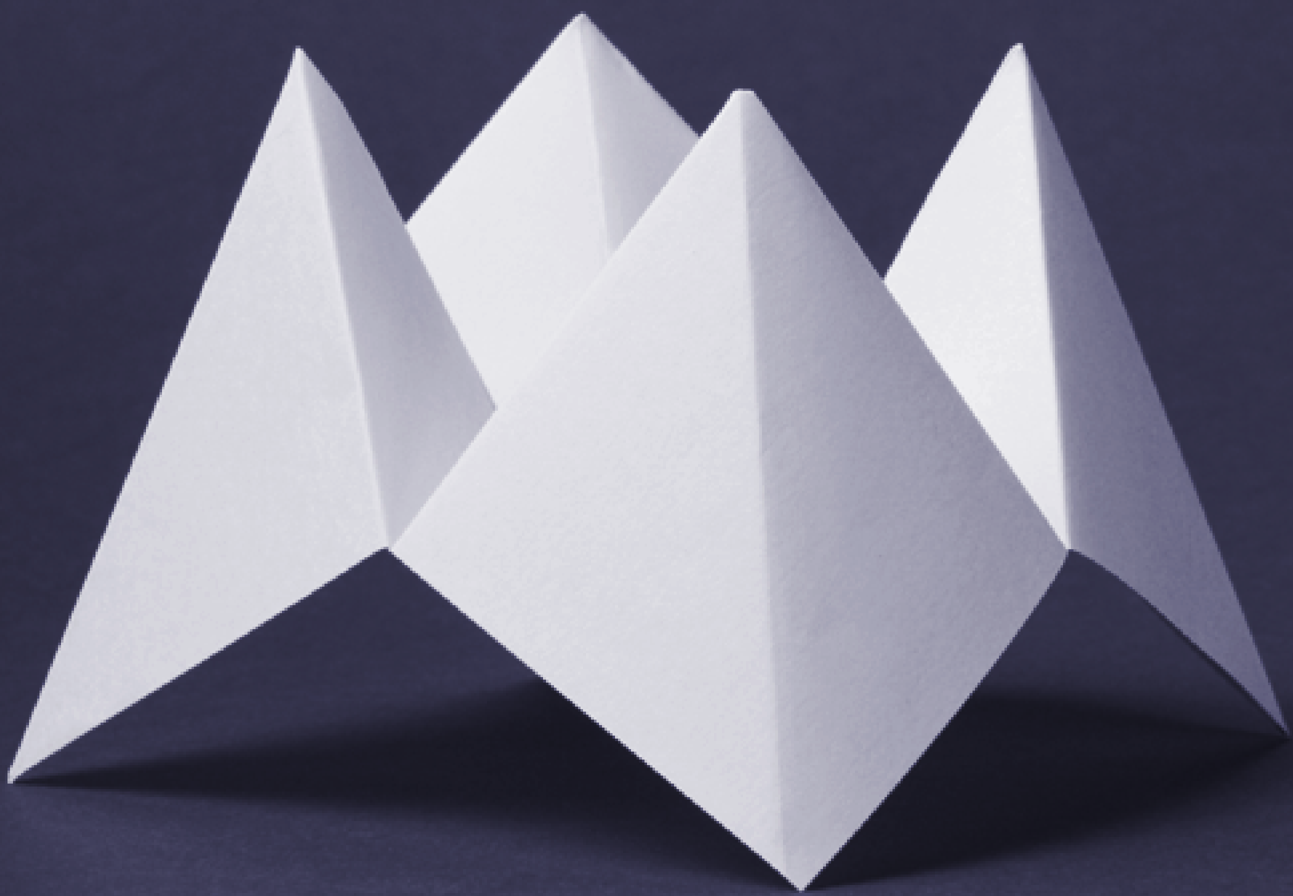
The Chaucer White Papers

Building for the future

Innovation as a strategic tool in (re)insurance



chaucer
A China Re Company

Purpose and scope

Innovation is simply another word for change. It becomes meaningful to an organisation when there is strategic intent behind it.

Longevity is a core principle in the insurance sector and longevity can only succeed through evolution to match the developing landscape – incremental change pocked by occasional step-changes.

Since the earliest recorded evidence of insurance contracts, The Code of Hammurabi (ca 1750BC), to 21st century e-trading platforms, forward-thinking companies and individuals have been figuring out ways to protect a changing risk landscape. This has involved constant adaptation to the changing world, as what was relevant yesterday may not be relevant tomorrow.

We find a way: Chaucer’s innovation journey

In 2022, Chaucer celebrated its centenary of building insurance solutions for complex risk and as a company, we have always sought out smart, creative, and enterprising people to enable this.

In 2020, we officially launched our structured innovation function.

The purpose of this formalised innovation function is to harness and channel all the pockets and sparks of innovation already happening organically throughout the business.

Innovation – change – will happen regardless of an enabling infrastructure, however.

By providing an infrastructure for developing ideas rather than just hoping they survive the corporate approval process, efficiency and utility are improved. Dedicating focussed resources to creativity will facilitate new ideas by making it easier for them to get from conception to market. This streamlines and fast tracks the evolution process, ensuring the right talent and resources are directed at problem-solving.

We believe that success in innovation is inherently linked to collaboration, and this white paper is designed to share what we’ve learned so far in our innovation journey.

