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THE CAPCO INSTITUTE  
**JOURNAL**  
OF FINANCIAL TRANSFORMATION

TECHNOLOGY

Innovation as a competitive advantage  
– experiences and insights from Baloise

ALEXANDER BOCKELMANN



**INSURANCE**

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**DEAR READER,**

Welcome to edition 54 of the Capco Institute Journal of Financial Transformation.

In this edition we explore recent transformative developments in the insurance industry, through Capco's Global Insurance Survey of consumers in 13 key markets, which highlights that the future of insurance will be personalized, digitalized, and connected. Other important papers cover topics high on global corporate and political agendas, from ESG and climate change to artificial intelligence and regulation.

The insurance industry has been undergoing transformation in recent years, with insurers responding to the needs and expectation of tomorrow's customers, for products that were tailored, flexible, and available anytime, anyplace, and at a competitive price.

COVID-19 has accelerated such change, forcing insurers to immediately implement programs to ensure they can continue selling their products and services in digital environments without face-to-face interaction. New entrants have also spurred innovation, and are reshaping the competitive landscape, through digital transformation.

The contributions in this edition come from a range of world-class experts across industry and academia in our continued effort to curate the very best expertise, independent thinking and strategic insight for a future-focused financial services sector.

As ever, I hope you find the latest edition of the Capco Journal to be engaging and informative.

Thank you to all our contributors and thank you for reading.

A handwritten signature in black ink, appearing to read 'Lance Levy', with a stylized, flowing script.

**Lance Levy, Capco CEO**

# INNOVATION AS A COMPETITIVE ADVANTAGE – EXPERIENCES AND INSIGHTS FROM BALOISE

ALEXANDER BOCKELMANN | Group Chief Technology Officer, Baloise Group

## ABSTRACT

The ability to innovate is key for any company to survive and prosper over time, independent of its industry. Digital transformation has significantly accelerated the innovation cycles and led to the megatrends that are groundbreaking for the insurance industry. With its corporate strategy Simply Safe, the Swiss insurer Baloise is facing the challenges of continuously evolving itself. This article shows how an insurance company can structure the innovation process in a way that the strategic focus is not lost and explains why the corporate culture plays a decisive role in this.

## 1. INTRODUCTION

All businesses follow a lifecycle influenced by the balance of market forces and the demand for, or substitution of, the products or services they offer. The lifecycle of a business is often described in five stages, from initial development of the product or service to market entry, growth, stagnation, and then decline. Depending on the circumstances, the need for adjustments or innovation to sustain an existing offering, or to develop a new offering, might vary based on the competitive forces in the particular market or industry. Ultimately, however, innovation is crucial to all successful business models.

Numerous studies have highlighted the strategic importance of innovation for business, for example, in the form of disruptive innovation, with its potential to exploit niche segments and then mass markets over time.<sup>1</sup> It has also long been known that innovation needs to be managed on an ongoing basis so that its positive impact does not wane over time, as described by Everett Rogers with his S-curve theory of innovation.<sup>2</sup>

Although the challenge is well understood, the implementation of an effective innovation strategy is very difficult. Successful innovation models vary from industry to industry and, in some cases, also by region and market. Baloise is a financial services company based in Western Europe offering insurance, asset

management, and banking. We have made innovation part of our group's Simply Safe strategy and identified and employed multiple levers for the effective and ongoing management of innovation. Reflecting on our approach will hopefully offer you some insights into the pros and cons of different options for your business and innovation strategy.

## 2. MEGATRENDS ARE SHORTENING INNOVATION CYCLES

Baloise has a proud history, stretching back over almost 160 years, of meeting the financial and insurance needs of its customers. Although efforts to innovate were undoubtedly made down the years, the pressure to differentiate and diversify our products, processes, and business model appears to have grown steadily over time, until innovation became a core focus of our business strategy.

More recently, the pressure to innovate has been increasing due to the megatrends influencing our lives at all levels – from societies to business to individuals. To illustrate this point, we have highlighted some key trends that are progressively changing the landscape for our financial services business models and pushing the adjustment and innovation process towards ever shorter cycles.

<sup>1</sup> Christensen, C. M., 1997, The innovator's dilemma: when new technologies cause great firms to fail, Harvard Business Review Press

<sup>2</sup> Rogers, E. M., 1962, Diffusion of innovations, Free Press

## 2.1 Digitalization

Digital technologies are increasingly present in our daily lives, and this means that people now expect to be able to engage with us across multiple channels. This is driving the need for innovation at the level of operating models and technology in order to meet and exceed the changing expectations of customers and business partners. Digitalization, however, also lowers entry barriers for new business models and makes the entry of new competitors and the transfer of business models into new markets faster and cheaper.

