Compensation
Advisory Partners

Industry Report // 2021-2022

Insurance

Our 2022 insurance industry report examines 2021 executive compensation and financial performance across two segments of the industry, including seventeen of the largest Property & Casualty (P&C) and Life & Health (L/H) Insurance companies. 2021 median revenue of these companies was approximately $22B.

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Key Takeaways

- 2021 bonus payouts were very strong (approximately 150% of target), reflective of strong overall 2021 financial and TSR results.
- Approximately 70% of companies in our study tie a portion of their executive incentive programs to ESG or strategic priorities that include an aspect of ESG related measures; CAP expects this to continue and evolve even further.
- While companies strive to ensure pay and performance alignment, recently approved SEC pay and performance rules will require new, more standardized proxy disclosure which includes a new approach to pay and performance calculations and fairly complex equity valuations.

2021 Performance: A “Bounce Back” Year from 2020

The 2021 performance results for insurance industry were strong. The median revenue growth for all companies in our study was +8.9% in 2021, compared to +0.9% in 2020. Over the prior 5 years (2016 – 2020) average growth was only +3.6%. Median operating income increased +31.1% for 2021, a stark contrast to the -8.1% decline in 2020. Stronger operating performance was also reflected in share price growth. Median total shareholder return (TSR) was +19.1% in 2021, outpacing the prior five-year average (+8.6%) and a noticeable improvement from 2020 (-8.9%).

The P&C industry continued to exhibit strong top-line growth, and L/H companies in our sample posted stronger results overall. Some of the headwinds for the industry include CAT losses for P&C companies and lingering impacts of COVID-19 pandemic for L/H companies. Changes in 2021 CAT losses among the sample were mixed for P&C companies but remained generally flat on an aggregate dollar value basis from 2020. CAT loss volatility impacted individual company results to varying degrees, yet operating income growth increased +25.1% in 2021 after being flat in 2020.

At median, revenue was flat for L/H companies and lagged P&C counterparts (+11.0% at median). However, operating income increased +35.2% and ROE improved about 3.5 basis points in 2021, both of which outpaced P&C companies. TSR performance was up +34.5%, compared to +17.8% for P&C companies.

P&C Financial Performance

- Median revenue growth of +11.0% in 2021, significantly outpaced 2020 median growth of +1.1%.
- Operating income increased +25.1% at median in 2021, up from 2020 flat results.
- CAT losses continued to have a mixed impact on individual company results, with the companies split between posting lower or higher CAT losses; on an aggregate dollar value basis, CAT losses remained generally flat for the last two years.
- Median operating ROE of 11.5%.
- Net investment income was up +10.8% at median, compared to a 2020 decline of -8.3%.

L/H Financial Performance

- Revenue was flat at median (-0.2%), consistent with 2020 (-0.7%).
- Operating income growth dramatically improved to +35.2%, compared to -11.9% in 2020.
- Median operating ROE of 13.0% improved from prior year.
- Net investment income was up +4.9% at median, compared to a modest increase in 2020 (+1.7%).

	Median Revenue Growth	Median Net Investment Income Growth	Median Op. Income Growth	Median Op. ROE Improvement	Median TSR
Property & Casualty	+11.0%	+10.8%	+25.1%	+1.2%	+17.8%
Life & Health	-0.2%	+4.9%	+35.2%	+3.4%	+34.5%
All Insurance	+8.9%	+7.2%	+31.1%	+2.4%	+19.1%

2022 Performance Update: While total shareholder returns this year are much lower compared to prior year, the insurance industry is outperforming the overall market in 2022. Median total shareholder return through July 31, 2022 for the S&P 500 was -12.6% and median for our insurance company sample is +0.8%.

2021 CEO PAY FOR PERFORMANCE: BONUSES PAY OUT ABOVE TARGET

CEO Bonuses	Median Annual Incentive Payouts (% of Target)			Median Annual Incentive Payouts (% of Salary)		
	2021	**2020**	**2019**	**2021**	**2020**	**2019**
P&C (n=8)	136%	102%	132%	467%	385%	+393%
Life and Health (n=9)	150%	89%	112%	338%	250%	278%
Total Sample (n=17)	**150%**	**92%**	**117%**	**383%**	**259%**	**370%**

Bonus payouts for insurance companies overwhelmingly paid above target for 2021 performance, with just one company in our sample paying just slightly below target. This is generally consistent with executive bonus payments in 2018 and 2019, and an improvement from 2020 when bonuses paid slightly below target.

