

A photograph of several sailboats racing on the water. The boats are white with tall masts and sails. The water is dark blue with white foam from the waves. The sky is a mix of blue and orange, suggesting a sunset or sunrise. A large yellow banner is overlaid on the top left of the image.

# 2020 US P&C insurance performance analysis

How insurers can improve growth and optimize expenses while balancing their risk profile



Building a better  
working world





# About US P&C insurance performance analysis

## A message from EY leadership

Welcome to the EY-ACORD 2020 US P&C insurance performance analysis. This first-of-a-kind study throws light on why select insurers have performed significantly better than others over a sustained period as P&C insurers navigate through a landscape of unprecedented change. We studied quantitative and qualitative aspects of what has worked well and what needs continued focus by the industry. For majority of the insurers, a combination of reduced investment returns, evolving regulatory requirements, mixed premium levels and rigid operating models has left expense ratios largely unchanged over the past decade. Yet, there are case studies of value-creating insurers that have risen above mediocrity by balancing out their growth, risk and expense profiles.

We have partnered with ACORD on this journey. ACORD has been an industry leader in identifying ways to help its members make improvements across the insurance value chain.

At Ernst & Young LLP (EY), as we continue to build a better working world, we hope insights from this study will help create an enduring impact for our clients and the US P&C industry at large.



**Ed Majkowski**

EY Americas Insurance Sector and Consulting Leader

# Contents

All data points mentioned in this study refer to the 100 largest US P&C insurers; the "five-year window" refers to the 2013–2018 period.





# 01

Setting the stage





## Much is written these days about how the insurance industry is being disrupted.

For an industry that has stayed largely the same over the past century or even longer, the incumbents have of late been navigating through significant waves of change. The old guards of the US P&C industry are facing severe headwinds on the one hand, while on the other have been fending off intruders at their gates. Underlying socioeconomic, technological and regulatory changes are joining hands with the changing nature of risk itself to recast the role and value of the traditional P&C insurer. The changing nature of tomorrow's risk, coupled with technological advances and ever-increasing consumer expectations, are also paving the way for new entrants with significant proprietary consumer behavioral data and highly differentiated digital and analytics capabilities.

At the same time, innovators like InsurTechs and Big Tech may reinvent the insurance model by weaponizing data and competing on customer experience either directly or through partnerships with incumbents. The potential negative impact on future P&C revenue streams due to ridesharing and autonomous vehicles may no longer be a problem for the next generation of insurance executives to solve but a more imminent danger. The entire ecosystem is evolving, and the nature of customer, competition and product are changing. These disruptions will end up shifting the market itself. The key to sustained market-leading performance lies in recognizing these disruptive forces as opportunities, not obstacles, and evolving or changing operating models for the future.

Many leading insurers are already data-driven and insight enabled in everything they do – from sophisticated pricing and underwriting algorithms, to thoughtfully segmented digital marketing programs. The next wave of radical innovation in the insurance industry led by data and AI will enable rapid identification and precise measurement of risk to proactively meet consumer needs. We also foresee that across the insurer organizations, human talent will focus on higher-value tasks and work with technology in an entirely new way.



Along with the disrupting forces, today's P&C marketplace is hyper-competitive, with extremely tight margins, mixed growth and relatively high operating costs. The industry's current economics are unsustainable.

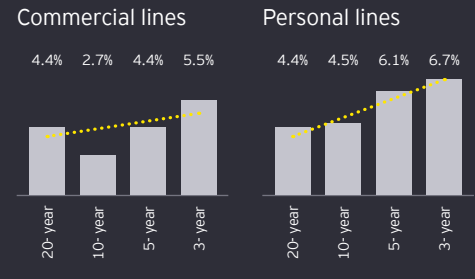
The 100 largest US commercial line insurers grew their net written premiums at only 4.4% CAGR between 2013 and 2018, with average expense ratios at 30.2% and average combined ratios at 97.5%. In the same time period, the 100 largest US personal line insurers grew their net written premiums at 6.1% CAGR, with average expense ratios at 24.9% and average combined ratios at 100.7%. Specific to expense management, the non-commission insurance operational expenses – claims adjustment, acquisition, policyholder service and the corporate management-account for approximately 25% of the total disbursements among US P&C insurers. In dollar terms, these expenses range from \$100 million to more than \$1 billion annually across the top 100 US P&C insurers. This proportion has remained largely unchanged over the years, as past operational improvement initiatives have largely led to increased price competition and the maintenance of cost ratios.

While US P&C insurers entered 2020 from a position of strength driven by premium growth, positive underwriting earnings and a second year of combined ratio improvement, sustained growth and expense improvement remains a challenge for most of the insurers. Maintaining the recently improved results will be an increasingly arduous task. Additionally, the current challenges around the pandemic-induced global economic slowdown serve as a reminder that industry leaders must increase their focus on disciplined expense and risk management while keeping a long-term view of growth.

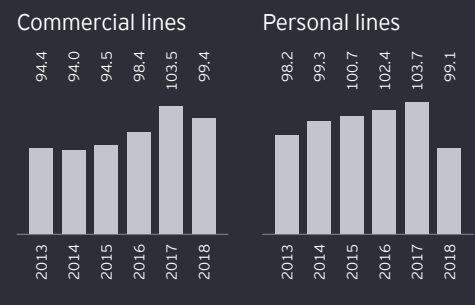
Given the tremendous opportunity ahead for the US P&C industry, EY and ACORD decided to study the 100 largest US P&C insurers and look at their performance over the past two decades to see which insurers are consistently shaping up the market and setting the pace for the industry to follow. Based on this detailed one-of-a-kind analysis, we have shared key execution imperatives that can be used by insurers to improve their transformation efforts toward achieving sustained growth, risk and expense management.

## Return to modest growth, though profitability remains a challenge

NPW CAGR (98–18)

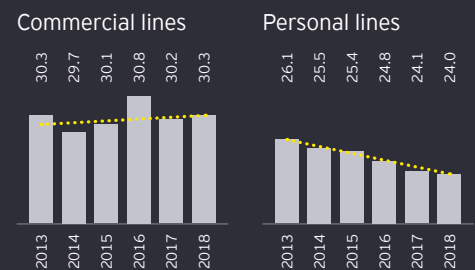


Five-year average combined ratio



## Enormous room for improvement in expenses

Five-year average expense ratio





For this study, EY collaborated with ACORD, the global standards-setting body for the insurance and related financial services industries. ACORD has always worked to help the insurance sector perform better. And now combined with EY's research and consulting prowess in the insurance sector, it was an ideal collaboration for this study.

In order to assess the current growth, risk and expense landscape across the US property & casualty industry, we performed a detailed analysis of the financial filings of the 100 largest US P&C insurers over the last 20 years. The study first identified four distinct value segments of insurers – Market Shaper, Superior, Investor and Inferior – based on their ability to generate cash flow in excess of their cost of capital. Cost ratios spanning claims, underwriting and corporate management functions, loss adjustment and pure loss were compared across each of these groups to determine the value potential of improvements in expense optimization.

Based on the analysis, the study found annual saving opportunities totaling up to \$157 million-\$254 million for an average personal lines insurer and \$675 million-\$851 million for an average commercial lines insurer. Overall, for the 100 largest US P&C insurers, the annual value potential across commercial and personal lines is approximately \$68 billion. We also studied the areas that the P&C industry is focusing on, and their prevalence across major insurers. It is our belief that US P&C carriers have a tangible opportunity to capture this value potential and that the levers required to achieve this are currently available.

As the results of our analysis showed up, it became increasingly evident why the top focus areas for the US P&C industry happen to be what they are. While each focus area deals with a specific dimension of the insurance value chain, together they address the three greatest challenges facing the industry today: growth, risk and expense management. Following are the key focus areas that our study pointed out.

- ▶ Operational excellence and cost efficiency
- ▶ Risk selection, management and underwriting excellence
- ▶ Alternate distribution channels and digitizing distribution
- ▶ Customer experience improvement
- ▶ Mastering emerging and disruptive technologies
- ▶ Talent acquisition, development and retention

Annual savings potential through expense optimization

P&C industry

**\$68 billion**

An average personal lines insurer

**\$157 million–  
\$254 million**

An average commercial lines insurer

**\$675 million–  
\$851 million**

In summary, the most serious threats – societal megatrends, intensifying competition from new and traditional players, and disruptive technology advancements – also hold the greatest potential for insurers to grow and manage their expenses while balancing their risk profile. This requires insurers to rethink their traditional business models, employ new and nontraditional approaches to expense optimization, and adopt alternate operating models by leveraging new alliances and partnerships to accelerate the current low rate of operational efficiency improvement.

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We hope this report will become an invaluable resource for insurance professionals in today's fast-changing world.



**Madhav Mohan**  
Insurance  
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Leader  
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**Bill Pieroni**  
Chief Executive  
Officer  
ACORD

How can insurers achieve sustained growth and optimize expenses while balancing their risk profile?

