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Insurance Practice

The growth chessboard: How leaders fuel profitable growth in insurance

We examined the performance of 46 insurers around the globe to identify the behaviors that the outperformers share.

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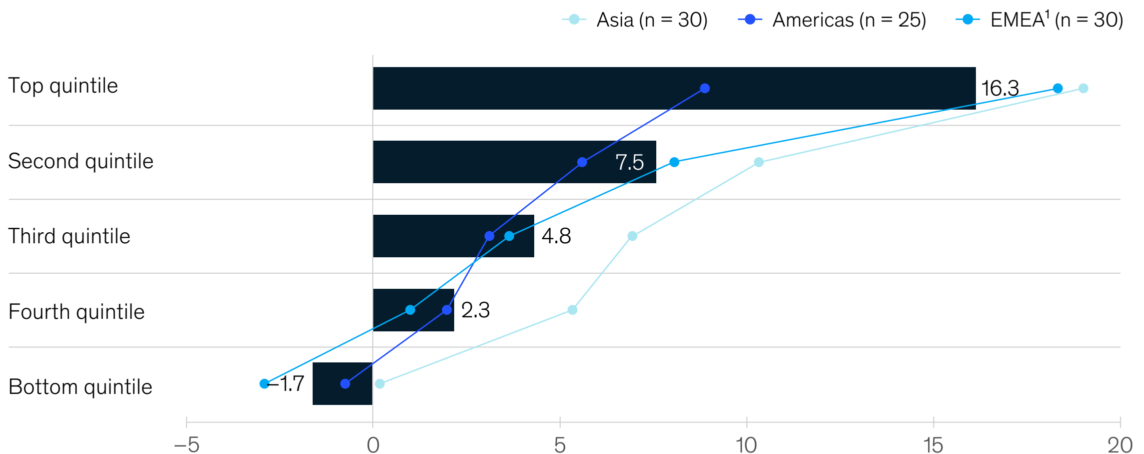
The ongoing pandemic has significantly strained an industry that was already seeing tepid global growth in recent years. Global premiums grew just 3 percent a year from 2010 to 2019, consistent with global GDP growth, and the industry's share of the global economy remained stagnant at about 7 percent.[1] Despite the industry's overall lukewarm performance, individual insurers' premium growth rates varied significantly, with top-quintile performers far outpacing other players across geographies and coverage types (Exhibit 1). In some cases, bottom-quintile insurers experienced declines in net premiums earned, while industry leaders achieved double-digit growth.

[1] Lucia Bevere and Daniel Staib, *World insurance in 2010: Premiums back to growth—capital increases*, Swiss Re sigma, number 2, July 2011, swissre.com; Daniel Staib et al., *World insurance: Riding out the 2020 pandemic storm*, Swiss Re sigma, number 4, July 2020, swissre.com.

