



Innovation Is Key

How Chubb engaged all of its employees to generate 1,500 new product ideas.

by Jon Bidwell

Innovation brings to mind major technological breakthroughs such as electricity, refrigeration, automobiles, powered flight and the telephone, and more recently, mobile phones, personal computers, CDs, DVDs and the iPod.

While innovation can be groundbreaking, it is more often the incremental improvement of existing technologies and methods—the sum of many small but constant changes that over time can transform the way a company or industry does business. Successful property/casualty insurance companies—today and in the future—must demonstrate this ability to consistently and constantly produce new products, service improvements and delivery enhancements.

But as globalization and technology continue to spread across organizations' boundaries and infrastructures, their ability to innovate efficiently and at an even-faster pace becomes increasingly difficult. Clearly, this new world order requires a new framework within which to innovate.

Consistent innovation seems to be

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MEETING OF THE MINDS: Twenty-four members of Chubb's cross-functional team score 24 idea pitches on their laptops after hearing their colleagues' presentations during the company's Motivate+Drive+Deliver innovation event last year.

particularly challenging for the insurance industry. Absent a natural disaster or systemic capacity shortage, property/casualty insurance is a relatively low-interest subject. Certainly, a new automobile policy generates much less excitement and satisfaction than the car itself. The insurance product is intangible at the time of sale and insurers are challenged to communicate the tangibility and relevance in advance of the potential claim. And, since the majority of customers will

► **At Issue:** Successful property/casualty companies must constantly produce new products and improve service and delivery.

► **What It Means:** Chubb's executive management decided to increase the scope and speed of innovation within the company.

► **The Payoff:** By using an open innovation platform, Chubb has generated more than 1,500 new ideas to-date from its employees.

never experience a claim, this challenge keeps renewing itself.

Thus, the insurance industry faces the dual challenge of building products that evolve with the changes in customers' lifestyles and business pursuits, and figuring out how to package products in a way that clearly communicates the relevance in design and performance to those same consumers.

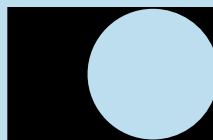
Success Stories

Thankfully, the insurance industry doesn't lack examples of long-term success. Progressive is a leading example of building a successful business on a pipeline of disruptive and sustaining innovations.

"Disruptive innovation" is a concept invented by Harvard professor and author Clayton Christensen. It describes a process by which a product or service takes root initially in simple applications at the bottom of the market and then relentlessly moves up in the market, eventually displacing established competitors.

In 1991, Progressive was one of the first companies to use credit scoring in rate making. Combined with a granular approach to territorial rate making, credit scores allowed Progressive to more finely tune rates for the most-desirable customer segments. But rather than resting there,

About Chubb



Headquarters: Warren, N.J.

Chairman, President and CEO:
John D. Finnegan

No. of Employees: 10,400 in 120 offices in 27 countries

Ranked: 11th largest U.S. property/casualty company based on net premiums written

Product Mix: 25% specialty insurance, 43% commercial insurance, 32% personal insurance. 90% of specialty lines writings represent professional liability coverage, 10% is surety

Sources: Chubb; A.M. Best Co.

Progressive moved on to revolutionize claims service with its roadside adjusting service, followed by the first scaled foray into real-time, Internet-based policy underwriting and service. Roadside claims morphed into services that now include negotiating the purchase of a replacement vehicle for total losses.

More recently, Progressive has begun to advertise its Name Your Own Price technology that allows customers to customize policies to their coverage needs and budget. As a whole, the property/casualty industry is not bereft of innovations. Insurers

offer suites of professional liability products, targeted at private companies, to meet the changes in litigation exposure faced by these firms.

Chubb and other companies have stepped in to provide private wildfire defense services to customers in the western United States. Identity theft coverage has grown and evolved as customers moved more of their financial life into online environments. And, of course, Lloyd's continues to fulfill its 321-year-old role of pioneering new forms of coverage.

Creating a New Culture

The challenge to the 21st-century property/casualty insurer is threefold. First, insurers must be able to sense changes in market needs before they are obvious to other participants. Second, they must be able to generate and screen ideas for new products, enhancements and services quickly and efficiently. Finally, they must understand how to make certain the most promising ideas find the financial and human resources needed to bring them to market. Most firms have some level of innovation capability already in their "DNA." The key is leveraging this capability at all levels within the organization and increasing the speed and scope of idea generation and transformation into marketable products.