## 2.2 Personalization

Customers' expectation of personalized advice, offers, and services, coupled with the trend towards digitalization, creates a need for innovation in products, processes, and technologies – to name but a few areas – and for pushing the envelope on the availability, quality, and analysis of data, often in real time as part of a digital customer journey. Whereas in the past customer expectations generally differed depending on the sector, the expectation of personalization appears to be ubiquitous across industries.

## 2.3 Connectivity

The growing connectedness of business models and information sources changes how businesses position themselves and act in markets by allowing for new network processes and services. Modern supply chains and new and coupled service offerings from business partners require growing levels of data and process integration. Coupled with the trends of digitalization and personalization, this also enables the creation of new service ecosystems, with multiple businesses creating one customer experience and/or product offering where in the past it had only been possible to offer products individually and independently of one another.

## 2.4 New work

Traditional career paths are dissolving, while purpose and individual empowerment are becoming more important for today's workforce. This puts pressure on businesses to be more innovative when it comes to their operating models. The provision of new employee experiences is becoming critical in the hunt for talent and in providing work environments that are both effective and competitive. New ways of working focused on incremental improvements (agile working) are also improving the integration of customer feedback and flexibility. However, the development and establishment of these new methods requires a shift in culture and modus operandi on a scale equivalent to past industrial revolutions.

## 2.5 Transport

The world of transport is changing rapidly as populations grow and urbanize, and we shift to more efficient and sustainable formats. The notion of triple zero, i.e., zero emissions, zero accidents, and zero ownership, and the work that is being done on this, will not only change the way we get from A to B but also shake the foundations of the traditional motor insurance business, as risks shift from drivers to the algorithms driving the autonomous car. This will transform the product and demand landscape for non-life insurance companies operating in the traditional motor insurance segment.

## 2.6 Security

Security is a megatrend at both a geopolitical and individual level. For businesses, the megatrends of digitalization and connectivity are driving innovation pressure as new cybersecurity risks are emerging and new data and digitally enabled offerings and services create new security needs and approaches. For insurance companies, these newly emerging risks also present a new market opportunity in helping to mitigate the risk for individuals and businesses.

Of course, other megatrends, as well as new trends in traditional and local markets, are also changing the competitive landscape. And these are some of the key trends that influenced our Simply Safe strategy and innovation strategy at Baloise.

## 3. CULTURE AS A CRITICAL ENABLER FOR INNOVATION

For some industries, such as pharmaceuticals, ongoing innovation is part of the business model's DNA. In these industries, a systematic innovation process and roles and responsibilities are well established and have proven their worth over time.

For Baloise as a player in the financial services industry, the competitive pressures for fast and potentially transformative innovation were not as strong. Hence, we needed to make a conscious effort and decision to develop our innovation capabilities and view an effective system of innovation management as a competitive advantage.

This step was taken in 2016 with the launch of our Simply Safe strategy. The strategy was based on the concept that happy and engaged employees lead to satisfied and loyal customers, which in turn leads to commercial success. Together with the focus on employee engagement and empowerment in the organization through more agile ways of working, the

agenda at senior management level included a special focus on innovation as a lever for strategic success, which created room, resources, and recognition for innovation activities. On the execution side, establishing an open innovation culture was a critical factor in helping to challenge our internal beliefs and enhance our innovation capabilities.

It is often recommended to relocate innovation activities to a lab or remote environment outside of the core business in order to create a set of greenfield conditions with fewer cultural and bureaucratic legacy effects. This can be an advantage for the incubation of new and self-sustaining innovations or future stand-alone businesses. We followed this approach with our digital insurance and insurtech spin-off FRIDAY<sup>3</sup> in Germany. This business started with a “garage team” to provide the maximum degree of freedom to rethink insurance for the 21st century.

However, if transformation of the core business is the intention, separation of the innovation activities creates distance and cultural differences that often make it hard to bring innovations back into this core business. Hence, if the objective is to change the core business, the core of the culture needs to change too.

At Baloise, we wanted to create a spirit of ownership, entrepreneurship, and innovation throughout the company, consequently, we made innovation a focal point for the core organization as well. Challenging the status quo has become part of our strategic transformation and we try to include employee-driven innovation on our journey by imbuing the workforce with a spirit of entrepreneurship and ownership. This is facilitated by granting decision-making authority to the employee experts who are closest to the work. These experts generally have the best understanding of the daily challenges and often have great ideas for how to improve and innovate incrementally over time.

