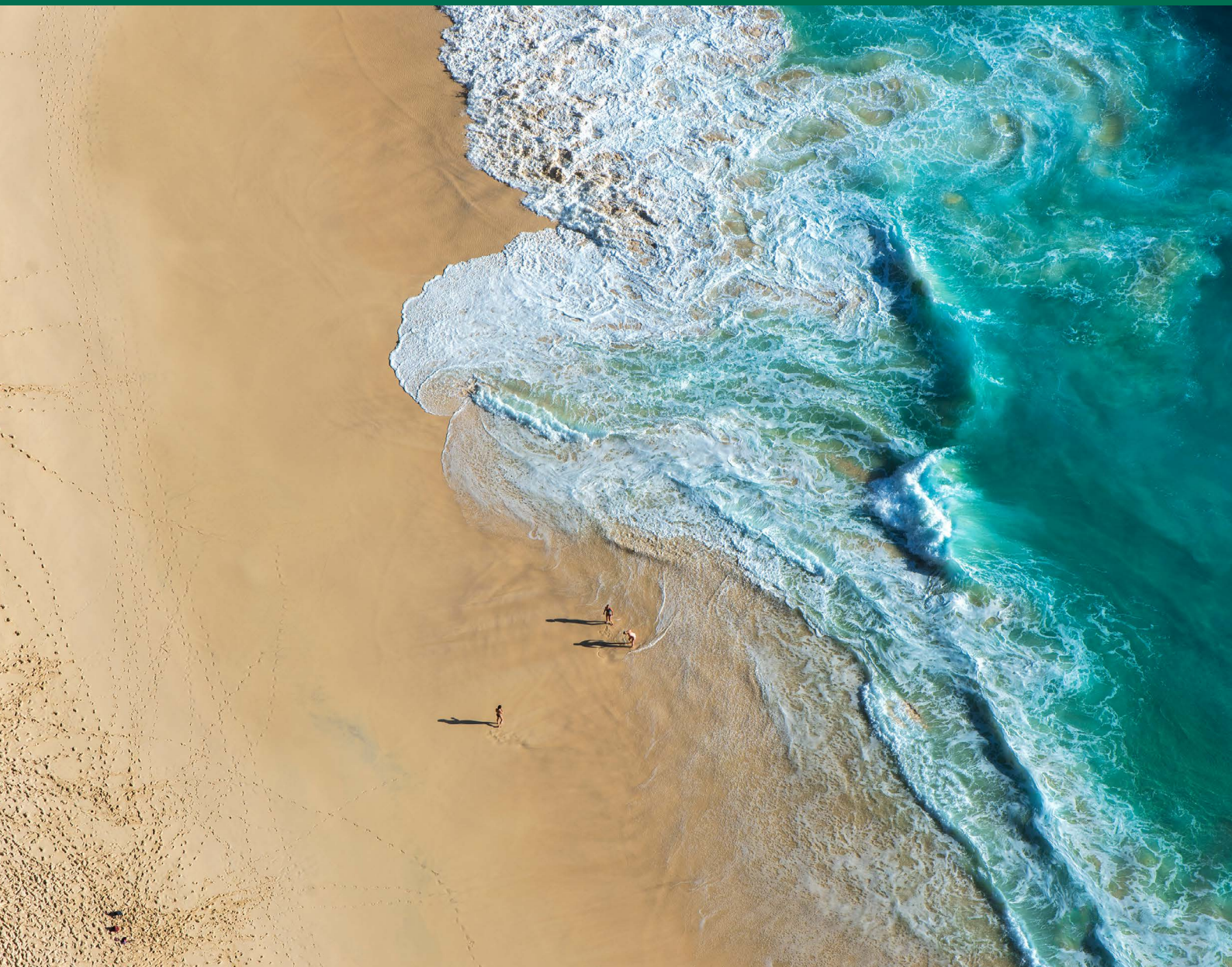




# The 2020 Insurance Value Creators Report

*The Pandemic Puts a New Premium on Performance*



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# The 2020 Insurance Value Creators Report

*The Pandemic Puts a New Premium on Performance*

**Davide Corradi, Thomas Seidl, and Eric Wick**

July 2020

## AT A GLANCE

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At 8.2% per year, insurers' TSR was distinctly average for the past five years. Top-quartile insurers delivered annual TSR of 20% since 2014, driven mainly by book value growth of 13.4%.

### **THE COVID-19 CRISIS**

In the wake of the pandemic, insurers underperformed the market by 12%, similar to their showing during the global financial crisis, as the sector's substantial asset risk was exposed by falling interest rates, widening bond spreads, and tumbling equity markets.

### **BOOK VALUE GROWTH AND RETURN ON EQUITY**

In the long run, book value growth and RoE drive value. Insurers need to allocate capital to their high-return businesses and fuel growth in these lines. BCG's RoE benchmarking tool shows enormous gaps in current company performance.

### **AN UNCERTAIN OUTLOOK**

The COVID-19 aftermath is uncharted territory, but it's clear that insurers need to fundamentally rethink their business and operating models. We see five priorities for improving RoE and igniting profitable growth.

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*“When the going gets tough, the tough get going.”*

**N**O QUESTION THE GOING is getting tough. In 2019, insurers delivered an average of 28% total shareholder return (TSR), in line with the recovering broader market’s average of 27%. For the five years ending on December 31, 2019, insurers produced an 8.2% TSR on average, slightly underperforming the market by 1.4 percentage points.

The leading insurers performed much better—the industry’s top-quartile insurers delivered 36% TSR in 2019 and 20% TSR annually since 2014, driven mainly by book value growth (13.4% versus 5.5% for the full sample in our research) and multiple expansion (4.6% versus –1.9% for the sample). Top performers return less cash to shareholders as they deploy more capital to profitable growth. The combination of book value growth and improvement in return on tangible equity (RoTE) has been the most powerful driver of TSR. RoTE above the cost of equity (CoE) means that growth is profitable, and an expanding RoTE drives improvement in the price-to-tangible book value (P/TB) multiple.

