



Shared Value Initiative



Insuring Shared Value

How Insurers Gain Competitive Advantage by Better Addressing Society's Needs

Foreword by Michael E. Porter

Research by  REIMAGINING SOCIAL CHANGE



About the Shared Value Initiative

The Shared Value Initiative is a global community of leaders who find business opportunities in societal challenges. The Initiative connects practitioners in search of the most effective ways to implement shared value. Operated by FSG, with support from a network of strategic partners, the Initiative shapes this emerging field through peer-to-peer exchange, market intelligence, strategy and implementation support, and shared value advocacy.

Learn more and join the community at sharedvalue.org.



About FSG

FSG is a mission-driven consulting firm supporting leaders in creating large-scale, lasting social change. Through strategy, evaluation, and research we help many types of actors—individually and collectively—make progress against the world's toughest problems.

Our teams work across all sectors by partnering with leading foundations, businesses, nonprofits, and governments in every region of the globe. We seek to reimagine social change by identifying ways to maximize the impact of existing resources, amplifying the work of others to help advance knowledge and practice, and inspiring change agents around the world to achieve greater impact.

As part of our nonprofit mission, FSG also directly supports learning communities, such as the Collective Impact Forum, the Shared Value Initiative, and the Impact Hiring Initiative to provide the tools and relationships that change agents need to be successful.

Learn more at www.fsg.org.

Contents

3 Foreword

5 Framing the Opportunity

8 Three Reinforcing Business Strategies to Create Shared Value

8 Strategy 1: Prevent risk and dynamically reward risk reduction

11 Strategy 2: Close the protection gap for the underserved

14 Strategy 3: Invest assets in prevention and protection systems

17 Societal Needs Reframed as Innovation Hot Spots

19 The New Capabilities for Execution

22 Where to Start

22 Where are you today on your shared value journey?

24 Have you built the right capabilities for insuring shared value?

25 Interview List

Foreword

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At its core, insurance inherently benefits society by protecting individuals and organizations from adverse events. When insurance companies cover the cost of medical treatments, protect farmers from extreme weather, provide an income to families of deceased breadwinners, or rebuild destroyed infrastructure, they are, as recently described by *The Economist*, acting as “Guardians of the Future.”

By monetizing economic, security, health, and other risks, the insurance industry directly benefits when societal conditions improve. Reducing accidents, improving health, helping organizations better prepare for the economic risks they face, and decreasing harm in numerous other ways all improve the profitability of insurers. When insurance is available, individuals and companies can take on risks that enable them to be more innovative and productive. Studies have shown that when smallholder farmers obtain crop insurance, for example, they plant riskier but more valuable crops, increase their incomes, and send their children to school.¹ Evidently, insurance is the ultimate shared value industry, where social impact is integral to economic success.

Despite this, many insurers remain stuck in a passive, actuarial model rather than pursuing shared value, thereby overlooking many opportunities to enhance outcomes for both the company and society. Insurers benefit more than almost any industry from societal advances, but have lagged in proactively tackling the societal conditions that will most affect their businesses. Smart strategies in insurance increase profitability by preventing adverse outcomes before they happen; for example, by building incentives for beneficiaries to improve their behavior in ways that reduce risk. Shared value strategies also increase revenues by developing innovative products to serve the underinsured, and they unlock synergies by investing assets in the broader prevention

¹ Julia K. Brown, Tetyana V. Zelenska, and Mushfiq A. Mobarak, “Barriers to Adoption of Products and Technologies That Aid Risk Management in Developing Countries,” *World Development Report Background Paper* (Washington, DC: World Bank, 2013).

and protection ecosystems. Shared value in insurance moves the industry from a passive guardian to an activist model, where companies anticipate, prevent, and mitigate societal risks.

To reap the full scale of shared value strategies in insurance, two principles stand out: First, insurers need to **adopt shared value as a core business strategy** that is clearly distinguished from social responsibility and peripheral philanthropic activities. Second, insurers need to move beyond a narrow internal focus on product and claims management to **embrace an externally oriented approach** that improves customer behavior, partners with relevant civil society actors, and advances public policy.

FSG hopes the powerful examples in this report will inspire insurance company leaders to re-examine their strategies. The report also offers ideas for how other actors, such as NGOs (non-governmental organizations) and consumer groups, can work with insurers to reduce risk and advance their missions to improve society. But this is just a beginning: there remain countless other areas, beyond the scope of this report, where insurance can be a powerful tool for improving the lives of vulnerable individuals and enhancing society's overall productivity.



Framing the Opportunity

Shared value is a business strategy that helps companies reconceive society's needs as business opportunities driven by:

Changing Realities: There are increasing risks and claims in many areas. Take just aging and climate change. By 2050, 2.1 billion people (20 percent of the world's population) will be over the age of 60—double the current figure.² Half of the total OECD (Organization for Economic Cooperation and Development) public-debt increase over the last two decades is attributed to an aging population.³ In parallel, the total insured and uninsured losses caused by natural disasters increased sevenfold between 1980 and 2015.⁴

Eroding Trust: Only one quarter of insurance clients trust their provider, and fewer than half would turn to them for advice.⁵ Lack of direct client contact and service orientation, confusing policies, and exclusions have not created a fertile ground for innovation based on technology and personal data.

Blind Spots: Insurers also often fail to look beyond traditional, legacy client groups. By often serving the healthy and wealthy, the industry leaves behind many potential clients in both developed and developing countries. As of 2013, the global protection gap for life insurance alone was estimated to be US\$86 trillion, 116% of global GDP.⁶

A handful of pioneers have already taken action to address new realities, low customer trust, and industry blind spots to unlock new value:

Discovery, a South African financial services group founded over 25 years ago that offers health, life, and short-term insurance, aims to make people healthier and enhance and protect their lives. Discovery developed **Vitality** to improve health outcomes through behavior-

2 "How 21st-Century Longevity Can Create Markets and Drive Economic Growth" (Geneva: World Economic Forum, 2015).

3 John R. Beard et al., "Global Population Ageing: Peril or Promise?" (Geneva: World Economic Forum, 2012).

4 "World Insurance in 2015: Steady Growth amid Regional Disparities," Sigma (Zurich: Swiss Re, 2016).

5 Startupbootcamp and PricewaterhouseCoopers, "InsurTech: A Force for Good" (London: Startupbootcamp, 2016).

6 Kai-Uwe Schanz and Shaun Wang, "The Global Insurance Protection Gap: Assessment and Recommendations" (Geneva: Geneva Association, 2014).

change incentives focused on health promotion. The model leverages advances in behavioral economics such as rewards and discounts, personalized technologies including wearables and smartwatches, and data analytics to facilitate changes in health behaviors. Discovery's Vitality business model has been shown to lower morbidity and mortality rates and, therefore, the cost of claims through independent research. A portion of this actuarial surplus is recursively channeled back to members in the form of rewards and the dynamic pricing of insurance. In particular, Vitality members generate up to 30 percent lower hospitalization costs and live 13–21 years longer than the rest of the insured population (up to 41 years longer than comparable uninsured populations). After capturing 40 percent of South Africa's private health insurance market, the company introduced behavioral incentives to car and life insurance clients while creating synergies across these lines (e.g., fewer car accidents, lower ill-health and life claims). By expanding the model with leading insurers globally, such as AIA, John Hancock, Manulife, Generali, PingAn Health, and Sumitomo, Vitality has reached over 5.5 million customers across 15 countries.

