

OLIVER WYMAN

Financial Services

# Strategic Planning in Insurance



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Financial institutions devote enormous effort to strategic planning. At some, the process consumes up to 50 “man years” of labour. But the result often disappoints, neither reflecting the ambitions of the key stakeholders nor helping to steer the firm towards superior performance.

What is going wrong? To help answer this question, Oliver Wyman conducted a survey of European insurers. We found that the weaknesses in planning processes are not intellectual as much as organisational. All surveyed insurers endorse seven axioms of strategic planning (listed below). In practice, however, few have planning processes that satisfy them.

<b>Axiom</b>		<b>What it means</b>
<b>1</b>	Articulate shareholder promises clearly	<ul style="list-style-type: none"> <li>■ Common understanding of internal strategic goals and how each BU will contribute</li> <li>■ The group acts as shareholders’ advocate during the planning process</li> </ul>
<b>2</b>	Overcome information asymmetry	<ul style="list-style-type: none"> <li>■ Group needs to collect sufficient information to add value but avoid paralysis</li> <li>■ BUs need to share data and admit their shortcomings</li> </ul>
<b>3</b>	Install a process with “teeth”	<ul style="list-style-type: none"> <li>■ Trade-offs are required, especially when capital is scarce or expensive</li> <li>■ Group has a clear role as the only participant that sees the entire picture</li> </ul>
<b>4</b>	Tailor targets	<ul style="list-style-type: none"> <li>■ Targets can vary by BU to match their purpose within the group, e.g. emphases on growth vs. profits vs. cash generation</li> <li>■ Not everything should be about the group view</li> </ul>
<b>5</b>	Mirror planning in performance measurement	<ul style="list-style-type: none"> <li>■ Planning must have performance measurement firmly in mind and not sit in isolation</li> <li>■ Otherwise, planning has no ‘stick’ and performance measurement has no credibility</li> </ul>
<b>6</b>	Cope with change	<ul style="list-style-type: none"> <li>■ Strategic planning aims to position the firm in a changing battlefield</li> <li>■ Any process must recognise from the start that change is inevitable and flexibility is required</li> </ul>
<b>7</b>	Separate strategic and financial planning but keep them consistent	<ul style="list-style-type: none"> <li>■ Strategic planning is not budgeting, but it needs links for impact</li> <li>■ Consistent information is crucial for strategy to be seen as relevant</li> </ul>

Our survey revealed several obstacles to the satisfaction of these principles. But the central problem is that the planning process is often misaligned with the structure of the firm. The composition of the planning team, the decision hierarchies and the order in which stakeholders are consulted should all depend on the broader management model and, especially, on whether authority is centralised or devolved to the business units (see the table below). Failure to match the process to the organisation can lead to a confused, slow or even a stalled “planning machine”.

	Centralised	Continuum of approaches			Decentralised
<b>Model definition</b>	<b>Command and Control</b> Group creates and enforces its strategy top-down	<b>Guide and plan</b> Group gives strategic direction and approval to BU plans	<b>Plan and revise</b> Group aggregates BU plans to a consistent overall strategy	<b>Show me the money</b> BUs are largely autonomous, depend on Group for resources only	
<b>Group activity</b>	Strategic plans determined and rolled out from the centre	Strategic "story" and template to guide planning	Aggregation, revision and challenge of BU plans	Group makes investment decisions only	
<b>BU activity</b>	Execution of group edicts	Local planning to meet group templates	Bottom up generation of BU plans	BUs plan autonomously and estimate returns	
<b>Strategy authority and conflict resolution</b>	Group ultimate authority on all matters	Group approval and sign-off of BU plans	Group and BU negotiate where conflicts arise	BU ownership – Group rarely involved beyond investment decision	
<b>Role of strategy teams</b>	Enforcer of Group will	Facilitates Group strategy generation, challenges BU plans	Group-BU link and mediator	Investment advice, PE mindset	

The first step is to be clear about where the firm lies on this organisational spectrum and about the desired management culture. The planning processes can then be evaluated: does it gel with such an organisation and culture, and does it satisfy the seven axioms? Changing the approach to strategy, planning and performance management can be an important signal of the changing culture of an organisation, but ultimately they need to be aligned.

Once the desired management culture is articulated, redesigning the planning process need not be a large or difficult job. Small changes can sometimes make all the difference, especially where they improve group's understanding of the business units or make the process less complex. For example, two surveyed companies staffed key business unit-facing roles in the strategic planning function with employees taken out of business units for two to three years. Combined with a global leadership development system that makes such a role attractive to young high-fliers, this brings business unit skills and experience to the group strategy function, and then returns the "group understanding" to business units.

The number of steps in the process was also an indicator: successful planning processes tended to be simpler, with one unit in overall control and few hand-offs. Some companies we surveyed had as many as four hand-offs during the process, creating unnecessary confusion and complexity.

*We do not intend to publish the full results of the benchmarking outside the participant group. If you would like to participate, or to discuss strategic planning, please contact Oliver Wyman.*

# OLIVER WYMAN

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