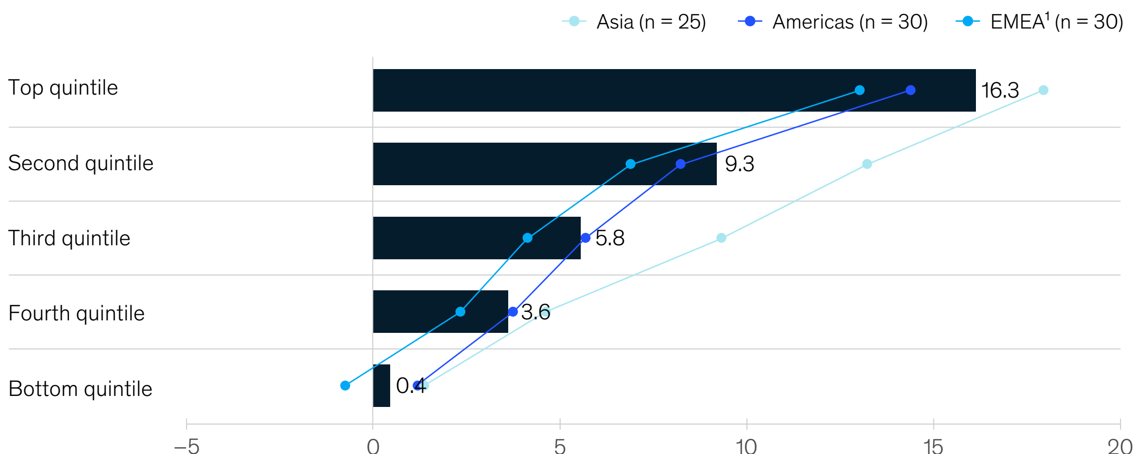
Exhibit 1

Top-quintile insurers across geographies and coverage types have far outpaced competitors in net premium growth.

Global life and health net premiums earned, 2010–19, %



Global P&C net premiums earned, 2010–19, %



[1] Europe, the Middle East, and Africa.
Source: S&P Global Market Intelligence

We know from past experience that such disparities can be amplified during economic disruptions. For example, during the Great Recession, several high-performing insurers further increased their lead through both organic and inorganic growth. Companies with top-quintile total returns to shareholders (TRS) from 2007 to 2011 also increased their revenues by 30 percent and increased M&A volume by 20 to 50 percent more than their peers.[2] In the current environment, outperforming the industry on growth becomes even more critical.

Three insights into profitable growth

The question now is where insurers should focus in the near to medium term. We analyzed the 2008–18 performance of 46 insurers across markets and business lines to identify where growth came from—and where it is likely to be found in the future (Exhibit 2). We found that outperformers actively reallocated their capital and talent across a “growth chessboard” to balance near- and long-term profitable growth.

Most of the outperformers’ growth came from growing their core businesses, not from launching new ones

Insurers that grew faster than their peers produced 80 to 90 percent of this outperformance from their core business—that is, lines that account for more than 15 percent of current revenues. Even though scaling businesses launched in prior years and building new viable businesses are both crucial to long-term growth, these activities accounted for less than 20 percent of our sample’s variation in growth over a five- to seven-year period.

[2] Based on a study of more than 1,500 companies across all sectors in North America and the European Union. The top-quintile companies were in the top quintile of TRS within their sectors from 2007 to 2011.

Exhibit 2

Outperformers balance near-term growth with long-term diversification.

How to win	1 Grow the core	2 Scale emerging businesses	3 Build viable options
Portfolio momentum	Shifted resources	New markets	White spaces
Mergers and acquisitions	Fill-ins and divestitures	Bolt-ons and rollups	Learning acquisitions
Market share gain	Commercial excellence	Refreshed value proposition	Disruptive business model

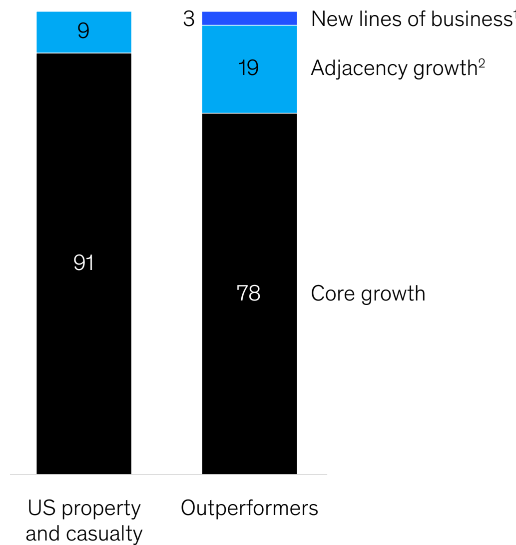
Where to play

The implications of these findings are significant for insurance CEOs, whose average tenure, according to our research, is six to seven years. Launching new businesses is attractive for several reasons, including building new capabilities, making portfolio adjustments, or finding new sources of growth over a longer time horizon. However, such investments usually take longer than the average CEO's tenure to create meaningful growth outperformance. In US property-and-casualty insurance, for example, data from 2004 to 2018 clearly indicate the importance of core growth to total growth (Exhibit 3).