- ▶ Challenge the business model status quo
- ▶ Establish a deeply embedded cost culture
- ▶ Differentiate on risk selection, underwriting and actuarial
- ▶ Rethink traditional distribution channels
- ▶ Focus on accelerating time to market to take advantage of new opportunities
- ▶ Leverage the ecosystem



# 02

Scope and  
methodology



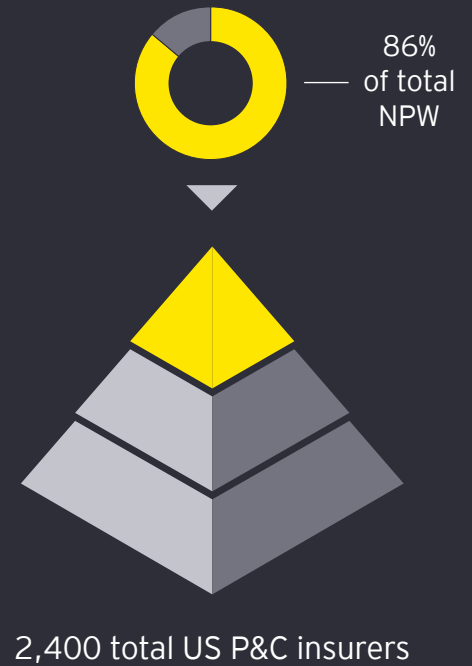
## Scope



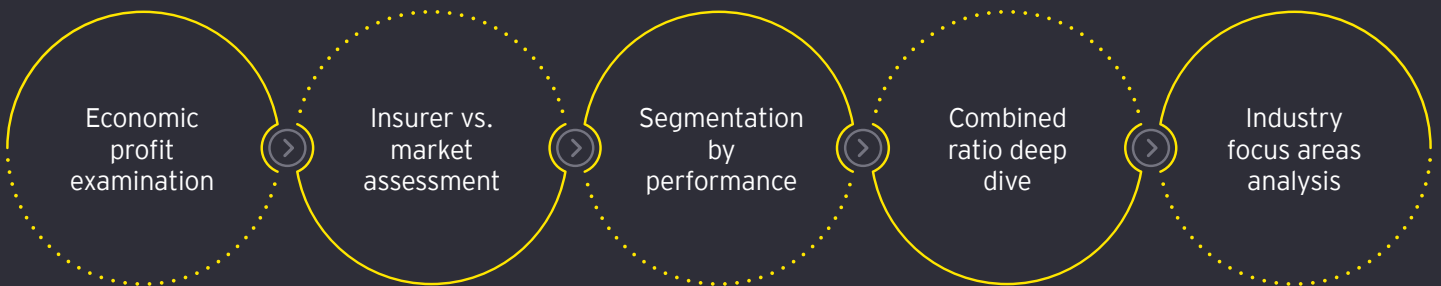
The study examined the top 100 US property & casualty insurers in order to build a comprehensive relative model of expenses, financial performance and value capture opportunities.

While there are over 2,400 P&C insurers in the US, the 100 largest collectively represent over 86% of net premiums written (NPW) and nearly 100% of the industry's total market capitalization. The study analyzed the statutory financial filings of these insurers over a 20-year period (1998-2018), supplemented by interviews with industry leadership and proprietary research, across all major personal and commercial lines of business.

## Top 100 P&C insurers



## Methodology

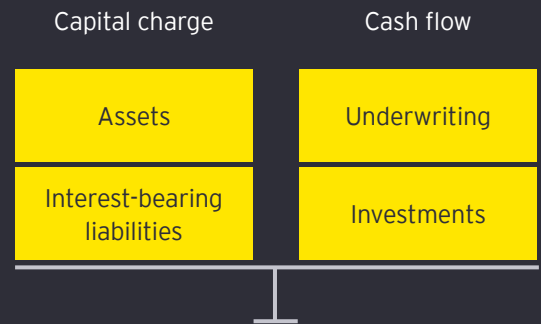


The study applied a proprietary free cash flow model to measure each insurer's value creation in terms of timing, magnitude, duration and sources: when did insurers create value, how much did they create, how long did that value creation last and where did it come from?



Because markets will draw capital away from insurers not achieving a certain baseline minimum return, generating less is not sustainable over the long run. Accordingly, we measured the amount of free cash flow created against a required capital charge. This required rate of return, which an Investor insurer could have achieved by investing in a diversified portfolio of investments, was represented by the returns of the S&P 500 over the 20-year period: 3.6%.

Performance against this benchmark was combined with the source of value creation—underwriting vs. investment—in order to primarily divide the 100 largest insurers into three discrete value segments:



# 01

## Superior

Insurers that have effectively managed their expenses. They have consistently returned both underwriting and investment profits over the 20-year study period. While their expense management is superior to many others, their ability to achieve the combination of growth, and market leading loss and expense ratios is not consistent.

# 02

## Investor

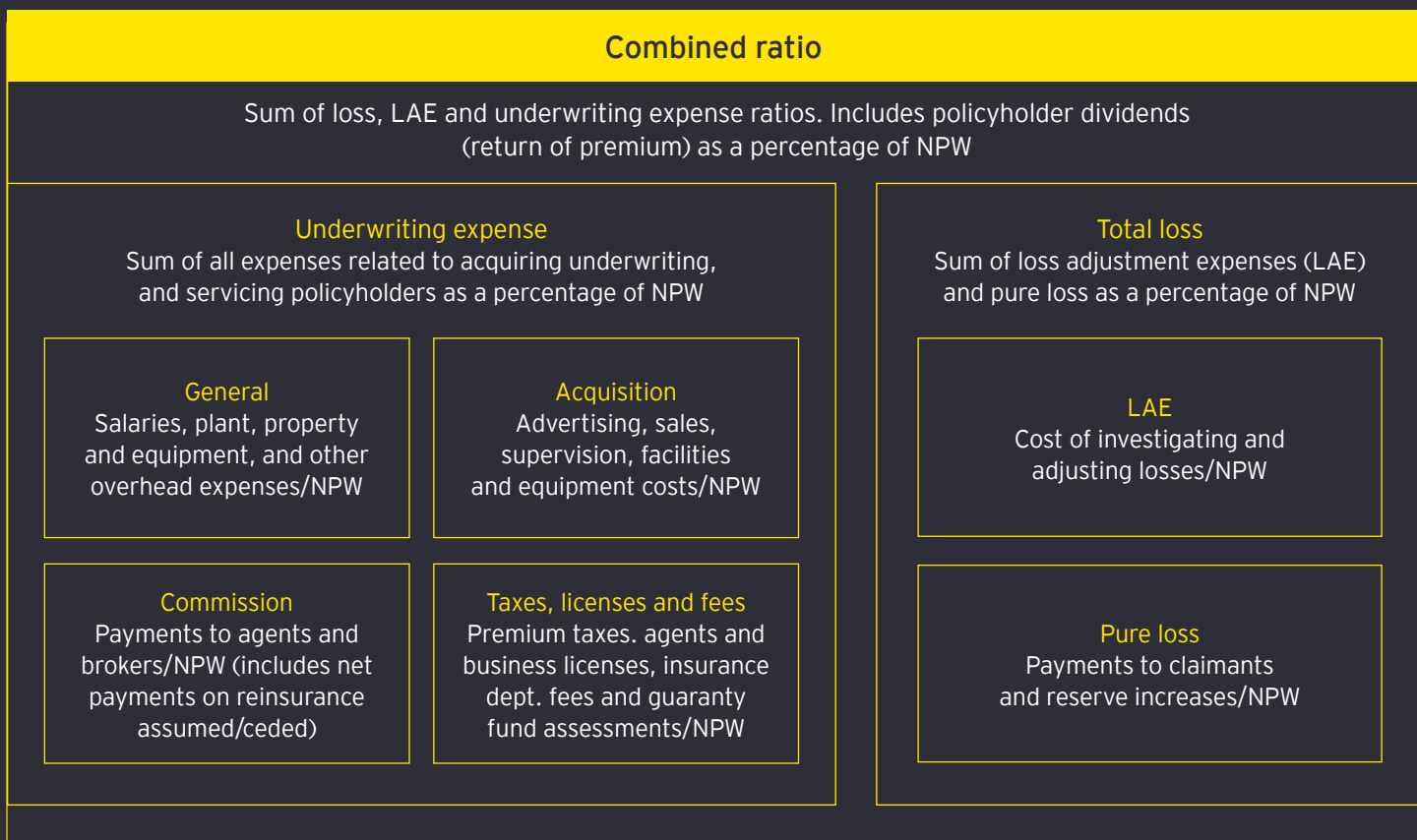
Insurers that have surpassed capital charge through investments only over the 20-year study period. These insurers are in the middle of the pack but have a long way to go before they put themselves on a sustained growth and profitability track.

# 03

## Inferior

Insurers that have failed to generate cash flow in excess of capital charge over the 20-year study period. These insurers have neither returned underwriting nor investment profits. They have underperformed in growth and risk management compared with the rest of the competition.

A detailed analysis was then conducted of the insurers' expense ratios across all primary areas. By comparing the expenses of the top 100 insurers across the three value creation segments, the study built a comprehensive model of costs vs. performance, and the gap between Superior insurers and their competitors in each area.



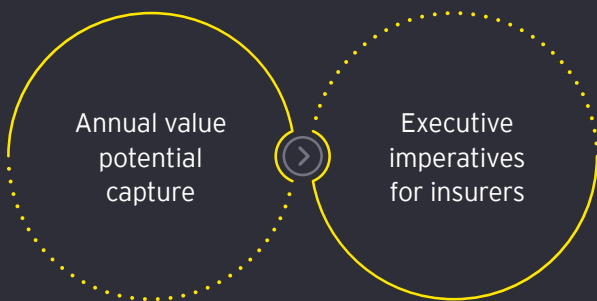
A further detailed analysis was performed across the 100 largest insurers across commercial lines and personal lines to identify insurers that have consistently outperformed the market in growth (5-years net premium CAGR), expense (5-year average total expense ratio) and risk management (5-year average pure loss ratio) between 2013 and 2018. Based on this analysis, a new category of insurers - Market Shaper - was created.

In addition, a detailed qualitative analysis was performed to understand their strategy, focus and investment areas of the major US P&C insurers.

**Market Shaper** – Insurers that have demonstrated sustained growth and effectively managed their expenses while balancing their risk profile. These insurers have consistently surpassed capital charge through underwriting and investments. They are at the top of their game and true Market Shapers in the industry.



## Outcome



The study calculated the value potential for Investor and Inferior performers of achieving parity with the Superior segment across all expense categories and lines of business.

Opportunities for value capture – many of them material – were identified across several key expense categories and lines of business.

The value potential was based on improvement to the Superior segments' composite average, and the benefit annualized per \$1 billion in net premiums written.

In the end, the study identified key executive imperatives that US P&C insurers can leverage to improve their performance. These executive imperatives are based on detailed performance analysis of the insurers over a 20-year period, qualitative study of their focus areas, discussions with renowned insurance industry leaders, EY insights into the US P&C market and overall EY thought leadership.

The study concluded with the identification of key executive imperative that US P&C insurers can leverage to improve their performance across growth, risk and expense management.

