

Insurance and Operations Practices

# How insurers can reimagine G&A for the next normal

This often-overlooked function can yield significant cost savings.

*This article was a collaborative effort by Stefany Araya, Alex Balbontin-Posadas, Michael Glaschke, Rishabh Jain, Tiksha Karkra, Stephanie Lotz, Sanaya Nagpal, and Ulrike Vogelgesang, representing views from McKinsey's Insurance and Operations practices.*



**Insurers are facing a challenging landscape:**

historically low profitability and a reduction in premiums in some core lines of business have made the pursuit of cost savings a higher priority. Indeed, according to our August 2020 survey of general and administrative (G&A) C-suite executives and functional leaders, more than 70 percent of executives rank cost, growth, and pricing as their top three priorities. Over the past decade, insurers have primarily focused their efficiency efforts on operations and IT. In the meantime, G&A functions, which account for 28 and 19 percent of total operating costs in life insurance and property and casualty insurance (P&C), respectively, have largely been ignored—and represent tremendous potential value.

Our research and experience working with clients suggest that insurers have a unique opportunity to reinvent their G&A functions. Insurers that move fast could reduce G&A costs and increase

efficiency while improving quality. The COVID-19 pandemic has challenged the way insurers operate, accelerating remote working and creating additional momentum for change that has to be adequately managed and supported to ensure that productivity levels do not fall.

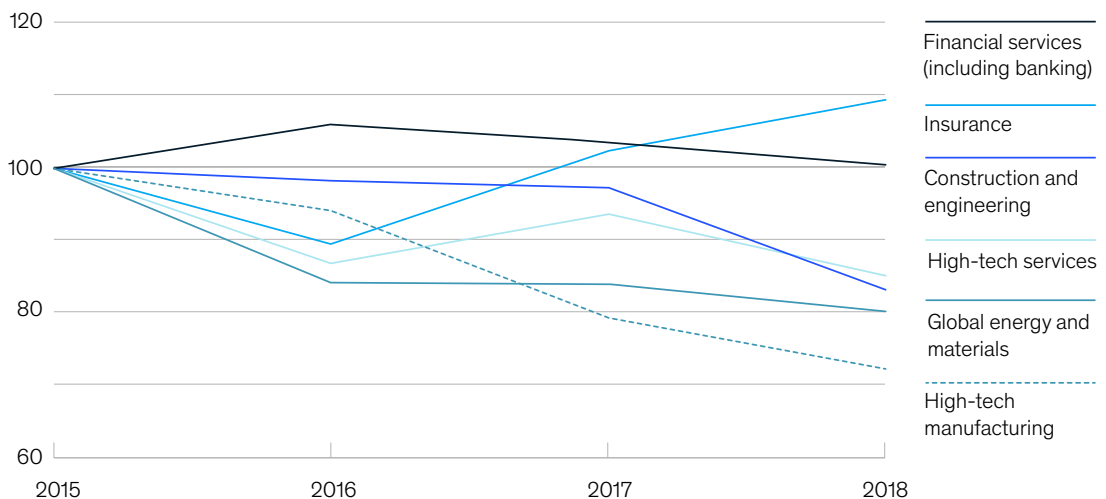
**Why G&A costs have been rising**

Insurance G&A functions include finance, HR, facilities, legal and compliance, audit, and purchasing, among others. Over the past five years, the insurance industry has been less successful than other industries in improving the cost efficiency of support functions. A dip in costs for insurers in 2016 was followed by several years of rising costs, even as industries such as financial services, construction and engineering, and high-tech manufacturing made significant progress (Exhibit 1). This rise was led by life insurance, where finance and related costs increased substantially.

Exhibit 1

**Other industries have successfully addressed the cost efficiency of support functions over the past five years, in contrast to the insurance industry.**

**Evolution of cost efficiency in support functions per industry,<sup>1</sup> %, normalized at 100% in 2015**



<sup>1</sup>Indexed; expressed as sales, general, and administrative expenses as % of revenue; based on large global players, for which continuous reporting is available—11 players in insurance, 14 players in high-tech services, 8 players in construction and engineering, 7 players in high-tech manufacturing, and 42 global energy and materials players. Source: Capital IQ; CBF

Insurers have faced some headwinds. For example, regulations such as IFRS 17, Solvency II, and the General Data Protection Regulation (GDPR), as well as those on distribution, resulted in increased costs of compliance (150 to 200 percent) and finance (10 to 30 percent). As a result, the share of finance and legal in the costs of G&A functions increased by 12 percent from 2015 to 2019 (Exhibit 2).

flat for leading life insurers but rose by about 20 percent for the bottom quartile. In P&C over the same period of time, all companies improved, but leaders widened their advantage. During this period, cost reductions in facilities and HR primarily resulted from a shrinking full-time-equivalent (FTE) base. The cost per FTE has either remained static or crept up over time.