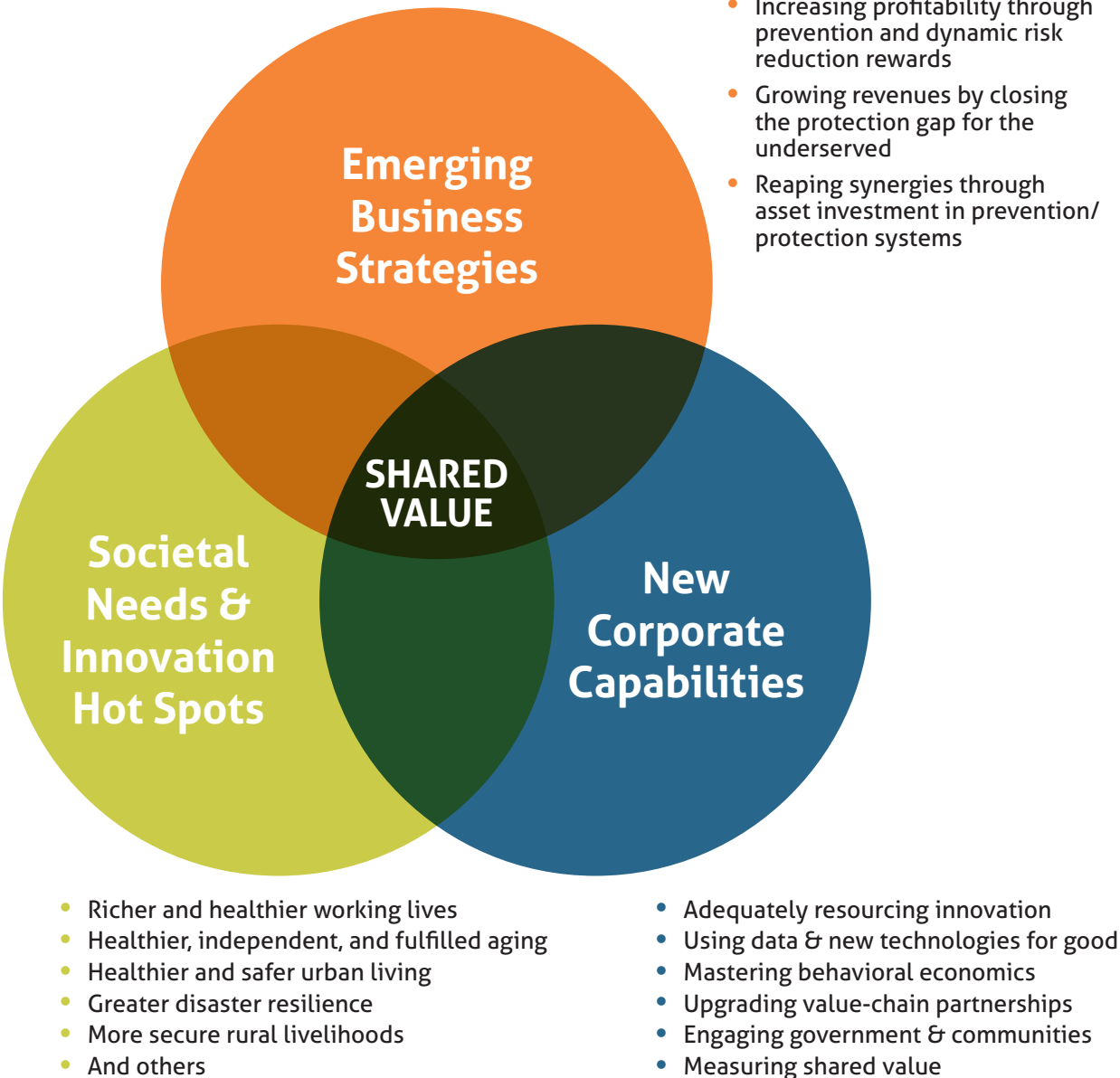


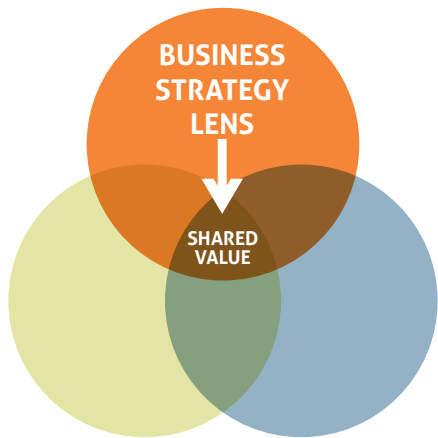
Swedish insurer **BIMA** built a life and health insurance proposition in developing markets that differentiates itself from other microinsurance providers through a simple and yet customizable IT platform for mobile operators combined with a direct, exclusive, and well-trained local salesforce. Clients use their mobile numbers as ID and pay their premium via mobile top-up cards. The salesforce focuses on insurance literacy: 100 percent of new customers are educated on their coverage by one of BIMA's 3,500 sales reps, and they receive a follow-up quiz call from local headquarters on the product features—with sales representative bonuses tied to correct answers. Within only seven years, BIMA has grown to serve 30 million customers, 90 percent of whom had no prior insurance. In some markets, as many as 85 percent of BIMA's clients purchase at least a second BIMA product, which is a first indicator of perceived customer value. At present, BIMA has achieved profitability in 4 of its 15 markets, and aims for 8 by the end of 2017.

Redwoods Group, based in North Carolina in the US, works to protect children and the institutions that look after them. The company invests US\$3 million per year in consulting services that help its 400 youth-serving customers prevent risks to children: it reduced drowning deaths by 85 percent as well as reported instances of child abuse by 65 percent in less than 10 years. The reduction in drowning deaths alone saves the company US\$6 million in insurance claims per year. Redwoods underwrites US\$43 million in premiums per year in a market previously considered uninsurable, and enjoys a 95 percent customer retention rate.

Insurers that incorporate society's needs into their strategies, building on existing and new capabilities, will find lasting competitive advantage. Building on the pioneers' experience, the following sections detail the emerging strategies that seek to change societal conditions to improve business outcomes, the societal issues that create particularly visible "innovation hot spots" for the industry, and the new capabilities that are needed for execution.

