

How COVID-19 is
changing the focus of
insurance boards toward
long-term value creation





The COVID-19 pandemic has placed a premium on leadership within an insurance industry that was already undergoing significant change. Boards have an essential role to play in guiding their companies through this period of uncertainty and complexity. Even while meeting customer and employee needs, and maintaining operational resilience and protecting solvency, long-term value (LTV) drivers can be strategic and tactical guideposts as insurers seek to emerge from the crisis. That's especially true relative to the industry's ability – and responsibility – to help restore the global economy and local communities.

Today, individual consumers and society as a whole are demanding greater responsibility from organizations that they work for, buy from and invest in. Based on recent trends and the increasing adoption of a long-term value ethos at many prominent companies, Ernst & Young LLP (EY) believes capital will shift away from organizations that focus on shareholder value exclusively to those that seek to create value across a broader group of stakeholders, including employees, consumers, society and shareholders.

Organizations that authentically anchor their approach to long-term value and articulate a meaningful purpose are well-positioned to benefit over the long term. While these considerations may once have been viewed as a “soft” part of the business, long-term value concepts and outcome metrics are more directly aligned to financial performance than is commonly realized. Indeed, the COVID-19 crisis underscores just how useful they are to boards and senior executives across the insurance industry.

These were among the themes discussed during an EY Financial Services Center for Board Matters event. More than 50 board members from insurers around the world participated. This article provides a summary of the presentation and dialogue, as well as the results of surveys conducted during the session. (See the back page to learn more about the EY Financial Services Center for Board Matters.)



Market focus: the mandate for long-term value and inclusive capitalism

Businesses around the world are changing how they think about value. For most of the previous century, the value of a business was determined by its tangible assets. In the new digital age, the increasing importance of intangible assets – which accounted for 52% of market value of all publicly traded companies worldwide in 2015, up from 17% 40 years earlier – is one cause of this evolution.¹

In the past, tangible assets like product inventories, manufacturing plants and real estate were essential to value. Today, intangible assets, such as customer experiences, brand strength and value, intellectual property, supplier relationships and employee engagement are more likely to determine market success.

The evolution of long-term value has played out publicly in recent years. High-profile business leaders have advocated for broader and clearer articulation of the social purpose of business and the disclosure of more holistic valuation measures that stakeholders can use to evaluate if firms are living their purpose. The EY-led Embankment Project for Inclusive Capitalism (EPIC), which involved input from 31 asset managers, asset owners and companies, created a market-validated framework for measuring long-term value around four focus areas: human talent, consumer needs, societal and environmental concerns, and corporate governance (see Figure 1).²

Rather than “soft” or “nice-to-have” factors, these four focus areas directly align to value drivers that accrue financial value. For instance, consumers are interested in innovation, and when companies deliver it, higher revenue, increased market share and stronger loyalty are the results.