Exhibit 3

Growth originates from the core business, even for outperformers.

Share of total growth, 2004–18, %



[1]New lines of business defined as those where the insurer had no presence in 2004.
[2]Adjacencies defined as lines of business with <15% of new premiums written in 2004.
Source: S&P Global Market Intelligence

Three-quarters of a company's top-line growth is achieved by capturing markets' growing subsegments

Most top-line growth happens because companies identified market opportunities that have high growth potential. Our analysis suggests that outperformers do not succeed in delivering sustainable profitable growth by capturing market share from competitors but by focusing on segments—products, channels, customers, or geographies—that are growing at rates that are above the industry average.

Within core lines of business, most of a company's growth is driven by the momentum of the subsegments in which it operates.[3] Among the insurers in our sample, those that delivered above-average growth in their core business did so because they were better aligned than the competition with faster-growing market segments. For example, global insurers' price-to-book ratios are about 80 percent correlated with the share of each insurer's earnings coming from higher-growth subsegments within Asia[4] (Exhibit 4).

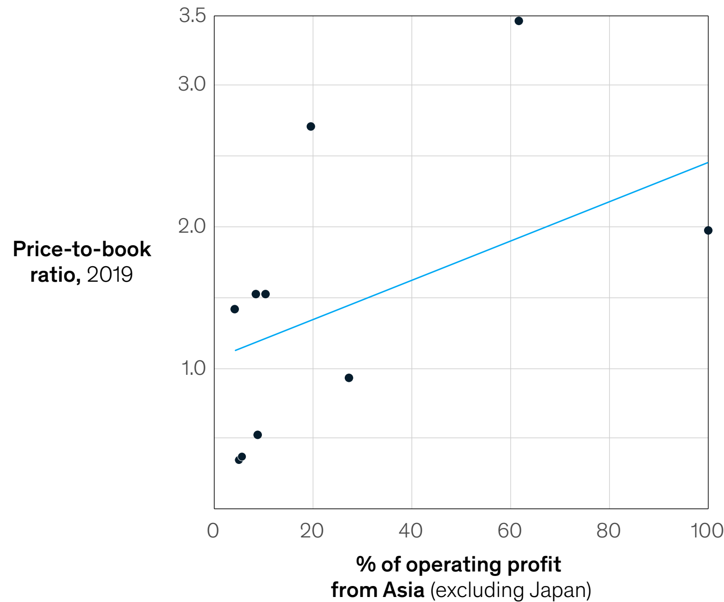
More granular analyses can further identify thousands of microcells of disproportionate growth.[5] For example, while the US personal lines market grew at an average of 2.25 percent per year from 2016 to 2019, 80 percent of that growth was attributable to 11 percent of counties. By de-averaging their view of markets, companies can develop deeper insights into what segments and micromarkets will deliver high growth and then shape their portfolios accordingly.

[3] Yuval Atsmon and Sven Smit, "Why it's still a world of 'grow or go,'" *McKinsey Quarterly*, October 1, 2015, McKinsey.com.
[4] We gathered large insurers' 2017 earnings data and identified the percentage from Asia using S&P Global Market Intelligence. Our data set excludes Japan, a mature market.
[5] Mehrdad Baghai, Sven Smit, and S. Patrick Viguerie, "The granularity of growth," *McKinsey Quarterly*, May 1, 2007, McKinsey.com.

Exhibit 4

More operating profit from high-growth Asia is associated with higher price-to-book ratios.

Impact on valuation of operating profits from Asia (excluding Japan)[1]



[1]Percentage of 2020 earnings from Asia, excluding Japan, estimated by deducting Japanese regulatory earnings from reported GAAP and IFRS earnings available through annual reports.
Source: S&P Global Market Intelligence

While the US personal lines market grew at an average of 2.25 percent per year from 2016 to 2019, 80 percent of that growth was attributable to 11 percent of counties.

