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How Insurance Companies Can Beat the Talent Crisis

Staying competitive through integrated talent management

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Staying competitive through integrated talent management

Despite millions of unemployed workers, there is an impending shortage of "critical talent" in the insurance industry — the talent that drives a disproportionate share in a company's business performance. Depending on an insurer's business strategy and model, these can be the underwriters, claims adjusters, sales professionals, actuaries, and others who can make the difference between 10 percent and 20 percent annual growth — or between underwriting profit and loss.[1] The looming talent crisis is about to become much worse due to two emerging trends: the retirement of Baby Boomers, who begin turning 62 in 2008, and a growing skills gap.

In the past, companies have responded to tight labor markets by launching a "war for talent." We challenge this thinking. Rather than focus on the acquisition and retention of key employees, companies must build their talent strategies around the things that matter most to employees — that is, their development, deployment, and connection to others.

Deloitte Research's study — "It's 2008: Do You Know Where Your Talent Is? Why Acquisition and Retention Strategies Don't Work" — defines and addresses the critical, impending talent crisis emerging worldwide across all industries.

In the insurance industry, convergence, globalization, and consolidation — as well as new technologies and changing demographics — are having an impact on the pace and level of change. As a result, insurance companies will be challenged to remain competitive and, ultimately, to thrive. Having talent that can both adapt to change and meet customer demands must become a priority.

As insurance companies strive to remain competitive, they are being forced to rethink the way they engage their human capital. Like companies in other financial services sectors, insurance companies continue to face challenges in both recruiting skilled professionals and fully developing homegrown talent. Insurance companies are now realizing that this is a challenge that must be overcome if they are to compete effectively in the broader financial services market.

Why Insurance? Why Now?

Talent shortages exist at all levels. Insurance companies will be suffering from a shortage of experienced professionals at all levels, from senior leadership with the vision, innovation and cost-management skills to lead the company to achieve its goals, to middle management experienced enough to take over from long-serving executives moving toward retirement.

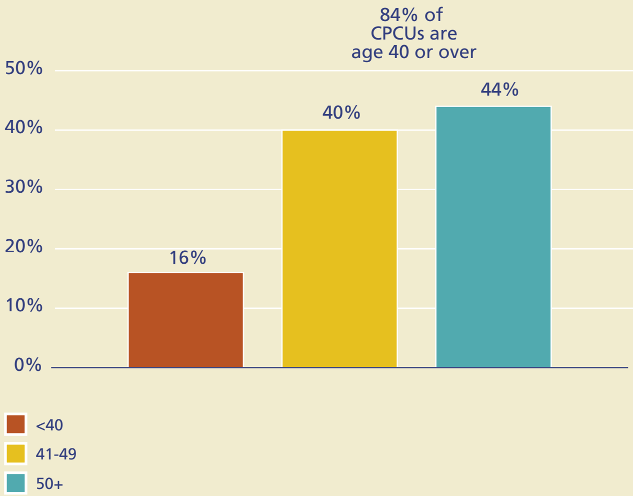
The search for top-quality senior management continues to expand beyond the borders of the insurance sector, with executives being recruited from the banking and investment management sectors. Some companies even have gone to other industries in their search for the right candidate.

An equal challenge is the recruitment and retention of middle-level managers in the industry. As many experienced managers head toward retirement, there are questions about which candidates will have the skills necessary to take over existing critical operations and books of business. The increasing overlap in the services offered by insurers, banks, and investment management houses has broadened the career opportunities for many middle managers, making it even more difficult to keep them within the insurance sector of the financial services industry.

[1] "It's 2008: Do You Know Where Your Talent Is? Why Acquisition and Retention Strategies Don't Work", Deloitte Research, Copyright © 2004 Deloitte Development LLC.