FIGURE 1: FRAMEWORK TO IDENTIFY SHARED VALUE OPPORTUNITIES





Three Reinforcing Business Strategies to Create Shared Value

Three mutually reinforcing strategies, aligned to the role of insurers as risk manager, risk carrier, and asset manager, create shared value. These are distinct from responsible business practices in the industry and involve profound product and business-model innovation (see *ESG and Shared Value Sidebar on page 9*).

Each of these strategies is built over time, with increasing degrees of sophistication and value-creation potential for the business, insured individuals, and society at large. The first, prevention, aims to improve profitability through lower claims, higher insurance uptake, and retention. The second seeks revenue growth by closing the protection gap for the underserved, and the third helps asset managers innovate in a low-interest environment.

STRATEGY 1: PREVENT RISK AND DYNAMICALLY REWARD RISK REDUCTION

Prevention is powerful because everybody wins. Take the example of a well-implemented employee wellness program: employees are healthier, the company is more productive, the insurer pays fewer claims, and society bears a lower cost burden. But **what makes shared value prevention different from past efforts**, dating back centuries, such as fire prevention? The difference lies in how it is done: First, behavioral science, and a wide range of new technologies and data analytics, allows tracking who and what is changing, enabling individualized targets, remedies, and incentives. Second, a systems approach helps companies go beyond single interventions to engage the entire insurance value chain, including local partners, communities, and government, in the pursuit of these prevention gains. Third, with measurement linking risk-reduction milestones to improved business results, customers can be rewarded dynamically, with behavior-based pricing encouraging positive behaviors and leading to a virtuous cycle between risk reduction and value creation.

CRAFTING A RISK PREVENTION STRATEGY ENTAILS SEVERAL STEPS:

Know and own the problem: The rise of noncommunicable diseases (NCDs) as the leading cause of death and disability globally led South Africa’s Discovery to pioneer a program to modify behavioral risk factors, including physical activity, diet, and mental well-being, that

ESG AND SHARED VALUE

ESG (Environmental, Social, and Governance) principles inspire businesses to avoid harm, reduce risk, and generally have a more positive impact on employees, customers, society, and the planet.

The Principles for Sustainable Insurance (PSI) is a noteworthy sector-specific sustainability initiative under the United Nations Environment Program (UNEP) Finance Initiative, representing 20 percent of world premium volume. It aspires to create a global ESG framework to guide insurers around the world, in line with the Sustainable Development Goals (SDGs). The four principles follow the four spheres of influence of insurers: corporate, value chain, key stakeholders, and the broader public.

The PSI principles are completely compatible with shared value. While its guidance seeks a standard approach to improving industry-wide practices and impacts, shared-value guidance helps individual companies rethink their business models and products to deliver unique and competitive solutions to societal needs.

underpin the majority of NCDs. With time, an even more sophisticated understanding of the problem emerged from analyzing five years of data on 100,000 Vitality members showing, for example, that incremental changes in physical activity encourage engagement in other health-promoting behaviors.⁷ Similarly, Redwoods provides free prevention consultancy services to all customers as part of the insurance contract. And when a major incident does occur, they ensure that a consultant is on site within 24 hours to develop a granular understanding of the situation to inform future prevention work, and to begin the healing process.

Design a comprehensive prevention scheme: Prevention programs can target individual, corporate, community, or government partners. For example, in motor insurance Discovery's Vitality measures driving behavior using the latest telematics technology and incentivizes customers to become better drivers. Vitality has built a considerable capacity with over 4.5 billion kilometers of tracked driving, and uses incentives to change driving behavior. On the other hand, **IAG** in Australia works with car manufacturers to improve security and safety standards of vehicles. Along with reduced premiums for safety measures such as automatic emergency braking, it also identifies dangerous crash zones via its extensive geo-mapped motor-vehicle claims data, alerts customers when they are near these dangerous zones, and engages local governments to fix related infrastructure deficits. Pilot projects show that a single improved highway ramp can save lives and approximately AUD\$600,000 to the company per year.

7 "Human-Centric Health: Behavior Change and the Prevention of Non-Communicable Diseases" (Geneva: World Economic Forum, 2017).

Similarly, IAG is experimenting with virtual-reality technology to better understand renters and first-time home owners' risks, with 57 percent of those experiencing the technology identifying and fixing a hazard at home, and 25 percent inquiring with an IAG brand about purchasing home insurance. **Skandia** partnered with a Swedish healthcare nonprofit to create a hotline that connects employees to appropriate specialists for holistic counseling on any type of physical/mental health, family, or job problem. Skandia's corporate clients implementing Skandia's employee-wellness offering, which includes the hotline and a questionnaire-based employee well-being screening, report a 50 percent decrease in sick leave and obtain annual premium reductions of up to 80 percent.



Incentivize uptake: Incentives need to be multifaceted and grounded in behavioral science. Discovery Vitality's incentives encourage healthy activities to extend beyond premium reductions to include highly discounted access to health-promoting activities as well as attractive discounts on appealing rewards. One successful example in South Africa involved combining Apple Watch with Vitality's business model. Members' engagement with Apple Watch generates actuarial surplus that is used to further encourage healthy behaviors and fund the cost of Apple Watch for highly engaged members. Physical activity levels of Vitality members in South Africa increased 25 percent over the first few months that the program was offered. Variations in the type and frequency of incentive enable members to overcome a preference for immediate gratification, like relaxing on the couch, over the long-term benefits of healthy behaviors. The program also cleverly played on the recognized behavioral-economics concept of loss aversion (*see box on next page*): If fitness goals were not achieved, customers had to pay monthly installments for the Apple Watch.

Incentives can also target the broader insurance value chain partners; for example, in the form of value-based healthcare models that reward doctors based on health outcomes rather than on the volume of procedures performed.⁸ **Humana's** value-based provider reimbursement models produced up to 45 percent fewer in-patient admissions and better health outcomes.

Deepen propositions and inclusiveness: As strategies lower risks, gains in actuarial surplus can be reinvested to deepen the offering, reversing the impact of healthier customers letting their policies lapse, which plague traditional insurance models. Discovery increased its market penetration among younger, healthier customers by offering more affordable gym membership with its lower-priced insurance. Younger adults improve the profile of the

8 "Bold Goal Progress Report" (Louisville, KY: Humana, 2016).