Property & Casualty: Strong results for 2021 resulted in above target bonus payouts. All but one company had a higher bonus payout compared to 2020, with the median payout of 136% of target. On a dollar value basis, CEO bonus payouts increased 30% in 2021.

Life & Health: Bonus payouts in 2021 were even higher for the L/H companies in our sample. Most payouts ranged between 120% and 160% of target, with median payout at 150%. On a dollar value basis, bonus payouts increased 55% and all but one CEO had higher bonuses compared to 2020.

2022 Outlook

The start of 2022 has proven to be challenging. Performance expectations for the full year 2022 are not as optimistic for most insurance companies in both the P&C and L/H businesses. Growth expectations for insurers are lower compared with 2021. Projected incentive plan payouts have been tracking closer to target thus far among our clients in the industry. In light of broader economic factors (e.g., inflation, supply chain, interest rates, equity markets), companies expect continued headwinds for the remainder of this year.

Compensation Design Trends

Incentive compensation design among insurance companies remained fairly consistent year over year. Companies made minor changes in design features for 2022 executive compensation programs. A continuing trend in the last few years has been the growing emphasis of strategic and ESG measures in compensation programs (e.g., diversity, equity and inclusion or DE&I).

Approximately 70% of companies in our research tie a portion of their executive incentive programs to ESG or strategic priorities that include an element of ESG measures. Of the 70% (or 12 of 17 companies), nine companies include these measures in the annual incentive plan, one includes measures in both the annual and LTI plan and two companies use such measures in their LTI plan. The prevalence of these measures is consistent between P&C and life/health insurers, and use of such goals is somewhat ahead of companies in the broader market.

Of the companies studied, three carve out a discrete component of their annual incentive funding, ranging from 20-25%, and tie it to strategic goals, which include ESG measures. Five companies include ESG factors as part of a broader assessment of individual performance that can be used to adjust award funding to determine final payouts.

Similar to broader market trends, most insurers do not set quantitative goals in the ESG arena in their annual incentive plans and instead use a qualitative review of performance and progress towards desired outcomes. For LTI plans, three companies set pre-defined quantitative goals, which is necessary to avoid variable accounting. We believe that the predominant practice of using a qualitative assessment of such progress/results will continue in the near term, with a slow shift towards quantitative pre-defined goals.

Recent Developments

Compensation Committees are monitoring the regulatory environment, in part, given the SEC's revised agenda, which could finalize many rules that impact executive compensation and public reporting. The SEC recently finalized pay for performance disclosure rules and has also accelerated its timeline to finalize certain outstanding Dodd Frank rules (e.g., clawback), 10b5-1/insider trading rules, climate change disclosure rules and Human Capital Management disclosure revisions. L/H companies, in particular, also face uncertainty with financial estimates given accounting changes that will start in 2023 for long duration contracts (The Long-Duration Targeted Improvements (LTDI)). LTDI will require annual updates of actuarial assumptions, will change profit recognition for some products, and the balance sheet will become more market/rate sensitive.

The most recent SEC ruling on standardized company pay and performance disclosures came as a surprise on August 25, 2022, and will add complexity for companies given specific, standardized reporting requirements. Among other things, companies will be required to report on an annual basis, the value, or change in value, of all outstanding equity awards that vest or remain outstanding at the end of the fiscal period. Companies will need to report information in a tabular/chart format that includes company TSR, Net Income (GAAP), and one other company selected measure, along with relative TSR vs a company's peer group, and CEO and NEO 'Compensation Actually Paid'. Companies are also required to explain the relationship between company performance and compensation actually paid over the time period covered, and relative TSR performance vs the peer group.

The pay for performance rule requires calendar year companies to begin compliance with the rule in the 2023 proxy statement. Our current expectations are that these rules will not immediately impact compensation design. A majority of insurers currently use TSR in their long-term incentive plans and these plans tend to represent the largest component of total executive pay. This suggests that there should be some alignment between compensation actually paid and the TSR comparison. However, there may be less alignment with GAAP Net Income results.

In addition to the new required disclosure, we believe companies will continue to use existing approaches to assess the pay for performance relationship (e.g., realizable pay versus peer group, relative performance analyses beyond TSR, etc.).

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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