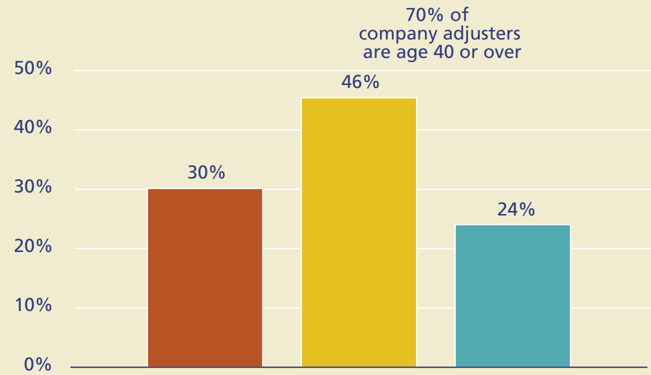
Exhibit 1

Age Distrbution of CPCU Members



Source: CPCU Society Member Statistics, 2004

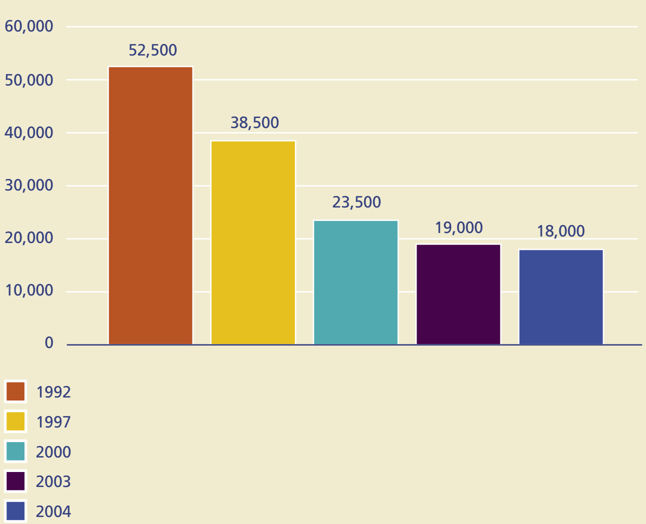
Age Distrbution of Company Adjusters



Source: Conning Research & Consulting, Claims Survey

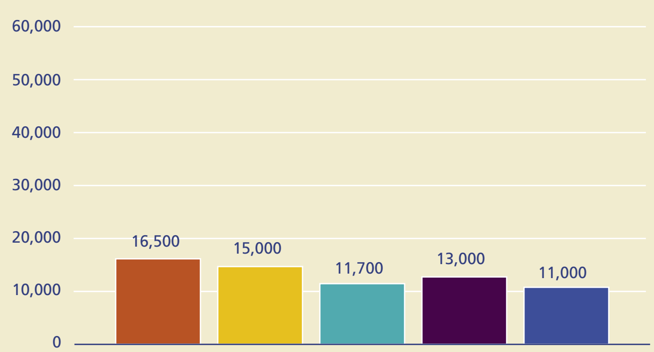
Exhibit 2

CPCU Examinations Given



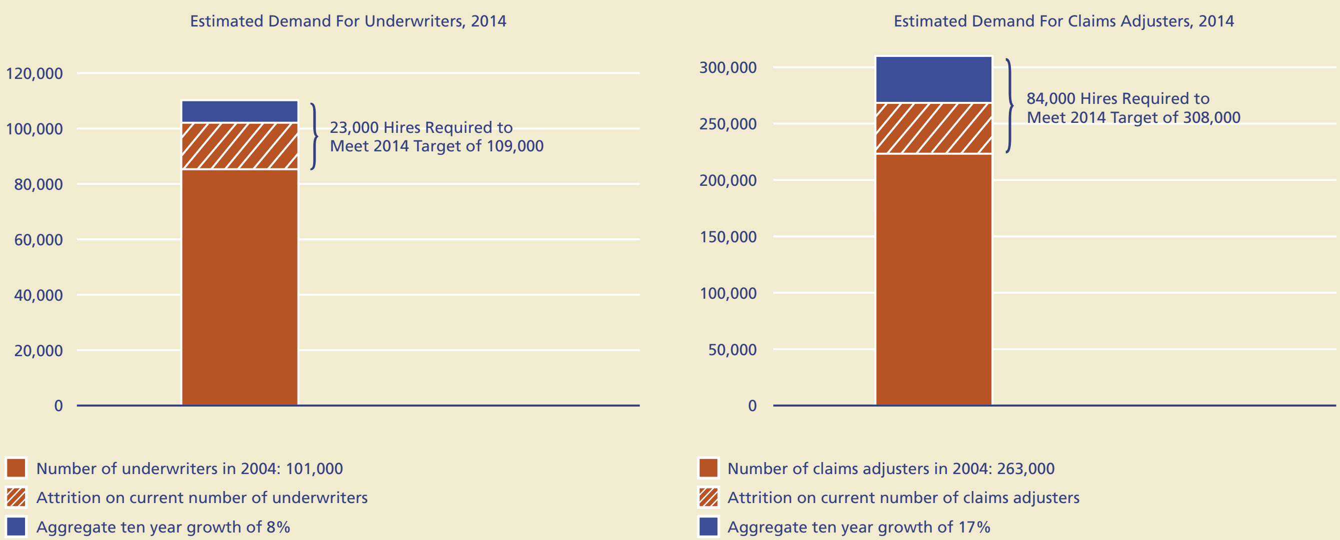
Source: American Institute for CPCU, 2004