# 03

Market performance





## Commercial lines performance

### NPW: 2018, \$b (%)

	Total commercial	Liability	Property	Workers' comp	Auto	Other
Superior (42)	116 (100)	34 (30)	28 (24)	21 (18)	17 (14)	16 (14)
Investor (50)	113 (100)	34 (30)	32 (28)	15 (14)	14 (12)	18 (16)
Inferior (8)	16 (100)	5 (32)	5 (33)	1 (8)	1 (5)	4 (22)
Market (100)	245 (100)	73 (30)	65 (26)	37 (15)	32 (13)	38 (16)

### NPW: five-year CAGR, % (vs. market)

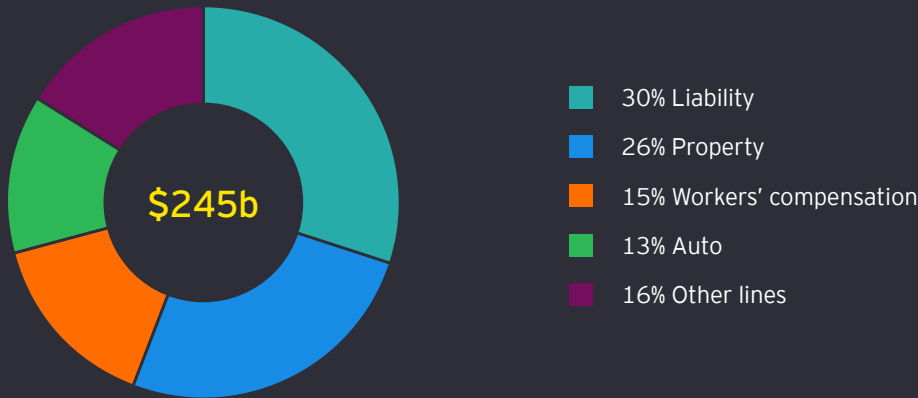
	Total Commercial	Liability	Property	Workers' Comp	Auto	Other
Superior (42)	5.8 (1.3x)	7.3 (1.3x)	2.5 (0.9x)	7.1 (2.2x)	11.3 (1.4x)	2.7 (0.8x)
Investor (50)	2.4 (0.5x)	2.8 (0.5x)	2.6 (1.0x)	-1.4 (0.4x)	5.5 (0.6x)	3.2 (0.9x)
Inferior (8)	10.0 (2.3x)	15.1 (2.7x)	3.6 (1.4x)	17.7 (5.4x)	11.8 (1.4x)	12.1 (3.4x)
Market (100)	4.4	5.5	26	3.3	8.3	3.6

### Total commercial: combined ratio, %wtd

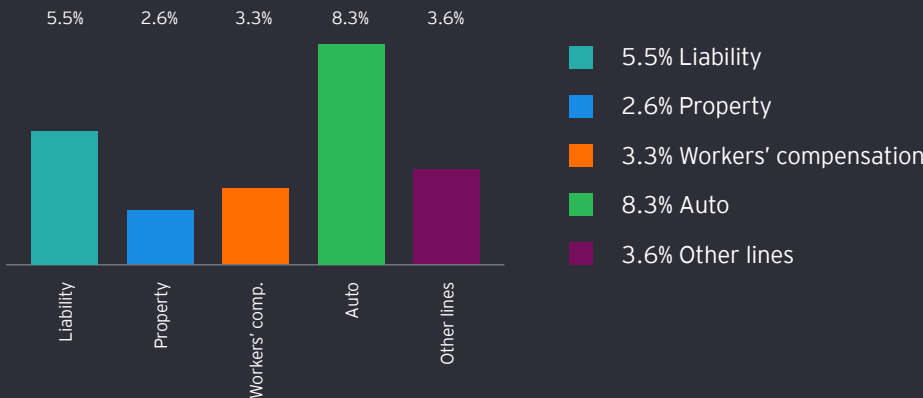
	2018	3-year	5-year	10-year	20-year
Superior (42)	94.0	91.8	90.4	92.5	94.7
Investor (50)	104.0	105.5	103.6	104.2	105.1
Inferior (8)	105.3	106.4	104.2	104.6	113.7
Market (100)	99.3	99.0	97.5	99.0	101.2

## Commercial lines – segment analysis

NPW by line of business: 2018, %



NPW: five-year CAGR by line of business, %



2018 net premiums written

**\$245 billion**

2018 combined ratio

**99.3%**

Business mix of the Superior and Investor segments aligned with market averages, while Inferior insurers were overweight in property and miscellaneous lines.



## Personal lines performance

### NPW: 2018, \$B (%)

	Total personal	Homeowners	Personal auto
Superior (42)	153 (100)	31 (20)	122 (80)
Investor (50)	153 (100)	48 (31)	105 (69)
Inferior (8)	3 (100)	1 (33)	2 (67)
Market (100)	309 (100)	80 (26)	229 (74)

### NPW: five-year CAGR, % (vs. market)

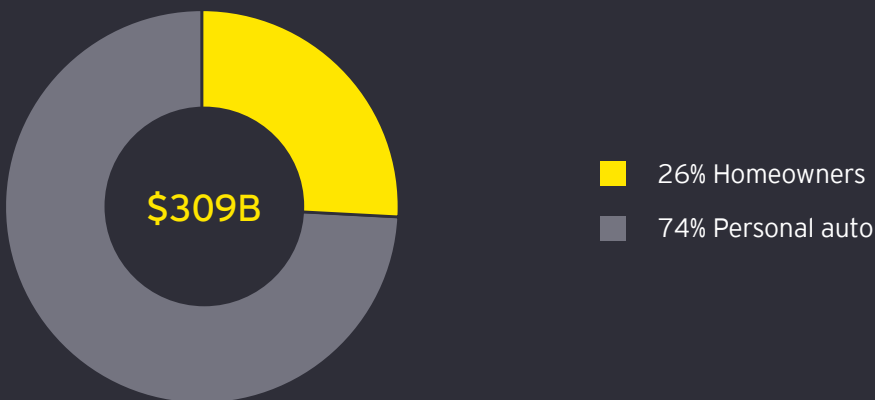
	Total personal	Homeowners	Personal auto
Superior (42)	8.4 (1.4x)	6.0 (1.4x)	9.0 (1.3x)
Investor (50)	4.1 (0.7x)	3.5 (0.8x)	4.4 (0.7x)
Inferior (8)	2.9 (0.5x)	-3.9 (-0.6x)	7.7 (1.1x)
Market (100)	6.1	4.3	6.7

### Total personal: combined ratio, %wtd

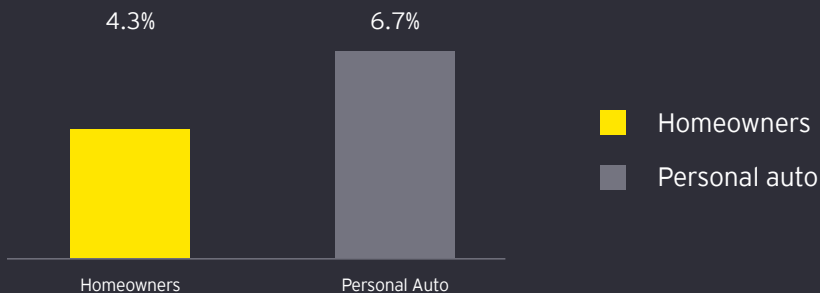
	2018	3-year	5-year	10-year	20-year
Superior (42)	96.1	98.5	97.3	98.2	97.4
Investor (50)	101.8	104.7	103.6	105.0	104.2
Inferior (8)	107.0	103.7	102.9	104.5	105.1
Market (100)	99.1	101.7	100.6	101.9	101.3

## Personal lines – segment analysis

NPW by line of business: 2018, %



NPW: five-year CAGR, %



2018 net premiums written

**\$309 billion**

2018 combined ratio

**99.1%**

Superior insurers wrote more auto as a percent of their personal lines book than Investor and Inferior insurers, both of whom had a higher-than-average concentration of homeowners' business.

# 04

## Expense analysis

Expense Analysis section does not include the "Taxes, Licenses & Fees" expenses details, as there was negligible value potential opportunity in this area.





## Commercial lines ratios

Five-year combined ratio  
(2013-2018)

Superior	90.4
Investor	103.6
Inferior	104.2
Market	97.5

Superior performers demonstrated an overall combined ratio of 90.4, significantly better than the market average of 97.5 over the most recent five years of the study.

### Underwriting expense

Superior	28.4
Investor	31.5
Inferior	34.5
Market	30.2

### General

Superior	7.8
Investor	8.3
Inferior	10.6
Market	8.2

### Acquisition

Superior	5.6
Investor	8.2
Inferior	8.4
Market	7.0

### Commission

Superior	12.5
Investor	12.3
Inferior	13.1
Market	12.4

### Taxes, licenses and fees

Superior	2.5
Investor	2.7
Inferior	2.4
Market	2.6

### Total loss

Superior	61.5
Investor	71.9
Inferior	69.7
Market	67.0

### LAE

Superior	10.8
Investor	12.4
Inferior	11.3
Market	11.6

### Pure loss

Superior	50.7
Investor	59.5
Inferior	58.4
Market	55.4

## Personal lines ratios

Five-year combined ratio  
(2013-2018)

Superior	97.4
Investor	103.6
Inferior	102.9
Market	100.6

Superior performers demonstrated an overall combined ratio of 97.4, significantly better than the market average of 100.6 over the most recent five years of the study.