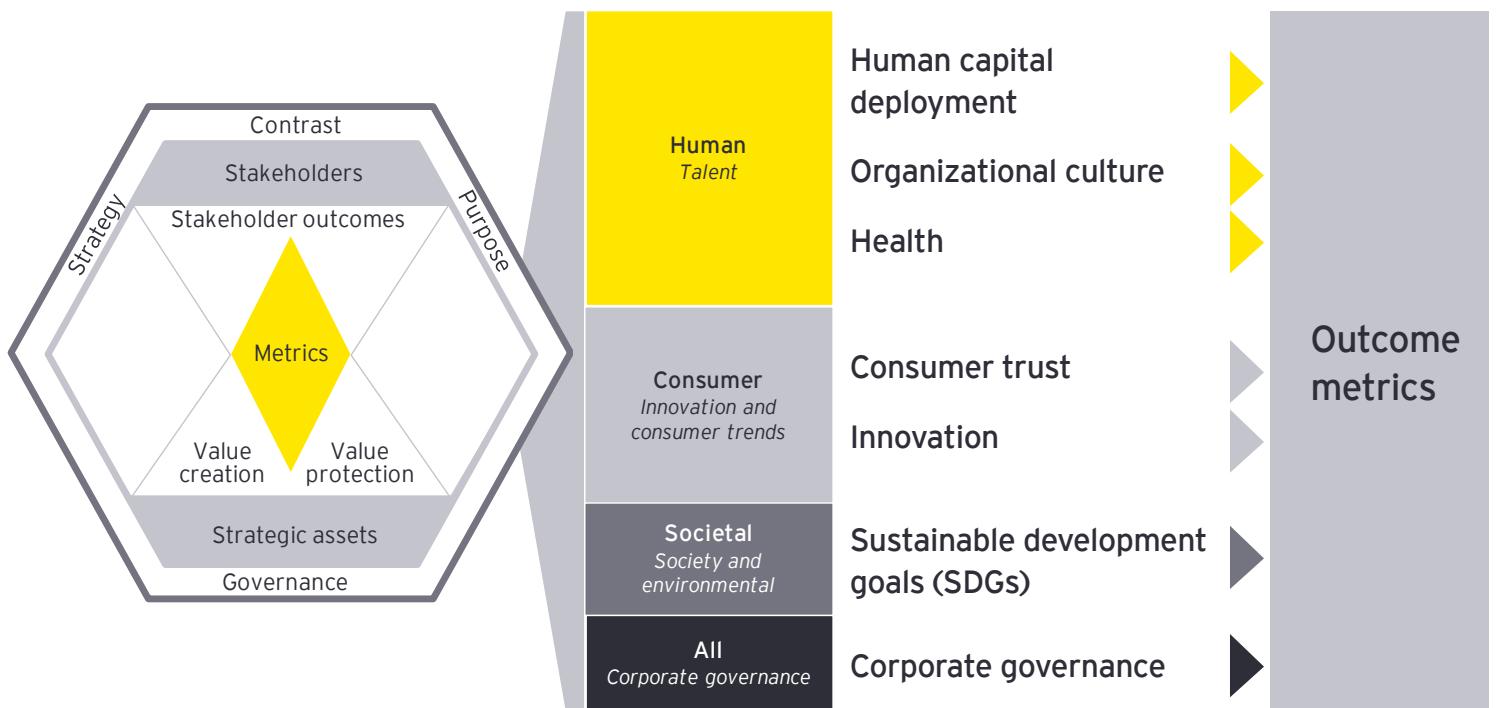
¹ “Global Intangible Finance Tracker (GIFT™) 2018: an annual review of the world’s intangible value,” *Brand Finance website*, <https://brandirectory.com/download-report/GIFT.pdf>, October 2018.

² For more information about EPIC, see “Embankment Project for Inclusive Capitalism releases report to drive sustainable and inclusive growth,” *EY website*, https://www.ey.com/en_gl/news/2018/11/embankment-project-for-inclusive-capitalism-releases-report-to-drive-sustainable-and-inclusive-growth, 16 November 2018.



Figure 1: EPIC framework

EPIC is focused on defining value across long-term driver categories



Strong corporate governance contributes to long-term value creation

The EPIC framework puts corporate governance on par with the other parts of the framework. Boards of directors contribute by advising and counseling management, as well as providing credible, effective challenges. They help management balance short- and long-term objectives. During the COVID-19 crisis, that balance is more important than ever.

Key governance factors contained within the framework include:

- ▶ High-performing leadership model, including board dynamics, structures and committees, and flow of information to the board
- ▶ Board activity and focus, the tone at the top, oversight of culture and strategy, oversight of the audit function, and compensation
- ▶ Board composition, including board diversity, tenure and experience



Boards are increasingly focused on long-term value

Long-term value is very much on the board's radar at insurance companies, especially during the COVID-19 crisis. Nearly half (45%) of the directors polled during the EY event have discussed it more since the onset of the COVID-19 pandemic, with only 5% spending less time on the topic. About 70% of meeting participants said their boards are spending adequate time on the topic, although 30% felt the dialogue was limited.

Insurance directors are keenly aware of what drives long-term value. When asked to select words that connote value creation, they pointed to human (e.g., employee engagement), customer (e.g., customer satisfaction), and societal (e.g., sustainability) factors (see Figure 2).

Figure 2: What word best describes long-term value for you?



Telling a compelling story around long-term value

In the end, companies have to inform their many stakeholders of their success in delivering long-term value, and existing financial reporting provides only a piece of that narrative. Initiatives, such as EPIC and the World Economic Forum's Toward Common Metrics and Consistent Reporting of Sustainable Value Creation,³ provide guidance on which metrics can be issued to provide more consistent, comparable measures to all stakeholders.

Many companies have already started to issue new metrics tied to value creation. Almost 60% of insurance directors surveyed said their companies are using new, nonfinancial measurements, ones that range across human, customer and societal factors (see Figure 3).

Participants recognized the need to use and publish a broader set of performance measures to better inform long-term decision-making and to tell their own long-term narrative. Rather than waiting to be asked about the latest statistics on community engagement or diversity issues, for instance, boards must proactively articulate why these measures matter and how they advance the business.

Directors understand these measures are different in kind from those traditionally disclosed. Insurers can use them to move beyond just the "what" (measuring outputs) to focus on the "so what" (the strategic outcomes that are being sought after). Such a change in mindset would allow companies to reshape their dialogue and interactions with capital markets, government, the media and a broader set of stakeholders.