To also challenge ourselves on a bigger scale, including through potentially more transformational innovations, our process integrated partners, peers, academics, and external experts right from the outset. It is an approach we call open innovation. The assumption was that although we are strong in our core business areas, we want to leverage the expertise from outside the company to get new ideas, new perspectives, and new solutions for our innovation activities.

This gave us new scope to come up with fresh solutions, and many ideas were generated in the early phases of the journey. We opened the ideation diamond wide and experimented and learned a great deal. In hindsight, this period might have not been as focused as we would have liked, but it did allow for many learning experiences and a broad range of innovation activities. At a later stage in the journey, we closed the ideation diamond again and sharpened the focus by defining target areas and topics for our innovation activities. This called for rigor, as good ideas might pop up everywhere but focus was required for us to improve the traction in the strategic target areas.

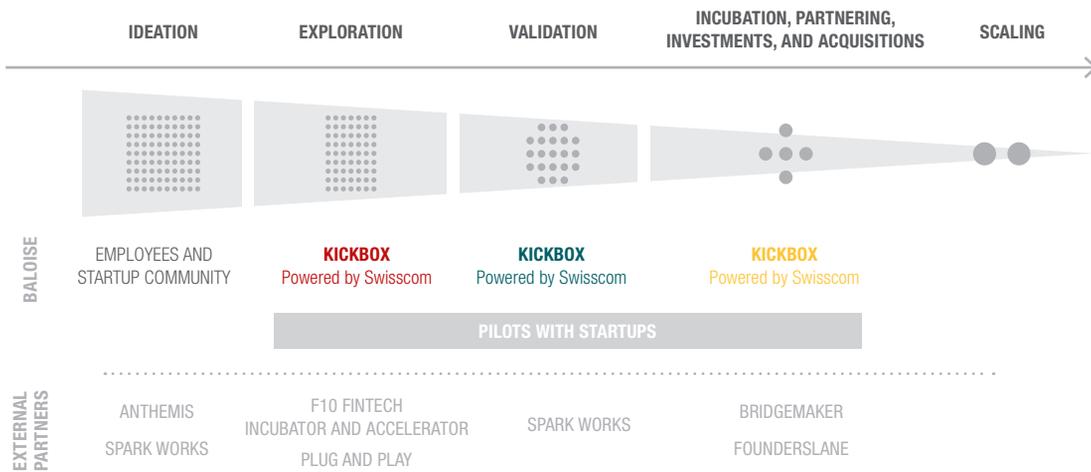
An innovation culture should allow for the possibility of failing fast, and often, in a safe and learning-oriented environment. Mistakes should be reviewed and the lessons learned should influence future activities and iterations. A healthy culture of failing forward also means expecting competence and innovation approaches that are driven by valid hypotheses. What do we want to try, what do we intend to learn, and how do we measure success? All of these issues need to be defined from the outset. To ensure an efficient and effective innovation culture, failures caused by incompetence should have different consequences and not necessarily be tolerated. There needs to be an underlying hypothesis driving the innovation and some idea of the parameters for judging a successful outcome.

#### **4. THE PORTFOLIO APPROACH TO INNOVATION**

Unsurprisingly, Baloise also follows a portfolio approach to innovation, as shown in Figure 1. In this approach, the innovation process is segmented into different stages with specific steps for evaluating success and interim decision points. This approach is able to generate a great deal of ideas with a high degree of freedom in respect of the form of innovation while maintaining a strong focus on objectives. At each stage of the process, most ideas are dropped, with only a select few progressing to the next stage, in which they obtain additional resources for their further development and growth. The type of innovation targeted in this approach is mostly focused on reimagining the current business model and processes or diversifying of the business and innovating new market opportunities. It is less about sustaining innovation of existing processes. This is generally managed via a continuous process improvement approach in the respective business areas.

<sup>3</sup> <https://www.friday.de/>

Figure 1: Portfolio approach to innovation



A key challenge of this portfolio approach is maintaining a balance between the amount of ideas generated and the capability of the organization to nurture and execute them. Particularly when the ideas come from employees, who can become frustrated if they have to wait too long for a decision on their idea or there is a lack of resources to efficiently move the idea to the next phase of the innovation process. Another pitfall to avoid is concentrating only on individual parts of a process. In a garden hose, the section where the diameter is smallest ultimately determines the overall efficiency. And it is no different for a chain of processes. Introducing an innovation to only one process or part of a process runs the risk of losing sight of the overall end goal and can lead to bottlenecks.