### Underwriting expense

Superior	21.2
Investor	28.0
Inferior	33.7
Market	24.8

### General

Superior	4.3
Investor	6.0
Inferior	7.5
Market	5.2

### Acquisition

Superior	6.3
Investor	10.2
Inferior	7.8
Market	8.3

### Commission

Superior	8.5
Investor	9.3
Inferior	16.8
Market	9.0

### Taxes, licenses and fees

Superior	2.1
Investor	2.5
Inferior	1.6
Market	2.3

### Total loss

Superior	75.0
Investor	75.6
Inferior	69.2
Market	75.3

### LAE

Superior	10.4
Investor	11.9
Inferior	7.2
Market	11.2

### Pure loss

Superior	64.6
Investor	63.7
Inferior	62.0
Market	64.1

# 4a

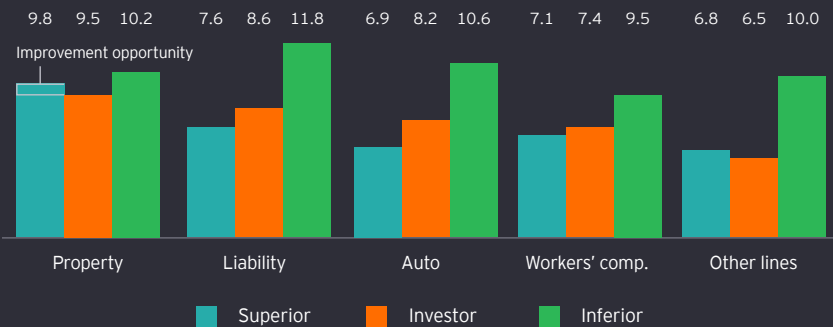
General  
expense ratios





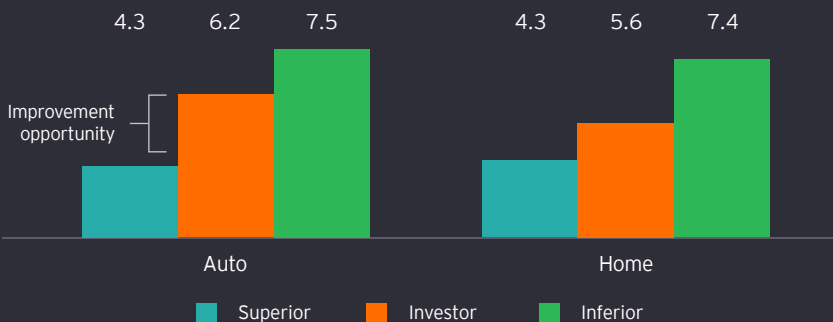
## Commercial lines – general expense ratio (five-year average as % of NPW)

The Investor segment demonstrated limited improvement opportunity in this area, outperforming the other segments in property and miscellaneous lines, and only marginally underperforming in the other lines. Improvement opportunities exist across all lines for Inferior performers, on the other hand, with the greatest opportunities in liability and auto.



## Personal lines – general expense ratio (five-year average as % of NPW)

There were improvement opportunities in general expenses across all non-Superior insurers in all lines of business. Unlike LAE and Acquisition expenses, Inferior performers showed a larger expense gap in this category than the Investor segment.



## Our perspective

- ▶ Develop a strategic sourcing plan considering strategic and tactical importance vs. internal ability to deliver
- ▶ Maintain a rigorous expense management program that simultaneously focuses on near-term operational costs as well as long-term business objectives
- ▶ Implement measures and incentives to drive behaviors and outcomes centered on maximizing value creation

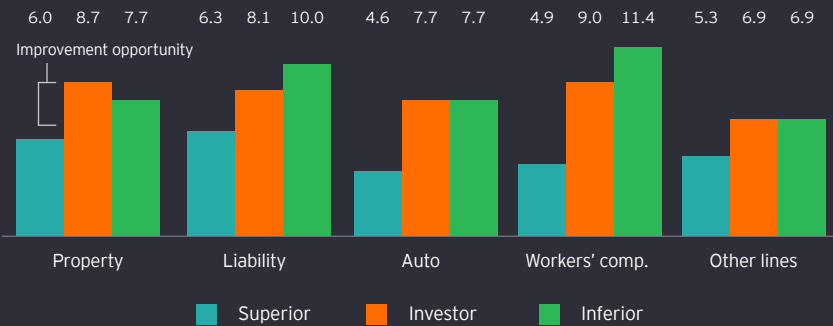
# 4b

Other acquisition  
expense ratios



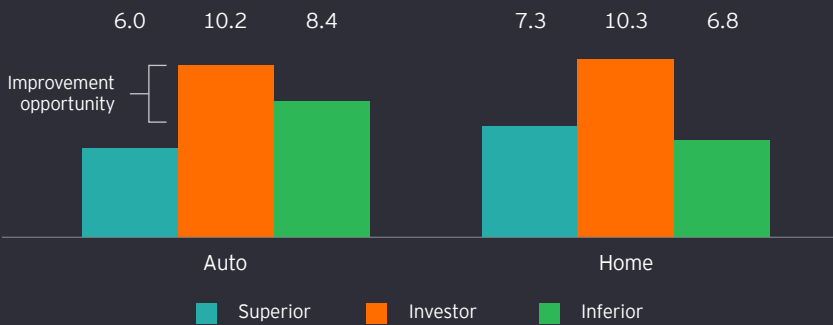
## Commercial lines – other acquisition expense ratio (five-year average as % of NPW)

Improvement opportunities existed in acquisition expenses across all lines of business for all non-Superior insurers. The Investor segment showed a greater opportunity for improvement in property, while Inferior insurers had a larger opportunity in liability and workers' compensation.



## Personal lines – other acquisition expense ratio (five-year average as % of NPW)

In acquisition expenses, the Investor segment had much further to go in order to reach parity with Superior performers. However, a significant opportunity for improvement also exists for Inferior insurers in auto lines.



## Our perspective

- ▶ Execute targeted campaigns aligned with value-based customer segments considering preferences, propensity to buy and long-term value potential
- ▶ Improve retention and cross-sell rates by delivering targeted solutions supported by actionable customer insight available at the moment of truth
- ▶ Improve volume and quality of leads through collection, analysis and reporting of customer insights based on proprietary and third-party data



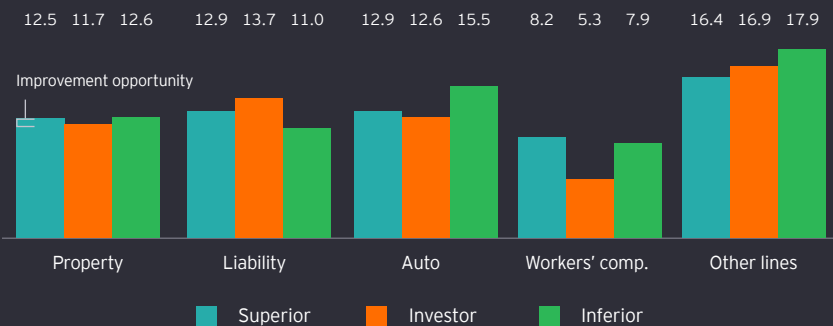
# 4C

Commission ratio



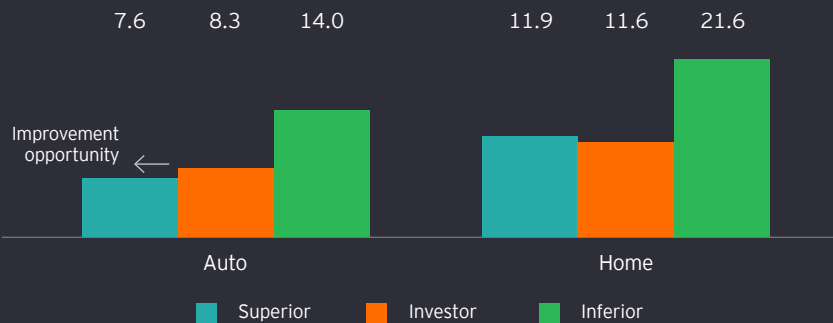
## Commercial lines – other commission expense ratio (five-year average as % of NPW)

Limited opportunities for commission expense improvement as Investor and Inferior performers recorded lower or marginally higher costs compared to Superior performers. Commercial Auto was an exception where the commission ratio of Inferior performers was 2.6 points higher than Superior performers.



## Personal lines – other commission expense ratio (five-year average as % of NPW)

Significant opportunities to improve commission expenses exist primarily for the Inferior performers. Superior performers have a 6.4 point advantage over Inferior performers in auto and a 9.7 point advantage in homeowners'.



## Our perspective

- ▶ Leverage data and analytics to identify high lifetime value agents and structure measures and incentives accordingly
- ▶ Seek opportunities to appropriately motivate channel partners across commissions, marketing, technology and office management
- ▶ Develop compensation strategies that seek to attract and retain value creating partners vs. motivating value destroying partners



# 4d

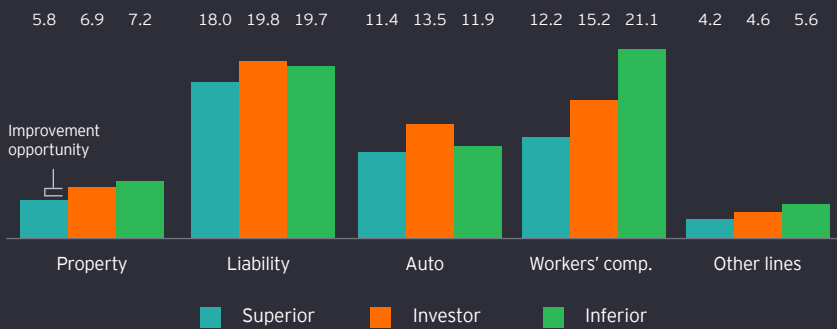
Loss adjustment ratios





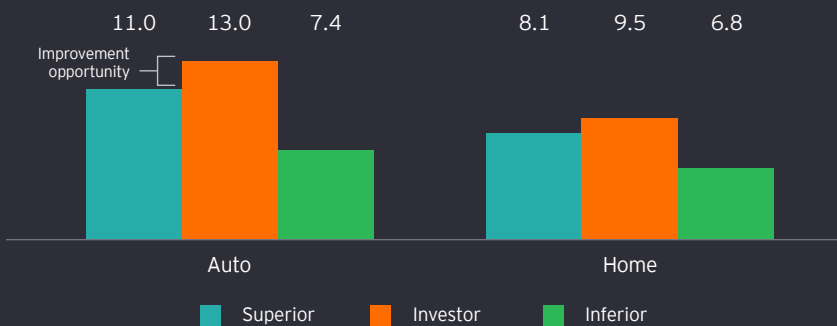
## Commercial lines – loss adjustment expense ratio (five-year average as % of NPW)

Improvement opportunities were identified in LAE across all lines of business, for both Investor and Inferior performers. The workers' compensation business of Inferior insurers had the widest performance gap – 21.1, compared with 12.2 for Superior performers.



## Personal lines – loss adjustment expense ratio (five-year average as % of NPW)

Only the Investor segment saw improvement opportunities in LAE, as Inferior insurers recorded lower LAE ratios than Superior performers across both auto and home.