With the onset of COVID-19, the going got even tougher. Many governments cut interest rates to their lowest levels ever, with predictable effects on investment-dependent industries. In the financial sector, banks were hit hardest followed by life insurers. As of June 11, insurers had underperformed the market by 12%, similar to what happened during the global financial crisis. The sector’s asset leverage became a huge liability as the three main asset-related exposures—interest rates, credit spreads, and equity markets—all went south at the same time. In addition, tens of billions of dollars in losses in commercial lines and reinsurance lines are expected to undermine underwriting performance, with considerable uncertainty about the size of the ultimate impact on business interruption and commercial liability lines. In contrast, auto insurers benefited from lower claims frequency, partially offset by higher fraud rates, as a result of the lockdowns.

Conditions are not set to improve. The outlook for interest rates in developed insurance markets has morphed from “low for long” to “low for forever.” As a result, investment returns will continue to contract as much lower-yielding securities take the place of maturing bonds. Thanks to rapidly recovering equity markets, insurers have escaped major impairments, but a potential credit crisis is still looming. Many insurers need to replace their fading investment spreads with higher underwriting and fee margins while dramatically cutting their unsustainably high operating and distribution costs.

Many insurers need to replace fading investment spreads with higher underwriting and fee margins.



Individual insurers must innovate and develop new value propositions for their customers.

The unclear medium-term outlook for the post-COVID-19 environment adds a level of uncertainty that most management teams have never had to confront. How long will it take for demand to recover, for example? How will nonlife claims evolve? How much opportunistic capital will enter the industry in the wake of rising prices? How can insurers design attractive life and pension products for a zero bond-yield world?

Here's where the tough get going. By pooling risk, insurance continues to fulfill a vital economic function, but in highly competitive markets, individual insurers must innovate and develop new value propositions for their customers. Top-quartile companies show that this is still possible. Digital technologies provide new opportunities in multiple areas, including underwriting, marketing, distribution, and claims. Smart M&A can realign or streamline business portfolios for changing market conditions.

From a financial perspective, improving RoTE remains the key driver of P/TB multiples, and BCG's proprietary RoTE benchmarking tool shows enormous gaps in RoTE performance over the past five years, from 37.8% for the top quartile to 8.7% for the bottom quartile.<sup>1</sup> High RoTEs are typically driven by disciplined capital allocation to attractive underwriting risk pools, where companies can develop an edge (typically via scale or skill) while minimizing allocations to unrewarded asset risks.

This report explores the insurance industry's recent record on shareholder return, the role of RoTE and its drivers in insurance TSR, and the options companies have for improving performance in the current and medium-term environments.

## Pre-COVID-19: The Good, the Bad, and the Average

The TSR performance of the global insurance industry has been distinctly average—in the recent past and over the longer term. Book value growth and improvement in P/TB multiples have been the main drivers of top-quartile value creation, with reinsurers outperforming other segments by 6.4 percentage points over the past five years chiefly because of a strong improvement in multiples following a turn in the reinsurance pricing cycle. In contrast, the life sector suffered from a 7-point drop in P/TB multiples as investors worried about eroding investment spreads, the segment's primary source of earnings. (See the sidebar "TSR in Insurance.")

The top insurers have rewarded investors with significant outperformance against both industry peers and companies in other industries, underscoring one of our fundamental value lessons: every company can find a path to value creation. Moreover, the outperformance spanned both geographic areas and industry segments. The top five companies for the five years ended 2019 were Sul América (Brazil, mainly property and casualty as well as health, annual TSR: 43.6%), Progressive (US, property and casualty, 25.2%), Ping An (China, multiline, 23.5%), Hannover Rück (Germany, reinsurance, 23.5%), and Porto Seguro (Brazil, mainly property and casualty as well as health, 21.9%).

At the same time, more than one-third of companies in our sample had an annual RoE of less than 9%, below their CoE, which ranged from 9% for property and casualty primary insurance to 11% for life insurance, substantially eroding value.

## TSR IN INSURANCE

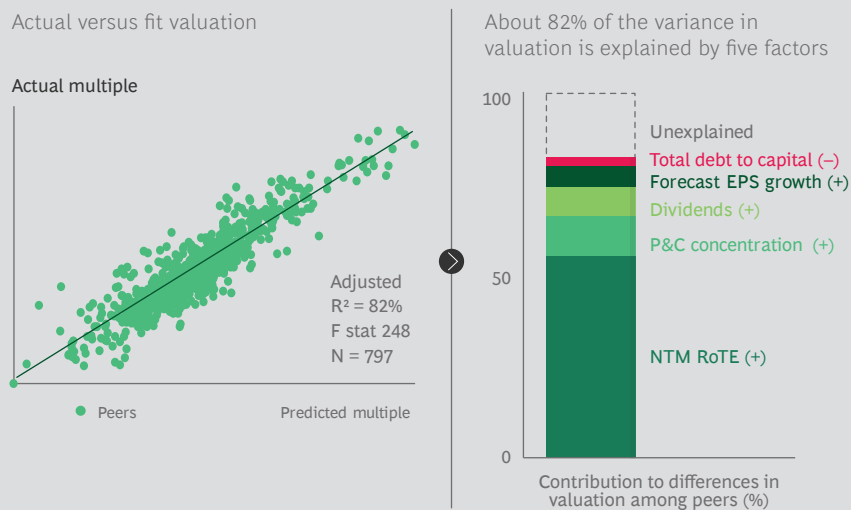
In the long run, value creation measured by TSR is the true bottom line for any publicly traded business. From the shareholder's perspective, TSR is easily measured (the combination of share price gains and dividend yield for a company's stock over a given period of time) and benchmarked. But how do operational managers generate TSR? That's where disaggregation of the primary TSR drivers comes into play.

In insurance, TSR is broken down into three components: the growth of book value, the change in the P/TB multiple, and the contribution from cash flow (comprising dividend yield and share buybacks). Over the long run, book value growth and cash flow

are the major contributors to TSR. Over the short to medium term, changes in the P/TB multiple matter a lot more. (See the exhibit below.) The most important challenge for management is making the right tradeoffs among increasing book value, deploying free cash flow, and expanding or protecting valuation multiples. BCG's TSR methodology helps insurers simulate such tradeoffs and make informed decisions about factors such as portfolio focus, capital allocation, and business units' financial targets.

Making the right tradeoffs requires accurate estimates of the impact of strategic and operational decisions on not only book value and free cash

### The Five Drivers of Relative Valuation Multiples in the Insurance Industry



**Sources:** S&P Capital IQ; BCG ValueScience Center.

**Note:** Peers include 97 global insurance peers; FY2009–FY2019 outliers are excluded or normalized. Capital markets factors for European debt crisis (2010–2012) and Brexit (UK peers in 2018 only) are excluded from the stacked bar. EPS = earnings per share; NTM = next 12 months; P&C = property and casualty.