USEFUL BEHAVIORAL PATTERNS AND THEORIES TO LEVERAGE:

- » **Loss aversion:** People tend to prefer avoiding losses to acquiring equivalent gains
- » **Prospect theory:** The way that a choice is framed can dramatically affect the decisions that people are likely to make
- » **Sunk cost fallacy/Escalation of commitment:** Once people have made an initial investment of time or money into something, they are more likely to continue investing in it

CHALLENGING BEHAVIORAL PATTERNS THAT ARE OBSTACLES TO POSITIVE OUTCOMES:

- » **Illusory superiority:** People's tendency to rate themselves as above average in just about anything, and therefore to discount the need for them to do things like going to the gym
- » **Present bias/Hyperbolic discounting:** People prefer immediate benefits, like relaxing on the couch, over long-term benefits and intentions, like fitness

overall risk pool (as evidenced by a 21 percent better claims rate among clients who use Vitality, and a two times better mortality rate for members who remain in the risk pool, compared to those who lapse). The company can then begin to target previously underserved, higher-risk populations. Yet, despite increases in affordability, a lack of insurance literacy, privacy concerns on data sharing, and/or unappealing incentives may still limit penetration. To overcome these obstacles, Discovery released anticipatory guidance on overcoming concerns associated with data privacy and confidentiality,⁹ and is adapting its Vitality program to be relevant to aging populations. In parallel, Humana went beyond a customer lens to a population health focus, working community-by-community with a multitude of partners to build understanding for prevention and to grow trust, measuring success as a decrease of overall unhealthy days.

STRATEGY 2: CLOSE THE PROTECTION GAP FOR THE UNDERSERVED

The global protection gap includes customers who cannot afford insurance or choose not to be insured for lack of knowledge or incentives. While prevention strategies lower costs and improve the risk pool to help close the protection gap, there are more ways to cover the uninsured and underinsured:

9 Gillian Christie, Kevin Patrick, and Derek Yach, "Guidelines for Personalized Health Technology: Final Report" (New York: Vitality Institute, 2016).

Identify the underserved: Insurers can start by investigating why existing customers opt out, fail to renew, underinsure, or do not access insurance offerings. This entails analyzing the customer base by including socioeconomic background, gender, race, etc. For example, a market-research firm found that in the US 92 percent of African-Americans and 82 percent of Hispanics consider life insurance essential, compared with 72 percent of white Americans. But only about 40 percent of African-American and Hispanic respondents reported owning life insurance, which is well under the national average of 47 percent.¹⁰ Further analyzing the insurance broker population reveals even greater underrepresentation of these ethnicities, suggesting deeper systems barriers are at play. IAG has researched the level of insurance penetration for indigenous people in Australia and found they have home and contents insurance at a rate of 47 percent versus 96 percent for the general population. They have been using human-centered design with indigenous people and businesses, and have prototyped an insurance product solution to deliver risk transfer benefits and measurable business value to indigenous communities.

Build trust and insurance literacy: As a first step, insurers need to become relevant to their prospective customers. IAG reached out to 2,500 customers and stakeholders beyond the customer base to understand their most pressing needs. Broader community breakdown was identified as an issue that also impacts IAG's bottom line, because strong community ties drive stronger disaster resilience (for example, a study of a severe heat wave in Chicago found that living in a more socially cohesive neighborhood decreased mortality rates by the same amount as having a working air conditioner¹¹). To increase relevance and connection to and resilience within communities, IAG developed the Good 'Hoods program. It encourages people to take a first step of connection and interaction by listing existing neighborhood initiatives and encouraging the launch of new ones, ultimately aiming at a more resilient "nation ready for anything."

Humana is taking a community-centered approach; for example, they use hotlines to connect to seniors to see what they can do for them in the community to reduce loneliness and depression, two issues that are linked to not taking medicines and faster disease progression. In the aftermath of traumatic local events, Humana has also opened up its employee health hotline to community members free of charge to deal with post-traumatic stress. This is another measure to build trust and relevancy as an advisor.

10 Rachel Schneider and Kimberly Gartner, "The Insurance Industry and the Underbanked" (Chicago: Center for Financial Services Innovation, 2007).

11 Eric Klinenberg, "Adaptation," *The New Yorker*, January 7, 2013, <http://www.newyorker.com/magazine/2013/01/07/adaptation-2>.

However, simply raising awareness and improving literacy is not enough to close the protection gap. Behavioral economists such as Cass Sunstein have demonstrated that strategies must extend beyond education to influence behaviors. This means that companies must make it easy for people to enroll and participate in insurance through smarter/simpler policies or opt-in/out defaults.

Create simple and affordable solutions: French insurers **AXA** and **Macif** have partnered with the microfinance organization **ADIE** to offer simple insurance solutions for a targeted 8,000 micro-entrepreneurs in France by the end of 2017. ADIE offers only three choices of coverage—public/product liability, property coverage with or without premises protection, and motor insurance. To keep down premiums, customization is minimal and eligibility is limited to lower-risk activities that do not require licenses.¹² Similarly, **Suncorp** and the microfinance organization **Good Shepherd** in Australia have created a car and content insurance for the low-income population that is most vulnerable to accident and theft related out-of-pocket expenses. The new “Essentials by AAI” scheme is easier to understand through illustrated Product Disclosure Statements, costs as little as AUD\$4 per week, and is codistributed via nontraditional partners like community organizations.¹³

Technology is another powerful enabler of broad and low-cost insurance education, distribution, and claims management. **ACRE Africa**, for example, is a for-profit company that has grown out of a project started in 2009 by the **Syngenta Foundation** and the **Global Index Insurance Facility**. Among ACRE’s offerings is a parametric crop insurance against rain and drought: satellites and automated weather stations monitor rainfall daily, and trigger automatic mobile payouts in case of too much or too little rain. As of 2016, ACRE has issued policies worth more than US\$56 million to over 1 million farmers in Kenya, Tanzania, and Rwanda. The more precise technology gets, the cheaper and more accessible these index schemes become, as risk buffers can be reduced. A new algorithm for satellite-based soil moisture measurement by Dutch startup **Vandersat** will likely bring the next quantum leap in this direction, with **Swiss Re** supporting the global roll-out.



12 Bruno Gautier, “Strengthening Vulnerable Microenterprises through Microinsurance: The Adie Experience” (Luxembourg: The Microinsurance Network, 2015).

13 Desmond Lim, “Essentials by AAI, Case Study Suncorp Group & Good Shepherd Microfinance” (Shared Value Project, n.d.).

Add tangible/short-term benefits: Finally, insurers prevent dropouts and increase customer loyalty by making insurance benefits more tangible. BIMA finds that telehealth helps to increase customer engagement and loyalty to the less tangible insurance product, and consequently invested in a set of mHealth services (medical advice, preventative care, medication, health records), which are now part of a holistic health bundle, enabling access to affordable healthcare products. **Leapfrog**, an important microinsurance-specialized investor that is also backing BIMA, also included health as a focus area in its latest insurance fund.