It explores what innovation is, why it’s important and what success can look like. Specifically, it explores the role of innovation as a tool in the strategy arsenal and it outlines various models for how companies are implementing it, along with tips for practical adoption.

What is innovation and why do it?

Doing different things and doing things differently.

At Chaucer, we define innovation as ‘doing different things and doing things differently.’

As mentioned previously, innovation becomes important and game changing when there is strategic intent behind the activity, as it allows progress towards defined goals, rather than providing sporadic growth in potentially arbitrary directions.

There are both external and internal factors which drive the need for innovation, and there is a tangible cost of doing nothing.

External factors

- Customer needs are changing
- Market and competitive landscapes are changing

Internal factors

- Strategic need
- Fly wheel effect/ self-perpetuating cycle
- Core part of our brand and cultural DNA

External factors

Customer needs are changing

Our customers and their worlds are in a perpetual state of change. New risks such as climate change, regulatory pressures and digitalisation have emerged in recent decades and clients need insurance that responds to these risks – moving, changing, and growing with them.

Customer needs and their environment are symbiotic and this means that what works for a client base, staff and shareholders today, will not necessarily work tomorrow.

Market and competitive landscape

Marginal economics and market inefficiencies are increasingly unsustainable and are affecting customers, brokers, competitors, suppliers, and regulators.

No one knows what the future competitive landscape will look like, so all market participants are battling to define their position in the game and cement their source of value-add.

Innovation is a key component in the strategy toolkit and for companies already keenly positioned to innovate, it can become a source of competitive advantage.

The cost of doing nothing – externally

As the market evolves and competitors adjust to the risk landscape with new products and processes, the company that does not innovate will get left behind. Failure to invest in innovation and champion new products, processes and ways of doing things, can have a knock-on effect on a company's reputation, durability and growth.

Consequences can include, for example:

Reputation:
Market position suffering, particularly the confidence of brokers and partners

Pipeline:
Reduced flow of opportunities

Brand:
An external perception of inconsistency, or being seen as outdated or irrelevant

We think the direct commercial impacts of not innovating would be felt in the medium term, within a period of around three to five years:

1. **Continued loss of creative and enterprising employees due to frustration and lack of growth**
2. **Failure to meet strategic goals**
3. **Loss of competitive edge**
4. **Becoming less relevant to customers and brokers**
5. **Inability for capital base to respond to emerging risks**

Internal factors

Strategic need

Innovation is a critical component, both commercially and culturally, for achieving strategic goals and delivering on a growth and transformation agenda, particularly in the medium–long term (3-5+ years), as described above.

Flywheel effect

There is a self-perpetuating cyclical benefit to investing in and delivering on innovation initiatives, as execution reinforces internally that a company actually does innovation and that it is worthwhile sharing and building out new ideas.

The more initiatives succeed, no matter how small, they contribute to an improved sense and perception of direction and achievement, which encourages further investment and pipeline development to keep the function going.

Core part of brand

Where being forward-thinking is expressed as a key component of a company's brand, it is critical to develop an innovation function, so that this externally shared value is not just seen as lip-service internally.

Chaucer is a team of creative and technical problem-solvers and we self-define as innovative. We look to foster an entrepreneurial culture and 'We find a way' is one of our brand's key straplines.

As highlighted earlier in this report, we have been finding solutions to complex problems for a century and for any company that seeks to be modern and forward-thinking, making innovation central to brand development is key.

The cost of doing nothing – internally

Strategic opportunities:
Likely to be missed if potentially viable future revenue streams receive insufficient investment

People:
Failing to harness the naturally innovative and entrepreneurial nature of people means that there are likely many potentially profitable ideas that are not pursued. Additionally, a lack of investment in innovation could cause employees to become disillusioned, resulting in people not bringing ideas forward or not pursuing them

Brand inconsistency or unclear cultural impact:
Similar to the external impact, people may stop believing in the company's commitment to the future

The Purpose of Innovation at Chaucer

At Chaucer, we fundamentally believe that 'what got us here, won't get us there'.

We therefore see innovation as a strategic lever which allows us to take an experiment-led approach to testing specific hypotheses in a controlled manner. We do this to test future profit pools in a low cost and efficient way, with a defined and limited downside.

To ensure our experiments are sufficiently broad, we think about innovation across two main time horizons:

	Horizon 1: Developing existing lines	Horizon 2: Sowing seeds for the future
Degree of change	**Medium** New to Chaucer and likely new to the market	**High** Substantially new to the market
Payback period/ Time horizon	**Short** (1-2 years)	**Medium** (3-5 years)
Conversion rate	**Medium-Low** (<10%)	**Low** (<2%)
Process	Requires a new process and internal collaboration to build and execute	Requires significant collaboration across the business
Focus area	Existing lines of business with ambitions to grow significantly	Non-cat Weather, Climate Change, Parametric, Intangibles, New Markets

Horizon 1 – Developing existing lines: 1-2 year return period

We call Horizon 1 Innovation **'Developing Existing Lines'.** The purpose of this kind of innovation is to set up experiments that push the boundaries of our existing lines of business.

This type of innovation is for opportunities which are new to the business and likely new to the market; the focus is on building existing lines of business via substantial growth plans. It has a medium-term return period and medium to low conversion rate, however it is also low risk because we are simply expanding on already successful areas.

These types of incremental changes are usually underwriter-led and pushed through with support from the innovation team. Many of these kinds of initiatives require a new process and a shift from a 'business as usual' attitude to get them off the ground as they must be fit in amongst extant operations.