AIC Examinations Given



Source: Insurance Institute of America, 2004

Exhibit 3. Estimated P&C Underwriter, Claims Adjuster Hiring Requirements (2004-2014)



Source: U.S. Department of Labor, Bureau of Labor Statistics for 2004 figures and 10 year growth rates; Deloitte Consulting LLP Analysis, 2005

Workforce retirements are looming. Significant percentages of the property & casualty underwriting and claims workforce will begin reaching retirement age in the next few years. Currently, more than 80 percent of Chartered Property Casualty Underwriter (CPCU) members are age 40 or older, along with 70 percent of company adjusters (see Exhibit 1).

The life insurance sector is also experiencing a similar aging workforce pattern — take for example its sales agent population. The average age of an agent is 47, and nearly 60 percent of sales agents are over the age of 45. Another issue is turnover. According to a LIMRA International study[2], the four-year retention rate for agents in 2004 was 13 percent, close to the 30-year low of 11 percent in 2003.

Replacements are scarce. Even as established professionals are aging, fewer professionals are seeking to take their place. The number of professionals sitting for their respective advanced professional designation examinations continues to decrease (see Exhibit 2). And while the insurance sector relies primarily on college graduates to fill open positions, it is becoming increasingly difficult to recruit top graduates. Declining birthrates have resulted in a smaller pool of graduates, who are also being drawn to other industries that are perceived as more attractive and are more aggressive in their recruiting.

Demand is growing. Overall, a large number of insurance professionals are facing retirement and relatively few replacements are joining the industry, as demand for underwriters and claims adjusters continues to grow. In 2004, the insurance industry had 101,000 P&C underwriters. By 2014, the demand is expected to grow to 109,000. Combining this growth trend with an aggregate estimated turnover rate of 15 percent over ten years means 23,000 new hires will be needed to fill this demand.

Similarly, in 2004, the industry had 263,000 P&C claims adjusters. By 2014, the demand is expected to reach 308,000. Combining this growth with a aggregate estimated turnover rate of 15 percent over ten years will result in a need to fill 84,000 open claims positions (see Exhibit 3).

[2] "Agent Production and Survival Survey," LIMRA International, 2005.

Exhibit 4

A Conference Board study[3] asked employees what they expected from their employers.

The top three responses:

1. Interesting, challenging work
2. Open, two-way communication
3. Opportunities for growth and development

What about the money? They found that it finished in eighth place. Rewards and recognition must align with organizational and individual goals. However, decades of research suggest that money becomes most important when it is inadequate.

Exhibit 5. Traditional Management Process

What Are They Looking For?

The question is: What matters to the insurance industry's critical workforce segments (e.g., underwriters, claims adjusters, sales agents and actuaries) who generate a disproportionate share of current or future value? These are the people who can and do help differentiate one insurance company from another. They are in high demand, low in supply, and cannot be replaced easily. Of course, the requisites such as monetary rewards and benefits are important. However, they are often insufficient to create the "stickiness" to gain the commitment and engagement of underwriters, adjusters, agents, and other critical talent. Based on research and interviews, a number of other factors are necessary to create corporate loyalty that require non-traditional ways of addressing workforce planning and recruitment, development, performance management, rewards and recognition, and succession planning (see Exhibit 4).