## Our perspective

- ▶ Employ rules, modeling and exception reporting through analytics and automation to increase efficiency, improve accuracy and mitigate fraud
- ▶ Streamline claims adjustment processes by removing redundancies and leveraging automation to decrease cycle times, reduce labor costs and improve customer satisfaction
- ▶ Implement capabilities and supporting IT and data infrastructure to effectively prioritize and assign claims to the appropriate settlement process based on loss type, size of claim, experience of the adjuster and customer profitability

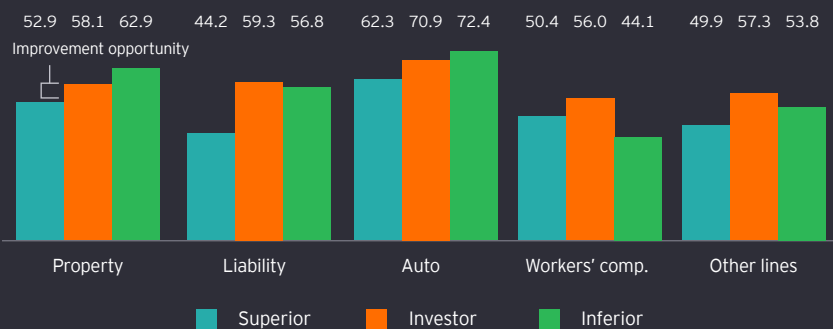
# 4e

Pure loss ratios



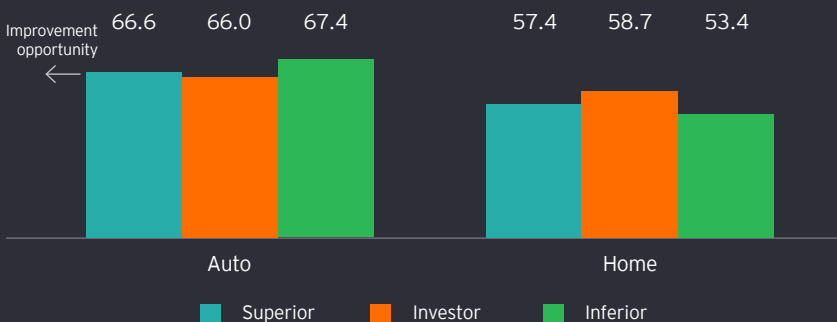
## Commercial lines – pure loss expense ratio (five-year average as % of NPW)

Improvement opportunities for both Investor and Inferior performers were identified across all lines of business with the exception of workers' compensation, where Inferior performers outperformed both Investor and Superior performers. Among each of the lines of business, commercial liability affords the largest improvement opportunity, 15.1% for Investor and 12.2% for Inferior performers, vs. Superior performers.



## Personal lines – pure loss expense ratio (five-year average as % of NPW)

Pure loss costs varied only slightly across each of the three value segments. Inferior performers, have some improvement opportunity vs. Superior performers while improvement opportunities for Investor insurers are limited to the homeowners' line of business.



## Our perspective

- ▶ Hold underwriting and claims colleagues jointly accountable for outcomes
- ▶ Optimize reserving, frequency and severity through advanced data management and analytics – volume, veracity and velocity
- ▶ Understand and address unprofitable lines of business, customer segments, geographies or channels at the moment of value



## Key observations

### Commercial lines

- ▶ Investor segment had higher-than-average LAE and acquisition expenses across all lines, and lower-than-average general expenses in property and miscellaneous commercial lines
- ▶ Inferior segment had higher-than-average acquisition expenses across all lines, lower-than-average LAE in auto and total commercial lines, and lower-than-average general expense in miscellaneous lines

The Superior segment underspent the average in every expense category except for Commissions, where they were willing to pay slightly higher fees.

### Personal lines

- ▶ Investor segment had higher-than-average expenses across all categories, with the exception of commissions in homeowners' insurance
- ▶ Inferior segment had higher-than-average expenses across nearly all underwriting expense areas in both auto and homeowners', but underspent in LAE

Despite overspending in pure loss, Superior insurers outperformed their competitors in both total loss and underwriting ratios. Inferior performers did manage to significantly underspend the market average in LAE, and in fact demonstrated a lower combined ratio than the Investor insurers.

# 05

## Industry value potential



The study calculated the value potential for Investor and Inferior performers of achieving parity with the Superior segment across all expense categories and lines of business. The value potential was based on improvement to the Superior performer composite average, and the benefit annualized per \$1 billion in net premiums written.

Many material opportunities for value were identified across several key expense categories and lines of business. Overall, achieving parity with Superior performers has a potential yield of up to \$157 million annually in personal lines, and up to \$675 million annually in commercial lines.

## Five-year average P&C expense ratios vs. Superior performers (annual value potential per \$1b NPW)

Commercial lines							Personal lines		
Investor	Expense areas		Liability	Property	Workers' comp.	Auto	Others	Auto	Homeowners
	Underwriting	General							
Acquisition									
Commission									
Total loss	LAE								
	Pure loss								

Commercial lines							Personal lines		
Inferior	Expense areas		Liability	Property	Workers' comp.	Auto	Others	Auto	Homeowners
	Underwriting	General							
Acquisition									
Commission									
Total loss	LAE								
	Pure loss								



Limited (<\$10m/\$b NPW)



Significant (\$10-50m/\$b NPW)



Material (\$50m+/\$b NPW)



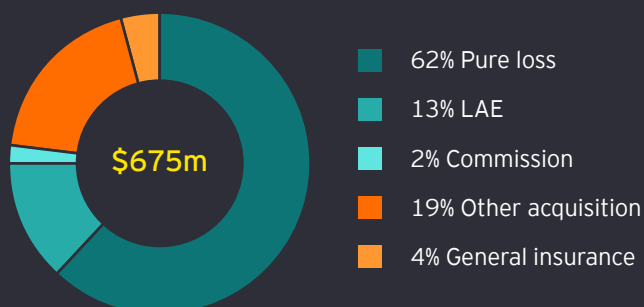
## Commercial lines – annual value potential (in \$m) per \$1b NPW

Inferior insurers stand to gain the most from achieving parity, with annual savings of more than \$100 million per \$1 billion in NPW in general, other acquisition and LAE expenses. They also have the potential to save more than \$350 million in pure loss across commercial lines.

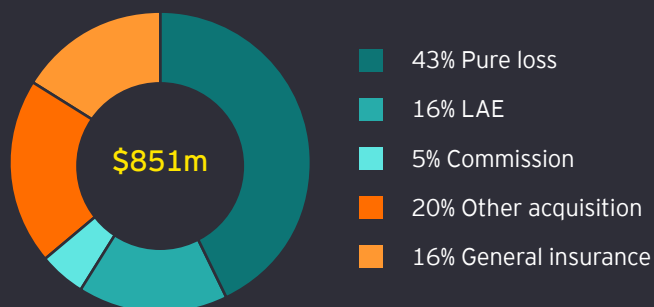
Annual value potential for Investor per \$1b NPW, \$m	Liability	Property	Workers' comp	Auto	Other	Total
<b>Combined (total)</b>	<b>205</b>	<b>90</b>	<b>131</b>	<b>150</b>	<b>99</b>	<b>675</b>
Underwriting	36	27	43	44	21	171
General	10	–	3	13		26
Other acquisition	18	27	40	31	16	132
Commission	8	–	–	–	5	13
Total loss	169	63	88	106	78	504
LAE	18	11	31	21	4	85
Pure loss	151	52	57	85	74	419

Annual value potential for Inferior per \$1b NPW, \$m	Liability	Property	Workers' comp	Auto	Other	Total
<b>Combined (total)</b>	<b>223</b>	<b>136</b>	<b>177</b>	<b>199</b>	<b>116</b>	<b>851</b>
Underwriting	79	22	88	93	63	345
General	42	4	24	37	31	138
Other acquisition	37	17	64	31	17	166
Commission	–	1	–	25	15	41
Total loss	144	114	89	106	53	506
LAE	17	15	89	5	14	140
Pure loss	127	99	–	101	39	366

Investor – All LOBs



Inferior – All LOBs



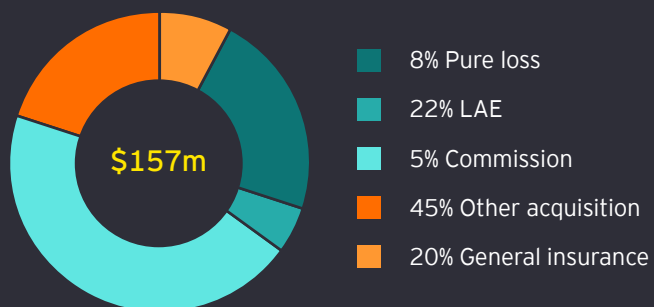
## Personal lines – annual value potential (in \$m) per \$1b NPW

The Investor segment has the highest potential for annual savings, at \$157 million. Cost reduction was identified across all expense categories, with acquisition expenses accounting for the largest share. While Inferior insurers demonstrated significant value potential across commission expense (\$160 million) and general expenses (\$63 million), their improvement opportunities in the other areas were more limited – in fact, their LAE performance was better than the market average.