## TSR IN INSURANCE (Continued..)

flow but also the valuation multiple. BCG's Smart Multiple methodology uses regression analysis to estimate differences in valuation multiples. In insurance, more than 80% of the variance in a company's P/TB multiple relative to its peers can be explained by fundamentals: profitability metrics (RoTE and dividend payout), balance sheet health (debt to capital ratio), forward growth expectations, and business mix. When we help an insurer chart a course for superior shareholder value creation,

we develop a plan on the basis of the tradeoffs among the fundamental TSR drivers (book value growth and free cash flow, for example) and the expected impact of each factor on the client's valuation multiple while also considering the risks and long-term strategic implications.

(See the appendix for the key performance metrics of the top insurance companies in our sample.)

And among the five largest European multicountry, multiline insurance conglomerates, two underperformed the MSCI Europe Insurance Index on 5-year TSR, four on 10-year TSR, and three over the past 15 years.

### Post-COVID-19: Times Get Tougher

Since the beginning of 2020, the TSR performance of insurers has matched that of the early months of the 2008 global financial crisis. From January to mid-June 2009, the industry underperformed the broader market (as represented by the MSCI World Insurance Index and the MSCI AC World Index, respectively) by 16 percentage points. During the same period in 2020, the industry underperformed by 12 percentage points. As of June 11, 2020, the industry was down 21% while the S&P Global 1200 fell only 9%, with the gap widening as the crisis unfolded. Insurance has been the fourth worst-performing sector, surpassed by only hotels and leisure, banks, and energy.

All the subsectors have rebounded modestly from their lows in late March, with property and casualty performing moderately better than the others. These companies' share prices returned almost to January levels as the benefit from lower claims frequency (auto claims, for example, were down 25% to 35% in the wake of lockdowns) outweighed falling demand and investment income. Regionally, the Americas have been the hardest hit (–26% change in share price) and Asia-Pacific the least (–16%). Across the industry, COVID-19 has had its biggest impact on the asset side: the higher the asset leverage and the more asset-driven a company's products, the greater the effect. Uncertainty about the size of the final “bill” in commercial lines adds to investors' concerns. The underperformance of the insurance sector widened between March and June, suggesting investors expect that lower interest rates and dampened demand will have further negative ramifications for insurers.



## How Insurers Can Deliver Growth and Value

The COVID-19 aftermath is uncharted territory, but a few things are clear. First and foremost, TSR provides a powerful guiding metric for insurance management teams. The companies that win the new reality will be those that align planning, KPIs, and incentives with delivering sustained TSR and total societal impact (TSI). Management—and the entire organization—needs a strong shareholder value-oriented mindset and discipline. This means putting TSR front and center, setting targets, pressure testing plans and initiatives, allocating resources, and tracking performance through a TSR and TSI lens.

Given the adverse outlook for investment returns, the importance of profitable growth in underwriting and fee businesses has never been higher, but profitable growth depends on RoTE exceeding CoE. And while growth is possible, it will require many companies to reassess their prospects by line of business and transform their operations in order to take advantage of advanced technologies across the entire value chain and new ways of working.

Insurance is a cyclical business, which makes it worthwhile to think about TSR in both the medium and the long term.

In the medium term—the past five years—growth in book value was the primary driver of TSR. Of the 8.2 percentage points of TSR delivered by the average insurer in our sample, 5.5 points came from growth in book value and 4.6 points from cash flow contribution. Multiple change subtracted 1.9 points. But among top-quartile companies, 13.4 points out of 20 points of total annual TSR came from growth in book value. Cash flow and multiple contributed only 2 points and 4.6 points, respectively, with the cash yield of the top quartile running 2.6 points below sector levels. Cash yields are important drivers of TSR, primarily for average performers. (See Exhibit 1.)

There were some significant regional variations. In the Americas, the top quartile delivered 21.0%, driven mainly by book value growth (8.9 points) and an improvement in multiple (8.8 points). In Asia-Pacific, the top quartile generated an 18.9% TSR propelled mostly by strong 14.4-point book value growth, whereas in Europe a more balanced mix of drivers led to the lowest regional top-quartile TSR of 15.9%.

In the long run—ten years—book value growth has been the differentiating driver for the best performers, accounting for close to 80% of top-quartile TSR performance. (See Exhibit 2.) Multiple is not a factor, which is not surprising since cyclical impact has less of an impact over time.

TSR provides a powerful guiding metric for insurance management teams.

## Return on Equity Drives Multiples and Enables Book Value Growth

BCG's most recent research confirms a robust correlation between RoE and growth in book value per share (after adding back dividends), which highlights the importance of both capital productivity in capital-intensive lines of insurance and growth in capital-lean fee businesses. (See Exhibit 3.)

## EXHIBIT 1 | Dividends Are Key Only for Average Performers

Contribution to average annual TSR, 2015–2019<sup>1</sup> (percentage points)

Entire sample (n = 96)<sup>2</sup>

Top quartile (n = 24)<sup>2</sup>



Book value growth and multiple expansion deliver sustainable top-quartile performance

**Sources:** S&P Capital IQ; Refinitiv; BCG ValueScience Center.

**Note:** Components of TSR are multiplicative but converted and shown here as additive with remainders assigned to the multiple change field. Aggregation is based on market cap weights at start year. TSRs are calculated in each company's reporting currency.