Case studies

NextGen Flood: This product automatically delivers a proprietary flood score, developed by the underwriters and our modelling partner, to reflect a variety of flood models and topographical data. This score enhances our existing property offering because it reflects a much more granular view of risk than traditional flood zones, allowing us to underwrite the lowest risk properties in high-risk locations.

Cyberlink Marine Consortium: Led and created by Chaucer, this consortium offers traditional cyber insurance products on an offshore and/or onshore basis, with resultant physical damage cyber extensions. It provides different wordings and coverages for shipping organisations, ports & terminals and cargo under conveyance & storage, along with full end-to-end services wrap, from marine specific pre-bind risk assessments to offshore cyber incident response capabilities.

Horizon 2 – Sowing seeds: 3-5 year return period

We call Innovation across Horizon 2 **'Sowing Seeds'.** The purpose of Sowing Seeds is to test markets which aren't material lines of business now, but which could be in the future.

This type of innovation involves experimenting with entirely new markets, products and segments and is focussed on those opportunities which are further out on the development curve, with a three-to-five-year payback period. Although these experiments require significant collaboration from across the business, Innovation as a team usually owns these as, by definition, it takes a longer view on business goals and shareholder objectives.

It is difficult to predict future sources of growth and demand.

Hence, one strategy within a Sowing Seeds portfolio would be to cast the net wide – defining only what is out of scope – a '*we'll look at anything, except*' approach.

We chose to take the opposite approach given our internal constraints on resourcing, namely a '*we'll look at opportunities within certain key themes.*'

To come up with these themes, we researched and explored potential future lines of business or 'future profit pools.' We then chose five that we wanted to test, based on future market potential and our own core capabilities.

The key focus areas for sowing seeds at Chaucer are non-catastrophe weather, climate change, intangibles, truly new markets, and parametrics as a tool.

Case studies

Our partnership with **Crown Jewel® Insurance**: Crown Jewel® is the first trade secret coverholder which helps companies define and value their trade secrets, in addition to providing insurance for theft and damages of these trade secrets.

Our partnership with **K2 Parametric:** K2 Parametric is an MGA specialising in parametric insurance solutions for commercial insureds. Although primarily focussed on US hurricane and earthquake at present, the capabilities of the product are extensive as entirely bespoke indices can be built to meet client-specific needs.

Three models for innovation in insurance

There are three models for how innovation is deployed within insurance companies.

These models are not mutually exclusive nor collectively exhaustive, however we believe they provide a framework for compartmentalising and conceptualising the various innovation approaches in the insurance market. We would emphasise that we do not see one approach as better or worse than the others.

There are two broad strategic objectives with which companies typically task innovation:

- **Cultural change**
- **Commercial outcomes**

There are pros and cons to each model as outlined over the following pages, but ultimately the innovation model deployed should be determined by the strategic need. It is essential when considering an innovation function, for a company to understand why it is creating the function and what it needs to achieve. This enables the company to implement a best-fit innovation model.

1 **Over there** – Focussed, Separated

Innovation in a lab, underwriting team, etc

The first model, the 'Over There' approach, separates innovation out into a dedicated innovation underwriting team, lab, accelerator, syndicate, function or other unit.

- More common in the Lloyd's market
- Often deployed where there is a clear strategic mandate to test specific commercial hypotheses

2 **Everywhere** – Endemic, Institutionalised

Innovation KPIs for all people in the organisation

The second model, at the other end of the scale, is the 'Everywhere' approach, which involves everyone in the organisation having an innovation key performance indicator (KPI).

- More common in the company (non-Lloyd's) market*
- Used where the strategic intent is to drive widespread upskilling across the business
- Often results in more incremental change or continuous improvement

* We note that many of the larger market players, particularly global entities, have a separate innovation function (i.e. "Over there") at group level. However, many of these companies deploy the 'Everywhere' model at enterprise level

3 **Here and there** – Creative, Disparate

Cross-divisional innovation team that is embedded within the business

The third, the 'Here and There' model, sits between the other two approaches, utilising a dedicated resource via whom new ideas can enter the building.

- Less common, but growing in adoption
- Dedicated resource (normally a 'Head of Innovation' and/or small team) triages and progresses innovation opportunities, bringing in the right people to build out new opportunities at the right time
- Utilises a working group composed of people with an 'and' role – they have a day job 'and' have a responsibility for innovation
- Found in companies using innovation to drive both cultural change and commercial outcomes

1

Over there

In the 'Over There' approach, innovation is owned by a dedicated, focussed group of people.

These people tend to sit within their own Innovation underwriting team, lab, accelerator, function or syndicate. Another example of the 'Over there' model is an investment-led approach where a specialised unit is created specifically to deploy investment into strategically relevant innovation opportunities.

The key difference with this model is that those responsible for innovation have just one role with responsibilities to the Innovation team. They do not have an additional 'primary' role which comprises more of their daily workload than their contribution to innovation, as is generally the case with the other models.

Pros

- Clearly defined remit: This model works well when innovation is focussed more on specific goals and less on cultural change.
- Dedicated infrastructure: Budget, roles and process are defined and ring fenced.
- Common aims for the whole unit create a sense of teamwork and belonging, working towards a common goal.
- The success of the unit can clearly be demonstrated and teams are more accountable for progress.

