



Compensation  
Advisory Partners

Industry Report // 2020-2021

# Insurance



This report examines 2020 compensation and financial performance across two segments of the insurance industry, including seventeen of the largest Property & Casualty (P&C) and Life & Health (L/H) Insurance companies. 2020 median revenue of these companies was approximately \$22B. CAP focused on 2020 financial performance, 2020 CEO pay and evolving trends.

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## Key Takeaways

**Pay and Performance.** 2020 was an erratic year for all companies. Large insurance companies, however, were generally able to maintain revenue levels and experienced just a modest decrease in operating income, with L/H companies generally underperforming relative to P&C companies. Bonus payouts in the industry tracked with performance and decreased for the second year in the row.

**Current Trends in Executive Compensation.** Compensation programs remained fairly consistent compared to prior years, but insurance companies are leading most industries in the use of ESG or strategic measures in their compensation programs.

**Looking Ahead.** Insurance companies will continue to face challenges in setting short and long term goals given inherent volatility in the industry. The increased use of ESG and strategic measures in incentive programs will help align executives with business priorities as Boards continue to focus on diversity, equity and inclusion.

## 2020 Performance: Somewhat Weaker Performance

The insurance industry overall saw weaker performance compared to recent years. Companies in our study saw flat revenue growth (+0.4%) and operating income loss of 8.1% for 2020 at median. Median TSR was also down (-8.9%), a stark contrast to high returns for 2019 (+25%). S&P 500 companies also saw weaker TSR performance from prior years but was still positive (+10.5%) at median.

The P&C industry generally performed better than L/H companies in our sample. Some segments benefited from fewer accident claims and higher in premium rates, offset in part by greater severity of CATs. Lower interest rates hampered L/H performance.

Catastrophe (CAT) losses were up for P&C companies from 2019 lows and neared 2018 levels. CAT loss volatility impacted individual company results to varying degrees, yet operating income growth netted out flat overall.

Revenue growth for L/H companies was similar to P&C counterparts with overall flat results (-0.7%) at median. Operating income losses were greater, however, with income down 11.7% at median. TSR performance was similarly down 11%, compared to a 20% increase for 2019.

## P&C Financial Performance

- Flat revenue in 2020 lagged 2019 median growth of 7.9%.
- Operating Income was flat, down from 2019 growth of 23% at median.
- CAT losses continued to have a mixed impact on individual company results; CAT losses were up for nearly all P&C companies, comparable to 2018 levels on an aggregate dollar value basis.
- Median Operating ROE of 12% consistent with prior year.
- Net Investment Income was down 9.2% at median, compared to 2019 growth of 10.7%.

## L/H Financial Performance

- Revenue was flat at median, compared to modest growth of 3.5% in 2019.
- Operating Income down from last year.
- Median Operating ROE of 11.2% declined from prior year.
- Net Investment Income was flat (+1.2%) compared to 2019 modest growth of 4%.

	Median Revenue Growth	Median Net Investment Income Growth	Median Op. Income Growth	Median Op. ROE Improvement	Median TSR
<b>Property &amp; Casualty</b>	0.8%	-9.2%	0.0%	-0.3%	0.6%
<b>Life &amp; Health</b>	-0.7%	1.2%	-11.7%	-1.0%	-11.1%
<b>All Insurance</b>	0.4%	-3.1%	-8.1%	-0.9%	-8.9%

**2021 Performance Update:** Overall, the insurance industry thus far is performing better in 2021 compared to 2020, and is aligned with S&P 500 performance. Median total shareholder return through June 30, 2021 for the S&P 500 companies is 19.9% and median for our insurance company sample is 20.8%, returning to 2019 levels. The L/H industry is generally performing better, with a median return of 26.5% compared to 18.0% for P&C companies.

## 2020 CEO Pay For Performance: Bonuses Pay Out Near Target

CEO Bonuses	Median Annual Incentive Payouts (% of Target)			Median Annual Incentive Payouts (% of Salary)		
	2020	2019	2018	2020	2019	2018
P&C (n=8)	102%	132%	135%	385%	393%	409%
Life and Health (n=9)	89%	112%	125%	250%	278%	281%
<b>Total Sample (n=17)</b>	<b>92%</b>	<b>117%</b>	<b>125%</b>	<b>259%</b>	<b>370%</b>	<b>283%</b>

Insurers tended not to make adjustments for COVID and though bonuses trended slightly down overall, pay levels still fared reasonably well. Executive bonus payments in the insurance industry were down compared to 2018 and 2019, yet still paid out around target.

**Property & Casualty:** Generally flat results for 2020 resulted in bonus payouts around target. Individual company payouts were mixed, with companies paying out both above and below target— most companies paid out in the range of 80% - 120% of target. On a dollar value basis, bonus payouts increased 3%.

**Life & Health:** Flat to down financial performance in 2020 resulted in bonus payouts slightly below target. All but one company in our sample paid out below prior year results.

## Impact of COVID-19 Pandemic

Compared to some industries, the insurance industry was not as severely impacted by the COVID-19 pandemic. On average, large insurers were generally able to maintain flat revenue for 2020 despite bleaker predictions in the spring of 2020. Operating income performance varied, with life insurers seeing greater declines. The impact of COVID was greater on life insurers than P&C companies overall.

