

Insurance & Organization Practices

Transforming the talent model in the insurance industry

Insurers that succeed in the coming years will be those that recognize talent strategy has the same importance as core business strategy.

This article was a collaborative effort by Tanguy Catlin, Ari Chester, Julie Goran, Megan McConnell, and Scott Rutherford, representing views from McKinsey's Insurance and Organization practices.



Talent strategy requires the same rigor and focus as business strategy, especially as the insurance industry sees accelerated change. At many insurers, however, talent takes a back seat to business strategy. As carriers pursue strategic ventures such as entering new markets or undergoing digital transformations, HR might be involved, but rarely to the extent necessary.

At the same time, insurance executives cite human capital—rather than financial capital or any other asset—as the scarcest resource in the current business environment. Talent can no longer be an afterthought.

Indeed, the insurance industry faces uncharted risks. Climate change now seems more ominous and imminent than previously thought. Cyber risks continue to intensify. New liability risks are emerging across markets—including the COVID-19 pandemic, which took many by surprise.

New technologies are also rapidly gaining adoption. In particular, digital and analytics tools, and artificial intelligence’s expansion, have implications for all core functions in insurance. Customers are

also becoming savvier and more demanding in parallel: consumers’ experiences with high-quality interfaces such as those from Amazon, Google, and other leading apps are becoming their baseline expectation for all digital interactions.

To manage these risks and trends and optimize the value of new technologies, the industry needs an infusion of technical skills, complemented by softer skills in areas such as customer engagement and empathy. The industry will need a new approach to talent—and to its core business—to gain value from cultivating these new capabilities.

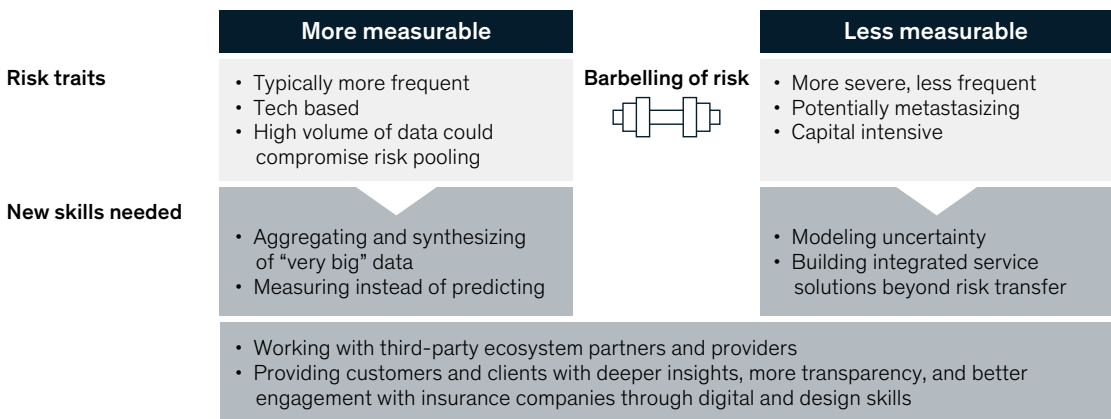
An evolving risk paradigm

The changing risk landscape creates new talent requirements for insurers. This can be visualized as a “barbelling” of risk, in which risks become either more or less measurable (Exhibit 1).

On the side of the barbell where risks are becoming more measurable are higher-volume, more frequent risks for which there is much more available data. Information can also be collected in new ways for these risks: instead of the traditional chain of insureds

Exhibit 1

Risks are becoming either more measurable or less measurable.



providing information to intermediaries that then submit forms to insurers, disparate data sources can automatically feed information to be collated.

When the Internet of Things or telematics is involved, the pace and depth of data processing increase by several orders of magnitude. The richness and volume of data and new insights create a virtuous cycle of more data collection leading to even more additional insights, with algorithms automatically learning from past insights and companies investing more to mine and process data. The resulting—continuously updated—insights can lead to more risk mitigation and reduce frequency. This high volume of detailed data may challenge the notion of risk pooling, since it can be challenging to continue to hold low- and high-risk “units” in the same pricing class.

On the other side of the barbell, some risks are becoming less measurable. These risks are typically more severe and more uncertain. Examples include breaches in cybersecurity, natural catastrophes, and even the COVID-19 pandemic. Because it’s more difficult to transfer these types of risks, the evolution from “payer to partner”—AXA’s description of its strategy¹—is increasingly relevant. This model emphasizes solutions, including risk reduction and mitigation, to expand insurers’ typical role of supporting risk transfers and paying claims.