### G&A costs vary across the industry

Our analysis revealed a large spread between the cost ratios of leaders and those of laggards. Moreover, the gap has been widening over time, suggesting that a large number of insurers have not yet maximized efficiency (Exhibit 3), while a few outperformers have increased their strategic distance. From 2015 to 2019, cost ratios remained

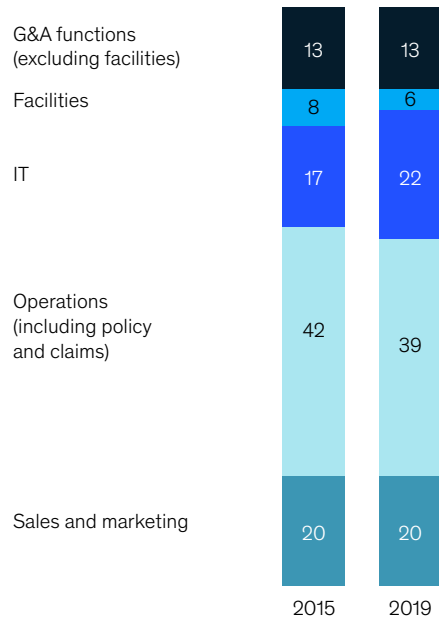
### New challenges in reimagining support functions

In August 2020, we surveyed 59 financial-services C-suite executives and functional leaders across regions to get a sense of how they are reimagining corporate support functions for the next normal. More than 60 percent of those organizations have introduced programs to reduce costs, with targeted

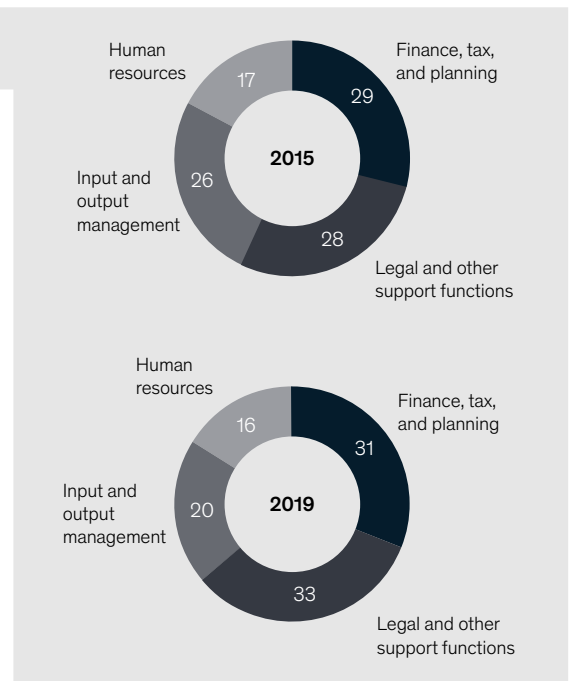
Exhibit 2

## Insurance companies' cost mix has shifted, demonstrating an opportunity to increase the efficiency of G&A functions.

Insurance value chain, operating-cost mix, %<sup>1</sup>



G&A cost structure breakdown<sup>2</sup>



<sup>1</sup>Based on developed-market peer groups and weighted average of life and P&C premiums. Sales and marketing includes product development. G&A functions include finance, HR, compliance, legal, input and output management, and other miscellaneous support. There was a total cost base increase in insurance of approximately 20 percent from 2015 to 2019.

<sup>2</sup>Finance spend increased due to more complex regulations (for example, IFRS 17 and Solvency II directive). Input and output management includes postage and logistics.