Why Innovation is Important

Before understanding this latest predicament that companies find themselves in, it's important to define innovation. Put simply, an innovation is a new way to do something. The word may refer to incremental, radical and revolutionary changes in thinking, products, processes or organizations. The capacity to innovate is an important requirement in today's business environment for three reasons:

1. Globalization is flattening the world and leveling the playing field, opening the doors for new capital, competition and new competitive markets. Capital can be deployed with lightning speed in global financial markets. Combine capital availability, a global talent base and much more powerful and inexpensive technology solutions for insurers' front and back offices, and you have a market with the ability to rapidly sense when consumers' appetites are shifting and to build the products and services they want.

2. Real-time access to information has become

ubiquitous and leveled the playing field between companies and the customers they serve. Twenty-five years ago, consumers had few sources of information or comparison of insurance products. Today, information is merely a Google-click away from the buyer's desktop or palmtop screen. Insurance consumers, whether individuals or businesses, can increasingly take control of the research and purchase-decision process.

3. Innovation is becoming increasingly important to avoid commoditization of products and services. The current economic downturn might allow some in the industry to eschew innovation as an "optional" investment, which can be cut to minimize expenses. But companies do this at their own peril, risking the first and biggest step toward the "Graveyard of Irrelevance," the home of companies that fail to provide compelling reasons, other than pure price, to buy their products. The end game is falling margins, market share and eventual extinction.

Chubb has produced consistent innovations across its commercial and personal insurance businesses. However, executive management recently determined that innovation would play an increasing critical role in future success and took a series of steps to increase the scope and “velocity of innovation” within the company.

They chose to pursue an “open innovation” model, branded as “Motivate+Drive+Deliver,” that would leverage the in-market knowledge of employees around the world on a real-time basis.

A Web-based collaboration platform allows employees to submit and help their peers build new ideas for products, services and “ease-of-doing business” techniques.

Importantly, this process occurs in an open environment; all participants can see the process unfold and the end results. “Events” are conducted on a global or business-unit basis, soliciting ideas about both the broader spectrum as well as more-specific business problems.

The benefits are clear.

All employees are engaged in the process, providing their collective insurance “horsepower.” Transparency removes problems of silo thinking and individual biases.

Consistent communications from senior management in multiple forums reinforces the importance of universal participation.

One point of significant leverage comes from the fact that while a relatively small percentage of employees

are comfortable generating new ideas, a much larger proportion are good at adding to, or building on, submitted ideas.

Open innovation platforms afford the advantage of tapping “idea generators” and connecting them with the “idea builders.” This allows Chubb to use a simplified idea-submission format, since new ideas are built out rapidly through collaboration.

This “right side of the brain” creative process has worked well at Chubb—in fact, sometimes too well—with hundreds of new ideas being generated and built, typically, in just one or two weeks.

Success, however, depends on how well a firm can match this creative activity with a solid, reliable “left brain” process to rapidly winnow the idea pool to a short list of candidates for funding and development. This is where firms need to be well-organized.

At Chubb, ad hoc teams are picked from across its business units and disciplines to apply quick scoring tools to the portfolio of ideas. Team members then work with the top idea generators to develop and prepare idea pitches.

Finally, business cases are developed around the best pitches, which are presented to an internal venture-funding team.

A critical part of the process involves funding the winners and making sure they have the necessary resources to bring their winning ideas to market.

The company has set aside specific funding—up to a seven-figure investment per idea—to back these approved ideas.

Chubb’s “Motivate+Drive+Deliver” program has generated more than 1,500 new ideas since last fall—with several business cases funded and more in development.

(In the latest event, Chubb reached out to top-performing personal insurance agencies to solicit their ideas on product and service improvements.)

Most importantly, the firm has shifted the innovation “center of gravity” to line employees and now out to agents. This has embedded innovation more deeply into the day-to-day operations and has also built a better pipeline of new ideas for the future.

By harnessing technology and brainpower across the organization, insurers can differentiate themselves beyond price—and show the world that they are capable of keeping up with evolving needs created by scientific advances and other societal innovations. **BR**

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The iPod Model

It is easy to fall into the trap of thinking that innovation’s success is measured by the number of unique, show-stopping products a company can introduce. In any industry, insurance included, disruptive innovations of that magnitude are hard to come by, and one could argue that when they do, the disruptive nature is often not obvious at the outset.

Companies should strive for something more akin to the “iPod Model.” Success is built around the ability to cleverly combine many existing elements (none of the components of the original iPod were new technology) in a



new and unique way—then ruthlessly refine and improve on what they built.

Think of the original iPod begetting the Mini, the Nano, the Shuffle and the Touch, culminating in the iPhone, already in its third release after just two years. While technology does move on a faster timetable—much of Apple’s innovation was, in fact, sustaining and incremental—the important lesson is that Apple organized itself around sustained innovation as the core factor for success.

This is the challenge for the successful insurance enterprises of the 21st century.