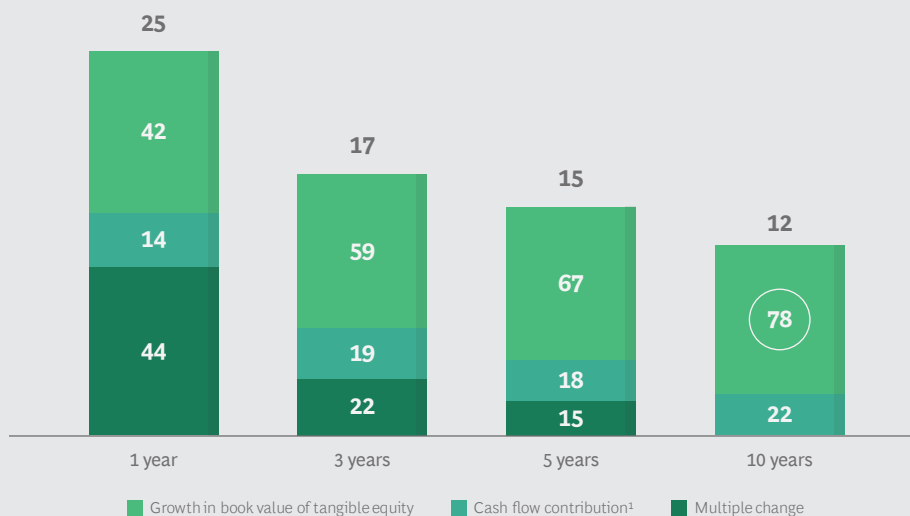
<sup>1</sup>TSRs run from December 31, 2014, through December 31, 2019. Fundamentals represent LTM reported as of those dates.

<sup>2</sup>After omitting brokers and companies with negative tangible book value of equity.

<sup>3</sup>Includes dividend contribution and share count change.

## EXHIBIT 2 | Long-Term Growth Is the Dominant Driver of TSR for Top Performers

Sources of TSR for top-quartile performers, 2020 VCR industry sample, 1999–2019 (%)

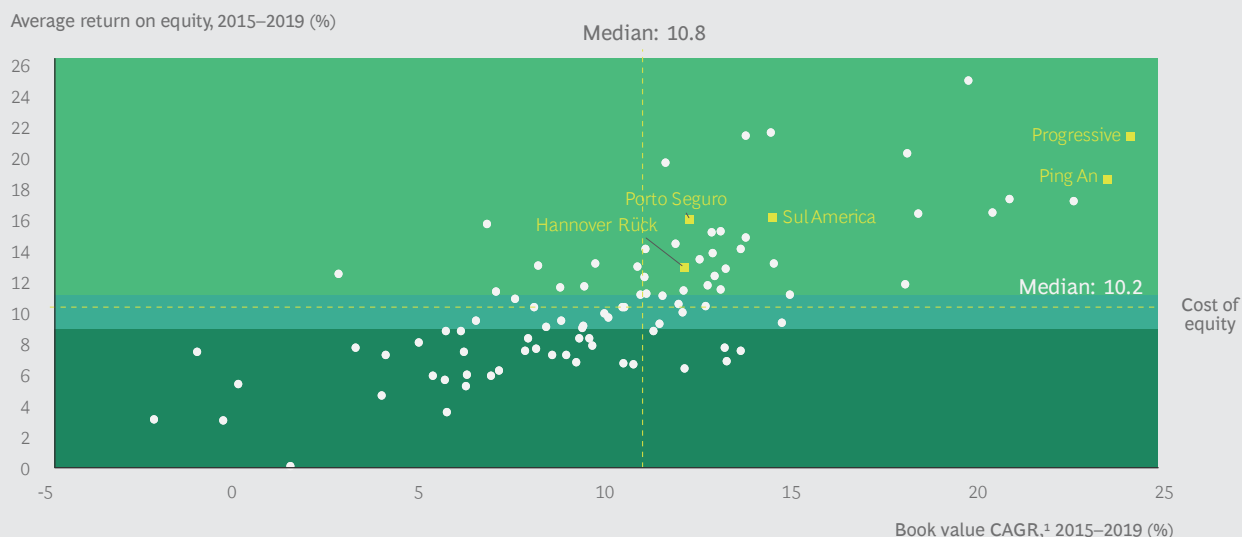


**Sources:** S&P Capital IQ; BCG ValueScience Center.

**Note:** Top quartile of 2020 Insurance Value Creators Report sample excluding brokers (n = 96), 1999–2019.

<sup>1</sup>Includes dividend contribution and share count change.

### EXHIBIT 3 | The Top Five TSR Performers Excel in Profitable Growth and High Return on Equity



Sources: S&P Capital IQ; BCG analysis and estimates.

<sup>1</sup>Compound annual growth rate of BVPS (book value per share) + DPS (dividend per share) from 2015 to 2019, excluding OCI (other comprehensive income).

With a median RoE of 10.2% from 2015 through 2019, insurers only just covered their market-implied CoE (estimated at 9% to 11%, depending on the business mix). The top quartile created substantial value (with an RoE of at least 13%), thanks to differentiated business models that focused on individual core business segments in a small number of markets. Focus outperforms diversification, our data suggests.

In contrast, the bottom 40% of companies had RoEs of 9% or less and failed to create value. This group, which is dominated by life insurance companies and reinsurers, suffered from falling investment spreads and heavy losses from large disasters. For the 75% of insurers with RoEs close to or below their market-implied CoE, improving capital productivity takes priority over growth.

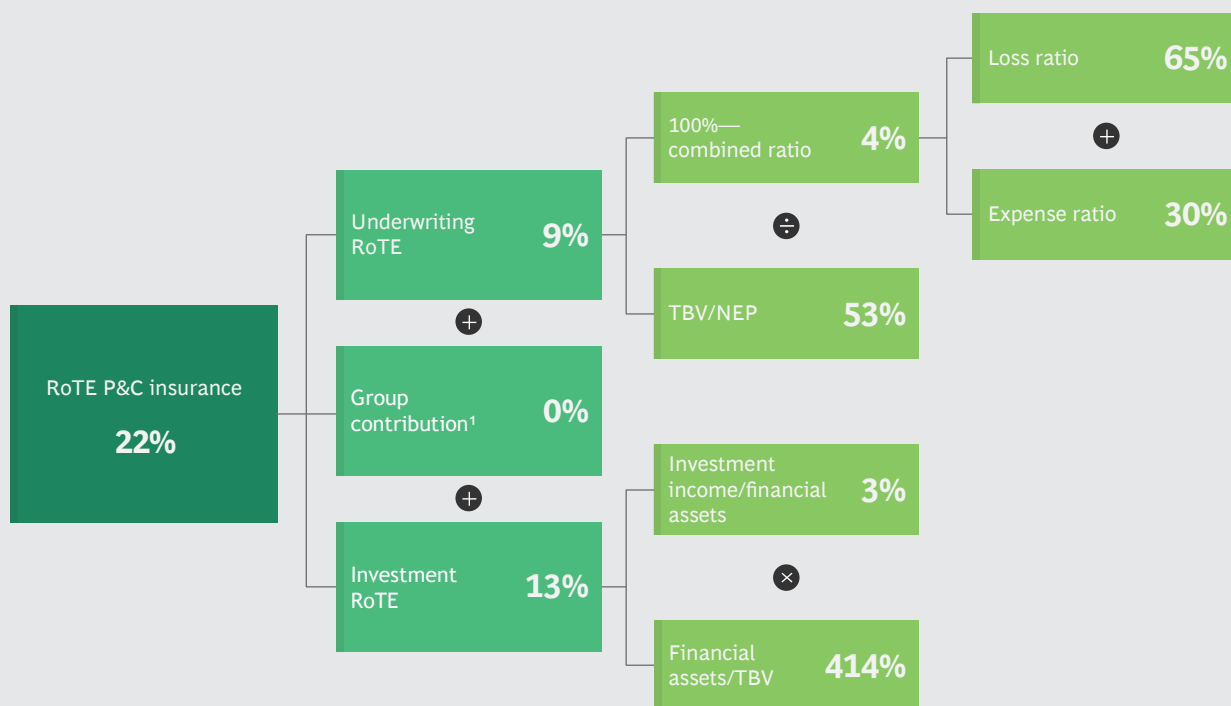
Since the onset of COVID-19, we have worked with major companies using an RoTE-driver tree methodology to break down multiline conglomerates into components that can be benchmarked against monoline companies. (See Exhibit 4.)