Source: McKinsey Insurance 360<sup>®</sup>: Total (life & P&C) insurance 2015 and 2019 peer groups

Exhibit 3

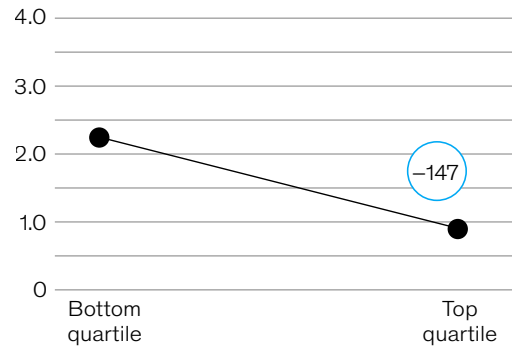
**The spread between the cost ratios of leaders and those of laggards is large and increasing.**

**Support-function cost per gross written premium,<sup>1</sup> developed-markets peer group, %**

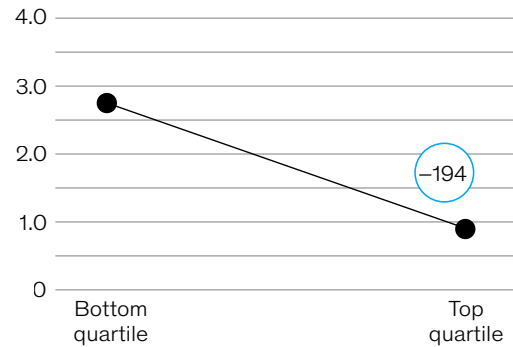
xx Percent change in support functions

**Life insurance**

**Cost ratio, 2015,<sup>1</sup> %**

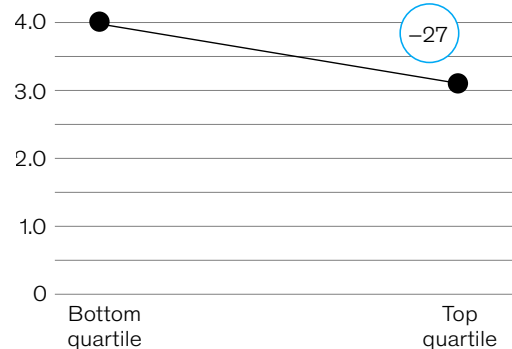


**Cost ratio, 2019, %**

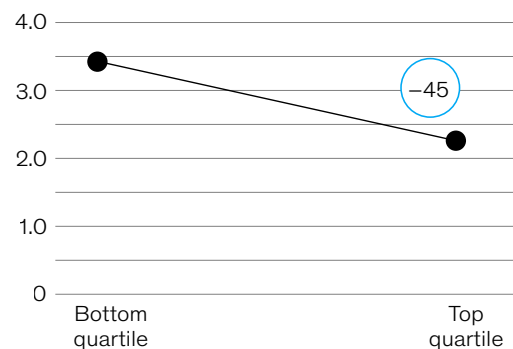


**P&C insurance**

**Cost ratio, 2015, %**



**Cost ratio, 2019, %**



<sup>1</sup> The cost ratio is total support functions cost divided by gross written premiums.  
Source: McKinsey Insurance 360°: Global developed-market total insurance, 2019 and 2015 peer groups

cost reductions of 10 to 20 percent across functions. However, 85 percent are not confident they will meet targets.

In response to the COVID-19 pandemic, many insurers quickly shifted to remote work environments, a change that presented challenges. Our analysis found that organizations have experienced a decline of 10 to 30 percent in output

across G&A functions. The work-from-home environment has exposed misunderstandings about priorities and a lack of clarity in governance while also hindering mentoring. Some insurers have also struggled with less efficient communications, difficulties with self-organization, and a failure of solutions to account for all dependencies. Although insurers were able to increase the use of digital technologies, shifting their entire organizations to

remote working highlighted that many employees did not have the needed IT infrastructure or security systems to handle client information.