STRATEGY 3: INVEST ASSETS IN PREVENTION AND PROTECTION SYSTEMS

Insurers invest premium reserves to match the payout horizons of claims, and generate returns for the company. Their investment mix including fixed income, equities, or real estate, will therefore depend on the type of insurance offered as well as their risk appetite and solvency/regulatory context. Beyond meeting the company's claims liabilities, asset managers have only recently begun to focus on the potential synergies between their investment decisions and the underwriting side's efforts on prevention and closing the protection gap. This heightened sensitivity to investing's social purpose is linked to the emergence of responsible and impact investing practices, which are permeating finance in general (*see Responsible and Impact Investing Sidebar on the following page*). Three approaches are emerging:

Including "prevention" as investment criteria: Discovery, together with Health Partners and Harvard University, has shown the strong link between a company's workforce health and its financial performance. For example, a portfolio of "healthy companies" in South Africa is outperforming a common index by nearly 100 percent over 10 years.¹⁴ Working with businesses, investors, and reporting platforms, Discovery is advocating for a common standard of measuring the impact of business activities on health within the workplace (through employee health), marketplace (through products and services), and community (through community health investments). The idea is for these metrics to be integrated into existing ESG corporate reporting frameworks as ESG+H and be valued by responsible (and smart) investors making capital allocations.

Deploying "soft" capital: Some companies like **Zurich Insurance** are discovering the business case for investing in community flood resilience. The company invested US\$40 million in the last 5 years through its corporate Zurich Foundation to help more than 100 communities worldwide understand which people and property are at risk from floods, to measure their community resilience using a unique measurement framework, and to develop their own pre-event resilience building agenda. This is based on studies that have shown that for

14 "Reporting on Health: A Roadmap for Investors, Companies, and Reporting Platforms" (New York: Vitality Institute, 2016).

RESPONSIBLE AND IMPACT INVESTING

Insurers' asset managers, along with investors globally, are increasingly focused on the societal impact of investing: responsible or ethical investing typically excludes companies based on ESG criteria, while impact investing seeks specific positive outcomes.

For example, Zurich Insurance holds US\$1.2 billion in the form of 70 green bonds from 47 different issuers, and it has also invested US\$105 million in positive-impact private equity funds.

Skandia in Sweden is even more targeted: its real estate arm (10 percent of Skandia's overall assets) is linking its investments to a "neighborhood uplift" program. The program focuses on "life between the houses" in its residential and commercial developments, including better lighting and outdoor meeting places. It has already led to a 38 percent improvement in perceived safety and an approximate US\$160 million revenue increase for businesses at Gothenburg's Frölunda Torg shopping center, effectively increasing property value for Skandia.

every dollar invested in flood prevention, \$5 is saved through avoided or reduced losses. Next steps for Zurich are to validate and scale their framework, and influence decision-makers to invest more through new tools in pre-event resilience building, as opposed to classic post-event recovery.

Strategic investing in the prevention and protection gap ecosystem fully bridges the underwriting and asset management sides around a common purpose. As insurers recognize that prevention or closing the protection gap relies on a number of innovative new services (for example, in healthcare covering nutrition, fitness, technology, and a broad range of health services), these become investment targets. Skandia, for example, zeroed in on **Virgin Pulse**, a company in the Virgin conglomerate that develops technological tools to address employee and workplace wellness. The asset management team, knowing about Skandia's interest in preventive work for health, brought the Virgin app investment to the attention of the health team. The two teams jointly analyzed the opportunity, and in 2016 decided to make further direct investment of SEK 100M (US\$11 million) in Virgin Pulse, leaving Skandia with a 2 percent ownership stake in the company. As part of this investment, Virgin Pulse has developed an app for Skandia to measure employee health and fitness levels. After piloting the new app with its own employees and reaching a sign-up rate of more than 80 percent (with two-thirds using the app at least 3 times per day), Skandia began offering it to its corporate clients in March 2017.

Another example is **Prudential**, which invested US\$350 million in a specific fund of Leapfrog Investments to access high-growth life insurance markets in Africa. As Prudential holds the right to convert its investment into direct equity stakes, this fund has a direct link to the

premium business and helps close the protection gap. Leapfrog, an impact investor entirely focused on high-growth insurance markets in developing countries, saw its approximately US\$1 billion portfolio of micro-insurance companies grow revenues by an average of 23 percent and profits by 40 percent in 2016—a year in which global growth slowed to 2.3 percent. Leapfrog now reaches a total of over 91 million people.¹⁵

Reaping synergies across the three shared-value insurance strategies: As illustrated above, prevention work can lower the cost of insurance while improving the risk pool. This can help close the protection gap for poorer and riskier population segments. At the same time, deploying new business models relying on technology and community engagement bring more people into insurance and prevention schemes. Meanwhile, targeted investments can accelerate the deployment of new services in the insurance value chain to accelerate and deepen the prevention and protection strategies. But synergies go even deeper when insurers begin to break the silos of traditional business lines: healthy behaviors benefit both health and life insurance lines. Both lines benefit if the car insurance side of the business introduces its own behavioral change program and reduces accident rates. Insurers can further reinforce these synergies by using their behavior-change program as a loyalty and cross-selling booster: at Discovery, customers can access lower premiums, and can earn points across all product lines and benefit even more when they move all their insurance contracts to the firm.

15 Leapfrog Investments, “The Year in Numbers,” 2017, <http://us4.campaign-archive2.com/?u=5377f71a7869c257f5c0c5431&id=c75be3d02e&e=bf611dcb53>.

MARKET SIZING SHARED VALUE INSURANCE

Prevention: Extending behavioral change interventions could produce enormous societal benefits, with annual savings near US\$12 billion in out-of-pocket medical expenses and US\$125 billion in medical and prescription costs for the US alone.¹⁶ Insurers could also benefit significantly, with profit ratios up to 100 percent higher for corporate clients with employee wellness programs than for those without such programs.

Protection: The global protection gap for natural catastrophe insurance was roughly US\$121 billion in 2016,¹⁷ and the global life insurance protection gap could be as large as US\$86 trillion in 2013, which translates to 115 percent of the global GDP.¹⁸ The life insurance gap is even widening in developed countries like the US, according to a Geneva Association report, as fewer people take out insurance.¹⁹

Investment: Alternative investment portfolios including private equity currently account for only 5 percent of US insurance assets.²⁰ Skandia’s portfolio in Sweden stands around 30 percent, suggesting that insurers might be leaving money on the table even within given solvency and regulatory limits.

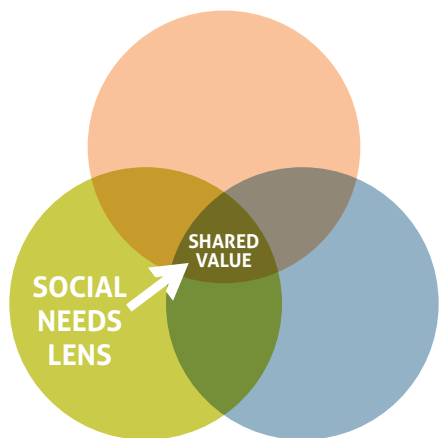
16 Extrapolated from “Bold Goal Progress Report” (Louisville, KY: Humana, 2016).

17 “Natural Catastrophes and Man-Made Disasters in 2016: A Year of Widespread Damages,” Sigma (Zurich: Swiss Re, 2017).

