Inertia!).

In the 1990s, computer manufacturing was a commoditized, nasty business. There was a flock of rivals, product obsolescence was measured in weeks rather than years, customer buying decisions were based on weekly price cuts rather than branding differentiation, and business process improvements were incremental rather than inventive.

Dell Computer Corporation was selling their products through resellers at warehouse-clubs and computer-superstores, but like everyone else, they were mired in competitive pressures. Everything that could be optimized was, everything that could be streamlined was, and every price point that could be squeezed was. They were at the edge of what they knew what to do - at the edge of what the industry knew what to do. Then Michael Dell had a breakthrough.

He realized something that the insurance industry had known all along - cash flow is beautiful and customers will pay in advance if they want something badly enough. From the computer industry's point-of-view this was an innovation breakthrough; from the insurance industry's point-of-view these were just foundational business practices.

Wouldn't it be great if ... there was no more middle-man and much lower costs (less of what he didn't want) as well as customers telling Dell exactly what they are willing to pay for and paying for it in advance (more of what he wants). This would solve all kinds of problems. (Problem definition aligned with his ideal condition!)

So Dell re-focused his company on a direct-to-consumer sales model via the Internet and telephone-networks. Of course, these changes introduced a whole different set of problems (Secondary Problems). But these problems, too, were already being solved in other industries. For example, Just-in-time (JIT) inventory-management was being developed in the Japanese automotive industry.

And the innovation breakthrough had unforeseen competitive benefits for Dell Computers.

- The company didn't have to guess at what the customer wanted or what the customer was willing to pay for. Dell has built a reputation for providing very customizable products and maintains direct contact with its customers, which is a huge sales advantage.
- Because of the immediate feedback on customer choices, Dell can instantly maximize pricing and business processes, etc.
- Dell carries no finished-goods inventory. And Dell can request materials from suppliers as needed and only as needed, and manage the supply chain for the up-to-the-minute highest-margin components.
- Customers pay for the products before Dell needs to pay for the materials.
- Selling directly to corporations means getting paid by companies with excellent credit ratings. Consumers and small businesses pay for their orders by credit card, which means Dell has its money in the bank immediately, and can even benefit from credit financing practices.

Today, Dell maintains an eye-popping negative cash conversion cycle. The difference between the time it pays its creditors and the time it takes to get paid is a negative eight days.

Actually, the computer manufacturing industry still has a lot to learn from the insurance industry - if only they would pay attention, by believing a more ideal condition was possible and by changing their point-of-view.

This same lesson can also strongly inform the insurance industry. Do you know where the psychological inertia is in your industry? In your Company? Your decision making? Your team? What would it mean to your company to create a significant breakthrough in your Industry? In your business model? In understanding your competition? In your operational performance? In creating new products? In unleashing your people's capabilities?

Summary

Competitiveness means adapting well to change.

Change equals new problems. And these problems are often at the edge of what we know.

Innovation, by its very nature resolves problems. The 'harder' the problem is, the more important it is to use Structured Innovation to solve it. Innovating in a structured, methodical, reliable way allows for problem-solving as a manageable process.

In order to remain competitive in today's global marketplace, insurance companies need to constantly create value by resolving the conflicts that arise when there is an integrated focus on both opportunity creation and cost reduction. The basic and urgent core competency needs to be problem-solving if a company is to remain competitively relevant. Every insurance industry leader needs to have the ability to:

- Quickly recognize when something is no longer working or when conditions have changed by responding to psychological inertia;
- Define the problem and an achievable ideal situation to get more of what you want and less of what you don't want;
- Develop the core competency to produce inventive-level solutions (in yourself and in teams across the organization) using structured problem-solving;
- Implement the hardy solutions throughout the system using effective change management;

- Solve any and all secondary problems; and
- Predict future risks, develop future strategies, and maintain competitive leadership.

The new third path that leads to competitive relevance is Structured Innovation. It's not a fad. But don't throw away current tools and initiatives because this new way easily integrates with existing company processes and programs. In fact, it supports them, aligns them, and even resolves issues the existing initiatives may create.

Structured Innovation helps to develop breakthrough solutions to highly complex problems, reduces risk and maximizes benefits while minimizes costs. It can help with strategic planning and competition management. It can help map future technological systems, evolve business opportunities, rapidly develop IP and create new markets.



Structured Innovation has tools for inventive failure prediction-analysis-elimination and it is great for operational improvement, troubleshooting and aligning departments to effectively deliver new products and services.

With [Structured Innovation](#) as a core competency, all paths are available.

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