Cons

- This approach has the potential to create an 'us and them' culture with other areas of the business, if not managed well.
- There is a risk that innovation may not be widely adopted by the business if it is perceived to be owned somewhere else.
- There is also a risk around reintegration of innovation in this model. Companies can make good progress in isolation, but achieving the broader benefits to the parent can be difficult.

Strategic rationale

- Suits a strategy where innovation has a clearly defined remit and little or no cultural metrics for this team to measure against.
- It is used as a tool to explore specific emerging markets or risks in a low-risk sandbox environment without impacting the core of the business.

2

Everywhere

Under this model innovation is endemic and institutionalised, as it becomes a KPI for everyone in the organisation.

Pros

- Drives cultural change as it pushes the majority of people to think more about the future.
- Absorbs processing, funding and responsibility questions into the everyday management of the business.
- All employees are encouraged to think about the broader picture and have investment in the longer-term goals of the company.

Cons

- This approach can be hard to get right as there is no one team with formalised responsibility for innovation. Hence, it can feel like a 'side of the desk' job.
- As innovation is collectively owned with no one team or individuals designated the responsibility, there is a risk that few take ownership to achieve something new.
- Outcomes tend to be more incremental improvements to existing arrangements rather than truly ground-breaking advancements, which can decelerate motivation to try new ideas.

Strategic rationale

- The primary strategic objective for a business adopting this model is continuous improvement across the company.
- Innovation is used as a lever to drive cultural change, engagement and incremental business change.

3 Here and There

Innovation under the 'Here and There' model is sometimes known as the 'Dual-Operating Model.'[1]

In this model, a group of people from across the business collaborate to build new solutions to test strategic hypotheses. There tends to be a point-person, often labelled 'Head of Innovation', or other specific innovation role. This individual triages opportunities, bringing together a working group of people to build out opportunities that have been approved to progress by senior management.

Importantly, most, if not all, individuals in the working group have an 'And' role when it comes to innovation. For example, the wordings representative might be the 'Head of Wordings' in addition to the 'Innovation Wordings Lead.'

In this model, no one person or team owns innovation, however, people with ideas who want to be involved in innovation projects are empowered to act in a focussed way with regular communication with senior management.

The individuals within the working group have innovation KPIs which drive incentivisation, accountability and ownership.

Often, but not always, the innovation point person, or Head of Innovation, will organise events to share learnings, lessons, and encourage diversity of thought across the wider business. This is important, as the people utilised within the working groups are likely to be different individuals depending on the project.

1. John Kotter: www.kotterinc.com/bookshelf/accelerate

Pros

- This model enables cultural change across the business by empowering and upskilling people in a 'learn by doing' manner.
- This draws out genuinely innovative people into the process but does not remove them from the business. We believe this creates stronger advocates, and, ultimately, has the potential to increase efficiencies and performance across business-as-usual activities.
- Rather than being driven from above, this model provides the infrastructure and encourages anyone to bring an idea or opportunity to the table.
- When successful, tangible and material commercial outcomes can be achieved.

Cons

- Getting the triage and approval processes right is the most difficult and challenging part of this model.
- Logistical and operational constraints are likely to emerge if the process is not optimised.
- Cultural frustration can emerge if a lack of outcomes is perceived.

Strategic rationale

- This approach suits a strategy where innovation is tasked with cultural change and commercial outcomes.
- It drives cultural change from the bottom up by creating enthusiasm at all levels of staffing, but also drives commercial outcomes from the top down in certain pre-defined areas.

Chaucer's approach

At Chaucer, we utilise the 'Here and there' model as we use a combination of designated innovation personnel focussed on specific topics, whilst ensuring all people across the group are empowered to get involved and create.

Many of the key associates in innovation are already embedded within the organisation in primary roles, but all have additional roles within innovation.

The Head of Innovation leads the function and is external point-person, but they are supported by a number of subject matter experts from across the business.

Underwriting, wordings, claims, compliance, operations, actuarial, and risk representatives within the business have dual roles in innovation as Leads for their divisional functions.