18 “Life Insurance: Focusing on the Consumer,” Sigma (Zurich: Swiss Re, 2013).

19 Schanz and Wang, 2014. “The Global Insurance Protection Gap: Assessment and Recommendations.”

20 Sneed, Meredyth. 2015. “Alternative Investments in Insurance.” (Berkeley, CA: Patpatia & Associates.)



Societal Needs Reframed as Innovation Hot Spots

Powerful global trends are affecting society and the environment and, therefore, the context businesses are operating in. By looking at their probable impact on the most common property, casualty, health, and life insurance business lines, five high-potential themes emerge as innovation hot spots for insurers (this is not an exhaustive list!):

Richer and Healthier Working Lives (health, life, pension insurance): The nature and pressures of working life are evolving as people need to adapt to multiple and frequently changing jobs, self-employment through the “gig” or “sharing” economy, or new technology. People suffer from increased general levels of stress, mental illness, and other diseases, while public welfare support generally is on the decline due to budget constraints. Opportunities to serve these needs include enabling comprehensive workplace health and well-being (mental, physical, and financial); offering flexible, portable benefits tailored to the individual’s needs at each life stage; and supporting people to continue working in their later years. Life insurers and pension providers can benefit from increased revenues by enabling employees to stay working longer, and health insurers can lower claims by preventing ill-health.

Healthier, Independent, and Fulfilled Aging (health, special care insurance): The aging population is a global phenomenon. For instance, in Europe the 65+ population will grow to 53 percent in 2060.²¹ With longer lives come significant opportunities to keep people active, healthy, independent, and feeling a sense of purpose. Furthermore, familial care duties are rapidly growing, placing pressure on an already stressed working population. Health and care insurers can help improve the lives and care of seniors through community-based or virtual engagement. Telehealth can lower the cost of treating chronic diseases by 10–20 percent.²² Any program focused on older adults must be evidence-based and leverage the emerging ecosystem of new technologies that are specifically targeted to seniors.^{23,24}

21 “Growing the European Silver Economy” (Brussels: European Commission, 2015).

22 “Better Business, Better World: The Report of the Business & Sustainable Development Commission” (London: Business and Sustainable Development Commission, 2017).

23 Adriana Selwyn, Cother Hajat, Mark Harris, Derek Yach, “Time to Reset the Prevention Agenda: Age-Specific Interventions for the Second Half of Life,” Vitality Institute, 2015.

24 Gillian Christie, Arne Holzhausen, Joseph Kvedar, Alison Martin, Ramya Palacholla, Derek Yach, “Technological Innovations for Health and Wealth for an Ageing Global Population.” World Economic Forum, 2016.

Healthier and Safer Urban Living (health, life, property and casualty insurance): Over 54 percent of people across the globe lived in urban areas in 2014. The number of people living in cities will double to some 6.4 billion by 2050.²⁵ The opportunities urbanization brings are vast, with some 60 percent of all urban buildings that will exist by 2050 not yet built.²⁶ For insurers, urbanization presents several innovation spaces, including the collection and mobilization of data to fight pollution, incentives to build (or renovate) clean and environmentally friendly housing, and the development of stronger and safer communities and infrastructure. Self-driving vehicles will revolutionize the transport sector and have insurers focus on mobility rather than car insurance. Taken together, these activities will reduce claims caused by pollution, unhealthy home and dysfunctional infrastructure environments, accidents, or neighborhood violence and property destruction.

Greater Disaster Resilience (property, casualty, life, health insurance): As climate change progresses further, extreme weather events will increase in frequency and severity, exposing more and more communities to disasters. Global losses and damages caused by extreme weather events, including hurricanes and flooding, have been estimated at up to US\$200 billion a year since 1980.²⁷ Major opportunities exist to enhance protection and disaster preparation of individuals and small to medium enterprises (SMEs) including reinforcing awareness of disaster planning, providing communities with timely alerts, mainstreaming preparedness practices, and leveraging technologies to maximize resilience. For property insurers, offering products maximizing disaster resilience will decrease claims and boost retention when customers bounce back faster to normal post-disaster lives.



More Secure Rural Livelihoods (crop and health insurance): Both small and large farms will play a critical role in achieving food security and secured rural livelihoods as global population grows more than ever. Evidence shows that insured farmers switch to higher risk/return crops, invest 24 percent more in fertilizers, and 13 percent more in farm cultivation and preparation in comparison to their uninsured peers.²⁸ Significant opportunities to allow rural communities to thrive include making sure farmers are protected with appropriate weather insurance, and offering farmers incentives to invest in their farms. New products designed for rural populations open up new growth prospects for insurers, increasing rev-

25 "World Migration Report 2015" (Geneva: International Organization for Migration, 2015).

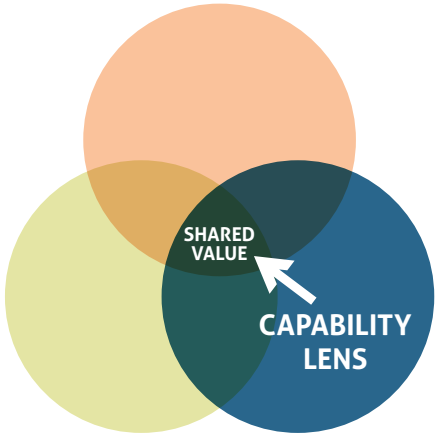
26 Elisabeth Belpaire, Urbanization and Shared Value, In-person interview, February 23, 2017.

27 BMZ, "Climate Action in Practice: The Contribution of German Development Policy" (Bonn: Federal Ministry for Economic Cooperation and Development, 2015).

28 Julia K. Brown, Tetyana V. Zelenska, and Mushfiq A. Mobarak, "Barriers to Adoption of Products and Technologies that Aid Risk Management in Developing Countries."

enue with additional premiums from a large number of previously underserved customers, supported also by growing government subsidies for rural areas.

Within these high-level themes, insurers should further drill down to specific shared value innovation spaces that match their national welfare context priorities as well as their business priorities (e.g., whether to focus on growth/protection or profitability/prevention strategies and around which issues). The last step to derive shared value initiative ideas and determine how to execute them is to understand the new capabilities needed.



The New Capabilities for Execution

Patterns emerge across the pioneer shared value companies in how they have moved beyond traditional insurance business models. The following highlights some of the key elements:

Innovation Space and Budget: R&D teams, underwriting units, and asset management often operate in silos, and their focus is too often on operational efficiency

and process upgrades rather than on developing fundamentally new value propositions for new customers. Less than 50 percent of insurers have an enterprise-wide innovation strategy.²⁹ Shared value innovation and entrepreneurship require dedicated funding, passionate leadership, and the breakdown of internal silos. Innovation cannot flourish when the largest part of “R&D” investments is spent on upgrading existing legacy systems and processes. Corporate social responsibility (CSR) departments, corporate foundations (within legal constraints), or nascent external tools like the co-incubator DIVA ventures can help to nurture ideas with longer amortization horizons.