The industry needs new capabilities to address both sides of the barbell. With the expanded use of data, the ability to process and manipulate data using data science and data engineering is paramount. As the industry shifts toward risk mitigation, involving the best third-party partners will be increasingly critical. Finally, new digital and design skills will be necessary no matter what—they allow customers

and clients to have more visibility into risk and fully engage in digital channels.

Shifting skill requirements for insurance functions

Forces throughout the economy are remaking roles. In particular, our research found that automation will accelerate the shift in required workforce skills in unprecedented ways: the need for technological skills will increase 55 percent from now through 2030, while the need for basic cognitive skills (such as data input and processing) will decline by 15 percent (Exhibit 2).

In addition, a greater need for social and emotional skills will develop.² As machines automate more knowledge work, the workforce will require more creativity, critical thinking, and social intelligence to shape and steer them.

To assess the effect of automation in insurance, we profiled roles at leading insurance companies in Europe and the United States, including underwriting, actuarial, claims, finance, and operations roles. We found that 10 to 55 percent of these functions could be automated over the next ten years (Exhibit 3).

The timing of the shift to automation will vary across companies and geographies depending on the relative cost of labor, customer demand for improved speed and quality, availability of capital to invest in automation technologies, and the feasibility of integrating automation into existing IT infrastructure. This kind of automation will not necessarily lead to a reduction in the workforce, but it will free up employees’ capacity for higher-value activities.

¹ The “payer to partner” language was coined by Thomas Buberl, chief executive officer of AXA. While focused on health, it can broadly apply to any insurance business. For more on the concept, see “How Europe’s largest insurance company is reinventing its healthcare strategy,” CB Insights, January 26, 2018, [cbinsights.com](https://www.cbinsights.com).

² For more, see “[Skill shift: Automation and the future of the workforce](#),” McKinsey Global Institute, May 23, 2018.

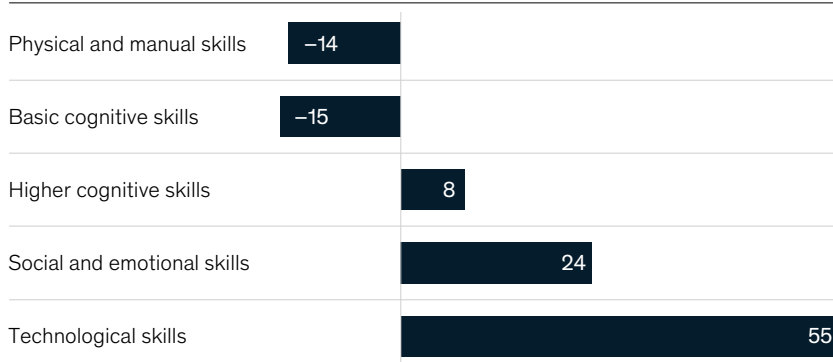
Exhibit 2

Automation will increase the need for advanced social and cognitive skills.

McKinsey Global Institute Analysis, all sectors

United States and Western Europe

Change in number of hours, % change, 2016–30



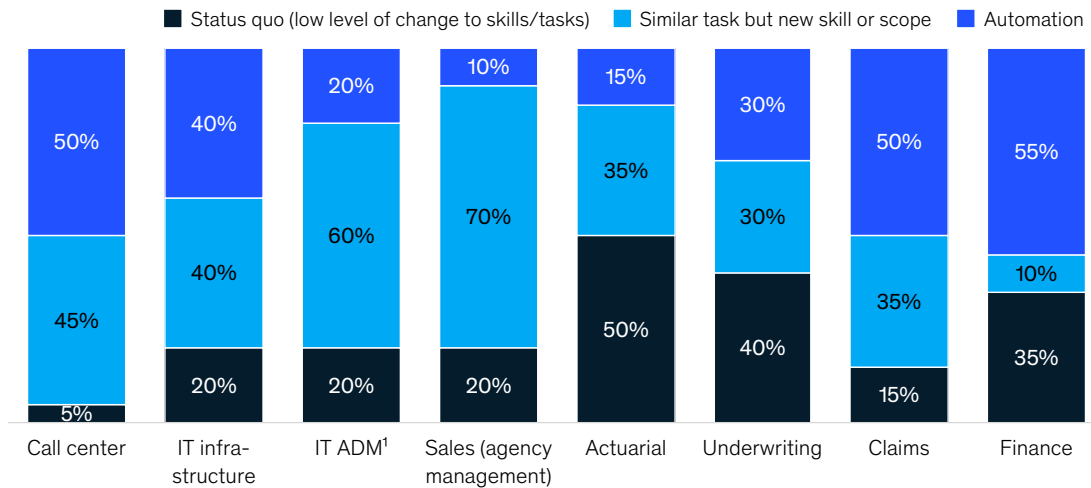
Technological skills are vital, but better cognitive and socioemotional skills will be just as in demand in the future.

