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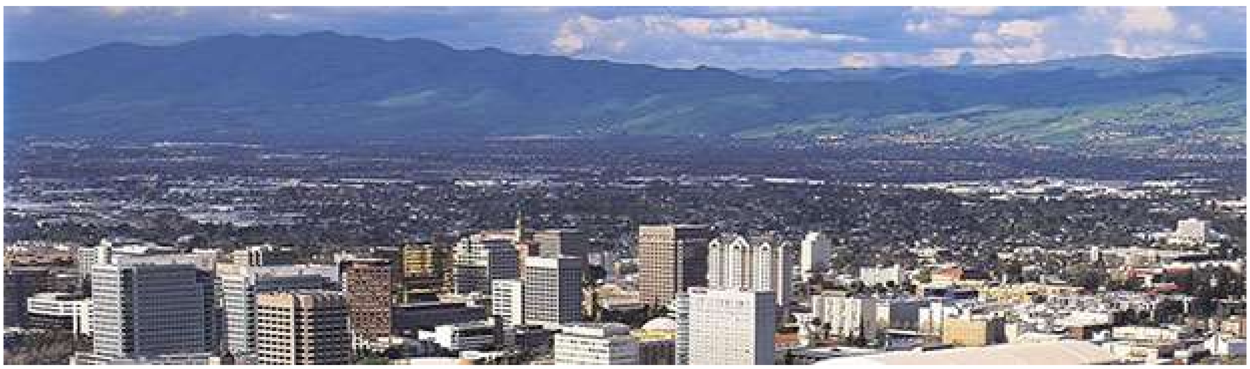
Major Life Carriers Find a Second Home in Millennial Tech Hubs

By Warren S. Hersch September 25, 2017



Many of Silicon Valley's tech companies dot the San Jose skyline.

It's all about location, location, location. This popular mantra of the real estate world has taken on special significance in the insurance space, notably in respect to technology.

With increasing urgency, life-annuity carriers — **Aflac**, **MassMutual**, **MetLife**, **Nationwide**, **USAA**, and others — are moving internal technology talent and operations to centers of innovation across the U.S. Their aim: to tap into insurtech and fintech developments on the cutting edge, as well as human capital the carriers view as key to transforming their businesses.

"We increasingly see carriers' technology units moving out of home offices and into these innovation centers," says **Rob McIsaac**, a senior VP of research and consulting at **Novarica**, a research, advisory services and consulting firm for insurers. "Leading carriers have concluded that chief technology and data officers need to be closer to the places where tech talent is being groomed to be able to support innovation initiatives."

Rob McIsaac, a senior VP of research and consulting at Novarica

Tech's Crown Jewel

The most powerful magnet among the hotbeds of tech activity is, of course, Silicon Valley, the focus of a new Novarica report to which McIsaac has contributed, Enabling Innovation, Vol. 2: More Lessons from Silicon Valley. To realize the potential of their digital initiatives, the study finds, carriers need to partner with and invest in start-ups that are producing innovative technologies.

They also must intensify their commitment to innovation from within: a dedication to transformational change that starts with the CEO and permeates every facet of the enterprise, from the back office to producers in the field. And they need to recruit, reward and retain the people who can nurture promising digital initiatives from the concept phase to their final form.

All of which can be more readily achieved by planting stakes in or near cities and technology parks on which insurers are increasingly dependent to revamp long-established business processes. Intermediaries that can facilitate such change — venture capital firms, accelerators, incubators and tech forums that connect insurers with promising start-ups — are abundant in Silicon Valley. So too, the Novarica report notes, are established tech companies that boast "optimal models of success" and best practices in innovation.

Among them: **Amazon Web Services**, **Andreesen Horowitz**, **DocuSign**, **Limelight Health**, **Launchpad Digital Health** and **Plug and Play**. The last, an accelerator with a 150,000 square-foot campus, has been a key focus of the industry, having spearheaded numerous partnerships between carriers and tech companies.

As reported, Plug and Play last year hosted for start-ups a 12-week business development program that involved more than 45 corporate partners, including insurers that share offices in the San Francisco Bay area. Among them: Aflac, **AIG**, **The Hartford**, MassMutual, Nationwide, **State Farm**, **SunLife**, **Thrivent Financial** and USAA.

"We view the Silicon Valley Office as a way to scout for promising new technologies that can help us enhance our products and solutions…" said State Farm in a statement. "Our scouting efforts span the breadth of our product portfolio — auto, residential, wellness and financial services. We are very interested in connecting with innovators who can help us provide greater value to our customers."

Adds **Bill McKinney**, senior VP of strategic development **Thrivent Financial**: "At Thrivent, we've invested in both national and local technology accelerators in order to help our organization continue to provide the most effective products and services that meet the needs of our members, both now and in the future."

