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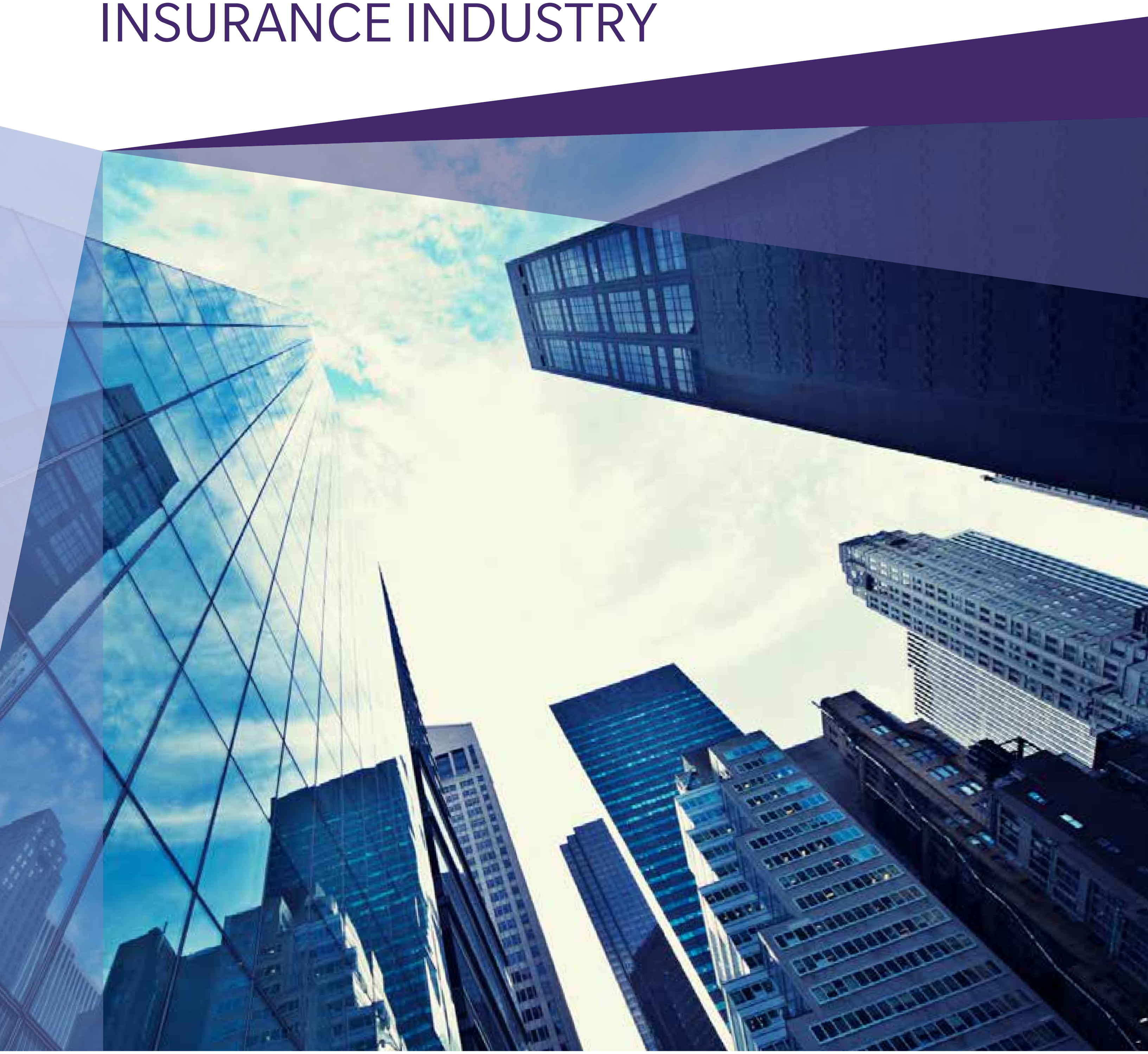
BUSINESS AND WORKFORCE CHALLENGES IN THE GLOBAL INSURANCE INDUSTRY



MARSH & McLENNAN COMPANIES

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The insurance industry's contributions to the well-being of individuals, businesses, and society have a long history, and there is an enduring, expanding demand for the industry's services. But *how* the industry makes its contributions is changing.

Mercer recently conducted research that identifies the challenges facing the global insurance industry and examines their workforce implications. We have collected and examined the perspectives of executives, primarily chief human resource officers (CHROs), and other leaders most responsible for ensuring that their companies have the right talent and talent management practices in place to successfully meet the challenges. Our individual interviews were held with executives from 20 industry leaders in North America, Europe, and Asia.

PARTICIPATING COMPANIES	
ACE Group	Manulife
Aegon	MassMutual
AIA	Mitsui Life
AIG	Munich Re
Allianz	New York Life
AXA	Ping An
China Taiping	Sun Life
Chubb	Swiss Re
Generali	Travelers
Great-West Financial	Zurich

We have examined six major challenges and presented three key pathways for successfully meeting the challenges.