How these roles operate

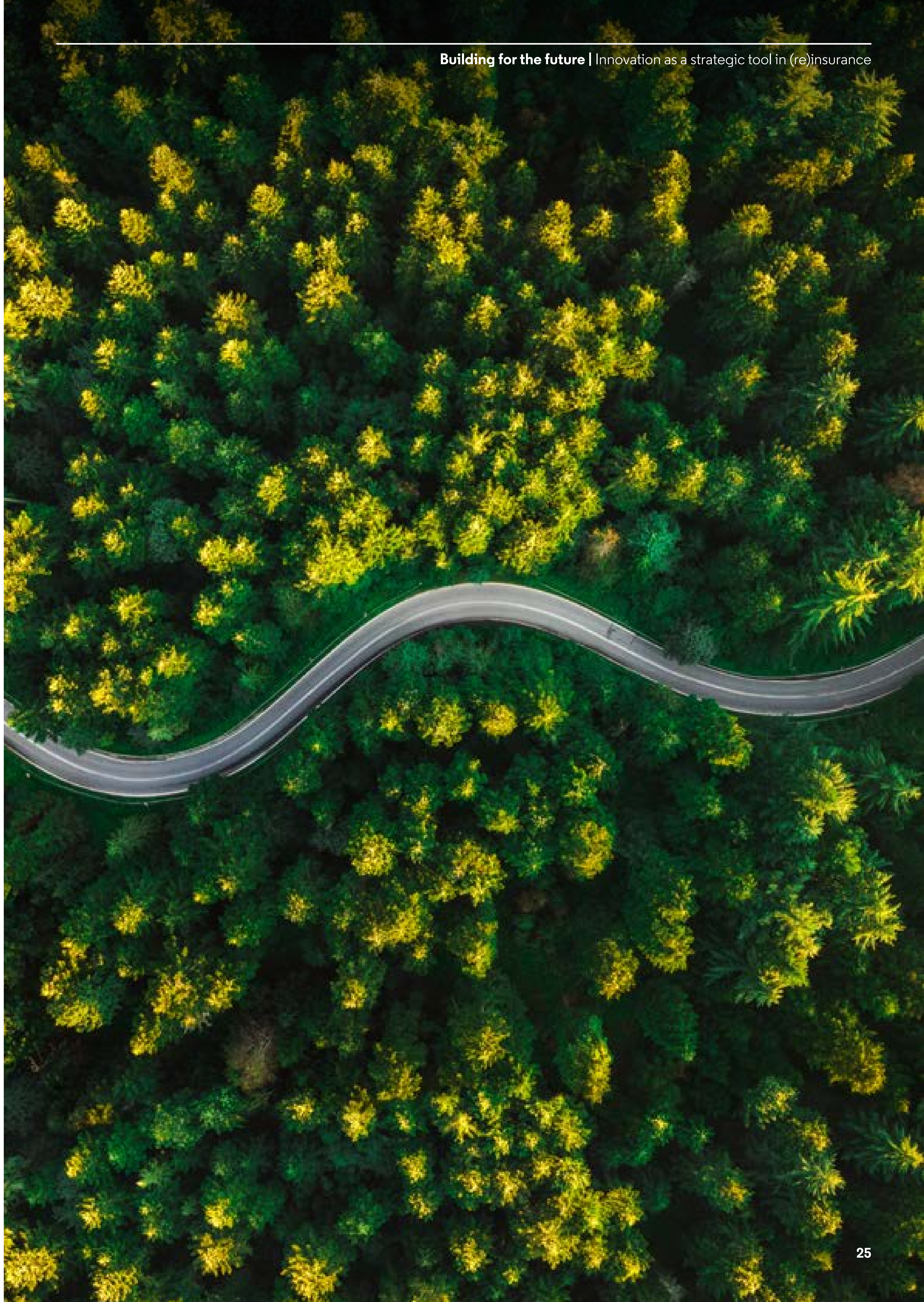
- Each of these roles have an innovation KPI and hence are appropriately incentivised to work on innovation products alongside their primary roles.
- Those involved have a dual role and are embedded within the business.
- They are nominated by the executive responsible for their division.
- They bring a positive can-do attitude focussed on solution-finding.

By using people embedded in the business, our innovation partners and customers truly get access to the 'best of Chaucer' and the company benefits by having upskilled people within the business who can apply innovation learnings to their primary roles.

Getting the process right

There are practical challenges of having many people involved in the process, with competing priorities.

Many contributions make a better product but getting the balance of avoiding 'too many cooks' and applying the right minds to the process, is key.



Four phases of product creation

Moving from concept to market involves multiple stages of development.

The most important and indeed challenging aspect of this process, is ensuring that there is a genuine customer need for the problem being solved.

We think there are broadly four phases to building and launching a new product:

1. **Triage**
2. **Understand the landscape**
3. **Product development**
4. **Approval**

We think these phases apply equally to partner-led and in-house built products.

Phase 1: Triage

Establish focus themes to target > **Create pipeline based on target themes** > **Triage opportunities**

Phase 2: Understand the landscape

Understand the market > **Customer Segmentation** > **Define target customer problem statement** > **Prototype of the solution** (new product)

Phase 3: Product development

Approval in principle from senior management > **Product working group created** > **Workstreams build out respective components** (e.g. wording, rating model, etc.)

Phase 4: Approval

Finesse and fine tune > **Internal and external committees or sign-offs** (e.g. Underwriting Committee or Product Oversight Committee) > **Final approval from senior management**

Phase 1: Triage

Establish focus themes to target > Create pipeline based on target themes > Triage opportunities

Overview

When considering new ideas, to avoid the scatter-gun approach, and weed out the concepts with promise, and to funnel these into a suitable workstream, it is essential there is a triage process in place.

Defining triage criteria enables a company to assess a broad range of ideas and consistently make 'proceed or park' decisions. Naturally, the criteria can and should differ for every company.

Chaucer's triage criteria are outlined in Table 1. For an idea to immediately pass through our triage it should fit all of the 'main triage criteria.' Ideally, opportunities would satisfy all of the 'secondary triage criteria' as well. However, where there is compelling support on the 'main triage criteria' list, there are certain cases where an opportunity may be progressed even though it does not satisfy all triage criteria in the 'secondary triage criteria.'

Notes:

- Timescale: ongoing
- An essential stage to establish pipeline based on strategic focus areas and core lines of business
- Conversion rate <2%

Case study: Gaia

We found **Gaia**, an invitro fertility financing and insurance start-up, through the Lloyd's Lab. Whilst Gaia's IVF product is sold to consumers, (something we usually avoid on the secondary triage list), we found the market opportunity, the team, and the competitive landscape so compelling, we still progressed the idea.