Research also finds that the pace of skills shifts is accelerating, so attributes like adaptability and learning agility are critical.

Source: McKinsey Global Institute

Exhibit 3

Automation will change the mix of skills required for key roles in insurance.



¹ Application maintenance and development.
Source: McKinsey Insurance Practice benchmark

Research also found that 10 to 70 percent of tasks will experience a significant shift in scope. This development means new emphasis. For instance, a claims handler might be even more focused on providing great customer experiences. Professionals in the insurance industry might also take on different responsibilities. For example, underwriters or actuaries might work more with data science and advanced analytics: up to 30 percent of underwriting roles could involve greater interaction with data scientists and use of quantitative tools. Another 30 percent of the roles could be automated, reducing routine, low-value tasks that are mostly manual today. Underwriters will not become programmers themselves, but they will work extensively with colleagues in newer digital and data-focused roles to develop and manage underwriting solutions.³

Our survey of insurance executives shows that underwriting will not only become more technical but also require more social skills, agility, and adaptability. Respondents emphasized that more automation and analytics-driven processes will produce a greater need for soft skills to shape and interpret quantitative outputs. Adaptability will also become more important for underwriters to stay responsive to changing risks and learn new techniques as technology changes.

Depending on their sector focus and companies, respondents gave a wide range of estimates for the scale of both automation and changes in scope. However, almost every insurance role will change significantly in the coming decade.

Talent strategy cannot be business as usual

By definition, meeting the insurance industry's talent needs will require different talent strategies. We've identified five critical elements insurers should consider.

1. Talent strategy requires the same intensity as core business strategy

Many insurers' business strategies are focused on modernization and digitization, but the industry faces significant hurdles in sourcing the necessary talent. Bridging these gaps means addressing talent strategy with the same intensity and rigor as business strategy: quantifying needs, translating these needs into targets, committing to investments, reallocating resources significantly, and instituting discipline around execution.

On the macro level, when considering groups of talent at scale, experience with some of the early movers suggests successful transformations broadly involve three phases: scouting, shaping, and shifting. While these phases are intuitive, each includes measures that are new to most organizations.⁴

The process starts with a scouting period in which a company documents its strategic ambitions, identifies the most important talent gaps, and assesses the organization's readiness to meet near- and medium-term goals. Then future roles are defined by identifying specific changes to the company's—and practitioners'—ways of working. Finally, in the shifting phase, organizations adopt the necessary changes on a large scale and in

³ For more on the future of underwriting, see Ari Chester, Susanne Ebert, Steven Kauderer, and Christie McNeill, "From art to science: The future of underwriting in commercial P&C insurance," February 12, 2019, McKinsey.com.

⁴ For more on the process, see Bryan Hancock, Kate Lazaroff-Puck, and Scott Rutherford, "Getting practical about the future of work," *McKinsey Quarterly*, January 30, 2020, McKinsey.com.

a way that is sustainable. This approach can be a significant departure from typical workforce planning at most insurers because of the management attention, level of effort, and focused investment that powers this transformation.

Experience tells us that shifting talent and strategic demands creates shifts in critical roles that either create value or enable value creation. Organizations should fill these roles by connecting talent to value, which involves evaluating every candidate's knowledge, skills, abilities, and experiences.⁵ Following this framework allows organizations to assess and compare candidates consistently and create optimal conditions for the organization and for candidates.

2. Upskilling and reskilling are as important as—if not more than—attracting new talent

Reskilling is critical to meeting insurers' future talent needs because hiring externally for the

skills required is costly and difficult. Replacing an employee can cost more than 100 percent of the role's annual salary while successful reskilling can cost less than 10 percent of a role's salary.