BCG's RoE benchmarking tool enables comparison of segment-by-segment RoEs and their core drivers. Using this approach, we found that pure-play property and casualty, life, and reinsurance companies that focus on a small number of markets (often just one) clearly outperform multiline groups operating in multiple markets. Insurers quickly suffer from disadvantages of scale on costs and complexity, which are only partially offset by benefits in diversification of capital and risk. And focused insurers can easily compensate for a lack of diversification through the efficient purchase of reinsurance or the transfer of tail risks into capital markets.

Our approach also highlights the factors that differentiate the performance of a top-quartile insurer from a median company. (See Exhibit 5.) Take the property and

## EXHIBIT 4 | BCG's Benchmarking of the Key Drivers of Insurers' RoTE by Segment

Illustrative example: P&C segment



**Source:** BCG insurance RoE benchmarking database.

**Note:** P&C = property and casualty; RoTE = return on tangible equity; TBV = tangible book value; NEP = net premiums earned; differences possible because of rounding.

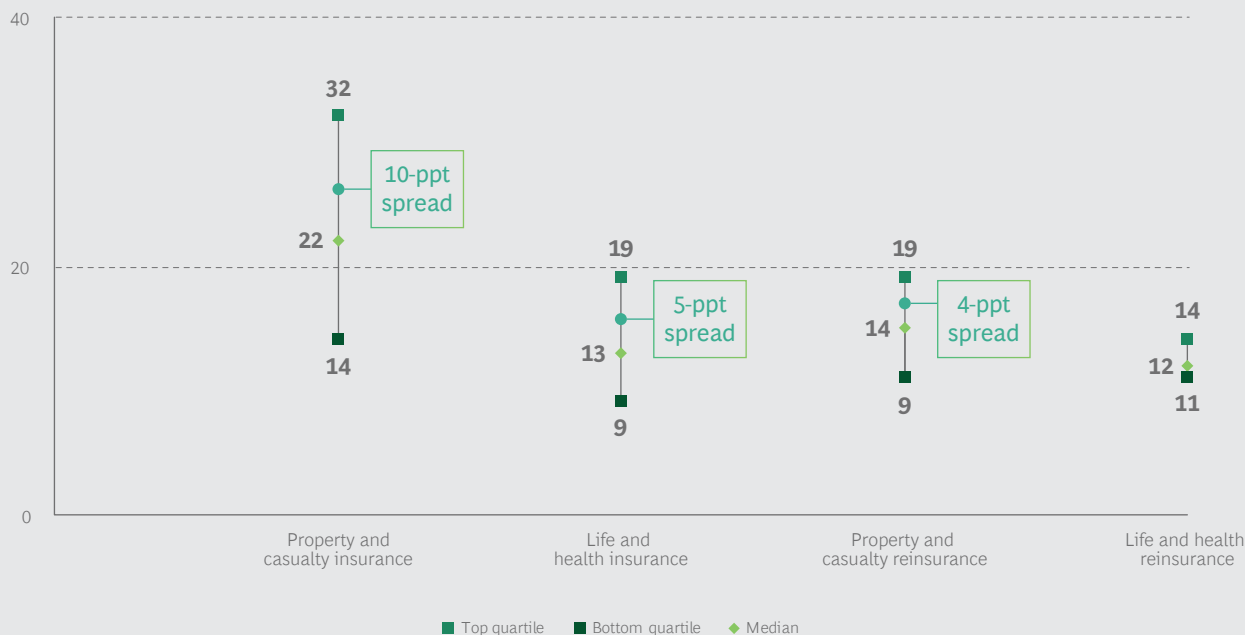
<sup>1</sup>P&C share of centrally allocated buckets (e.g., group functions, noncore business, and eliminations).

casualty business, which was by far the most attractive industry segment for the past five years, generating a 22% median RoTE. Underwriting margin and investment income contributed in roughly equal measure. But this segment also had clearly the widest spread in performance, with the top quartile recording 32% RoTE—10 percentage points higher than the median, pointing to the importance of business mix, capital allocation, and operating excellence in improving capital productivity and managing valuation multiples. For the property and casualty segment, the difference in our sample results from 3 to 4 points better loss ratios (from either business mix or skill), 3 to 4 points lower expense ratios, and 15% to 20% lower capital intensity.

P&C reinsurance, life, and life reinsurance had median RoTEs of 14%, 13%, and 12%, respectively. The spread between the top and the median in these three segments was just 2 to 5 percentage points and for life insurance stems from 70 to 90 lower basis points of expense, 10 to 20 basis points better investment performance, and 90 to 110 basis points of higher fee income.<sup>2</sup> This combination enables the top-quartile life insurers to generate more than 100 basis points better operating

## EXHIBIT 5 | Property and Casualty Has the Highest RoTE and the Widest Spreads Between Quartiles

Average RoTE, 2015–2019<sup>1</sup> (%)



Source: BCG Insurance RoE benchmarking database.