Main triage criteria	Secondary factors to consider
Market: • Can it be big enough? **Competition:** • Little to no competition • Competitive/secret sauce: some element of secret sauce or 'defensive moat' **Team (people):** • Sense of real experience or skill within their market/focus area • No insurance experience required **Customer:** • Access or contact to potential or existing customers willing to provide feedback during product development? **Strategic alignment:** • Sowing Seeds theme: non-catastrophe weather, climate change, intangibles, truly new markets, parametrics • Develop existing lines: will this enhance our capabilities in existing lines of business?	**Company size:** • Early stage is ideal for Sowing Seeds • More established partner companies are ideal for Develop existing lines **Buyer urgency:** • Is there true buyer urgency? **Horizon/return timeline:** • Does it fit with our defined criteria for Sowing Seeds (up to 5 years) and Develop existing lines (1-3 years)? **Alignment of Interest & Moral hazard:** • How aligned are we (both partner company and customer)? **Business model:** • Margin vs Volume **Retail/conduct risk:** • Try to avoid retail risks given the conduct risk exposure and compliance/ operational overheads **Peak peril:** • Try to avoid peak peril, for example natural catastrophe risk

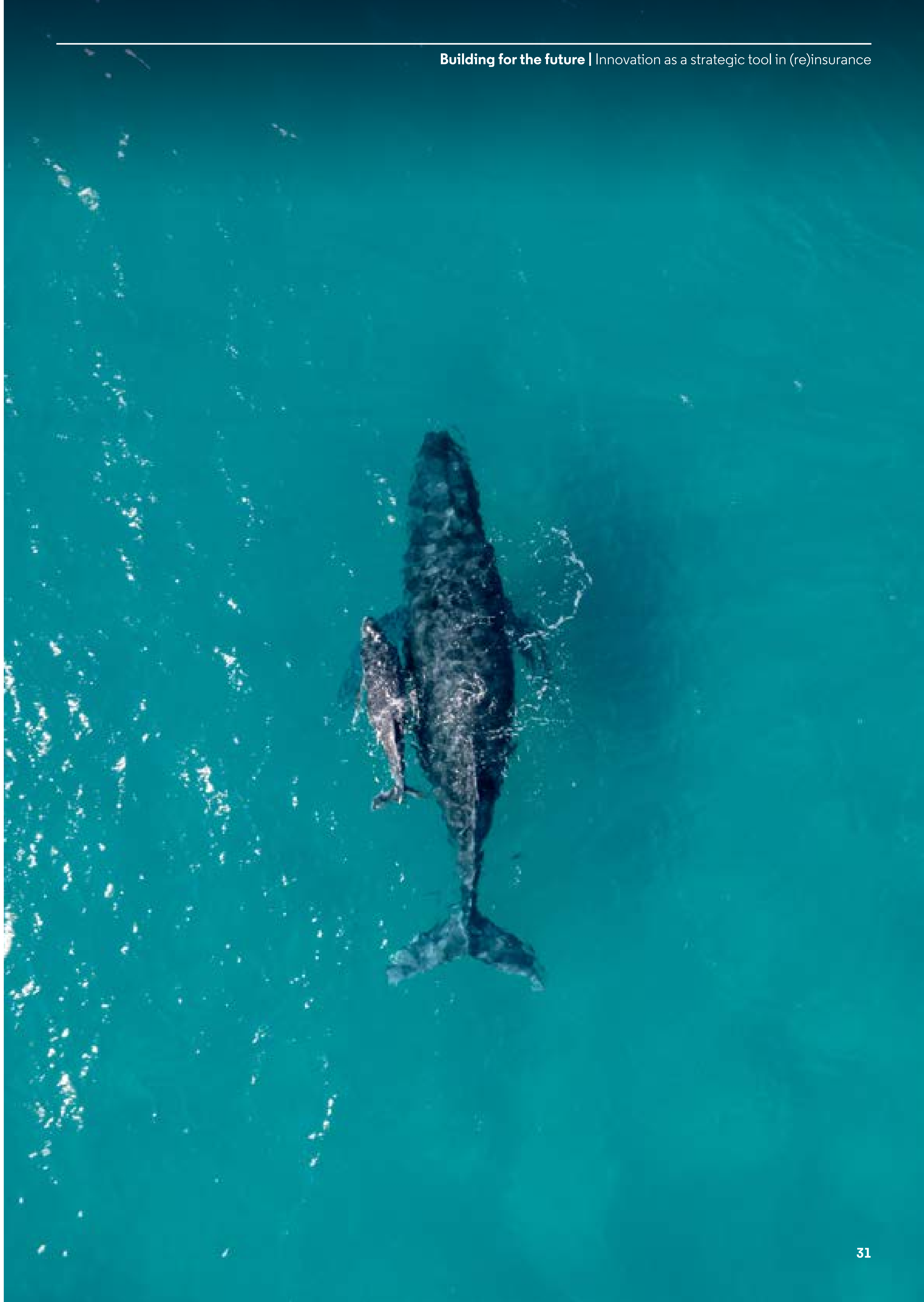
Table 1. Main triage criteria vs. Secondary factors to consider

Key sources of our funnel

Innovation demands new and different sources in addition to traditional means, for opportunity scouting. Chaucer use a variety of sources to cultivate our funnel.

