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Special Edition

# How to become an innovation-capable company

- Interview with Robert Cummings by Shigeki Hayashi -

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## Executive Summary

*New technologies emerging in rapid succession are fundamentally transforming how companies do business by not merely supplanting existing technologies but also giving rise to services hitherto technically unfeasible. To tap into this wave of innovation, companies must change their thinking. One of the first to do so was SAP. SAP now helps its customers transform their business models. NRI's Shigeki Hayashi spoke with Robert Cummings, head of SAP's insurance practice, about such transformation.*



### Robert Cummings

*Head of Industry Business Unit for Insurance, SAP*

Twenty-year SAP veteran, both with SAP Partners and since 1994 at SAP itself in various international leadership roles, including in consulting, presales, development and product management and as SAP Executive Board assistant driving strategic initiatives/campaigns. Led build-out of SAP's end-to-end insurance suite as cofounder and current Head of SAP Industry Business Unit for Insurance.

### Shigeki Hayashi

*Senior Corporate Managing Director–Insurance Solutions, Nomura Research Institute*

Joined NRI in 1988. Initially assigned to PMS Development Department; later transferred to Insurance Systems Department. Promoted to head of Financial Solution Division's Project Development Office and then General Manager of Financial IT Marketing Department. Seconded to Nomura Holdings in 2007. Returned to NRI in 2009 as General Manager of Insurance Systems Marketing Department. Appointed Executive Officer and Deputy General Manager–Insurance Solutions in 2012. Promoted to General Manager–Insurance Solutions in 2014. Appointed Senior Corporate Managing Director in 2016.



## New era of business model transformation

**Shigeki Hayashi:** At the seminar the other day, your business strategy colleague said that SAP has undergone a mode change. That jibes with my impression also.



**Robert Cummings:** There's been real change in the last 2-3 years at SAP where we're helping companies in all industries to digitize their systems. This is giving rise to new business models. To help companies migrate to new business models more smoothly, SAP needs to change first.

**Hayashi:** At NRI, we face the same "change first" imperative as we drive customers' digital innovations.

**Cummings:** It's not easy to change a whole company's thinking. It's a learning process where we need to move people around to new areas and help them have different types of experiences.

**Hayashi:** Has the atmosphere within SAP changed?

**Cummings:** It was a bit apprehensive at first because we thought, "Hey, these are huge changes." But now there's a new energy where our people really appreciate being part of this exciting time. So many new things like blockchains, the Internet of Things and artificial intelligence are emerging at the same time. Lots of companies haven't figured out for themselves exactly what to do with these things. Our people are excited to be at the forefront of technological progress. The atmosphere is becoming incredibly engaged now.

**Hayashi:** Another German company that seems to have changed dramatically is Continental. Originally a tire maker, Continental is now the leader in self-driving vehicle technologies. While Continental has transformed itself through numerous acquisitions, SAP seems to have changed from the inside out instead of bringing in new blood through M&A.

**Cummings:** Continental is a big customer of SAP. They were a tire company, not a telematics company, so they needed to acquire new technologies. They're a good example of transformation from a product-oriented culture—they used to think of just

tires—to a customer-oriented one.

At SAP, we've generally been growing organically. We've made some acquisitions but we had the technologies largely in place already. Like Continental, we're moving from being product-centric—in our case, around ERP—to being all about the customer experience. In helping customers change their business models, you automatically change along with them.

**Hayashi:** When NRI decided to partner with SAP in the Japanese insurance market, the great respect SAP commands as a company that has transformed itself was a more compelling motivation for us than any specific solutions you offer. Our customers must transform their businesses



but don't know how to do it alone. They want guidance from a company that has already transformed itself.

**Cummings:** Thank you for saying that. We're likewise excited about partnering with NRI in the insurance market also. Customers are looking for strong players with different but complementary backgrounds to team up and meet their needs with innovative solutions. The insurance industry is now at an interesting stage. Insurers' business model has not changed much in probably 200 years but it's about to change a lot. I think SAP and NRI definitely have a chemistry that can benefit our customers.

### Customer-experience focus is transformative

**Hayashi:** Size-wise, the Japanese insurance market is second only to the US, making it an attractive market for IT vendors, but it's too heavily regulated for much innovation to take place. Southeast Asian and North American markets, for example, are more innovation-friendly than Japan.

**Cummings:** In my experience traveling around the world, there are two types of insurance markets. The first is mature, highly saturated markets like the US, Western Europe and Japan. The second type has a growing middle class with many people who do not yet have insurance, like in China, the Philippines, India and Latin America.

The two types of markets require different approaches to innovation. In the first type, the key is to focus on customer experience. In the second type, you have to attract younger customers through innovation. Even in tightly regulated markets, there are still ways you can be innovative.

**Hayashi:** My impression of SAP is that you focus on helping companies grow by optimizing customer experience. Are there any novel approaches to customer experience in the insurance industry?