Life insurance underwriting became more complicated during COVID as many products may require medical evaluations or other in person contact. In addition to challenges selling new products, underwriting assumptions for in-force policies had to be reevaluated (such as increased volatility, mortality rate adjustments, etc.), which can impact profitability of in-force policies.

For P&C insurance companies, the COVID impact was less severe as many companies accelerated their transition to digital sales/distribution. Operating income also remained flat on average, as accident frequency declined but severity increased in personal lines. COVID claims have been stable, but litigation uncertainty around business interruption cases remains.

With respect to compensation implications, insurance companies generally “took the hit” of performance on bonus payouts. Bonus payouts generally declined for most companies and bonus levels as a percent of target generally tracked Operating Income performance.

## Compensation Design Trends

The overall construct of compensation program design remains largely unchanged among the insurance companies reviewed; within core compensation programs, there were few changes or adjustments to incentive plan financial metrics. One trend we did see among insurers, however, was a noticeable increase in the use of Environment, Social and Governance (ESG) and other strategic business imperatives in compensation design. This trend aligns pay plans with the strategic shifts occurring in response to external and customer influences.

Among the P&C companies reviewed, the majority (5 of 8 companies) of annual incentive plans use ESG or company-specific strategic measures when making a payout determination. Among L/H companies, the majority (5 of 9 companies) also used ESG or strategic measures in their bonus programs. Additionally, two P&C companies recently implemented such measures in their long-term performance plans. The insurance companies reviewed generally lead the broader market in use of such measures. We believe the trend of using non-financial measures in determining incentives will continue in 2021 and beyond.

The metrics used vary by company and include diversity, workforce representation, employee engagement, and other measures that may support a company’s strategic focus and long-term goals (such as customer satisfaction, employee engagement, cost savings, etc.). Companies are balanced in terms of the approach used for these metrics and may include use of a specific weighted component, an award modifier, or a discretionary adjustment.

## Human Capital Management Disclosure

Effective November 9, 2020, the Securities Exchange Commission (SEC) issued final rules that modernized the requirements of Regulation S-K applicable to disclosure around the description of the business (Item 101). The Human Capital Management section is one area of focus, and the rules require companies to expand their disclosure. The rules are not prescriptive and are principles based, which gives companies flexibility around the details disclosed.

Among the insurance companies reviewed, the level of detail included in the disclosure is generally similar to other large companies in the US. The most common topics include diversity and inclusion, employee engagement, compensation, workforce training/development, and COVID response. A quarter of the insurance companies in our sample disclose quantitative representation statistics around their employee base (e.g., race,

ethnic diversity, gender), however the level of detail varies by company. Companies generally did not disclose actual objectives and/or metrics used to manage the business.

Human Capital Management disclosure will become more standardized over time. The SEC has indicated they are considering expanding and standardizing disclosure requirements. On June 23, Gary Gensler said the disclosure “could include a number of metrics, such as workforce turnover, skills and development training, compensation, benefits, workforce demographics including diversity, and health and safety.”

## 2021/2022 Expectations

From a business standpoint, insurers started 2021 with both opportunities and challenges given strong demand for certain products, continued pressure on costs, and continued economic shifts. It will be a challenge for insurers to establish realistic compensation program performance goals over the short and long term. The movement towards greater use of strategic priorities and ESG related goals in incentive programs, however, will help support business priorities and ensure that executives stay focused on new and changing imperatives as the business and industry evolve.

The importance of digital platforms, the customer experience, product innovation and employee development can be appropriately addressed in pay decisions yet, will require informed judgement. We expect external stakeholders (like major shareholders, proxy advisors, regulators) will push for greater transparency around the process used by Compensation Committees to measure results when making incentive determinations. Even though the use of non-financial measures is increasing, we believe the majority of overall incentive programs will continue to align with the business fundamentals (profitability, ROE, growth) and shareholder returns.

Insurers have been adept at handling market uncertainty and volatility and have demonstrated responsible pay practices over time. They tend to lead in good governance practices and social responsibility. We believe larger challenges lie in developing of human capital – ensuring workers are trained, skilled, and capable of adapting to new ways of doing business. Even with strong talent development strategies, companies will have to manage on many different fronts to attract and retain top talent, with diversity/equity/inclusion becoming the key imperative of most company Boards today.

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## CAP's Insurance Sample:

### P&C Companies

Allstate Corporation  
American International Group, Inc.  
Assurant, Inc.  
Chubb Limited  
CNA Financial Corporation  
Hartford Financial Services Group  
Progressive Corp.  
Travelers Companies, Inc.

### Life & Health Companies

Aflac Incorporated  
Genworth Financial, Inc.  
Globe Life  
Lincoln National Corporation  
Manulife Financial Corporation  
MetLife, Inc.  
Principal Financial Group Inc.  
Prudential Financial, Inc.  
Unum Group



## Compensation Advisory Partners

Please contact us at (212) 921-9350 or [info@capartners.com](mailto:info@capartners.com) if you have any questions about the issues discussed above or would like to discuss your own executive compensation issues. You can access our website at [www.capartners.com](http://www.capartners.com) for more information on executive compensation.