Key sources of our funnel include:

- Market and competitor platforms, e.g. Sonr and PitchBook
- Lloyd's Lab
- Lloyd's Product Launchpad
- Insurtech Groups, e.g. InsTech London and Insurtech NY
- Personal Networks
- Venture Capital firms
- Brokers: especially the alternative risk teams, insurtech teams, and emerging risks teams



Phase 2: Understand the landscape

Understand the market > **Customer Segmentation** > **Define target customer problem statement** > **Prototype of the solution (new product)**

Overview

Regardless of whether partner-led or in-house, before creating an innovation solution it is necessary to understand the specific market or industry relevant to the project, to ensure the product will be appropriate.

It is then important to understand the potential customers within the industry to narrow down the field of opportunity.

From there, a target customer is chosen and the problem statement we are looking to solve is defined. A high-level prototype solution is designed, to solve the customer problem.

This entire process involves extensive customer feedback and engagement to ensure we are solving a big enough and sufficiently relevant problem, i.e. the market size and buyer urgency are material enough.

Notes:

- Timescale: 4-8 weeks
- Critical for all parties to understand the target customer, their specific problem, and the intent behind the prototype solution

Case study: Kita

When we first began working with **Kita**, the first carbon credit insurer, we first had to understand how carbon markets work.

We needed to understand who the main players are within this market, from landowners to project developers, registries to corporate buyers and everything in between.

We had to pick a customer and define the target problem statement we wanted to solve.

We decided to focus on corporate buyers of carbon credits who assume risk when they purchase ‘pending issuance units’ (PIUs), which don’t convert to a carbon credit for up to 10 years. This delayed time period poses a distinct risk of under-delivery for the buyer.

We focussed on this specific problem when designing the prototype of what a solution to this problem would look like.

Phase 3: Product development

Approval in principle from senior management > **Product working group created** > **Workstreams build out respective components** (e.g. wording, rating model, etc.)

Overview

Once the prototype solution has been honed sufficiently to be conveyed clearly to internal parties, an approval-in-principle meeting is required with senior management, to obtain buy-in at a senior level.

The senior team will be responsible for nominating key representatives within the business to comprise a working group which represents all functions of the business.

The benefit of a top-down approach at this stage in the process is to obtain senior buy-in and representation from across the business into product development, from claims to risk to compliance and everything in between, not just underwriting.

These workstreams are then tasked with building out their respective parts of the new solution. This is normally coordinated by the innovation point-person.

Notes:

- Timescale: 4-6 months
- Innovation leads are tasked with creating a new process or wording while maintaining the intent and integrity of the originally defined solution

Trouble-shooting

Throughout this stage it's important to maintain focus, which can be the most difficult part of product development. At every stage it's essential to ensure all workstreams remain focussed on the intent of what the project is trying to build and ultimately, the customer problem it is trying to solve.

It's easy to get diverted or lose track of the problem once creativity starts flowing, so it is critical to keep everyone coming back to the intent and purpose.

This requirement emphasises why it's so critical to define the customer problem statement in Phase 2 and highlights the importance of establishing the fact base of the market dynamics and customer segments, so that everyone is working off the same facts and level of understanding.

This avoids covering old ground too often and ideally enables better product creation, as people understand the unique landscape in which the product will ultimately function.

Case study: Crown Jewel

With **Crown Jewel®**, given the complexity of the solution required to protect trade secrets, it was absolutely essential that each of the workstreams continually referred back to the original intent of the product. It was necessary to ensure that the wording addressed the defined customer problem statement regarding their specific causes of loss - and that the rating model priced this exposure appropriately. This adherence to the problem statement ensured that the claims process would respond at the right time and with the appropriate speed, given the nature of the risk. With so many moving parts, it was key to have the problem statement and product intent clearly and simply written down so each workstream could continually refer back to it.

Phase 4: Approval

Finesse and fine tune > **Internal and external committees or sign-offs** (e.g. Underwriting Committee or Product Oversight Committee) > **Final approval from senior management**

Overview

Although this stage is about finalising the last 10-20 percent of the product, it can take as long as the product build stage, as detail is finessed and fresh pairs of eyes can spot issues that may not have been detected previously.

This is also the stage to confirm that all the appropriate governance and sign-offs have been received, both internally and from any regulatory bodies, for example, the Lloyd's coverholder sign-off process.

Communication between reviewers and management should be embedded at all stages, hence this is just the final opportunity for the product or process to be agreed by senior stakeholders.

Notes:

- Timescale: 2-4 months
- The last 20% of the project can often take as long as the first 80%
- Obtain final sign-off from senior management

The role of investment

An increasingly common tool in the innovation toolkit is investment. Often the rationale for companies to invest in entities within the innovation space is threefold:

- **Monetising intellectual property:** As noted previously, it takes roughly nine months to get a completely new product off the ground and the process often creates and involves copious amounts of intellectual property from the carrier to do so. Without investing in the start-up, the carrier does not fully value the intellectual property it provides to the process.
- **Sharing in the upside:** The first dollar of capacity is worth more than the thousandth. Additionally, especially within the Sowing Seeds portfolio, material premium and underwriting profit is probably a few years away. However, many companies can raise capital in early days at valuations reflecting longer term portfolio expectations.
- **Defending the long-term position on the panel:** While this may be less of a concern for larger companies, it is especially important for smaller carriers to consider. While a carrier is relevant to a start-up early on, that may not be the case in the future, and it may be difficult to defend one's position on the panel as the start-up scales.

Measures of Success

How do we measure success?

It is important to remember that innovation is about building for the future – the farther into the future we are building, the more this needs to be reflected in the metrics.