Why Traditional Approaches Fall Short

Traditionally, insurance, like most industries, views Talent Management as a linear process, one with an extreme focus on the acquisition and retention of talent (see Exhibit 5). This overemphasis on the end points of the Talent Management spectrum is insufficient and even inefficient. In fact, companies spend 50 times more on recruitment than they do on training.[4] Deployment and development of employees do not get their due attention. Not until employees are at risk of leaving do retention initiatives and bonuses kick in. This approach is expensive and short-sighted. It also approaches all members of the workforce in the same manner — in other words, it does not prioritize those segments of the workforce that are critical and create the most value to the company.

Focus on What Matters — A New Way of Thinking

As the competition for critical talent intensifies, insurance companies must rethink the ways they engage their key people. To begin, they must identify the segments of the workforce that drive their current and future growth. Then, rather than focus on metrics and outcomes ("acquisition" and "retention"), they must concentrate on the things that employees care about most: being *deployed* in ways that engage their heads and hearts, *developing* (and stretching) their capabilities, and *connecting* to the people who will help them achieve their objectives. By focusing on these three actions, attraction and retention largely take care of themselves.

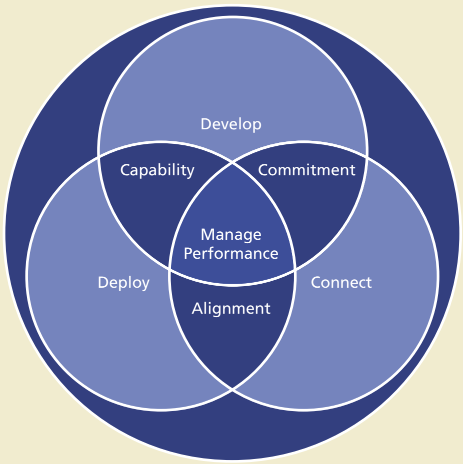
The Develop-Deploy-Connect model (see Exhibit 6) differentiates itself in three ways:

1. Focus on critical workforce segments — those that generate a disproportionate share of current or future value; they are in high demand, low in supply, and cannot be replaced easily.
2. Don't just acquire talent, but *Develop* and grow talent. *Deploy* them into projects that engage them. *Connect* them to communities of practice within the company.
3. Integrate human capital programs to create a cohesive Talent Management strategy based on business priorities.

[3] "HR Executive Review, Implementing the New Employment Contract," The Conference Board, 1997.

[4] See footnote 1.

Exhibit 6. The Develop-Deploy-Connect Model



Enabled by Human Capital Programs

Develop

Case Study: Identifying and Building Critical Employee Skills to Help Improve Business Results

The Finance function of this global Property, Casualty & Life Insurance company wanted to become a full partner with other functions within the company.

It began by creating a Finance competency model that would be integrated into the company's Talent Management program. After assessing the skills of the Finance workforce against the competency model, the group created a training strategy to develop the skills necessary to achieve its desired results.

As a result, the Finance function built critical skills within its workforce that enabled these individuals to contribute value-added services to the rest of the company. The Finance function is now viewed as a partner that collaborates with other functions of the company to help deliver business results.

Develop means providing the real-life learning employees need to master a job. It isn't just about providing traditional classroom or online education. More important are the "trial-by-fire" experiences that stretch capabilities and the lessons learned from peers, mentors, and others.

Deploy means working with key individuals to (a) identify their deep-rooted skills, interests, and knowledge, (b) find their best fit in the company, and (c) craft the job design and conditions that help them to perform.

Connect means providing critical employees with the tools and guidance they need to (a) build networks that enhance individual and company performance, (b) improve the quality of their interactions with others within the company, and (c) feel more connected to the company.