Significantly, our cross-industry research found that digital skills are becoming more scarce. Demand for agile skills are four times that of supply, and demand for digital skills is up to two times greater than supply. Most companies also fail to fill new roles at the required rates. It is even more challenging in the insurance industry, particularly for digital, design, and analytics roles. Indeed, the insurance industry struggles to compete with other sectors for tech talent, especially tech companies (Exhibit 4).

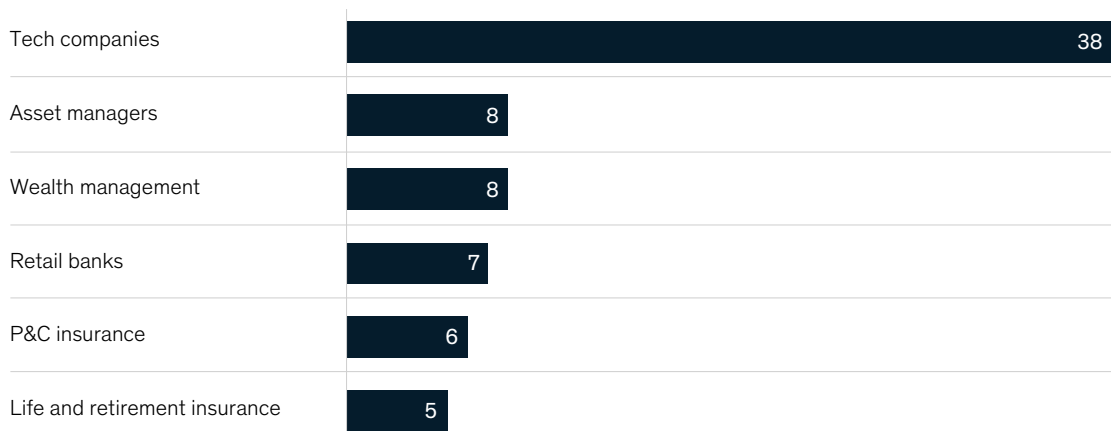
The companies that are most successful at reskilling and upskilling their workforces start by achieving a detailed understanding of their workforces' current capabilities and the ones the organization

⁵ For more on linking talent to value, see *McKinsey Organization Blog*, "4 strategies for linking talent to value," by Sarah Pobereskin and Bill Schaninger, December 19, 2017, McKinsey.com.

Exhibit 4

US insurers have less digital and technology talent than other financial-services companies.

% of full-time equivalents (FTEs) in digital roles¹



¹ Software engineering, design, product management, data and analytics. Nominator and denominator includes only FTEs based in the United States. Source: Outside-in analysis of LinkedIn and Glassdoor data

will need. They then craft a plan to bridge this gap. For instance, an insurer may design a training program to reskill data analysts as data scientists or to enhance existing actuarial skills within the organization with new analytics techniques.

Most insurers lack vigorous learning and development (L&D) infrastructure, but it is critical to reskilling or upskilling the workforce. Best-in-class L&D programs incorporate up-to-date insights on adult learning methods, and mix in-person, digital, and—especially important—on-the-job learning, where 80 percent of adult learning happens. These programs also use new technologies to make digital learning more effective and engage with tools such as virtual reality and adaptive personalized learning. Because technology and the associated digital skills are fast-moving, L&D programs must be adaptable to help the workforce refresh its capabilities.

3. ‘New’ is not enough; in insurance, it’s particularly critical to assimilate new skills and profiles into an established status quo

Insurance companies often struggle to integrate new capabilities—data science, digital, design—into the core business. Several high-profile attempts to build digital or analytics capabilities in insurance (led by teams of scientists housed in centers of excellence) have failed for this reason. These attempted transformations had significant potential, but the changes required were ultimately not adopted by frontline staff.

Indeed, some frontline stakeholders were not necessarily receptive to change, especially when the way they were used to working had made them successful in the past. At the same time, proponents of new skills were not familiar with the intricacies of insurance and the constraints of legacy technological environments such as filing processes, the dearth of clean data, and complex interdependencies across functions.

To help bridge this gap, companies should have translators who act as intermediaries between employees in newer technical roles and those in the legacy business. Translators should be familiar with the legacy business and the new capabilities and teams so they can help maintain fluid communication in a shared language between the two. However, translators should be a stopgap measure. Over time, we expect the need for translators to diminish as current employees build more technical acumen and newer hires come to a deeper understanding of the business. Indeed, leading companies have accelerated this transition by helping employees incrementally build skills and by adopting incentive structures and leadership models that serve these new imperatives.