Trusted Use of Data and Technologies: Technology and big data management are the game changers in many prevention or protection strategies to better understand individual or subgroup status, manage incentives schemes across multiple service providers, track progress, increase insurance literacy, lower the cost of premium and claims payments, etc.

²⁹ “A New World of Opportunity: The Insurance Innovation Imperative” (Zug, Switzerland: KPMG International, 2015).

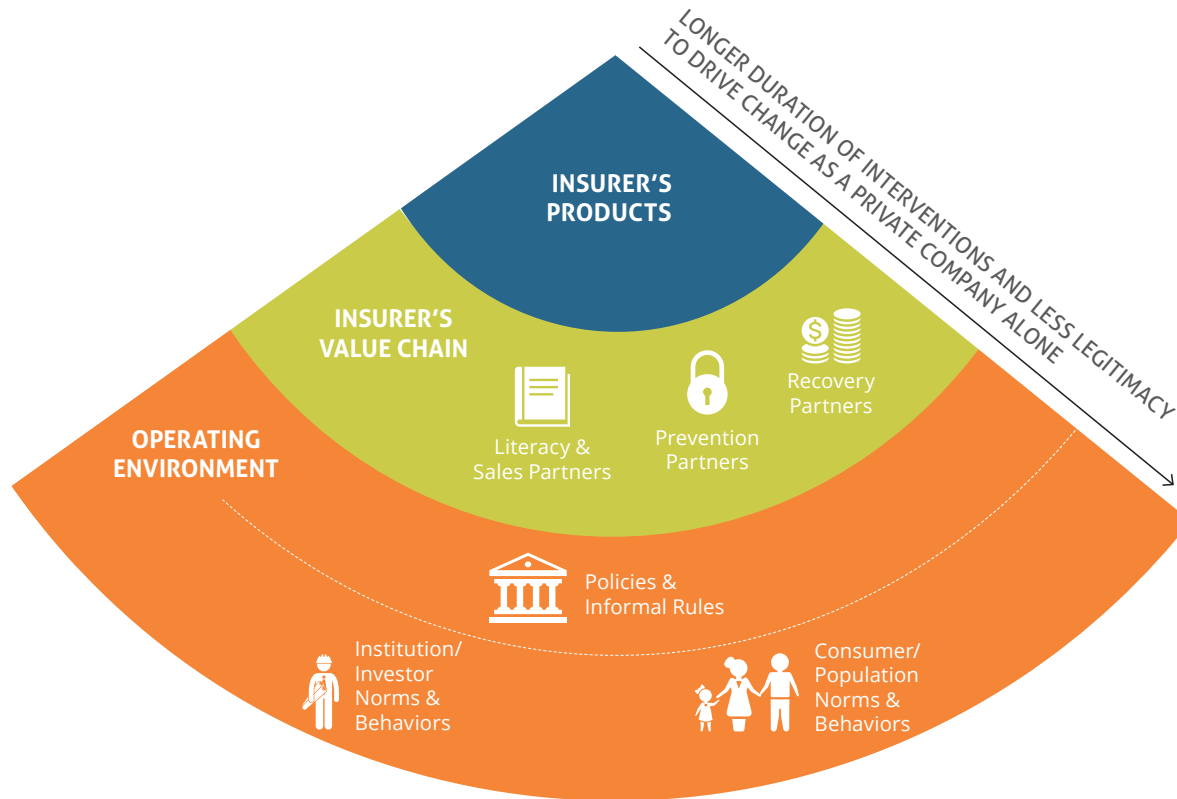
A shared value lens helps to actively prioritize between the many potential technological developments and use cases beyond the usual matrix of “business opportunity” and “ease of implementation.” To respond to concerns on data privacy and use, insurers must be proactive in disclosing how personal data is protected and used. Insurers and communities also benefit when governments share their data to enable insurers to better understand and focus on resilience initiatives.

Shared Value Measurement: An insurer’s measurement is typically focused on business metrics only, without linking them to societal progress—this is one reason for the public’s mistrust of the industry. While a handful of macroeconomic studies prove that, for example, natural peril insurance has a positive effect on prosperity, Discovery, Skandia, and Humana are among the few companies that have proven a link between insurance and positive social outcomes. Discovery has codified the actuarial mathematics that underpin its Vitality business model: The economic value created per member is a function of how the incentive per member generates behavior change; how risk is reduced per unit of behavior change; and how risk reduction leads to value generation, which offsets the original incentive and enables surplus sharing between insurer and member. Additional measurement is needed to show how investments in individual incentives or the broader insurance ecosystem changes behaviors and risks (e.g., “bending the morbidity and mortality curves”), brings more people and institutions under insurance coverage, and in the process lowers overall welfare costs to society. For companies, shared value measurement is needed to validate and strengthen the new business models, and it can hold far-reaching implications for actuary science and training. For partners, including governments, measurement brings transparency to the enormous societal value of prevention and protection, and opens the way to public-private co-investment.



Systems Change: No company operates in isolation; each exists in an ecosystem where lack of value-chain services, weak government, and civil society relations and distrust may curtail its potential. Success in creating shared value requires companies to work on three levels to influence broader ecosystems change (see *Figure 2 on the following page*).

FIGURE 2: ECOSYSTEM OF SHARED VALUE FOR INSURERS



- » **Upgrading services and sharing data across the insurance value chain:** Insurance brokers, banks, telematics and tech firms, fitness and food companies, pharma and medtech companies, construction and automakers, physiotherapists and specialized clinics, agro-dealers and cooperatives, and a multitude of other businesses, nonprofits, and community-based groups can be mobilized to jointly gain from growing insurance literacy, prevention, and better treatment of claims.
- » **Engaging government and communities:** Within the broader ecosystem in which insurance firms operate, supportive regulation and public policy is critical. Regulation can make insurance markets (for example, by making car insurance mandatory) or break them (for example, by taxing private health insurance in the same way as corporate bonus payments). Shared value leaders need municipal or national public leaders as well as insurance regulators to understand and support business models that are creating value for the business,

the customer, and society at large. This means being proactive in advocacy and pursuing collective impact (as featured recently in the article “The Ecosystem of Shared Value” in *Harvard Business Review*³⁰), building among other things a common agenda, shared measurement, and open communications channels around evolving insights, roadblocks, and successes.

- » **Mastering behavioral sciences:** Any shared value strategy focused on prevention will demand customers and value-chain partners to think and behave differently. Bolstering internal capabilities in behavioral science (including behavioral economics and psychology), sharing data across the value chain, and being willing to experiment with different incentives is the new frontier.

Where to Start

While the insurance industry is in general attuned to social risks, shared value offers a new way to reimagine business models in a much more profound way.

WHERE ARE YOU TODAY ON YOUR SHARED VALUE JOURNEY?