Note: Differences possible because of rounding. P&C = property and casualty; ppt = percentage point; RoTE = return on tangible equity.

<sup>1</sup>Defined as segment's operating profit before tax divided by tangible book value of equity allocated to respective segment; average of RoTE 2015–2019 medians.

income on life reserves. In reinsurance, the top quartile produced underwriting margins that were 4 percentage points above the median, explaining nearly all the RoTE spread. Margin performances were driven almost exclusively by loss ratios; expense ratios were fairly similar. Life reinsurance saw very little performance spread between the top and bottom.

Throughout the period, all insurance segments depended heavily on investment spreads, which drove 50% to 100% of earnings. Post-COVID-19, bond-heavy asset portfolios will see RoIs decline by at least 10 to 20 basis points a year. Insurers need to find new ways to fill this gap with higher underwriting and fee margins. Some segments in certain countries may need to adjust to a business model with zero (if not negative) investment spreads.

## How Tough-Minded Insurers Can Grow

For businesses of all types, investors want leadership teams to make the best of a difficult situation and build sources of long-term advantage for their companies. BCG's Investor Pulse Check survey in early June found that 91% of investors believe it is important for companies to prioritize building business capabilities for advantage and growth even at the expense of earnings per share (EPS), 66% think compa-



nies should actively pursue acquisitions and consider divesting businesses to strengthen the overall company, and 51% deem it important for companies to maintain their commitment to their environmental, social, and governance agenda and priorities, even if EPS suffers as a result. They believe that it is more vital than ever for leadership teams to build a value protection and acceleration roadmap in order to become “a great company” and “a great stock.”

We see four ways—in addition to capital allocation—that insurance management teams can reignite growth and boost returns in underwriting- and fee-based businesses in the post-COVID-19 environment.

**Accelerating the Transformation to a Bionic Business Model.** In our [2018 insurance value creators report](#), we observed that bold moves were producing big paybacks and that a key area for boldness was investing in advanced technology. More recent BCG research has found that [most insurers are underinvesting in digital initiatives](#) and are steadily falling behind the industry’s digital champions—companies that prioritize those investments and build digital organizations.

A higher level of digital maturity correlates strongly with performance.

Even though digital investments can pay off quickly across vital business metrics of revenue, cost, and customer satisfaction, continuing uncertainty about how to digitize, the associated costs, and the return on investment have kept many insurers from taking bold steps. Among the 1,800 companies in nine industries that BCG surveyed in 2019 for our annual [Digital Acceleration Index](#)—a tool to measure companies’ digital maturity—insurance scored an average of 47 out of 100, 14.5% below the financial institutions that, along with the tech sector, led other industries with an average score of 55. (All that said, we expect digitization in the industry to accelerate because many less-digitized companies and their distribution partners found themselves ill prepared to manage the COVID-19 crisis. Digitization has morphed from a discretionary, self-paced investment to an urgent business necessity.)

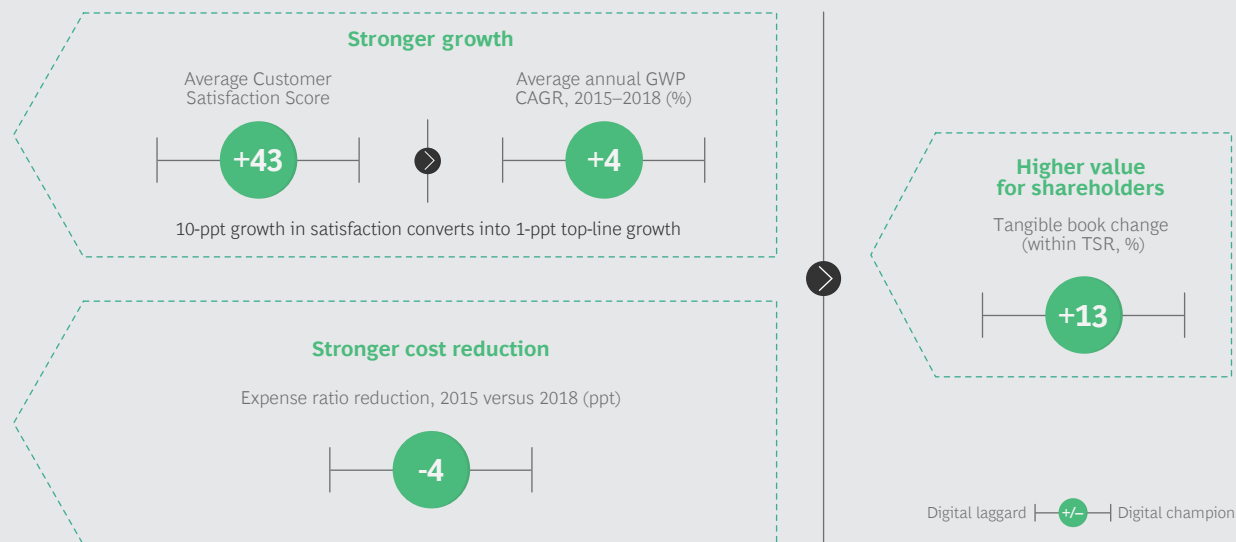
Further analysis also shows that a higher level of digital maturity correlates strongly with performance. Digital champions surpass digitally lagging peers on several important business metrics, including client satisfaction, revenue growth, and expense reduction. For example, insurance companies using bionic approaches—techniques that marry the strengths of humans and machines, especially artificial intelligence (AI)—have boosted customer satisfaction to a score that is 43 points higher than that of digital laggards while reducing their expense ratios by an average of 5 percentage points, compared with 1 point for laggards.

These drivers lead to higher shareholder returns. (See Exhibit 6.) The link is so strong that we believe digital investment is not merely correlated to better performance but is a primary cause.

Insurers can focus on five key areas that require digital responses—distribution, customer service, operations, organization, and claims handling. For each area, they should establish specific objectives including:

- Providing agents and brokers with digital and bionic tools to communicate and transact with clients during and after social distancing

## EXHIBIT 6 | Digital Maturity and Bionic Processes Pay Off as Digital Champions Outperform Digital Laggards



**Source:** BCG DAI benchmarking with 52 insurance companies.

**Note:** n = 37 for GWP growth, n = 28 for expense ratio, n = 21 for customer satisfaction score, n = 19 for TSR. Digital champions, mid-tier, and laggards are defined as the top, middle, and lowest quartiles of DAI scores in the DAI insurance sample (n = 200). DAI = Digital Acceleration Index; GWP = gross written premium; ppt = percentage point.