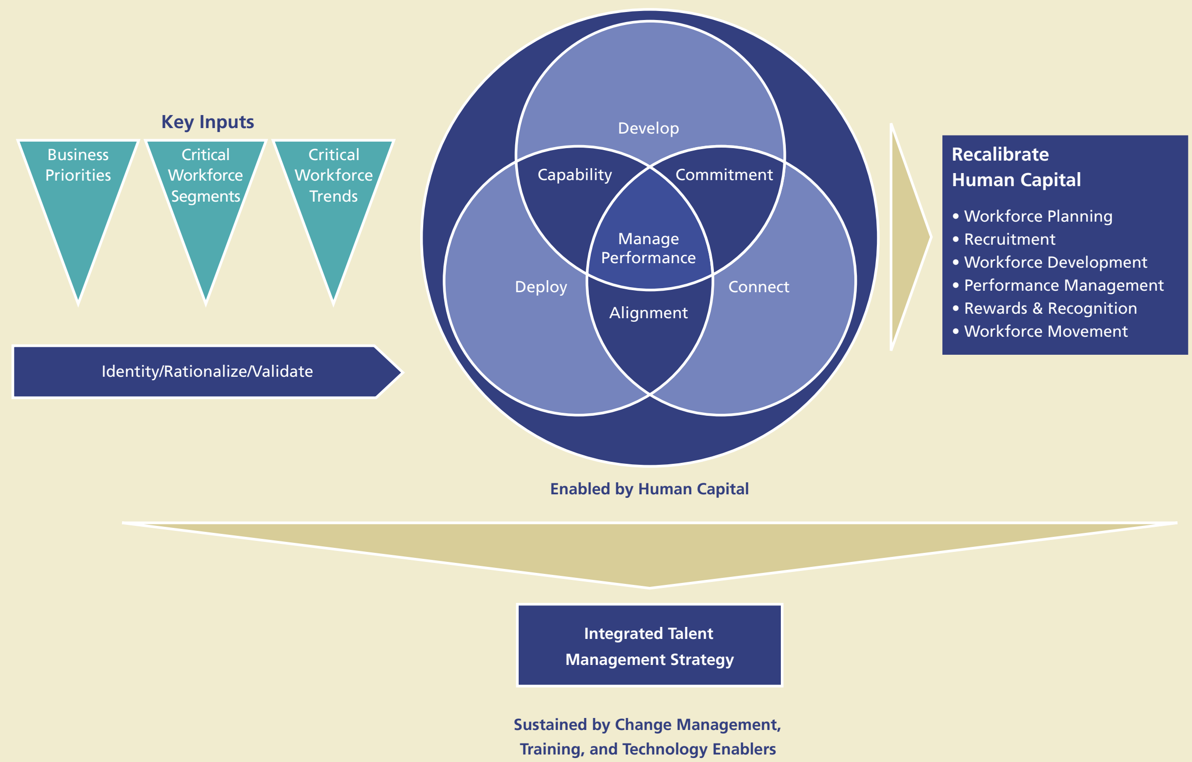
The Develop-Deploy-Connect model is a key component of Deloitte Consulting LLP's (Deloitte Consulting) Talent Management strategy and is grounded on critical workforce segments. It is imperative to start with the organization's strategic priorities to identify its critical workforce segments. Key steps in Deloitte Consulting's overall strategy (see Exhibit 7) include:

- Identify and confirm business priorities
- Identify and confirm critical workforce segments
- Identify and confirm critical workforce trends
- Assess existing human capital programs on how they address critical workforce segments issues (human capital programs include Workforce Planning, Recruitment, Organizational Learning, Performance Management, Rewards & Recognition, and Workforce Movement/Succession Planning)
- Formulate and document a Talent Management strategy (generally a two- to three-year span)
- Execute and sustain the strategy through technology enablers, change management, and training and by clarifying the Talent Management roles of insurance executives, line managers, employees, and the HR function
- Measure, report, and track progress

Insurance companies will need to ask whether they are effectively *Developing*, *Deploying*, and *Connecting* key employee groups. For example, the new generation of underwriters and claims professionals generally don't learn well in classroom settings. Their *development* will be better managed through new methods of learning and skill-building, such as on-the-job training, "stretch" assignments, and formal and informal mentoring relationships. One insurance company has established training clubs for its brokers and an online learning tool it calls its "campus."