This is a typical challenge faced, for example, when building new and optimized digital customer touchpoints and sales processes. If the related back-office processes are not automated as well – perhaps once the touchpoint has been piloted in the market – these slower processes will lead to growing backlogs in your operational departments from the new digital sales channels. Your new digital customers might have to wait an unacceptably long time for their enquiry or order to be processed and your back-office staff might become overwhelmed.

It is, therefore, advisable to be aware of the implications of new ideas and to address them accordingly as the idea is nurtured and moved along the innovation pipeline. At Baloise, we address this problem by leveraging a cross-functional innovation board that challenges the ideas and tries to identify unintended consequences of a new approach or solution for different parts of the business.

A general challenge is the scale of innovation and the financial commitment required to bring the ideas in your portfolio to fruition. This is especially true if you aspire to invest in, or acquire, new or more established companies with the intention of growing and scaling their ideas.

If you are a small or medium-sized enterprise, the annual budget for such activities might be limited. As you do not know which idea will prove successful in the long run, you need to invest in multiple ideas. This dilutes your investments but is essential for building a portfolio of ideas. Over time, the ideas will ideally mature and require additional capital. Business-to-consumer ideas eat up a particularly large amount of cash because the costs of acquiring the product or service and brand are not known at the outset. Hence, at a particular point in time, your innovation budget might not stretch far enough to fund the number of maturing ideas or even your most promising ideas. More capital is needed, and this is when you might need to consider bringing additional partners and investors on board to fund the next steps.

The innovation portfolio approach, therefore, often also requires a degree of upskilling in startup financing and venture capital, and not just when it comes to the innovation management processes. You may also need to include a strategic review on which companies or ideas you want to control or where you want to become a minority stakeholder or even withdraw entirely.

## 5. IDEATION – THE STARTING POINT OF INNOVATION

At Baloise, we utilize multiple input channels for our ideation processes. As part of our efforts to foster an entrepreneurial corporate culture, we are running innovation campaigns on specific topics and strategic areas in order to leverage the ideas and expertise of our staff. But particularly in established industries such as financial services, whose business models remain more or less unchanged for long periods of time, generating transformative ideas can be a challenge. It is simply not in our DNA. This is why, at Baloise, we strongly advocate for an open innovation approach that also includes external partners and stakeholders. This brings new perspectives, experiences, and capabilities to the innovation and ideation process.

One way of getting the outside-in view is to set up a startup scouting community and to work with startup networks, accelerators, and incubators, such as the Plug and Play Tech Center. Exposure to the dynamic world of startups might prove overwhelming if you are in the early stages of creating an innovation process. And for all the many great ideas that are produced, only a handful are ever successfully incorporated into the core business. There could be many reasons for this: cultural challenges, a lack of expertise in how to work with startups, competing priorities, a lack of technical and data integration capabilities, etc. After a period of going out into the world and looking for interesting ideas, we have shifted our approach to identifying internal needs and action areas and then looking for potential solutions in the startup space. The advantage of this new approach is stronger internal buy-in and alignment with priorities. The disadvantage might be that the more transformational ideas may be missed if the search parameters are too focused. Regardless, we have seen a huge return on establishing a permanent team, including IT experts, who specialize in working with startups, since it also helps to bridge the gap between their expectations and workstyles and the more traditional core business areas. This approach is demonstrably adding value for both sides of the new partnerships.

In recent years, the growth of fintechs and insurtechs has generated substantial momentum that is also influencing our innovation and ideation activities. In Anthemis, a global leader in startup investments and development, Baloise has a

strategic partner and a joint corporate venture capital vehicle for identifying, investing in, and developing mainly early-stage startups in segments such as fintech, insurtech, and sustainability. The strategic objectives are to analyze emerging and developing local or global trends, to identify potential new business partnerships or ideas, and to scope out the financial returns from future exits as the startups grow and access fresh rounds of funding. For the ideation process, analytical studies of the startup market are providing food for thought, while the investment business models are an opportunity to work on innovations with others.

Further ideation input originates from partnerships with innovation management consultancies such as Spark Works. We worked with Spark Works to compile a report called “The future of mobility”,<sup>4</sup> for example, which identifies and describes the drivers for change in the transport space as well as possible scenarios for driving forward our internal campaign focused on transport innovation and future transport services.