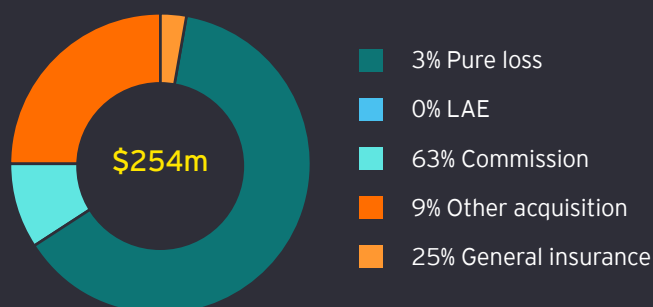
Annual value potential for investor per \$1b NPW, \$m	Liability	Property	Total
<b>Combined (total)</b>	<b>70</b>	<b>87</b>	<b>157</b>
Underwriting	43	67	110
General	13	19	32
Other acquisition	30	41	71
Commission	–	7	7
Total loss	27	20	47
LAE	14	20	34
Pure loss	13	–	13

Annual value potential for inferior per \$1b NPW, \$m	Liability	Property	Total
<b>Combined (total)</b>	<b>127</b>	<b>127</b>	<b>254</b>
Underwriting	127	120	247
General	31	32	63
Other acquisition	–	24	24
Commission	96	64	160
Total loss	–	7	7
LAE	–	–	–
Pure loss	–	7	7

Investor – All LOBs



Inferior – All LOBs



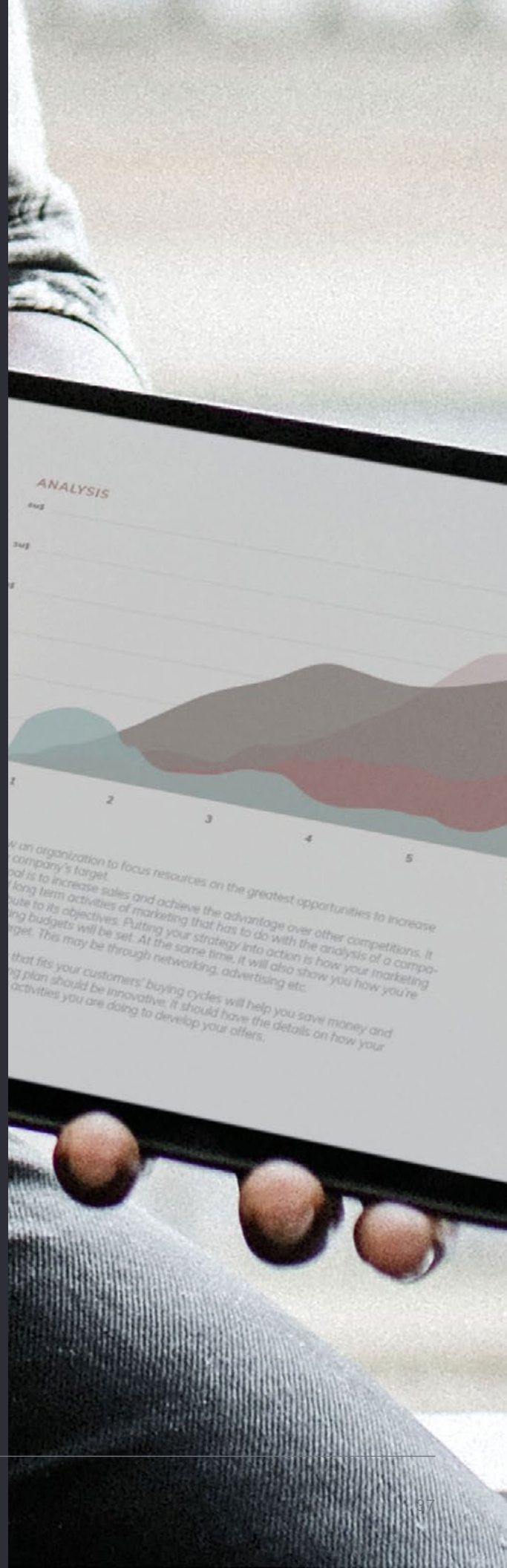
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Opportunities exist for LAE and underwriting expense improvement across all commercial lines

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The value capture for the Superior segment requires optimizing general, LAE and acquisition expenses

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# 06

## Industry focus areas



Sources: Proprietary EY and ACORD analysis, publicly available statements from insurance companies and their annual reports, survey of EY insurance professionals in the US.

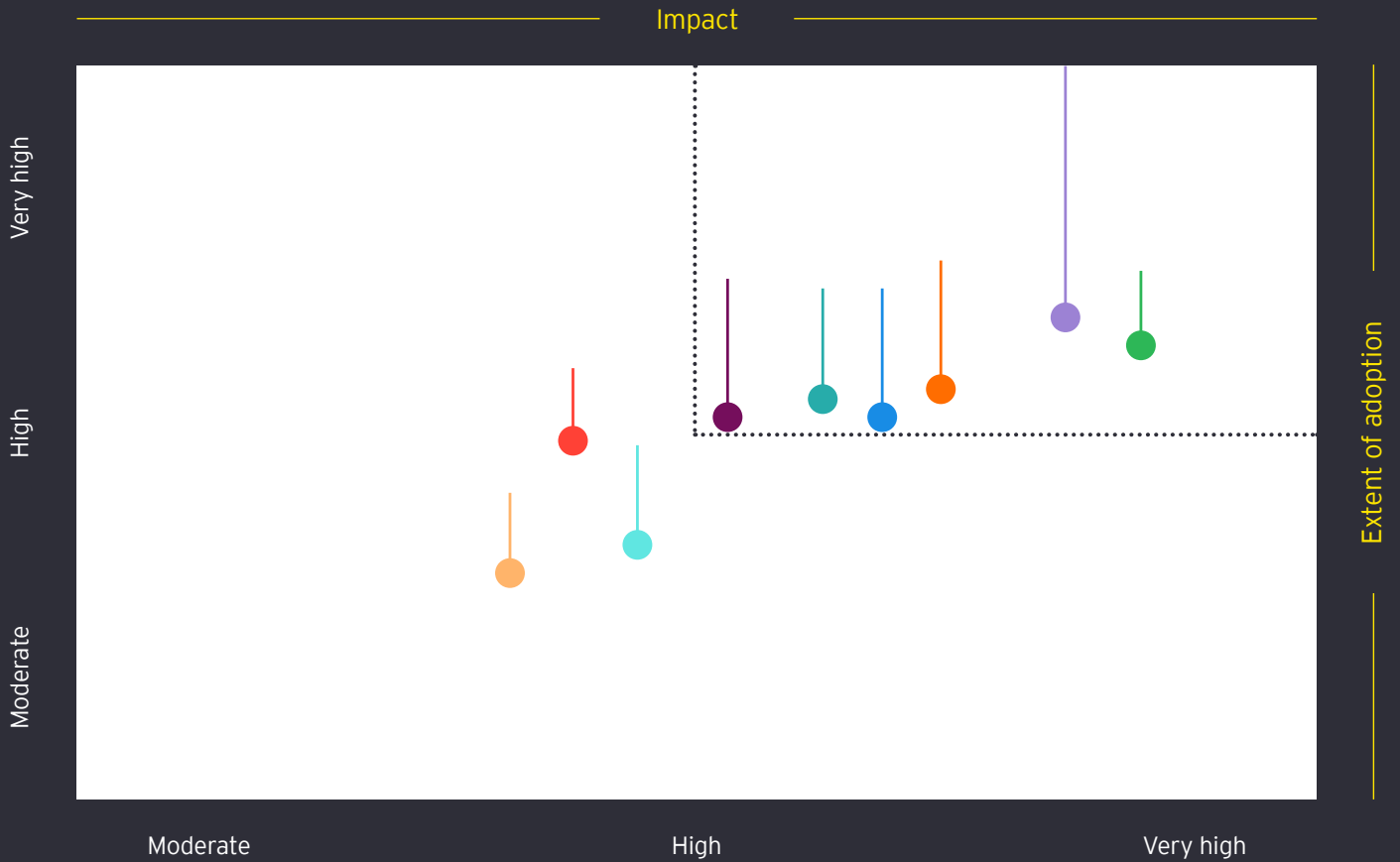
## US P&C industry focus areas

As part of this study, we performed a detailed qualitative analysis of the major US P&C insurers to understand their key strategic focus areas. This section of the report showcases how the industry and certain insurers are embracing these top trends.



Many of these executive areas of focus will show their full impact on the industry in the next three to five years. The level of impact will require not just simple decision-based change, but transformational, behavior-based change. The success will depend on the individual insurers' ability to consistently attract, retain and develop talent able to drive meaningful change. They will also need to maintain a culture conducive to overcoming legacy constraints and keeping pace with the accelerating technology and digital changes in the insurance ecosystem.

The following illustration is based on a survey of EY insurance professionals in the US. It's important to note that the focus areas below are ranked based on their current extent of adoption by the US P&C insurers and the impact they are likely to create.



The length of the cherry stalk is based on how many responders gave greater importance to the focus area.

- Talent acquisition, development and retention
- Mastering emerging and disruptive technology
- Operational excellence and cost efficiency
- Purpose-driven innovation
- Alternate distribution channels and digitizing distribution
- Strategic acquisitions
- Customer experience
- Loss prevention
- Risk selection, management and underwriting excellence



## Top six industry focus areas

1. Talent acquisition, development and retention	2. Operational excellence and cost efficiency	3. Alternate distribution channels and digitizing distribution
4. Customer experience improvement	5. Risk selection, management and underwriting excellence	6. Mastering emerging and disruptive technologies

In our study, we clearly noticed that data, analytics and use of AI/ML are consistent underlying themes across all focus areas for the US P&C carriers. Weaponizing data is seen as a critical success factor.

### Talent acquisition, development and retention

Talent can no longer be an afterthought for insurers. To manage the ever-growing risks, capitalize on the market trends and optimize the value of emerging technologies – the industry needs a new approach towards talent.

Yet, insurance companies are not particularly attractive for new university graduates considering where to start their careers. The sector ranks low in surveys of the most attractive global industries.

In transforming their workforces, insurers need technical resources (such as actuaries, data scientists and technologists) as well as more of creative “digital thinking” complemented by softer “social intelligence” skills. Many forward-looking executives now view talent as the “secret sauce” for maximizing returns on investments – from digital transformation, to new business model development and organizational restructurings. To improve their positioning, insurers are starting to use newer talent strategies:

- ▶ Many senior executive roles are being promoted from within to retain talent
- ▶ Focus on attracting modern tech employee: part innovator, part leader, with a unique set of skills for generating out-of-the-box initiatives to serve the customer
- ▶ Introduction of certification programs for brokers and agents to learn leading practices in newer areas of cybersecurity risk management, governance and operations
- ▶ Innovative partnerships with startups by sharing talent, work space and HR/legal support
- ▶ Targeted acquisitions are being done to build talent pools in scarce skills like underwriting

For 25 of the last 30 years, insurance jobs were 50% less volatile. Insurance sector jobs are not only relatively stable but expected to grow by 30% in the next decade; however, only 4% of the emerging talent would consider insurance as a career.



### Sound bites:

What we heard across the industry about **talent**

A top-three US P&C insurer is going beyond the traditional ways of talent acquisition by setting up its innovation labs nearer to the startups to tap into the abundance of talent outside the insurance company.