4. Updating the talent mix is an opportunity to promote much-needed diversity

The insurance industry has an opportunity to increase diversity within its ranks through strategic talent planning. Cross-sector research on global companies found that more-diverse companies tend to perform better.⁶ Compared with banking, the insurance industry has more gender diversity for early career employees but less ethnic diversity (Exhibit 5).

As staff members move into more senior roles, nonwhite and nonmale employees are also promoted more slowly, resulting in less gender and ethnic diversity in the management and senior ranks.

Increasing diversity within insurance companies is an urgent priority. A more diverse workforce creates a more dynamic culture that incorporates broader perspectives, facilitates more collaboration, and fosters more creativity. Such an environment is also more appealing to millennials and improves the industry’s ability to attract new talent. Customers increasingly choose the companies they trust and do business with based on how well these

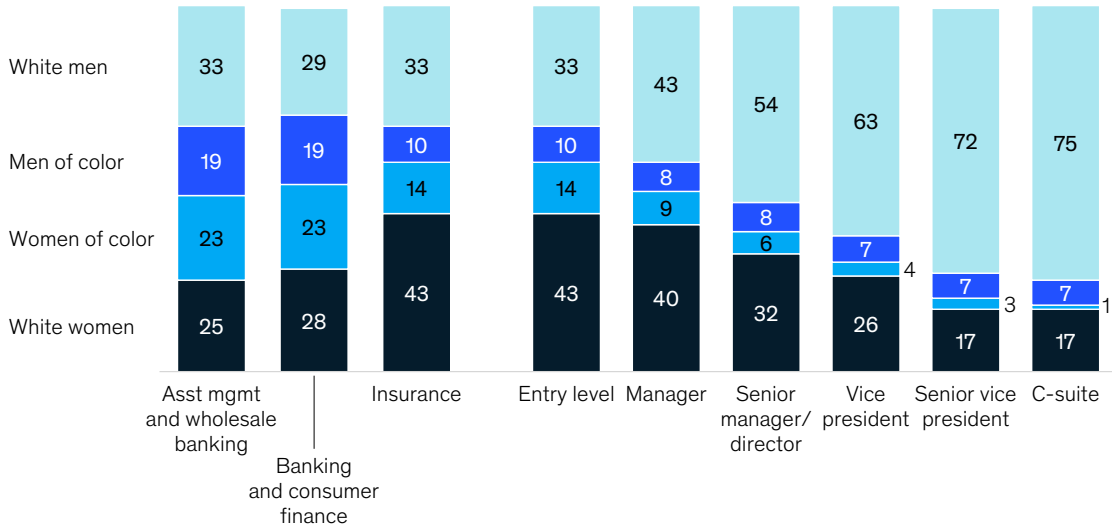
⁶ For more on supporting gender diversity in financial services, see Stacey Chin, Alexis Krivkovich, and Marie-Claude Nadeau, “Closing the gap: Leadership perspectives on promoting women in financial services,” September 6, 2018, McKinsey.com.

Exhibit 5

Diversity decreases as insurance-industry employees advance in their careers.

Entry-level employee mix across industries, % share¹

Insurance industry: Employee-mix shift across tenure levels, % share¹



¹Figures may not sum to 100%, because of rounding.
 Source: *Women in the Workplace 2017*, a joint report from McKinsey & Company and LeanIn.org, 2017

companies demonstrate prosocial values such as social equity. Diversity planning must be an integral part of talent strategy and workforce planning, which is often not yet a reality at many insurance companies today.

5. Insurance companies should change to offer the dynamic, vibrant work environments candidates seek

Attracting new talent and building new capabilities will only happen in a culture that embraces innovation. Such cultures are uncomfortable for many companies. Innovation requires agility and—crucially—more acceptance of failure than is common today.⁷ It also requires a faster pace of iteration, more space to experiment, much more frequent cross-functional interactivity, and being

highly attuned to changes in the world and more responsive to those changes.⁸ However, insurers often fall short in creating this type of culture.

According to the results of a self-assessment designed to assess companies' digital maturity,⁹ the 42 insurance companies (out of 700 cross-sector survey participants) lagged behind other industries on metrics related to culture, agility, testing and learning, collaboration, and external orientation (Exhibit 6).