Figure 3: Which LTV nonfinancial measures are you seeing added?



³ "Four actions business leaders can take now to embrace long-term value creation," EY website, https://www.ey.com/en_hu/wef/four-actions-business-leaders-can-take-now-to-embrace-long-term-value-creation, 22 January 2020; "Toward Common Metrics and Consistent Reporting of Sustainable Value Creation," World Economic Forum website, http://www3.weforum.org/docs/WEF_IBC_ESG_Metrics_Discussion_Paper.pdf, January 2020.



Long-term value in the time of COVID-19: how insurers are responding and the mindset is evolving

The response of insurers during the COVID-19 crisis demonstrates just how applicable the new value drivers are. In fact, a full 81% of survey respondents said the human factor has been the highest priority of long-term value measures during the current crisis, compared to only 6% who cited financial metrics. Putting employees first has been a priority for everyone.

Insurers have been doing their part to help mitigate the human impacts, a clear demonstration of the industry's social purpose. The actions have started close to home. Meeting the needs of their own people – making sure employees are able to work remotely and doing what they can to avoid layoffs – has been a top priority for insurers, one closely linked to the operational resilience of the business. Serving customers has been the next priority, with many insurers easing customers' financial burdens through premium holidays and grants, and amending policy exclusions, among other initiatives. The Insurance Information Institute estimates that US auto insurers will return \$10.5 billion to customers through a combination of refunds, discounts, dividends and credits amid the pandemic.⁴

All of these speak to a management approach driven by societal purpose and a commitment to long-term value thinking.

⁴ "Triple-I: U.S. Auto Insurers to Return \$10.5 billion to customers," *The Triple-I Blog website*, <https://www.iii.org/insuranceindustryblog/triple-i-u-s-auto-insurers-to-return-10-5-billion-to-customers>, 13 April 2020.

Engaging actively in societal impact

The insurance industry has a history of being there for people in times of need and protecting what matters most. There are very few areas of important public policy where private-sector insurance doesn't play an important and integral role.

Yet, the COVID-19 pandemic, like many global or regional events, is testing the industry.

On the positive side, the COVID-19 pandemic is bringing a more balanced view of long-term value, and it is being discussed more by boards. While the intense focus on employee well-being may decrease somewhat as companies get back to a new normal, whatever that may be, the dialogue around the significance of human capital has changed forever and positively so. Boards also expect other long-term value drivers will garner more attention in the future, with customers (46%) and financial (41%) factors coming to the fore, alongside human factors.

The greatest challenge will be on shaping and articulating insurers' significant societal role. When asked how the COVID-19 pandemic has focused attention on four drivers in the EPIC framework, none of the directors selected societal factors as the top area of focus today or in the future (see Figure 4). This is certainly not to say directors do not feel their companies play a pivotal role – indeed, insurance company directors will tell you that is the main reason they are on the board. They see insurance as having a noble mission and purpose.

However, the industry's reputation is being damaged through the COVID-19 crisis, notably in the fractious debate about business-

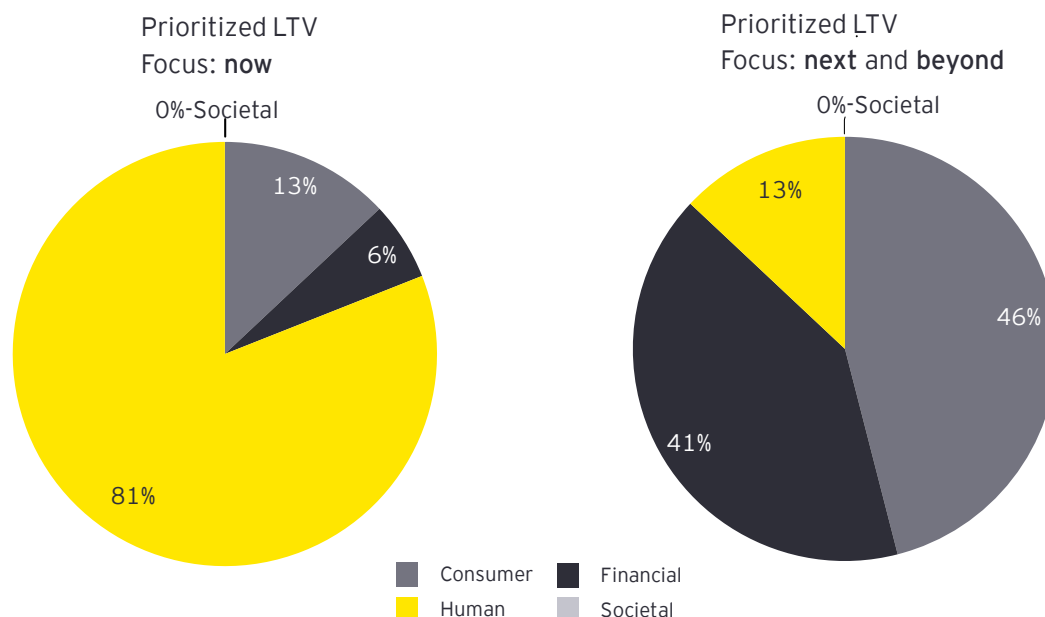
interruption insurance claims. The industry may be technically correct about exemptions that relate to pandemics, but the optics are highly damaging. This is especially visible when, at the same time, the banking industry has a real opportunity to burnish its reputation as it plays a transmission role for global stimulus programs.