SIX CHALLENGES

Those interviewed discussed many challenges, some of which are unique to one company or common to just a few. However, the most widely shared, consequential challenges the industry faces now include:

1. Technology and big data — Turning the promise of new technology and big data into commercial successes. This includes capitalizing on the opportunities in mobile and web-based services, using big data and predictive analytics effectively, and overcoming the problems associated with legacy technologies.

2. Growth — Low growth in mature economies combined with the potential for high growth in emerging economies.

3. Customer focus — The need to create better, more comprehensive customer relationships and make it easier for customers to do business with insurance companies.

4. Regulation — Operating under multiple regulatory jurisdictions and complying with changing rules with regard to such things as capital requirements, transparency and reporting, and customer interaction.

5. Alternative investments — Managing more complex portfolios with nontraditional assets in a low interest rate, low economic growth environment.

6. Leadership — Discomfort regarding the adequacy of talent pipelines for effective leadership in the future.

HR leaders naturally are at the forefront of responsibility for meeting the challenge of leadership development. We believe HR's role in the remaining challenges will be quite critical, because success will so heavily depend on attracting and managing the right human capital. Insurance has always been an industry that relies heavily on expertise and specialized skills in its workforce. And while some advancements will disembody human expertise and embed it in systems (for example, automated underwriting and web-based customer self-service), the shape of the workforce will be critical to driving innovation and adaptation to change.

MEETING THE CHALLENGES — PATHWAYS TO SUCCESS

We see connections among both the challenges and, consequently, the likely pathways to overcoming them successfully. We distill our views about those pathways into three strategic considerations — each made up of some part prediction and some part recommendation — that relate to how each company paves its own road to success.

1. EMBRACING NONTRADITIONAL TALENT

The challenges are forcing companies to embrace skill sets, knowledge, experiences, and types of talent previously not dominant in the insurance sector's workforce. To illustrate:

- Analyzing the big data that insurers possess to develop new products and services requires know-how that is just now coming onto the scene (for example, via data scientists).
- Success in alternative investments requires people with knowledge of new asset classes, often on a global basis, and the deep expertise appropriate to managing the risks associated with those assets.
- Growth in emerging markets requires securing a local workforce in thin labor markets characterized by a comparatively low supply of available talent in core insurance occupations.

Pathways

1. Embracing nontraditional talent
2. Adapting talent strategies
3. Increasing analytic capabilities

Embracing nontraditional talent is not just about getting the right people in the door.

The business needs for new types of talent may push employers to recruit from new sources. For entry-level positions, that may mean tapping into new graduates that have not previously been a focus. For experienced talent, it may mean looking outside the insurance industry and successfully integrating experienced individuals from other sectors into the insurer. Some business areas — for example, mobile platforms for customer service — may find experience from external sources — such as in high-tech — even more valuable.

However, getting new talent in the door may be difficult. In many respects, the industry is not favorably positioned to bring in nontraditional talent. Some interviewees cited the industry's conservative reputation as a potential obstacle. Other fundamentals are at play as well. In the US, for example, financial analysts are critical to investment management, but their salaries are lower in the insurance sector than they are in other parts of the financial services industry — typically, only about 70% of what experienced talent can earn in the highest-paying parts of the industry.[1] Furthermore, insurance companies are competing in torrid labor markets for some types of talent, such as data scientists who can perform the fundamental analyses critical to creating products and services targeted at different customer segments. Such talent currently is in great demand by virtually every industry.

Embracing nontraditional talent is not just about getting the right people in the door; it's also about retaining these workers and enabling them to flourish. Some employers will need to change how workplaces are managed to accommodate a variety of culture-based expectations of employees in emerging markets or to prepare for generational differences that can surface with a new wave of technology-driven, big-data talent. Thus, managing a more diverse workforce is likely to be a long-term issue for employers in the industry, where diversity is not so much about traditional concerns of gender or visible minority status but more about dissimilar cultures, generations, and employee preferences.

KEY THOUGHTS REGARDING TALENT CHALLENGES

"We need to attract new types of talent."

"We are not well-positioned in attracting employees."

"New capabilities ... we need to bring in new capabilities for data analytics and customer insight, online business, and use of social media."

1. US Bureau of Labor Statistics. *Occupational Employment Statistics.*

2. ADAPTING TALENT STRATEGIES

Consider the challenge of ensuring an adequate supply of executive leadership. All employers make — if not explicit, then implicit — strategic choices about buying versus building leadership talent. Buying refers to hiring from the outside, and building refers to identifying and systematically developing high-potential managers already in the company. Many insurance companies emphasize building leadership talent, given the value to the business that long service in a company can bring. If well-managed, for example, long careers within one company can produce leaders with great depth of knowledge in specialty areas as well as breadth of knowledge about products, markets, and the business processes supporting them. Going forward, we believe that fundamental strategic choices about leadership capability will become more nuanced and more complex. Challenges inherent to doing business in emerging markets and successfully capturing value through technology and analytics, for example, may require different buy/build choices than meeting the leadership challenges inherent in alternative investment management.