### Unlocking the value in G&A

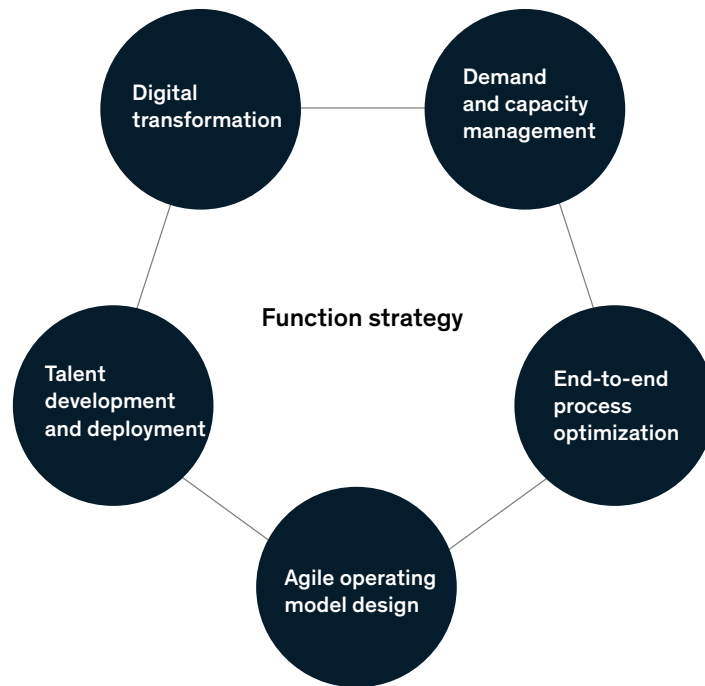
A holistic set of six transformation levers underpins the overall redesign at the organizational and process levels (Exhibit 4). By applying all levers at scale, insurance companies can typically reduce costs across G&A functions while improving performance in several ways. The transformation aligns talent and capabilities with business objectives, leading to faster cycle times. With enhanced capabilities, workers are freed up to focus on higher-value-added tasks, raising employee satisfaction. And by providing better service, G&A functions support business growth while reducing risk. Once this foundation is in place, insurers can then invest at scale to increase the value generated through greater efficiency.

Three representative examples demonstrate the value at stake. One global insurer sought to standardize its G&A functions to enable automated work processes and identify the right outsourcing model. Leadership established a common decision-making framework to identify unconstrained sourcing and automation opportunities across the end-to-end value chain and then developed a high-level road map and business case for the selected opportunities. These efforts identified more than \$400 million in run-rate cost savings and established an improved service-delivery network structure.

Similarly, an insurer with more than \$500 million in annual revenues and several thousand FTEs pinpointed a handful of operational challenges. It had a large, cumbersome, and fragmented HR function, as well as a heavy concentration of resources committed to transactional

Exhibit 4

### Transforming G&A requires a combination of six levers.



processes organized in a decentralized model. Moreover, business units had adopted their own compensation models and performance evaluations. In response, the company conducted in-depth interviews with HR employees and senior business managers, time-allocation analyses of HR employees, and performance assessments of approximately 300 HR managers and business managers. These insights enabled the insurer to reduce HR costs by 11 percent and centralize duplicative demand, in part by creating and deepening its center-of-excellence capabilities.

Last, a European insurer had a highly decentralized finance organization with a limited track record in cost reductions. To boost performance, the company embarked on a multilever transformation, which included digitization to replace manual work

and end-to-end process optimization. The results were striking: the insurer reduced FTE costs by 35 percent and increased employee satisfaction while tripling customer satisfaction. The transformation was so successful that executives applied a similar approach to other G&A functions.

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For insurers looking to unlock additional cost savings, G&A functions hold significant value. Organizations that have adapted to a remote workforce during the pandemic are well positioned to embark on a G&A transformation. The potential impact is clear—in the form of improved quality and lower costs.

**Stefany Araya** is a consultant in McKinsey's Costa Rica office, **Alex Balbontin-Posadas** is a senior expert in the London office, **Michael Glaschke** is a senior partner in the Munich office, **Tiksha Karkra** is a consultant in the Waltham office, **Rishabh Jain** is a consultant in the Mumbai office, **Sanaya Nagpal** is a consultant in the Gurgaon office, **Stephanie Lotz** is a partner in the Paris office, and **Ulrike Vogelgesang** is a senior expert in the Hamburg office.

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## Contact

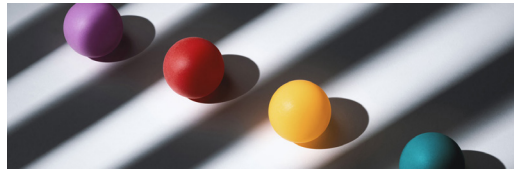
### Alex Balbontin-Posadas

Senior expert, London

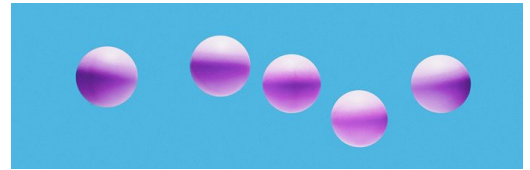
Alex\_Balbontin-Posadas@McKinsey.com

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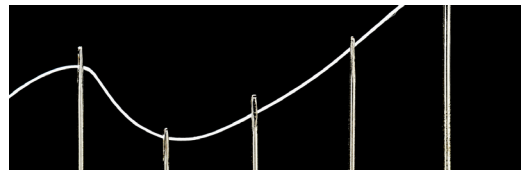
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