Boards are well aware of the challenging positions their companies are in; more respondents expect the industry's brand to be in worse shape (32%) post-COVID-19 pandemic or, at best, the same (41%). Only around a quarter (26%) are optimistic the industry's image will be better.

Directors believe that education and communication are central to improving the industry's reputation, so stakeholders view its societal role positively. They point to the need to educate customers, politicians, the media and the public at large on the industry's role, the purpose and limitations of its product, and, fundamentally, on the way insurance works.

Yet, directors know it is more than just education. Products need to be simplified and packaged in ways that are meaningful to customers, putting their well-being first.⁵ Insurers have to be more attuned to public discourse and adapt their value propositions, as necessary. They need to maintain active and public engagement on where the line between public and private insurance sits and be perceived as listening when the public at large view that line as being drawn in a manner that is too favorable to insurers to the detriment of customers and communities. Above all, it requires insurers to drive innovation in what the industry is and does.

Figure 4: Insurance directors and LTV prioritization during the COVID-19 pandemic



⁵ "How insurance directors are governing in an age of transition," EY website, https://www.ey.com/en_us/insurance/themes-influencing-insurance, 18 February 2020; "How insurers can help customers achieve financial well-being," EY website, https://www.ey.com/en_us/financial-services/how-insurers-can-help-customers-achieve-financial-well-being, 10 June 2019.

A framework for long-term thinking

There are reasons to be optimistic. A large majority (70%) of insurance company directors surveyed expect that the COVID-19 pandemic will focus the board and management teams on long-term value creation. Crises focus the mind.

As the industry and society begin to emerge into a new normal, insurers can use such principles to guide their actions, even in the face of social and economic uncertainty:

- ▶ **Solve the now:** use the LTV framework to form a stakeholder-focused response to the pandemic, without losing sight of opportunities to grow the business, increase efficiency and consolidate piecemeal change efforts into an integrated transformation approach
- ▶ **Explore the next:** develop a future strategy for consistent messaging and actions across a broader stakeholder focus in identifying new business models within and across sectors, deploying emerging technologies and developing new talent models
- ▶ **Imagine the beyond:** live up to the ideal of the industry's noble purpose by helping society to prepare for waves of technological change, emerging risks and threats unimaginable today

In so doing, the industry can remain focused on its noble purpose, which has never been more important.



Key questions for board of directors

- ▶ How does your company structure its human, consumer and societal long-term value metrics to align with your financial metrics and desired business outcomes?
- ▶ How well is your company performing against its purpose? How are you monitoring your company's performance in living its purpose?
- ▶ How are long-term value performance metrics guiding your company's response to the COVID-19 pandemic?
- ▶ What lessons can your company learn from the COVID-19 crisis to prepare for future disruptions and emerging threats?
- ▶ Which innovation and transformation initiatives should your company accelerate as a result of the COVID-19 crisis? What business model and organizational adjustments does your company need to make?
- ▶ How does your company – and the industry at large – proactively engage with government authorities to help restore the economy and ease the transition to the “new normal?”
- ▶ How can your company tell a more persuasive story about the industry's social purpose?

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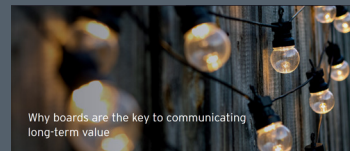
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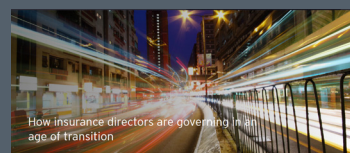
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What boards need to know about ESG



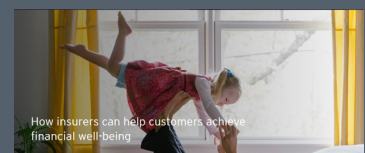
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