## 6. EXPLORATION – THE FIRST STEPS IN SHAPING A NEW IDEA

Developing and realizing an idea is the first and often hardest stage of the journey. A helpful tool we are employing for employee-driven innovation is the Kickbox approach.<sup>5</sup> This was invented by Adobe and refined by Swisscom, a Swiss telecommunication company, and is now used by many companies to structure and support an idea throughout its lifecycle. In the first step, with the red Kickbox, the employee is given support in analyzing their idea, validating it, and presenting it to potential sponsors. The Kickbox journey then continues with blue and finally gold boxes, with more resources and expert support being provided in the later stages of the innovation process.

Baloise is also using startup accelerator programs to explore ideas. Emerging ideas and their owners have the opportunity to become part of a dedicated program such as the one offered by F10, a leading startup accelerator in Switzerland. An additional advantage is the cross-pollination with other entrepreneurs and with the wider startup community. In general, we have seen accelerator programs as more beneficial if an idea has already matured somewhat and is closer to the validation stage, in which a first minimum viable product might already be in field tests with customers. The “cultural exchange” that

<sup>4</sup>Wirth, P., and A. Bockelmann, 2020, “The future of mobility: imagining the world in 2040,” Baloise, February 13, <https://bit.ly/2XvS6Gs>

<sup>5</sup><https://www.kickbox.org/>

working with such startup communities offers adds a great deal of value, turning employees into catalysts of change who can champion new ways of working and new methods of collaboration.

At Baloise, we also experiment with our own startup accelerator programs to explore emerging ideas in specific strategic areas and to potentially identify interesting ideas for future validation. An example of this is our Baloise Mobility Accelerator,<sup>6</sup> implemented in tandem with our partner Spark Works, and its spinoff Sparkademy. This accelerator is our invitation to European transport startups to get support in further exploring their ideas and evaluating the potential for future collaboration with Baloise. The approach is the latest addition to our innovation process and its impact is still to be assessed.

## 7. VALIDATION AND WAYS OF GROWING AN IDEA

Employee-driven ideas follow the Kickbox process with stage gates and pitches to a cross-functional decision-making panel. If successful, the ideas are progressed to the blue and ultimately gold stages of the Kickbox process. This is when the employees can flesh out their idea and market test it with customers. The final outcome may even be the creation of a new business. From a Kickbox campaign in 2019, we had our first employee-driven and employee-owned spin-off in 2021 in the shape of a new company offering transport services.

On the external partner side, we follow a systematic innovation process, in which we can partner with other companies to create joint customer offers and experiences. We also incubate our own companies, such as the aforementioned digital insurer FRIDAY or the mobility platform Mobly in Belgium.

To build a network of related service companies, for example, in our focus areas of home and mobility, we also invest in or acquire strategic startups. We often do so with other strategic investors who can bring additional capabilities and collaborations to the table to help grow and expand the nascent business.

Another key factor in our success is how we differentiate between the intention to buy and sell an investment versus the intention to strategically work with and develop a

business or service offering. The former might lead to an investment via our corporate venture capital arm. Where the intention is to maintain a strategic longer-term business interest, the investment is managed outside of the corporate venture capital vehicle and closer to the core business. This separation is extremely helpful in avoiding strategic confusion and mitigating potential conflicts of interest originating from a mid-term disinvestment goal.

## 8. CONCLUSION

The ability to innovate in ever faster cycles is a competitive advantage that is growing in importance. Forces and megatrends outside the direct business segment or industry are reshaping customer expectations and often require significant changes to business models and processes to be addressed appropriately. These trends, however, also present new opportunities to develop and market new offerings to customers, potentially in partnership with other firms.

To address the challenges and to reap the benefits from such opportunities, companies need to establish an effective and efficient innovation management process. At Baloise, we manage innovation through a portfolio approach and are building up various new internal capabilities to address the topic. At the core of this approach are our efforts to establish a new corporate culture that instils ownership and entrepreneurial spirit in the workforce, and incorporates innovation as a key component. This in turn is proving to be a fruitful and enduring source of innovation ideas. As part of an open innovation approach, this is complemented by the inputs and capabilities of partners, who also form part of the Baloise innovation network.

Particularly in financial services, the innovative capabilities of the growing fintech and insurtech communities need to be integrated into a holistic process as well. At Baloise, this is addressed through a corporate venture capital approach and by partnering with, investing in, acquiring, and incubating startup ventures as part of the “build out of new” service networks.

Simply Safe Season 2 launches in 2022, and it will see Baloise targeting a combined annual portfolio valuation of its innovation activities of CHF 1 billion by 2025.

<sup>6</sup> <https://bit.ly/2XmMXQL>

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