TALENT MANAGEMENT FEEDBACK

"Like many insurers, we have been focused on and rewarding technical capabilities. But now we need to develop and reward better leaders."

"We have tended to promote the best experts into management roles. We need to develop managers who can lead diverse, global, and often virtual teams, and those may not always be the people with the best technical skills."

"We need a new HR/talent strategy to support the new business strategy."

"Perfect the talent management system ... adapt succession planning, leadership development, training, and salary structures to different types of talent."

Likewise, strategic choices about workforce cost management may become less simple. We believe that many of the six major challenges outlined earlier will increase the need to be savvy about when and where to focus on lowering workforce costs versus the need to make significant investments in people in order to meet business objectives.

Strategic choices about leadership capability will become more nuanced and complex.

The need to embrace nontraditional talent also has implications for how that talent is managed, as previously noted. Adapting "standard" core talent management practices — supervision, performance evaluation, reward, development, and so on — may become necessary to create the conditions that best retain and unleash the productive potential of nontraditional talent. Those adaptations will likely be best articulated in the context of an explicit, overarching strategic view of talent management in the enterprise.

Strategies need buy-in from the constituents affected by them and who carry them out. For HR, this may elevate the need for closer partnerships with select business units and functions to ensure that talent management practices are appropriate and are properly implemented. Consequently, some employers may find that such partnerships will raise the demands placed on HR by other parts of the enterprise.

3. INCREASING ANALYTIC CAPABILITIES

HR executives' capacity to meet the challenges is hindered by the current state of their function's analytic capabilities. In the interviews, we heard a widely shared view that such capabilities are in need of development though differences existed in how high a priority the development of internal analytic capabilities is on HR executives' agenda. Our view is that developing such capabilities should indeed be a priority because of their value in meeting the challenges facing large employers in the industry today.

Consider, as an example, the challenge of ensuring an adequate supply of leadership talent in the enterprise and one talent management tactic — internal mobility — as it relates to developing leaders. Internal mobility involves individuals moving through a variety of assignments, locations, and business units. The impact can differ greatly, depending on the organization — for some enterprises, internal mobility creates breadth of capability and binds the individual to the company; for others, it increases the likelihood that leaders will take their newly developed capabilities elsewhere.[2] Strong analytics can help discern the impact of mobility on the leadership pipeline and deliver a business case of its value relative to alternatives (for example, investing in leadership development through executive education programs or simply hiring from the outside), thus enabling the employer to make strategic choices about future leadership based on the strong business case for or against mobility.[3]

2. Nalbantian H and Guzzo RA. "Making Mobility Matter: Moves That Develop a Leader," *Harvard Business Review* (2009), March, 76–84.

3. Guzzo RA and Nalbantian HR. "Assessing Learning's Impact on Careers," in McCauley CD, DeRue DS, Yost PR, Taylor S (eds.), *Experience-Driven Leader Development*. San Francisco, CA: John Wiley & Sons (2014), 523–528.

Analytics can also inform talent management practices as they relate to other challenges. Successfully embracing nontraditional talent requires not just new people in the organization but also new practices. A worthy analytics capability can help accelerate the successful adaptation of talent management practices to employees in the technology and data science areas and in emerging market locations, for example. Analytics capabilities can also be applied to identify new opportunities for reducing workforce costs without hindering productivity. And predictive analytics can position the enterprise, for example, to better identify high-potential individuals or people in critical areas who are most at risk of leaving the enterprise voluntarily and whose departure the company would like to prevent.

The emphasis on the importance of workforce analytics capabilities is not to persuade; HR executives are aware of the potential value. Rather, the point is to make the case that the "big six" challenges increase the urgency for such capabilities, because they serve so many of the challenges.

Those that can build more flexible and adaptable organizations will have the best chance to succeed.

NOTABLE QUOTES ON MEASUREMENT
"We are very interested in [workforce] analytics. We would like to get to a point of predictive analysis ... but are currently too far off of the basics to do that." "We want to develop greater capabilities in data analytics. We want to improve forecasting talent needs, develop predictive modeling, and forecast which jobs will be critical in the future."

CONCLUSION

As companies navigate these strategic considerations, improving analytics capabilities should come more naturally, as these types of capabilities have historically been an industry strength. Embracing nontraditional talent and adapting talent strategies accordingly may prove more difficult, given the amount of cultural change this may entail. The major transformation of business models will likely require very different human capital strategies in the future. Those that can build more flexible and adaptable organizations, drawing on predictive analytics, will have the best chance to succeed.

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