<sup>1</sup>Calculated as share of promoters less share of detractors, on a scale from -100 to 100.

- Ensuring a good digital experience and convenience for customers, who will increasingly use digital channels in their daily lives
- Using AI, big data, and other technological advances to boost operational excellence and efficiency
- Maintaining cost effectiveness and a focus on people
- Speeding up the claims process and reducing costs with AI-based fraud detection and claims-handling tools

**Stepping Up Productivity Through New Ways of Working.** The insurers that emerge stronger from the COVID-19 crisis will be the ones that address three critical factors in the coming months: cost, speed, and resilience. Many need to reduce costs while doing minimal harm to key capabilities. The ability to react quickly to changed circumstances, such as shifts in demand patterns, will have a major impact on insurers' efforts to contain the damage and make the most of new opportunities. And all companies have been made painfully aware of the fragility of the critical systems that they depend on and the need for operational resilience.

Two factors will be paramount as organizations adjust to the new reality. One is the seven people priorities of the new now. (See the sidebar "Seven People Priorities.") The other is the ability to operate with agility at scale. Companies historically have tended to underestimate the urgency, scale, and breadth of the responses necessary

## SEVEN PEOPLE PRIORITIES

Companies have seven top priorities with respect to their people in the post-COVID-19 reality.

### Smart Work

- Accommodate virtual collaboration and remote work at scale.
- Try a new approach that balances remote and onsite work.
- Set up smart workspaces.
- Realize the cost upsides.

### Physical and Mental Health

- Cultivate physical health capabilities.
- Make mental health and mindfulness matter.
- Promote well-being and resilience.

### New Paradigm for Skills and Talent

- Create an adaptive learning ecosystem.
- Upskill and reskill by building digital capabilities at scale.
- Refocus and enable talent programs and platforms.

### Flexible Workforce

- Make your workforce, costs, and skill planning dynamic.
- Tailor working models for employees.
- Institute new performance, reward, and compensation systems.

### Leadership with Head, Heart, and Hands

- Lead with empathy and direction.
- Enable and empower frontline leaders.
- Develop a continual, two-way communications platform.

### Purpose-Driven Culture

- Foster a culture of resilience.
- Align purpose, vision, and values.
- Commit to sustainability and social impact at a higher level.

### Bionic Organization

- Harness data and digital platforms.
- Use AI and algorithms to complement humans.
- Adopt agile at scale.
- Simplify your operating model.

to navigate an economic contraction. Agile is the corporate capability that can simultaneously move the needle on cost, speed, and resilience. A robust connection between teams and business goals, combined with fewer handovers and better coordination of roles, improves both efficiency and effectiveness. Streamlined decision making and governance enable faster responses to new conditions and shorter times to market. And strong alignment around purpose, strategy, and priorities means teams can more easily work independently, improving resilience.

**Adopting More Advanced Scenario Thinking.** As they confront greater uncertainty in the macro environment, companies need to make bigger bets with less clear outcomes in a less predictable world. With this prospect and the lessons learned from the unexpected impacts of COVID-19, more insurers are turning to advanced scenario analysis. This approach allows management to explore the effect of strategic and tactical measures in various scenarios, rapidly calculate the impact of deteriorating conditions on key business metrics (such as capital, margins, and liquidity), identify emerging risks and hidden concentrations across exposures, and reevaluate business assumptions and existing financial countermeasures. The process involves four steps:

- **Vulnerability Analysis.** A top-down identification of portfolio company weaknesses and corresponding metrics, including financial vulnerability to market shocks, operational vulnerability, and business vulnerability.
- **Scenario Design.** An assessment of a broad set of extreme scenarios and the stress testing of key vulnerabilities depending on the type of crisis as well as its severity and duration.
- **Impact Assessment.** An evaluation for each scenario of potential impacts, including financial, operational, and business, with a visual depiction available within hours rather than days or weeks.
- **Trigger-Based Mitigation Actions.** The development of defensive moves, including balance sheet volatility levers, financial hedging, distribution channels mix, IT suppliers, HR safety plans, and incentives for the company's network and customers.

More insurers are turning to advanced scenario analysis.

We recently worked with a large US-based insurer to determine the outlook for interest rates and credit (including the likelihood of negative rates) and the company's investment allocation as markets rapidly deteriorated with the spread of COVID-19. Using advanced scenario-planning tools, the company was able to rapidly analyze its investment portfolio, simulate and quantify outcomes for a wide variety of economic scenarios, and explore potential worst cases including brief negative rates and a double COVID-19 dip. This analysis informed a smooth portfolio reallocation strategy into higher-quality instruments, taking advantage of widening spreads. The insurer was able to quantify the effect of transition and identify tactical measures to minimize the impact on earnings.

**Optimizing the Business Portfolio Mix with Smart Mergers and Acquisitions.** M&A is a key strategy for boosting capital productivity by realigning the business portfo-

lio and improving strategic position. Forward-looking insurers will use this crisis to assess, and potentially pursue, both acquisitions and divestitures. Reasonably priced M&A can lead to four key sources of outperformance as insurers accelerate out of the COVID-19 crisis:

- **Improved Efficiency.** Greater operational scale can lead to lower unit costs or greater scale efficiencies in technology platforms.
- **Access to Customer Data.** Larger customer and claims-history data sets can be a valuable source of pricing inputs and customer insights.
- **Increased Market Share.** Buying profitable back-books of customers can be a quick way of gaining scale.
- **New Technology Capabilities.** Acquiring younger firms with strong tech capabilities may be faster and more efficient than developing such solutions in-house.

While insurers have been among the sectors hit hardest by COVID-19, a large performance spread still exists between the top and bottom 10% of companies, and these imbalances span all insurance subsectors, potentially leading to attractive acquisition opportunities. Moreover, BCG TSR research across multiple industry sectors has shown that deals done in weak economies outperform strong-economy deals by 7 percentage points after one year and almost 10 points after two years. Experienced dealmakers extract significantly more value, but occasional acquirers can also create value from deals made during downturns. And as valuations have fallen, moves that may not have been viable in 2019 are back on the radar screen (assuming investors in target companies are willing to accept a lower price).