We include the usual ‘present focussed’ metrics, for example: Gross Written Premium, Combined Operating Ratio, Loss Ratio, Commissions and Expenses. However, the bulk of the metrics we use for innovation are more future focussed. Examples include:

- **Number of opportunities assessed or built out:** How many opportunities did we assess?
- **How strategically aligned were these opportunities** and did innovation progress our knowledge within the strategically identified themes or hypotheses?
- **Was the experiment designed appropriately?** i.e., did the product test the customer problem we wanted it to?
- **Option value or the halo effect:** Did innovation generate other intangible benefits or incremental gains that benefit the wider company?
  - Did it enhance our market positioning or profile?
  - Did it generate new enquiries for existing lines of business?
  - Are there secondary financial upsides or other ancillary benefits such as opening more doors for further opportunities?
- **Brand and reputation:** Did innovation add value to the brand? For example: press or media mentions, brand awareness, etc.
- **Non-financial benefits:** Are there benefits which did not assist commercial outcomes. For example:
  - Did it enhance our Environmental Social and Governance agenda?
  - Did it provide cultural reinforcement?
  - Did it increase our knowledge or experience, e.g. providing additional data, etc.?
  - Did we gain other assets through doing this, e.g. new processes we can leverage for other products, new rating or pricing techniques, new wording?

And what does failure look like?

Lack of sales does not constitute a failure in innovation.

The purpose of innovation is to create experiments to test strategic hypotheses or ‘future profit pools.’ As mentioned previously, it is difficult to determine whether a customer problem we are trying to solve is important enough to be meaningful without actually testing it. An experiment’s lack of sales means that we cannot prove the hypothesis we are testing, not that the experiment was not worthwhile or important.

Not shutting down a project soon enough is a failure.

Sunk cost fallacy can be a problem in innovation. It can be difficult to spend nine months bringing a product to market and then struggling to sell it. There is a balance between iterating further post-launch to try and achieve product-market fit – and throwing good money after bad ideas.

Shutting down an experiment is a difficult call to make, but the more clearly defined the hypothesis and the return period time horizon, the easier it is to make a non-emotive decision at this stage.

Poor experimental design, especially when it results in unforeseen or outsized losses, is a failure.

A product is more likely to be considered a failure if it experiences unexpected or outsized losses. With the right preparation and research, claims ought to fit within defined acceptable parameters. In this case, if losses fall outside of these parameters due to size or fall between a wordings gap, the product may not have been designed properly or the due diligence may not have been thorough enough.

Case study

In the midst of the Covid-19 pandemic in 2021 we launched a **pandemic parametric product** to provide cover for business interruption and related losses, and to test whether Covid-19 would be the catalyst event for the pandemic market, as 9/11 was for the terrorism market. Perhaps unexpectedly, we discovered that we did not sell sufficient policies to pursue it, even after multiple iterations with direct customer input. In spite of the difficulties faced by many businesses with Covid-19, we could not gain traction, so shut it down. Although the product itself 'failed', the experiment did not, because we successfully tested the hypothesis in a low cost, quick, and limited downside way.

Lessons learned

The process of creating a successful innovation function is hard and needs commitment from the business as a whole.

Our key learnings

Chaucer's key learnings from the first four years of our innovation programme were:

- **Innovation is both a science and an art**

Innovation isn't magic. It is a blend of science and art that is cultivated through practice and discipline. As hopefully shown throughout this report, there is a repeatable science to it – a proven process and methodology. But, at its heart, innovation is an act of creation.

- **It is an endurance sport, not a sprint**

In our experience it takes roughly nine months to launch a completely new product although, of course, it can be done faster. This requires being in the uncomfortable unknown, often outside the comfort zone, for a long time whilst continuing to move forward.

- **Having an open mind is essential**

It is very easy to dismiss something based on the lack of a proven track record or to get stuck on the 'why has this never been done before' question. Sometimes it pays to be sceptical - but that shouldn't come at the cost of closing our minds to innovation.

- **No one approach is right**

There are myriad models and approaches to innovation. No one approach is better or worse. It is down to the company to decide what the purpose and objectives are for innovation, and then to design a function that enables them to achieve these.

- **Process, process, process**

As noted in this report, getting the process right is hard, but so important to put in place.

- **Iterate and change – constantly**

By its very nature innovation is constantly changing. Hence, it is important to constantly review and iterate the approach. What worked last year might not work this year.

- **Senior buy-in is critical**

Clichéd but true. Without significant support right from the top, it is hard to make any progress within innovation.

- **Collaboration is key – both internal and external**

Innovation isn't a 'do it yourself' game. It requires significant collaboration both within an organisation and with other market participants.

- **Effective communication and transparency is critical**

This is vital considering the potentially large number of internal and external stakeholders. Internally, it's particularly important to make sure everyone knows what innovation means for them in the day to day, for example, taking ownership of a product once it has graduated out of innovation and into business as usual.

- **Strike a balance between creating a sense of urgency and being patient with the process**

It's important to keep focussed and move projects along, whilst remembering that *Rome wasn't built in a day*.

At Chaucer, we are proud of the work we've done with respect to innovation. Our relationships with external partners are fundamental to its ongoing success.

Our doors are always open for new ideas and collaboration:

- Are you a broker looking to build out a concept?
- Are you an insurance start-up looking to co-create a new product?
- Do you have a company looking to develop an insurance product or want help solving a problem?
- Are you interested in more details about the innovation process?

We'd love for you to get in touch:

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We find a way

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