Digital Transformation and Corporate Governance: Transparency, Traction and Talent as Key Ingredients

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Digitalization requires clear governance to take root and flourish. While at first glance, agile principles and corporate governance seem to contradict each other, the reality is different. Boards of directors should take note.

Digitalization within large corporations started decades ago. For many, it began even before the 1970s, when microprocessors and microcomputers were invented. While back then, digitalization was largely about so-called rationalization, today, it is about creating new business models, improving process efficiency and strategic transformation.

Where new technologies meet tradition, we must reengineer the way we manage business to effectively reap the benefits of digital transformation – leaders and employees require different roles than in the past, strategy and organizational culture must go hand in hand, and technology must be used as an enabler for transformation. Swiss Re, a global reinsurance company with more than 155 years of history, is a case in point.

Our business has always been about creating knowledge from data – and that was long before anyone spoke about artificial intelligence or digitalization. Over the years, we have moved from a rather simple dataset – for example, using age as a single data element for life insurance policies in the 1940's – to an environment where historical data on paper is replaced with real-time or even predictive data. At Swiss Re, we are evolving from a 'risk knowledge company' to a 'tech- and data-led risk knowledge company'. Through our transformation, we can further create concrete customer benefits and increase society's resilience.

But making this transition is easier said than done. Over the years at Swiss Re – as in many other companies – various departments took to solving problems in isolation and finding unique solutions with the help of technology or data. In many cases, this led to duplications, inefficiencies or a lack of coordination across the company. Based on our experience, we have learned that – in order to get real value out of data and to effectively master digital transformation – three key requisites are required:

I. Transparency on strategic goals and decisions,
II. Traction when it comes to implementation and execution, and
III. Talent as the basis for the required cultural shift.

1. The Three Key Requisites for Effective Digital Transformation

1.1 Transparency – *a clear vision and governance structure*

Creating an environment where digitalization can flourish starts at the board level and requires a shift in focus and reorientation. Academia takes this shift very far. Some scholars even suggested that the fast-paced environment of digital transformation is calling for a new era of corporate governance with flexible boards and flexible agendas: «Boards in the future consist of virtual networks of people where needs to monitor management diminish and shared leadership approaches are emphasized […], we suggest that boards work according to a dynamic board agenda based on organizational threats and opportunities. The agenda is built around learning and knowledge management and is reflected in the committee structure.»[1]

While this is an interesting concept, in Switzerland it would not be possible as board members are an elected group of individuals following a strict agenda with a strong focus on control and legally binding procedures. The board of directors is tasked with oversight. It creates the framework for decisions, appoints senior management, evaluates performance, approves the business strategy (the long-term view), and oversees committees such as the investment, risk management or audit committees. In addition, over the last few years, the importance of corporate governance has been increasing due to a stronger call for transparency and risk control from all stakeholders, but especially from larger institutional shareholders.

This mandate, however, does not hinder boards from refocusing: «In an era of constant change, boards must reduce uncertainty for stakeholders by making sure that the company has a crystal-clear vision of its future and an actionable plan to achieve it. Certainly, the vision and the plan will evolve, but the board must have the courage and wisdom to be proactive instead of reactive.»[2]

While continuing to provide proper oversight and challenging the strategy, the board must create space for discussions and encourage business model innovation in the interest of the long-term success of the company. A 'crystal-clear vision' is fundamental for the entire company to then complement it with a strategy of the same clarity. What must follow is an open and agile culture, where there is room for experimentation, allowing for innovation, failure, iterations, and pronounced opinions.

A study by the Massachusetts Institute of Technology found that if at least three board members are digitally savvy – meaning that they have a background in this field – the company outperforms on growth and valuation.[3] Digitally savvy directors can overcome a certain information asymmetry with senior management and «change the risk conversation from evaluating projects to the business model risk of not doing something new»[4], the authors write. At Swiss Re, it has been our experience that certain information asymmetries can be solved by calling in external or internal experts to engage in fruitful discussions on opportunities and threats. Our board is not only relying on internal knowhow and expertise, we also formed a Strategic Council with renowned experts from very different fields, ranging from former secret service officials to medical experts.[5]

1   http://www.sciedupress.com/journal/index.php/bmr.
2   https://knowledge.insead.edu/blog/insead-blog/agile-boards-of-directors-a-fad-or-the-future-9961.
3   https://cisr.mit.edu/publication/2019_0901_PrincipalDigitalBoard_WeillScholtenWoerner.
4   https://www.forbes.com/sites/peterhigh/2020/09/30/mit-research-suggests-companies-with-digitally-savvy-leaders-and-boards-far-outperform-their-peers/.
5   https://www.swissre.com/institute/about-us/Advisors.html.

1.2 Traction – *an integrated tech and data strategy comprising a Group-wide view*

Beyond transparency, a Group-wide view on technology, data, transformation, and security is – in our view – critical to making the best use of technology as a valuable enabler across the company. An integrated tech and data strategy standardizes platforms and infrastructure and protects them. It also helps overcome silos, ensures speed, and improves access to high-quality data. It also facilitates the integration and analysis of data to enable superior insights and analytics, thus reducing complexity of system architecture and informing business decisions. The end result is a moment of unification and a joint movement.