If an insurance company is new to this kind of strategic win-win thinking, it is best to start the internal dialogue by analyzing business priorities, relevant societal needs, and corporate capabilities with a cross-functional team (see *Figure 1 “Framework to Identify Shared Value Opportunities”* on page 7). For organizations that have already embarked on a shared value journey, *Figure 3* on the following page summarizes guidance on how to refine and enhance prevention, protection, and asset-management strategies.

30 Marc Pfitzer and Mark R. Kramer, “The Ecosystem of Shared Value,” *Harvard Business Review*, October 2016.

FIGURE 3: INSURING SHARED VALUE STRATEGIES JOURNEY

	BUSINESS AS USUAL	SHARED VALUE JOURNEY →		
PREVENTION	<ul style="list-style-type: none"> • Education and prevention tools not linked/linked in a very limited way to underwriting 	<ul style="list-style-type: none"> • Know and own the dual problem (societal and cost) using int./ext. data analytics • Design a comprehensive prevention scheme with partners 	<ul style="list-style-type: none"> • Incentivize uptake, including technology platforms/apps with active engagement reminders, flexible underwriting and partner benefits 	<ul style="list-style-type: none"> • Deepen propositions and inclusiveness by removing customer engagement roadblocks
PROTECTION	<ul style="list-style-type: none"> • Low-margin, small-scale microinsurance pilots in developing countries 	<ul style="list-style-type: none"> • Identify the underserved also in developed markets • Open up channels to build trust and insurance literacy, increasing interaction and relevance of advice 	<ul style="list-style-type: none"> • Create simple and affordable solutions leveraging technology, partners, and 'innovation sandboxes,' such as the corporate foundation or CSR programs 	<ul style="list-style-type: none"> • Add tangible/short term benefits to increase product stickiness and improve outcomes
ASSET MGMT	<ul style="list-style-type: none"> • Siloed premium writing and asset management strategies 	<ul style="list-style-type: none"> • Include prevention as an investment criteria, e.g., expand to ESGH (+Health) strategies as the positive link between workforce health and performance is proven 	<ul style="list-style-type: none"> • Deploy "soft" capital including corporate foundation to de-risk pilots of breakthrough SV business models and finance vehicles (e.g., Development Impact Bonds) 	<ul style="list-style-type: none"> • Strategically invest in prevention/protection ecosystem partners, establishing a link to and synergies with the premium business



HAVE YOU BUILT THE RIGHT CAPABILITIES FOR INSURING SHARED VALUE?

Establishing a baseline of current capabilities and comparing it to those required to advance priority shared value strategies in the future will enable insurers to identify the necessary investments and partnerships to be successful in execution. In summary, Figure 4 shows the capabilities leading shared value insurers invest in to reach their goals.

FIGURE 4: INSURING SHARED VALUE CAPABILITIES AND GOALS

CAPABILITY		GOAL
Adequately resourcing innovation	→	More cross-functional & long-term ideas
Using data & new technologies for good	→	Trusted individualization at lower costs
Mastering behavioral economics	→	Dynamic reward of reduced customer risk
Upgrading value-chain partnerships	→	Value-adding services beyond the product
Engaging government & communities	→	Collective impact on population level
Measuring shared value	→	Proven link of social & financial results

The insurance industry holds a vital role in local systems providing for health, safety, shelter, food, and financial security for clients experiencing increasingly longer lives, with a unique ability to monetize better societal outcomes. It is high time to use this powerful force for good and emulate what shared value pioneers like Discovery, BIMA, and Redwoods Group have achieved on a large scale, and turn the tide on stagnating industry growth and profitability.

Interview List

- Uwe Amrhein, Director, Generali Zukunftsfonds, Generali Insurance Germany
- Michael von Arx, Head of Digital Marketing, Bâloise Insurance
- Butch Bacani, Program Leader, Principles for Sustainable Insurance
- Dan Baum, Executive Director, The Redwoods Group Foundation
- Elisabeth Belpaire, Urban Planning Advisor, Bernard van Leer Foundation
- Jonathan Broomberg, CEO, Discovery Health
- Gillian Christie, Health Innovation Manager, Vitality Group
- Adam Cohen, Research Associate, Transportation Sustainability Research Center
- Pattie Dale Tye, Segment Vice President, Bold Goal Initiative, Humana
- Samantha Duncan, Head of Impact, Leapfrog Investments
- Erik Eaker, Director, Bold Goal Initiative, Humana
- Marco Ferroni, Head of Foundation, Syngenta Foundation
- Ross Freedberg, Senior Manager, Group Strategy, IAG
- Bruno Gautier, Director of Microinsurance, ADIE
- Adrian Gore, Group Chief Executive, Discovery
- Fredrik Gustafsson, Sustainability Specialist, Skandia
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- Lena Hök, Head of Sustainability, Skandia
- Dr. Peter Höppe, Head of Geo Risks Research Division, Munich Re
- Hiroyasu Adam Ichikawa, Senior Deputy Manager for Corporate Social Responsibility, Sompo Japan Nipponkoa Insurance
- Ramana James, Head of Shared Value, IAG

- Jacki Johnson, Group Executive for People, Performance, and Reputation, IAG
- Hylton Kallner, CEO, Discovery Life
- Federico Karagulian, Researcher, Masdar Institute of Science and Technology
- Liesbeth van der Kruit, CSR Director, Achmea
- Manuel Lewin, Head of Responsible Investment, Zurich Insurance
- Simone Macelloni, Marketing R&D Department, BNP Paribas Cardif
- Virginie Mathé, Group Lead, Responsible Insurance Initiative, AXA
- Lee McDougall, Manager, Shared Value and Sustainability, IAG
- Lisa Mondschein, Strategic Projects, Office of the CEO, Discovery
- Jonas Nyqvist, Head of Alternative Investments, Skandia
- James Orchard, Executive General Manager for Innovation, IAG
- Kimberly Ostrowski, Senior Program Director, The Prudential Foundation
- Vanessa Otto-Mentz, Head of Group Strategy, Santam
- Tim Rozar, Senior Vice President, RGAX
- Lucia Rückner, Senior Consultant Corporate Responsibility, Munich Re
- Dominico Savarese, Head of Aging, Life, and Health Products, Swiss Re
- Nick Smith, Global Head of SMEs, AXA
- Nicola Smith, Head of Communications and Research, BIMA
- Michael Szoenyi, Flood Resilience Specialist, Zurich Insurance
- Shaun Tarbuck, Chief Executive, International Cooperative and Mutual Insurance Federation
- Fredrik Törnblom, Head of Savings, Skandia
- Gregor Wiest, Head of Innovation, Ergo
- Reece Williams, National Manager, Portfolio Management—SMEs, IAG
- Derek Yach, Senior Vitality Consultant, Discovery
- Paul Zollinger-Read, Chief Medical Officer, BUPA

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