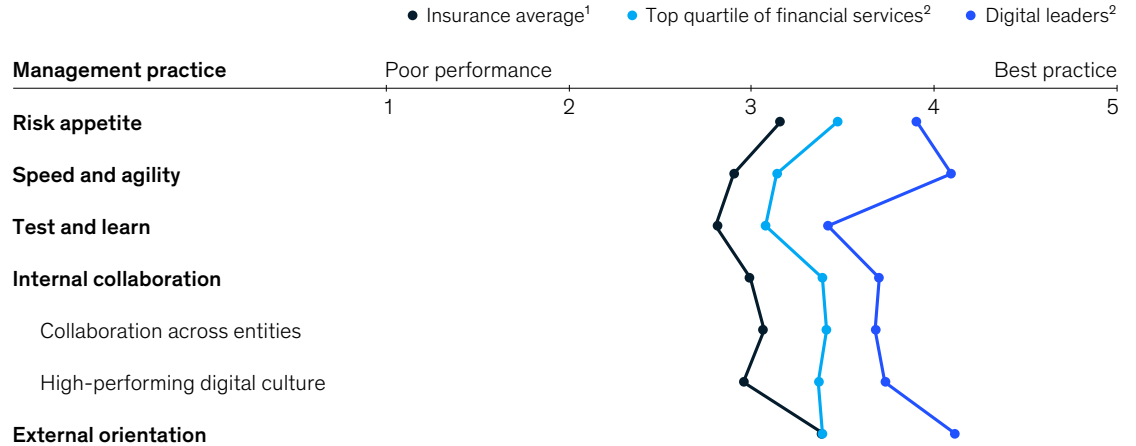
Such results are not surprising since insurance is a balance-sheet business in which risk aversion is a healthy trait. The key will now be to find the right balance between the conservative instinct with controlled innovation and risk-taking.

⁷ For more on agile organizations, see Wouter Aghina, Karin Ahlback, Aaron De Smet, Gerald Lackey, Michael Lurie, Monica Murarka, and Christopher Handscomb, *The five trademarks of agile organizations*, January 22, 2018, McKinsey.com.
⁸ For more on applying the art of the possible in the workplace, see JP Higgins, Elixabete Larrea, Swapnil Prabha, Alex Singla, and Rohit Sood, "How to extract maximum value from a zero-based design approach to customer journeys," January 24, 2019, McKinsey.com.
⁹ For more on this metric, see Tanguy Catlin, Jay Scanlan, and Paul Willmott, "Raising your Digital Quotient," *McKinsey Quarterly*, June 1, 2015, McKinsey.com.

Exhibit 6

Insurers lag behind other companies on cultural traits that facilitate digital maturity.

Average Digital Quotient (DQ) assessment



¹ Average of all insurance companies represented in the DQ survey, across geographies.

² Average of top-quartile financial services companies represented in the DQ survey, across geographies.

³ Average of top-quintile scores by question in the DQ database, across industries and geographies.

To create a more vibrant culture that will not just attract the right talent but also enhance the workforce's efficacy, details of the work environment and experience matter. Millennial focus-group participants who have worked in insurance and other industries perceive the insurance industry's work environment as "stuffy," "stifling," and lacking the vibrancy of many other sectors. Accordingly, several leading insurers have taken bold steps to change.

For example, these insurers changed their working environments, adding redesigned office spaces, satellite hubs in new cities, and even spin-off units that work under different norms from the parent company. These units are creating ways of working—

and physical spaces—that encourage more varied interactions and that bring staff figuratively and literally out of their cubicles. These new groups have also begun to identify and address the mindsets and behaviors—habits—that tend to limit the innovation and creativity insurers need.

The insurance industry has always placed a premium on having great people; insurance is built on trust—the promise to pay future claims when calamity strikes. As the industry continues to modernize in the digital age, successful companies will be those that address the scarcity of human capital and successfully conduct talent transformations.

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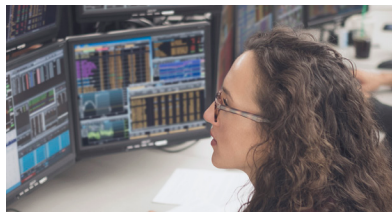
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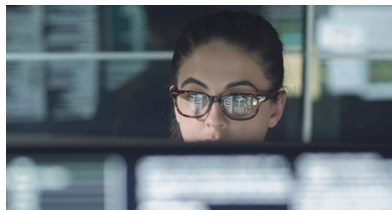
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