Tomorrow Ideas, creator of a mobile app that offers simplified term insurance, plus a free will and trust, secured $2.6 million in seed funding backed by Plug and Play. That led to agreements with nine insurers — including **American General**, **Principal Financial**, and **Prudential Financial** — that now offer term insurance through the app.

Promising start-ups have also spurred acquisitions, enabling the buying insurer to establish a permanent foothold in the Valley. Example: multiline carrier **Allstate**, which bought San Francisco-based **Esurance** for $1 billion in 2015.

Institutions of Higher Learning

It isn't just the "ecosystem" of start-ups, incubators and intermediaries that are pulling insurers' tech mavens and C-suite executives to Silicon Valley and other centers of innovation. Also a major draw, says McIsaac, are universities.

In the San Francisco Bay, institutions of higher learning — **Berkeley**, **UCSF** and **Stanford** — are spearheading advanced research into data sciences of value to insurers. They're also feeding the pool of tech-savvy analysts, software programmers and engineers insurers needed to overhaul core business operations. Carriers and their insurtech partners are targeting more than top graduates of these schools. The best and brightest are often plucked from universities well before they don a gap and gown.

"Insurers that wait until after top students graduate risk losing them to companies that recruit while they're still in school," says McIsaac. "By putting the CDO and others hunting for tech talent at the 'point of manufacture' — the college campuses — carriers are better positioned to tap talented young people earlier."

Some carriers setting up shop near campuses are coming not with small crews, but technology- and data-savvy teams numbering in the hundreds. Case in point: MetLife.

In 2015, the New York-based behemoth unveiled plans to position 2,800 jobs in North Carolina, including at a new Global Technology Center in Research Triangle Park (RTP) where 1,000-plus employees now work. The center is near schools with top-rated engineering, computer sciences and data analytics programs. Among the schools: **Duke University**, **North Carolina State University** and the **University of North Carolina**.

The three institutions, says McIsaac, create a "halo effect:" an attractive academic environment that keep graduates in the region's hub cities (Durham, Raleigh and Chapel Hill) for a period of years. MetLife and other companies on the hunt for top talent thus have an easier task recruiting and networking with prospective employees, contractors and partners.

"A key reason this area was selected was due to access to a rich talent pool," the company says in an e-mailed reply to questions. MetLife adds that a third office building is planned for the Global Technology Center, construction of which remains "in an early planning phase."

Echoing the point, an AIG spokesperson said that the company's life insurance headquarters in Houston and other offices worldwide are able to recruit from "world-class colleges and universities." The company is counting on the new blood in part to "revolutionize the sale, purchase and ongoing management" of its life products.

MassMutual, too, has positioned its analytics team in Amherst, Mass., where the University of Massachusetts has its campus, rather than in Springfield, where the company is based. The university boasts a top-rated master of science program in business analytics and various engineering disciplines, including computer systems.

The move aligns with MassMutual's heightened focus on data sciences. As reported, the carrier recently hired a top data scientist from Novartis and has kick-started an educational partnership with the University of Vermont to advance research into this multi-disciplinary field.

Cities, States Join the Fray

Yet another factor driving insurers' migration to centers of innovation, says McIsaac, is state and local sponsorship of metropolitan areas and research parks endeavoring to become technology hubs. Some, such as New York and Boston, enjoy a lead due to built-in advantages — cultural institutions, diversified local economies, multi-ethnic communities and a cosmopolitan spirit — that draw people from the around the world.

These nascent hubs (Silicon Alley in NYC; the Route 128 region around Boston) have provided insurers based in these and neighboring cities — AIG, **AXA**, **Guardian Life**, **John Hancock**, **Liberty Mutual**, **New York Life**, **SBLI** and **Voya Financial** — with rich sources of technology talent.

Other cities where major insurers are headquartered, including Des Moines, Iowa (**Athene**, **Principal Financial**, **Midland National**); Columbus, Ohio (Nationwide); and Hartford, Conn. (The Hartford, **The Phoenix Companies**) also are looking to attract insurtech start-ups, in part to keep carriers based in town from relocating to larger centers of innovation. But, warns McIsaac, cities like Hartford face an uphill battle.

"I wish Hartford well, but it lacks the research universities that would feed a tech community with new talent," he says. "Contrast Hartford with Des Moines, where you have a very interesting combination of research universities, state sponsorship and carrier participation that has allowed the city to create a global insurance accelerator.

"Just because city leaders say they want to establish centers of innovation doesn't necessarily mean that they have, to borrow an economics term, the 'factors of production" to make it work," he adds.

Hartford is, nonetheless, making a go of it. As reported, the city's business leaders, among them top executives from The Hartford and The Phoenix Companies, recently hosted Insurtech Hartford, in part to pitch the city as high-tech friendly.

That message evidently came too late for life and health insurer **Aetna**, which earlier this month disclosed plans to move its corporate headquarters from Hartford to New York. NYC's tech scene wasn't the only factor in the decision: The carrier is due to receive $9.6 million in municipal property and sales tax credits and $24 million in state tax credits over 10 years.