**Cummings:** When people buy insurance, they're looking for protection. If I buy fire insurance for my home, for instance, my insurer would pay me some money in the event of a fire. What I really want, though, is for my house to never catch fire in the first place. How can insurers fulfill customers' objective of protecting their homes, their health, their wealth? They previously couldn't really do so but such protection is now becoming technically feasible. Life insurers or health insurers could add pieces to the customer experience that improve customers' health through health metrics or safer driving, for

example. For the first time, insurers can actually start selling physical protection, which changes their customers' experience.

**Hayashi:** So insurance, which has previously involved the exchange of money only, is evolving into a non-financial service business. I believe an important part of providing such services is access to a wide variety of information.

**Cummings:** At SAP, we do business in 24 industries. I'm responsible for insurance, but I've spent a lot of time over the past 2-3 years with my colleagues in healthcare, automotive, professional services, security systems and so on. We believe we can prepare better for the next generation if we can bring insurance together with these other things. I recently visited a life insurer that recruited someone from the healthcare industry to head its life insurance business because they want to extend their insurance offerings with new healthcare offerings, including all kinds of technologies not available 10 years ago. Meanwhile, companies from other industries like healthcare and autos are looking to get into insurance. Boundaries between industries are breaking down.

**Hayashi:** Insurers may be worried about becoming extinct. They feel threatened by

automakers' plans to sell auto insurance.

**Cummings:** I personally don't believe insurance is going to disappear. I think its form will change but the same is true for all industries. Every industry, not just insurance, is changing its Hayashiape, even the taxi and hotel industries. Everybody's changing because digital connectivity is changing how we can do business. I believe companies that are creative, fast-moving and willing to partner with other industries will determine the business models of tomorrow. The next two years will be a critical time for insurers to decide what they want to do and how they see the value they offer their customers. Then they must move quickly because I believe new business models will be somewhat establiHayashied within maybe two and half years. The fastest movers will grab the biggest market Hayashiaries.

### Pro-innovation corporate culture

**Hayashi:** Japanese financial institutions have extremely homogeneous workforces. Changing the insurance industry might require collaboration among people with different mindsets. Can Japanese insurers survive without diversifying their workforces?



**Cummings:** The hardest challenge isn't changing the technology or the business but changing people's thinking. It's not impossible, though. I think if employees can see what the customer is trying to do and how the customer's needs are changing, they can change their thinking and their company's mindset. However, you need to also bring in new thinking, freHayashi approaches. I think this is going to be the challenge in coming years.

**Hayashi:** I feel there are huge international differences in how innovation takes place. In Europe, Germany in particular seems to have a national innovation movement. In the US, Silicon Valley reigns supreme. I feel IT is reviving US industries' competitiveness. In Japan, innovation happens at the individual company level.

**Cummings:** There's a mixture of different approaches. I think it's best to actually go visit some of these innovation hotbeds and, most importantly, to consciously have

a group dedicated to innovation within your company. The group Hayashi should be protected from the rest of the company to allow them to freely innovate. I don't think innovation happens naturally or comes from outside. One has to actively engage and try to bring it into the company, preferably through some framework like design thinking.

**Hayashi:** Excellent point! Many Japanese financial institutions have innovation teams but the teams are assigned development projects with deadlines—for example, “Come up with a new product by such-and-such a date.” I highly doubt such an approach is effective. Companies won't grow unless they protect and nurture their innovation teams.



**Cummings:** You're absolutely right. Innovation teams need protection and they need time. Like an R&D program, innovation teams need some freedom.

### The Cloud: moving beyond talk to action

**Hayashi:** Until around last year, Japanese financial institutions seemed adamantly opposed to the Cloud, but now they're gung-ho on it. They're starting to realize that the era of in-house ownerHayashi of IT hardware may be ending, to be

replaced by CPU power supplied on demand, like electricity or tap water.

**Cummings:** A hundred years ago, most big buildings had power plants in their basements to supply their electricity. Today, it's hard to imagine why you'd have a backup power supply on premises. I think computing and IT are headed in a similar direction. It makes more sense to access IT infrastructure over a network than having it in every office.

When preparing to give a presentation in Germany a few years ago, I was asked to not mention the Cloud because it was supposedly of no interest to insurers. When I gave a presentation to the same group a year later, they asked me to talk about what other industries were doing vis-à-vis the Cloud. This year, the same group was asking about how quickly can one move to the Cloud. I think it's a natural progression where everything will eventually move to the Cloud, but it's important for companies to first understand what they want to do before turning their attention to the Cloud. I think

migration to the Cloud is going to speed up from 2017. Moving to the Cloud is more a question of “when” and “how” than of “if.” And it’s our joint responsibility at NRI and SAP to help companies prepare their roadmaps to move to the Cloud, not too quickly but in a manageable way.

**Hayashi:** Working with customers to build next-generation business models is inspiring for us at NRI and SAP also. Thank you for taking the time to speak with me today.





## about NRI

*Nomura Research Institute, Ltd. ("NRI", TYO: 4307) is a leading global provider of system solutions and consulting services, including management consulting, system integration, and IT management and solutions for financial, manufacturing and service industries. Clients partner with NRI to expand businesses, design corporate structures and create new business strategies. NRI has 10,000 employees in 35 offices globally and reports annual sales above \$3.7 billion.*

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