Deployment strategies could involve replacing "one-size-fits-all" career models to help meet the needs of a more diverse workforce with varying needs and expectations and keep critical talent longer. For example, insurance companies may introduce programs that encourage critical retirement-age insurance professionals to stay on in a part-time capacity.

Exhibit 7. Deloitte Consulting's Talent Management Strategy



Making newly hired employees such as agents, underwriters and actuaries feel *connected* to the company could involve:

- Fostering "communities of practice" where insurance professionals dealing with similar issues can network and learn from one another
- Creating knowledge management and mentoring programs that enable more experienced practitioners to share their knowledge with up-and-coming talent

Deploy

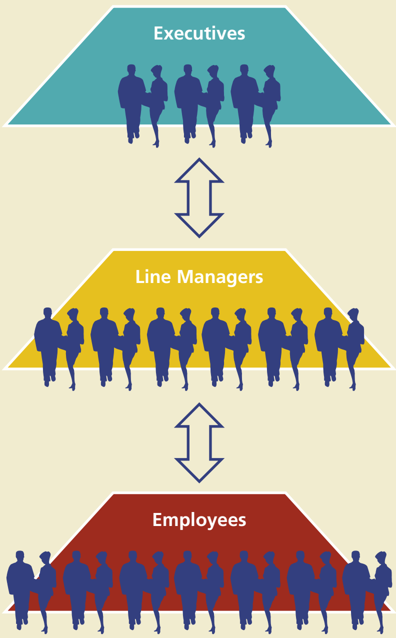
Case Study: Identifying and Developing Company Leaders

A leading Property & Casualty Insurer realized that over the next ten years it would need to replace 45 percent of its leadership team.

The company immediately built accountability for leadership development into all levels of the company. By integrating the current leadership identification and selection systems into one, the insurer ended up with a single, streamlined, enterprise-wide strategy and process for Succession Management.

The process enabled it to both identify and develop future leaders by deploying them to different parts of the company to build their knowledge, skills, and experience. This development-oriented deployment benefited not only the leaders themselves, but also the company as a whole.

Exhibit 8. Critical Factors



Executives
- Visible, vocal, aligned, and committed to sustaining Talent Management as a priority
- Model the right behaviors – spend adequate time (25-40 percent of time) on Talent Management activities and decisions
- Hold line managers accountable for developing organizational talent

Line Managers
- Own and accept their role as people managers
- Actively provide feedback, coach, and develop their people
- Capable of having constructive performance and coaching conversations

Employees
- Own career development
- Actively articulate career aspirations to manager
- Seek feedback, coaching, and developmental opportunities

"Build It and They Probably Won't Come"

Building a Talent Management strategy and program are not the end goals. The viability of an insurance company's Talent Management strategy depends on how well it informs, prepares, and engages key stakeholders at all levels. Some of the critical factors to achieve the desired results are outlined in Exhibit 8. Key levers to create these factors include:

- An HR function that can skillfully facilitate the process and underline how Talent Management helps the realization of business goals
- Technology tools that are easy to use and enable the Talent Management processes; timely, accurate, and open communications across the company
- Executives, line managers, HR, and employees trained in the objectives, process, tools, metrics, and roles in the Talent Management process
- Change Management programs that create alignment within and across functions.