To ensure a smooth implementation of our tech and data strategy, a clear governance structure is also needed on the executive level. On a strategic level, this implies the establishment of a tech-steering board comprising the CEO. On the execution level, it is key that – in an integrated team – all tech leaders throughout the company are aligned and drive the innovation process.

Group-wide roles which cut across functions, departments, and business units ensure this alignment. At Swiss Re, we recently appointed Chief Officers for Data, Technology and Transformation, respectively. Each of these leaders has a clear mandate such as ensuring high data quality and seamless access to data, further developing technology platforms, and setting the Group-wide digital transformation agenda, including tech steering and innovation management.

Security continues to have a seat at the table just as data, transformation, and technology do. This is as important as ever, and security must also be seen from a Group-wide perspective. Over the last few years, but especially during the COVID-19 pandemic, the physical and digital workplaces converged. While in the past, IT was a house with doors, today the house no longer has walls. Consequently, in a digital environment, companies are much more exposed to cyber threats than in the past.

While data security has always been a key priority for us, our clients' continued confidence in us depends on our ability to protect our data and information. This trust is also contingent on how we use the data in the first place.

1.3 Talent – *recognition of the importance of culture*

A clear vision and governance structure, combined with an integrated tech and data strategy, sets the basis for digitalization. But these two requisites alone will not suffice to truly enable digital transformation. The right talent with the right mindset embedded in the right culture is fundamental to transformation.

There is a saying «culture eats strategy for breakfast».[6] This is not to say that strategy is not important. But what it does is place emphasis on culture as a powerful tool for innovation and organizational success. This is especially true for an agile approach where decisions are delegated to the lowest possible level.[7] Culture must facilitate collaboration beyond silos, innovation, and joint movement. But it also has to go beyond that. It calls for a different leadership style that empowers employees.

The role of a leader shifts from being a process owner with project plans and Project Steering Boards to becoming a product owner with a clear focus on execution. What does this mean? Once the strategy is set, the senior management determines the commercial objectives and value drivers and derives the initiatives and induces the needed change by defining the problem that needs to be solved. Once that is clear, decision making is delegated to the lowest level possible to empower the team. The leader no longer controls and leads. His or her job is to make sure that the team succeeds by offering hands-on support, regular check-ins and – maybe most importantly – the removal of any roadblocks. The team moves fast, works with an iterative approach and learns from mistakes. This leadership style – often also called servant leadership – is more intense, more collaborative, but also more rewarding for the leader and the team.

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6   The quote is attributed to US management consultant Peter Drucker.
7   https://agilemanifesto.org/principles.html.

In such a setup, the composition of teams is important. It needs the right talent with the right skills. Usually, there is no shortage of great ideas. Consequently, the focus has to be on execution. Having business, legal and security professionals at the table helps things move more quickly. It ensures that their considerations and concerns are taken into account before the final products are presented – in other words, they are part of the solution-finding process from the get-go. Everyone works towards the same goal with common values such as team spirit, client centricity, and a passion to perform. This also includes moving at speed and knowing that not everything works out. Therefore, iterations, learning from mistakes, communication, and understanding are key ingredients.

2. Proof of Concept – Transparency, Traction and Talent in Action: iptiQ

Are we, at Swiss Re, successful in implementing the right governance and culture for the digital age? Time will tell. But our progress towards this goal is very encouraging. Take our white-label digital insurance platform, iptiQ, for example. Created in 2016, this B2B2C business is growing strongly. It currently has 40 distribution partners, more than 500,000 customers and USD 300 million in gross premiums written. Based on the current growth trajectory and peer valuation, iptiQ's market-implied valuation has grown to approximately USD 2 billion.

How did we achieve this? Once iptiQ's business strategy was approved, the team was selected, starting with the CEO. We based the entire business on an agile approach and put together cross-functional teams. Risk and compliance have had a seat at the table from day one. We always had a clear focus on clients – what benefits we wanted to bring to them and how we could solve problems for them. Technology is an enabler that helps us get the transparency we need to be fast, innovative, and successful. The board provides direction and support. And thanks to the right mindset, they accept that not everything works out the way it was planned.

It was not easy from a cultural perspective. If you isolate a new start-up company within a traditional company too much, you get an 'us versus them' dynamic. If you bring it too close, it gets assimilated, and the idea is gone. To balance this, we created a layer in-between the business and the rest of the company. This shields it, allowing for the freedom to test and learn. But it is not a carte blanche. Certain values and setups have to be respected such as such as ethical behavior and protection from cyber risk.

We are proud of the fact that Swiss Re incubated iptiQ within its own four walls by embracing the very principles described above. [8]

3. The Takeaway

We made the first successful steps in our digital transformation and can unequivocally say that governance does not get in the way of an agile, digital environment. It is only through transparent governance and a clear vision and strategy, paired with a setup that creates traction and the right people and culture, that innovation can really flourish. These ingredients define the playground in which new ideas can grow and perform at their best. What is needed is a fresh definition of leadership at all corporate levels right up to the board. Leaders should stop focusing on processes and shift to a product-focused view. They need to accept that failure and mistakes are part of the game and that their function is to make sure the teams succeed in the end. This can be a stressful experience but is ultimately more satisfying and worthwhile for all concerned.

8   https://www.swissre.com/risk-knowledge/driving-digital-insurance-solutions/christian-mumenthaler-discusses-insurtech-at-itc-global-2020.html.