**I**NSURERS FACE A tough road ahead. The going could get even tougher if the global economic recovery is long and slow or if COVID-19 makes a resurgence. But “in the middle of difficulty lies opportunity,” as no less a luminary than Albert Einstein observed. It’s a good time for tough-minded insurers to get going.

#### NOTES

1. For benchmarking operational performance, returns are defined as operating profit before tax.
2. In terms of life reserves (excluding unit-linked).



## APPENDIX: 2020 INSURANCE VALUE CREATOR RANKINGS

The following tables show the top two quartiles of insurers in our sample sorted by TSR for 2015 through 2019, which is then broken down by the fundamental TSR drivers. Wherever a company falls on this list, past results do not predict future performance. TSR has to be earned, year in and year out. The challenge for those companies on top is to continue their superior performance; the others have the opportunity to improve. We have seen time and time again that value creation is much less dependent on industry, sector, or region than it is on the strategies and actions of individual companies.

### First Quartile

Company	5-year average RoE (%)	5-year TSR, 2015–2019 (%)	Book value growth (p.p.)	P/B multiple (p.p.)	Dividend yield (p.p.)	Share change (p.p.)	2020 YTD <sup>1</sup> share price change (p.p.)	Region	Sector
Sul América	16	44	12	28	4	0	-24	South America	P&C and health
Progressive	21	25	13	9	3	0	8	North America	P&C
Ping An	18	24	20	3	2	-3	-9	Asia-Pacific	Multiline
Hannover Rück	13	24	7	11	5	0	-5	Europe	Reinsurance
Porto Seguro	16	22	7	9	6	0	-16	South America	P&C and health
Primerica	21	21	6	8	1	5	-14	North America	L&H
Swiss Life	7	20	5	11	4	-1	-24	Europe	L&H
Kemper	7	19	7	14	2	-5	-16	North America	P&C
Admiral	49	19	10	3	7	-2	1	Europe	P&C
Cincinnati Financial	12	19	8	7	4	0	-44	North America	P&C
Hanover Insurance Group	9	18	1	11	4	2	-25	North America	P&C
W. R. Berkley	12	18	6	8	3	1	-19	North America	P&C
American Financial Group	11	17	6	7	4	-1	-44	North America	Multiline
Arch Capital Group	9	17	12	6	0	-1	-29	North America	P&C
Talanx	10	17	7	5	5	0	-21	Europe	Multiline
Assurant	8	16	-7	18	3	3	-19	North America	P&C
Ageas	7	16	2	7	4	3	-38	Europe	Multiline
RenaissanceRe	6	16	8	10	1	-3	-8	North America	Reinsurance
Erie Indemnity	23	16	10	3	3	0	8	North America	P&C
Fidelity National Financial	12	16 <sup>2</sup>	-2	8	10	0	-30	North America	P&C
Old Republic International	12	15	8	3	7	-3	-27	North America	P&C
AIA	13	15	14	0	2	0	-11	Asia-Pacific	L&H
Globe Life and Accident	15	15	10	1	1	4	-29	North America	L&H
RGA	11	15	10	1	2	2	-48	North America	Reinsurance

Sources: S&P Capital IQ; Refinitiv; BCG ValueScience Center.

<sup>1</sup>Year-to-date from January 1, 2020, to June 11, 2020; <sup>2</sup>Here BV of equity and P/B multiple were used as opposed to other companies for which we use BV of tangible equity and P/TB multiple.

## Second Quartile

Company	5-year average RoE (%)	5-year TSR, 2015–2019 (%)	Book value growth (p.p.)	P/B multiple	Dividend yield (p.p.)	Share change (p.p.)	2020 YTD <sup>1</sup> share price change (p.p.)	Region	Sector
Gjensidige	20	15	4	5	6	0	-2	Europe	P&C
First American Financial	13	15	20	-8	3	-1	-15	North America	P&C
Allianz	11	15	5	3	5	2	-13	Europe	Multiline
Münchener Rück	8	15	0	5	5	4	-10	Europe	Reinsurance
Aflac	15	14	10	-2	3	4	-32	North America	L&H
Tryg	21	14	-14	23	7	-1	0	Europe	P&C
Intact Financial	10	14	-1	13	3	-2	-7	North America	P&C
SCOR	7	13	1	7	5	0	-35	Europe	Reinsurance
IA Financial	11	13	8	3	3	-1	-36	North America	L&H
Tokio Marine	8	13	1	6	4	2	-19	Asia-Pacific	P&C
Everest Re	9	13	4	4	3	2	-23	North America	Reinsurance
Zurich Insurance	10	12	0	5	7	0	-10	Europe	Multiline
Swiss Re	6	12	-5	7	6	3	-25	Europe	Reinsurance
Hiscox	9	12	-2	11	4	-1	-46	North America	P&C
Allstate	13	12	1	3	2	5	-15	North America	P&C
Alleghany	5	12	1	8	0	2	-37	North America	P&C
NN Group	7	12	9	-3	5	1	-15	Europe	L&H
Helvetia	7	12	4	3	4	0	-30	Europe	Multiline
Sony Financial	9	11	4	4	3	0	3	Asia-Pacific	L&H
Sun Life Financial	11	11	4	2	4	1	-15	North America	L&H
AXA	6	11	1	5	5	0	-28	Europe	Multiline
Markel	7	11	4	7	0	0	-19	North America	P&C
Baloise	9	11	3	3	4	0	-15	Europe	Multiline
BB Seguridade	61	11	-8	11	7	0	-22	South America	Multiline

Sources: S&P Capital IQ; Refinitiv; BCG ValueScience Center.

<sup>1</sup>Year-to-date from January 1, 2020, to June 11, 2020; <sup>2</sup>Here BV of equity and P/B multiple were used as opposed to other companies for which we use BV of tangible equity and P/TB multiple.

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## Acknowledgments

The authors are very grateful to Juergen Bohrmann, Martin Link, and the BCG ValueScience Center for their assistance in the preparation of this report.

They thank Claire Hopkins for her help overseeing the development of the report and David Duffy for writing assistance. They are grateful to Katherine Andrews, Siobhan Donovan, Kim Friedman, Abigail Garland, and Shannon Nardi for editorial, design, and production support.

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7/20. Rev 7/23.



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