Connect

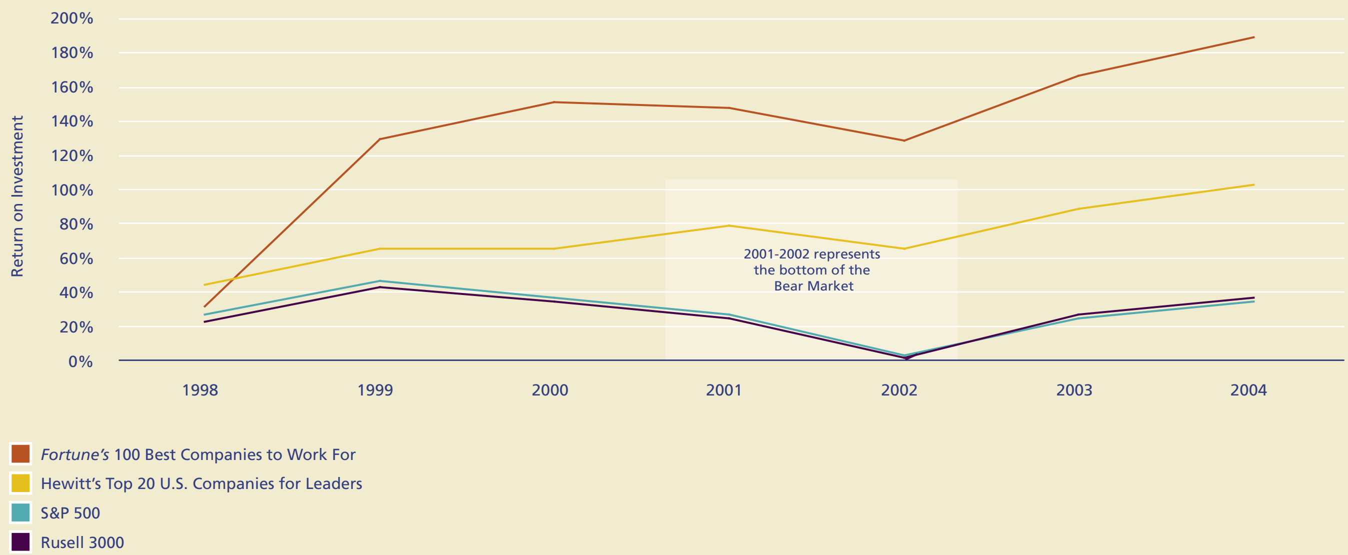
Case Study: Understanding Employee Skills to Provide Dynamic Career Options

A leading Property & Casualty Insurer realized that its Talent Management program was not clearly linked to its business objectives. The program involved redundant, labor-intensive activities; performance standards were inconsistent; talent pools were segregated.

To allow employees to feel more connected to the company, a new Talent Management program was developed that inventoried employee skills and linked career progression to company goals.

This led to clear, long-term career paths for employees. In turn, employees understood that they were valued, and they were empowered to take a proactive role in laying out their careers. As a result, employees better understood their long-term connection to the company.

Exhibit 9. Return on Investment



The Test of Results — Increased Performance

The ultimate test of a Talent Management program is the increased performance of individuals and the company, along with increased return on investment (ROI). As Exhibit 9 shows, companies that invest in Talent Management strategies show better financial performance. Stocks of publicly traded companies on *Fortune's* annual "100 Best Companies to Work For" collectively beat the S&P 500 and Russell 3000 index by more than 300 percent from 1998 to 2004. Stocks of Hewitt's "2005 Top 20 U.S. Companies for Leaders" beat the S&P 500 and Russell 3000 index by more than 250 percent from 1998 to 2004.

In the coming years, many insurance companies will have no choice but to seriously rethink their approaches to Talent Management strategies. However, shifting demographics should not be the only reason.

Improving the performance of critical employees directly improves company performance. Furthermore, focusing on critical workforce segments is relatively new territory for most insurance companies and, thus, offers a new way to compete. Compared to more popular investments in customer, technological, and financial strategies (which have been refined over decades), a well-designed talent strategy could truly differentiate a company.

Insurance companies whose Talent Management processes focus on "the middle" (Develop-Deploy-Connect) instill a strong sense of employee commitment — employees who feel a sense of ownership in the business. The expensive, stopgap measures of recruiting and retention are no longer the only answer. Managers may be amazed by how often the talent they need resides right under their noses — or the noses of colleagues a continent away.

In a survey of top-performing U.S. insurance agencies, "the quality and depth of our people" was overwhelmingly cited as the number one factor to help achieve their desired performance results. The 2004 Best Practices Study from the Independent Insurance Agents & Brokers of America found top producers invested heavily and continuously in developing the skills of their employees. As one agency principal reported, "We know that if we hire and develop only the best employees, the rest will take care of itself."

Rather than fight a futile "war for talent," insurance leaders should look within for the critical skills and knowledge required to execute the company's most important jobs. By developing, deploying, and connecting these people the right way, leaders will see increased retention of critical workforce talent and raise their own performance — and the performance of the entire company — to a whole new level.

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