Realizing growth aspirations requires active resource allocation of both capital and talent

To achieve outsize growth, insurers need to regularly reallocate resources—or at least actively affirm their current resource allocations. However, most insurers do not shift resources significantly year-over-year. Our analysis shows that across sectors, the amount of capital allocated to each business unit in multidivision companies is nearly constant from one year to the next, producing TRS of up to 5.2 percent.[6]

Dynamic resource reallocators can gain about five more percentage points of TRS each year compared with low reallocators (Exhibit 5).[7]

During this time of crisis, insurance CEOs should double down on opportunities to grow their core businesses, which are likely to be the cornerstones of outperformance during their tenures. This task involves identifying granular pockets of outsize

[6] The mean coefficient of correlation between one year's resource allocation and that of the subsequent year is 0.92.
[7] For more on effective capital reallocation, see Stephen Hall, Dan Lovallo, and Reinier Musters, "How to put your money where your strategy is," *McKinsey Quarterly*, March 1, 2012, McKinsey.com.

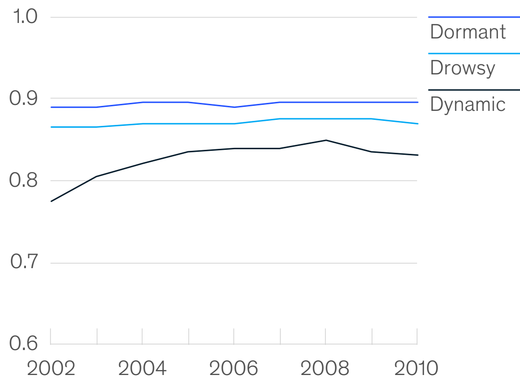
Exhibit 5

Dynamic capital reallocation creates higher returns to shareholders.

Companies are slow to shift resources . . .

Relative business-unit capital expenditure (capex) correlations[1]
Correlation index over years 2002–10

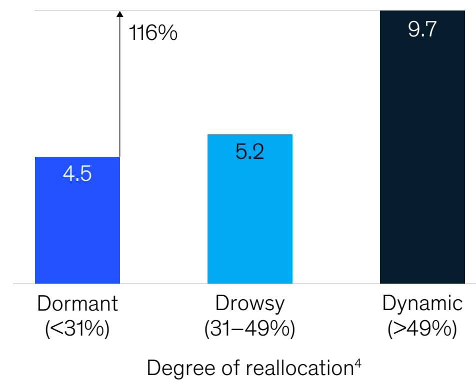
For dormant resource reallocators, this year's allocation is highly correlated with previous year's allocation of capex.



. . . but rewards are high for those that do.

Median TRS[2] CAGR by degree of reallocation, high-tech and telecom industry example
104 companies, 1990–2010, %

A company growing at 9.7% compared with 4.5% would be worth about 100 percent more after 10 years.[3]



[1] Each year's proportion of company capex in each business unit was correlated to the previous year's figure.
[2] Total returns to shareholders.
[3] Assumes no dividends are paid out. For instance, a $10 billion dynamic reallocator would end up with a market cap of $67 billion vs $33 billion for a dormant reallocator.
[4] Measures the share of capex that shifted between business units over the 20 years. There are 505 dormant reallocators, 498 drowsy reallocators, and 505 dynamic reallocators.

growth and realigning their strategic approaches to capture this growth. Insurers should also allocate a measured quantity of resources to scale emerging businesses, nurture new ideas to create sustainable future growth, and manage the risk of disruption. Those that succeed in doing so will position themselves to not only weather the current crisis but also continue outperforming competitors.

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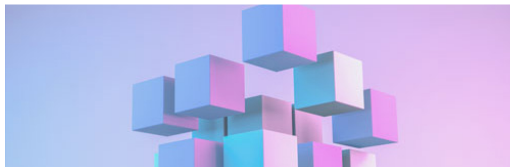

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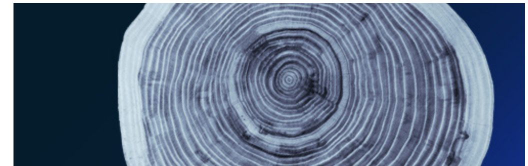

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