## Operational excellence and cost efficiency

Given low interest rates, declining investment yields and limited top-line growth, operational excellence and cost efficiency remain a top priority for US P&C insurers. In many cases, large insurers are on their second or third generation of cost-related initiatives. Past cost management initiatives only maintained cost ratios. Carriers must shift from incremental budgetary improvements towards exponential structural changes to their business models. The lack of material improvement has led insurers to try new approaches. To hit their goals, they are applying a range of strategies and tactics:

- ▶ Alternate operating models coupled with outsourcing are being explored, not only in the traditional areas of policy and claims administration, but across finance, risk, actuarial and compliance functions.
- ▶ Process automation and cloud migration are delivering results, as long as clear and measurable goals are being defined to effectively measure ROI.
- ▶ Core system transformation is underway at many insurers.
- ▶ Partnerships in risk management and compliance functions have emerged to control rising regulatory expenses.
- ▶ Shared services centers are being established to meet the need for specific functional expertise (e.g., actuarial) and to serve as hubs for digital capabilities (e.g., AI and RPA).

## Alternate distribution channels and digitizing distribution

The US P&C industry continues to focus on a multi-distribution model, but the long and slow decline of the traditional agency model is likely to continue. The average policy acquisition costs (as a percentage of net premiums earned) for top US P&C insurers remained largely unchanged from 16.4% in 2013 to 16.1% in 2018. This is forcing insurers to evaluate alternate channels. This trend is relevant across personal lines and, increasingly, small commercial. Even in the large commercial space, where personal interaction remains more important, the ability to digitize part of the sales process is becoming increasingly important. Following are some of the key trends in this space:

- ▶ Many insurers are:
  - ▶ Harnessing data and analytics to reduce average quote times for less complex risks, predict risk classification for majority of submissions and reduce the number of underwriting questions
  - ▶ Using complete customer data, contextual information, next-best-action analytics and once-and-done processing
  - ▶ Deploying mobile technologies to enhance sales and service experiences
  - ▶ Using affinity channels and digital engagement strategies to boost retention and loyalty
- ▶ Direct and digital leaders are using data and analytics to target profitable customers, while minimizing acquisition and service unit costs.
- ▶ Traditional agencies are continuing to enhance digital capabilities to meet consumer demand and complement – rather than replicate – the capabilities of large insurers.





### Sound bites:

What we heard across the industry this year about **cost efficiency**

An American multinational insurer plans to invest \$1.3b on digital experience for customers and distribution partners, underwriting excellence and operational efficiency to achieve \$1b reduction in annual run-rate expenses by year-end 2022.

A global insurer with large commercial operations in the US believes that it can achieve \$350m+ savings by year-end 2022 and \$500m by year-end 2023 through robotics and AI.



### Sound bites:

What we heard across the industry this year about **distribution channels**

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A leading US personal lines insurer generated ~50% personal lines premiums and ~35% property lines new business through digital channel with 20% expense ratio over the past five years.

In 2018, a large US commercial insurer announced a collaboration with one of the largest e-commerce companies in the and opened the insurance industry's first digital storefront.

## Customer experience improvement

As an industry, insurance continues to lag behind others when it comes to meeting customer expectations. InsurTech startups are setting the gold standard in customer experience and paving the way for the big incumbents to either fall in line or risk losing out. As consumers continue to embrace new technologies to buy products and services, consumer trends in retail, transportation and other industries are driving customer experience initiatives for insurers. Direct, digital and embedded sales are becoming dominant channels for growth and the Market Shapers are driving the “Everyone is a customer – employee, broker, agent, end consumer” mindset. To provide consistent, compelling, nimbler, easier and personalized experience, insurers are applying a range of strategies:

- ▶ For most insurers, digital begins with the customer and cuts across the distribution channels.
- ▶ Major investments are already being made into chatbots, robotic process automation (RPA) and artificial intelligence (AI) to drive the user experience.
- ▶ Real-time interfacing with brokers and agencies is becoming a priority.
- ▶ Operational teams are becoming more market responsive, working closely with underwriters and distribution partners to provide the highest service delivery quality and customer satisfaction.
- ▶ At the same time, insurers want to maintain claims services in-house to control the most important area of customer experience.

## Risk selection, management and underwriting excellence

Loss ratio generates more variability than expense, and has a significant impact on a carriers’ performance. Achieving underwriting excellence is no easy task – and is markedly more complex for commercial line carriers. Take the issue of climate change, for example. While it has become a major strategic issue for the industry in the last few years – despite increased awareness of the threats of climate change – there has hardly been any change in catastrophe loss insurance penetration over the last two decades. Most US P&C insurers continue to make large investments in data and analytics, artificial intelligence, machine learning and predictive modeling. To manage their portfolio risks, they are applying a range of strategies:

- ▶ Digital transformation centered around underwriting, claims and other key functions
- ▶ Advancements in data, analytics and automation to improve understanding of risk
- ▶ Maintaining discipline in risk selection and pricing decisions through the use of patterns, and predictive analytics models
- ▶ Use of the internet of things (IoT) for risk evaluation and loss prevention, e.g., installing sensors to monitor water, temperature and humidity at large and complex properties and wearable devices to mitigate construction risk
- ▶ Integration of underwriting, claims and actuarial functions to enable better decision-making
- ▶ Robust monitoring and deployment of new assessment tools to measure underwriting performance
- ▶ Increased empowerment and accountability of the underwriters
- ▶ Proactive management of exogenous factors, such as establishing consistent quality submission flow from channel partners





**Sound bites:**

What we heard across the industry about **customer experience**

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One of the largest US P&C insurers took inspiration from BigTech retail and organized its teams around quoting, binding, billing, payments and claims with an eye towards the customer journey.

One of the largest writers of commercial auto insurance in the US is continuing to make large investments in digital technologies. Its mobile app customer engagement increased fourfold in four years.





### Sound bites:

What we heard across the industry about **risk management and underwriting excellence**

A large US commercial insurers is opening a business services and technology center in India for intelligent process automation, data and analytics for catastrophe modeling and risk management.

A large US commercial insurer applied a predictive model to 65,000 insured workers to predict which workers were most at the risk of chronic pain and opioid addiction and saved \$150m in loss cost since its inception.





## Mastering emerging and disruptive technologies

Disruptive new technologies and the availability of massive data sets are reshaping the US P&C insurance industry. Superior insurers are especially leveraging available technologies and the broader tech-ecosystem to digitize every aspect of their business. Some of them are redesigning the way they develop, manufacture and sell products and services to improve productivity. While this trend of adopting and embracing emerging technologies have now been around for years, the real success will be measured by how carriers can combine these technologies to go beyond mere efficiency improvements. End of the day, today's set of new technologies need to be harnessed in a way that helps insurers manage risk better, while offering customers unique experiences.

Following are some of the key trends in this space:

- ▶ Modernization of core platforms from policy management to customer relationship management are underway.
- ▶ Robotic process automation is more deeply embedded in claims and basic administrative processes. AI use is growing. Focus of automation is on three key dimensions: speed, consistency and optimization.
- ▶ Adoption of IoT to predict and prevent losses for both commercial and consumer insureds, usage of drones and connected insurance models are mostly in the experimentation stage, though a few early adopters have already seen promising results.
- ▶ Blockchain has begun to make inroads as an enabler of increased transparency and more efficient data sharing. First generation deployments in commercial shipping insurance have largely achieved their goals.
- ▶ Strategic ventures are being made to invest, acquire and/or collaborate with InsurTechs and other Tech startups and is in the early stage of reshaping the insurance landscape.







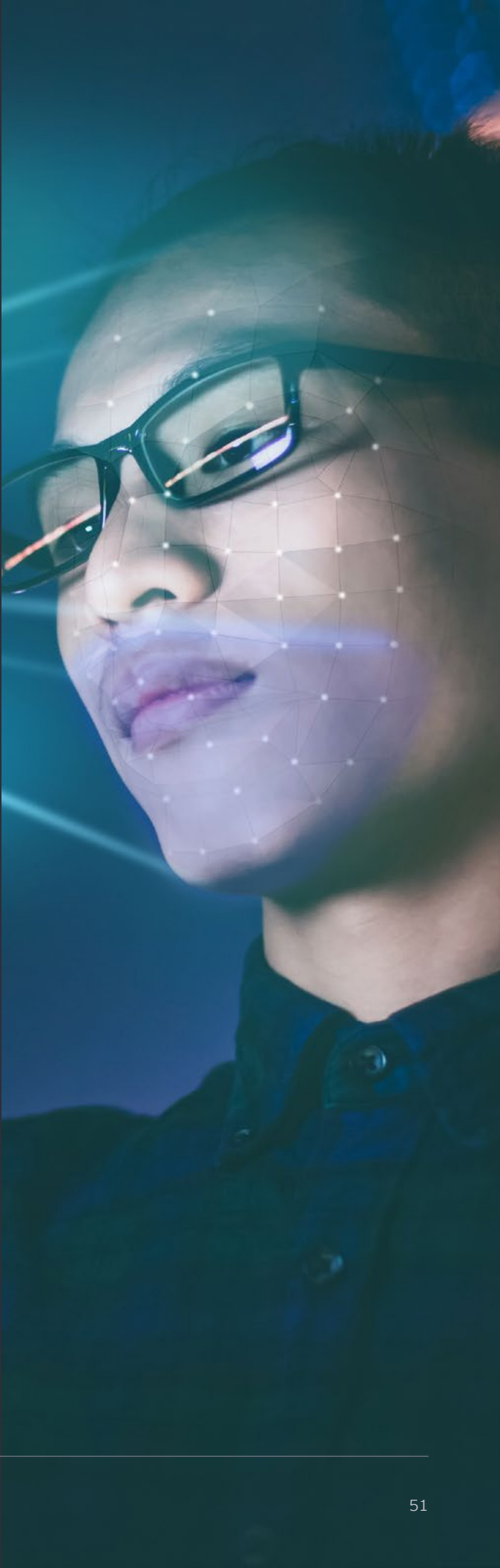
### Sound bites:

What we heard across the industry about adoption of **emerging and disruptive technology**

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A large US mutual insurer joined forces with an InsureTech for commercial property renewals. The InsureTech uses aerial images and machine learning technology to evaluate roof conditions, property characteristics and building size to develop risk scores for insured properties.

One of the largest auto insurers in the US is working to reimagine the buying experience of its auto policy customer by leveraging customer data, AI and microservices. The company realized a 40% increase in the closure rate of its renters policies using similar technologies.



# Connecting the dots

As the results of our qualitative analysis showed up, it became increasingly evident why the top trends in the US P&C industry happen to be what they are. While each trend or focus area deals with a specific dimension of the insurance value chain, together they address the three greatest challenges facing the industry today: growth, risk and expense management.



The examples in the preceding pages showcase how certain insurers have embraced these top trends in making quantum improvements across one or more horizons of growth, risk and expense management.

In the next chapter, we'll take a leaf out of the successful journeys of the Market Shapers, and infer the top executive imperatives around these three horizons.



# 07

Executive  
imperatives





Our analysis of the expense ratios of the Superior insurers showed that most of them achieve better than market average performance in either one or two categories across growth (CAGR), risk management (pure loss) and Expense management (total expense ratio), but there is a small group of insurers who have managed to achieve these outstanding results in a sustained manner – these are the true market shaping carriers. While the investor and inferior performers have a large value potential by achieving parity with the Superior performers, the Superior performers themselves stand to gain significant value by moving closer to the Market Shapers.

On their journey toward becoming the true Market Shapers, these carriers have adhered to a set of common initiatives across the spectrum of growth, risk and expense management that have helped them establish sustainable operating models.

As the traditional insurance business model and value chain evolves, competitors seeking to achieve parity with these insurers need to realize comparable value capture while demonstrating a clear growth trajectory. P&C insurers need to be prepared to navigate tomorrow's industry shaping forces by fundamentally rethinking their approach towards growth, risk and run – in order to emerge as top performers.

Market Shapers have demonstrated sustained growth and effectively managed their expenses while balancing their risk profile. They have proved that growth, risk and expense management do not have to be mutually exclusive.

## Market Shapers performed better than market between 2013 and 2018

### Commercial lines:

- ▶ NPW CAGR > 4.4%
- ▶ Average pure loss ratio < 55.4%
- ▶ Average total expense Ratio < 30.2%

### Personal lines:

- ▶ NPW CAGR > 6.1%
- ▶ Average pure loss ratio < 64.1%
- ▶ Average total expense Ratio < 24.9%

Market Shapers that demonstrated growth (five-year NPW CAGR), risk management (five-year average pure loss ratio) and expense management (total expense ratio) better than the average of 100 largest US P&C insurers in the same time period.



## Manage expenses

### How have Market Shapers excelled at expense management?

#### Challenge the business model status quo

Given the fundamental shift in industry structures and the whirlwind of disruptive forces, cost becomes a strategic topic. While many insurers are pursuing cost-reduction programs, significantly larger improvements to their cost bases are needed in order to bring about any meaningful impact. The current business and operating models in many P&C insurers have been built for a different era. These insurers need to fundamentally shift their organizational thinking on cost. It becomes critical to rethink the business models – and in the process overhaul the operating and sourcing models to drive efficiency.

#### Establish a deeply embedded cost culture

Until and unless expense management gets woven into the fabric of an insurer's culture, costs tend to inevitably creep back up to offset any previous gains achieved. Insurers with a strategic eye toward cost, are more committed to overcoming the obstacles posed by traditional models through business and operating model redesigns.





## Rethink risk

### How have Market Shapers excelled at risk management?

#### Differentiate on risk selection, underwriting and actuarial

Thoughtful investments in new-gen technologies along with data and analytics at scale will be a key differentiator for P&C insurers. It is incumbent upon the insurers to effectively crack the code and harness the true value out of these investments by shaping up the right operating models. P&C insurers that aspire to significantly improve their performance, need to embrace a mindset shift that allows them to focus on higher-value activities enabled by technology – moving away from a large internal workforce sifting through transactional work.

#### Rethink traditional distribution channels

Rapidly changing customer expectations are forcing a shift to a multichannel world – challenging insurers to provide options across the value chain. Leading insurers have not just been rethinking distribution strategy – they are going way beyond the traditional agent/broker model to make sure they don't get left behind as mere “manufacturers” of insurance products – but instead get to own consumer loyalty and lifetime customer value. New competitors for insurance distribution is a strategic risk for the incumbents, and those that desire to outperform the market must be ready both to mitigate possible consequences and to capitalize on the potential opportunities.





## Grow sustainably

### How have Market Shapers demonstrated sustained growth?

#### Focus on accelerating time to market to take advantage of new opportunities

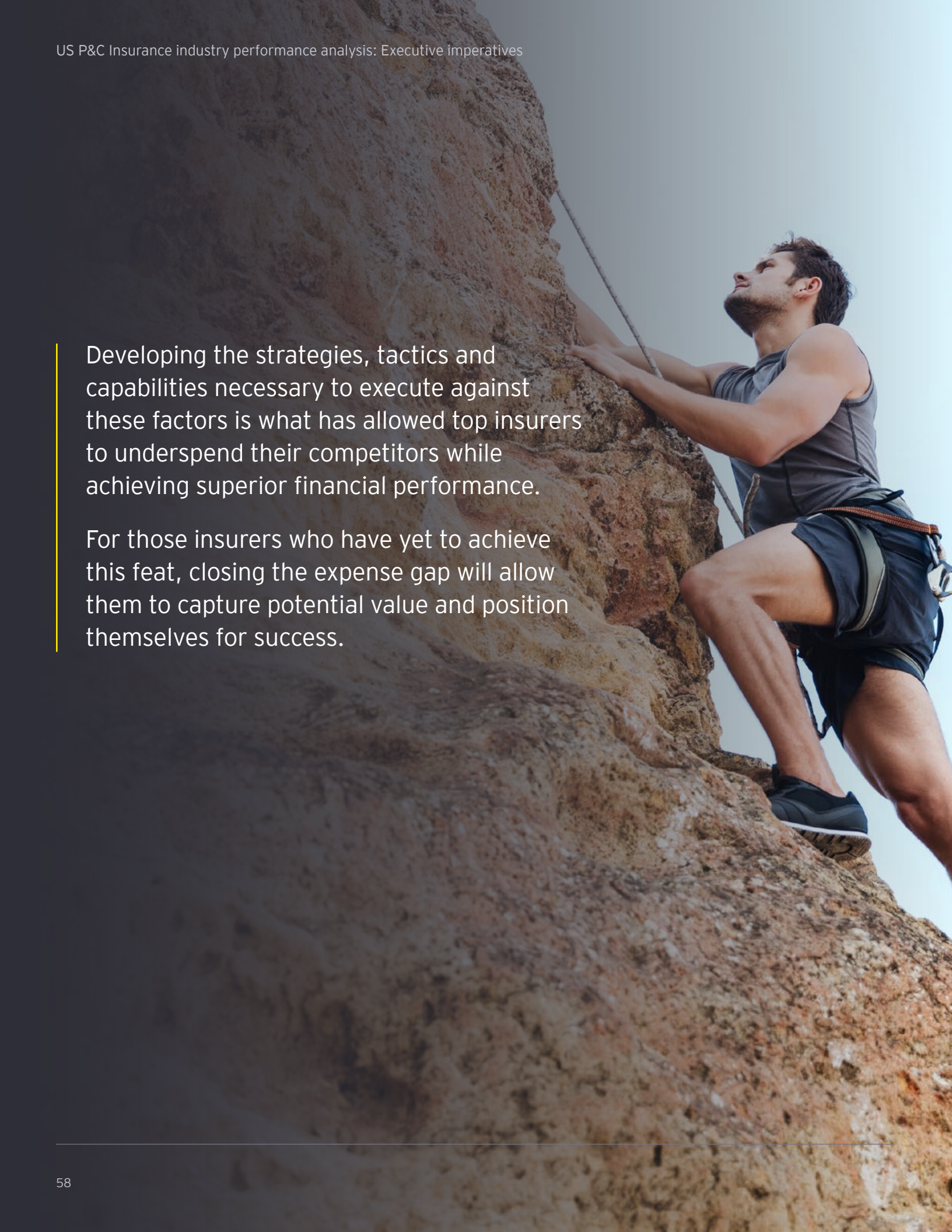
In order to deliver superior performance, insurers cannot afford to simply take a reactive stance toward the winds of change such as demographic shifts, evolving regulations, consumer preferences or technological developments. They need to proactively track these variables, identify demand before it shows up and launch products ahead of the competition. This calls for crafting the right operating model – underlined by an optimal combination of people, process and technology fit for purpose.

#### Leverage ecosystems

The ecosystems emerging today are likely to shape the future of P&C insurance in the US. Any insurer that aspires to significantly improve its performance must seek to collaborate with the right new market entrants – either through partnerships or acquisitions. The Market Shapers insurers have either pursued a thematic M&A program, or have made targeted alliances or acquisitions, to gain distinct competitive advantages – be it scale, capability or ability to innovate.





A man in a grey tank top and dark shorts is climbing a large, textured rock face. He is looking upwards and to the right, with his hands and feet gripping the rock. A rope is visible, extending from the top of the rock down towards him. The background is a clear, light blue sky.

Developing the strategies, tactics and capabilities necessary to execute against these factors is what has allowed top insurers to underspend their competitors while achieving superior financial performance.

For those insurers who have yet to achieve this feat, closing the expense gap will allow them to capture potential value and position themselves for success.



## Are you ready?

1

Are your cost take-out and expense reduction targets ambitious enough?

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2

Is your business model equipped to solve challenges across growth, risk and expense management?

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3

How do you achieve continued high performance even as the industry goes through unprecedented changes?

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ACORD is the global standards-setting body for the insurance industry. It facilitates fast, accurate data exchange and efficient workflows through the development of electronic standards, standardized forms, and tools to support their use.

For 50 years, ACORD has been an industry leader in identifying ways to help its members make improvements across the insurance value chain. Implementing ACORD Standards improves data quality and flow, increases efficiency, and realizes billion-dollar savings to the global insurance industry. With the tools and resources provided by ACORD, our members are equipped to address current business and technology imperatives while influencing and shaping the future.

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