

# Insurance Governance Leadership Network

February 2021

IGLN

SUMMARY of THEMES

## Insurance board priorities for 2021

On January 28, 2021, Insurance Governance Leadership Network (IGLN) participants, including non-executive directors and other insurance leaders, were joined by EY's insurance leaders to discuss priorities for insurance boards and management teams in 2021 and help to shape the network's agenda for the year.

### ESG will remain a central focus for industry leaders

Embedding environmental, social, and governance (ESG) issues into corporate strategy is an increasingly critical focus for firms in response to pressure from investors, regulators, and other stakeholders. A director said, *"Your approach to ESG informs your corporate strategy. Your corporate strategy, your approach to ESG, and your brand are all inextricably linked. They all inform one another."*

### Social issues are demanding increased attention

Large insurers are increasingly under pressure to demonstrate progress on social issues like improving diversity, equity, and inclusion (DEI) at their firms. These issues are not new, but participants noted that progress has historically been slow. They discussed how to accelerate further gains. Some suggested outside stakeholders may need to play a catalytic role. A director said, *"We are still a ways off from having enough female participation on boards, but the progress that has been made came from investors demanding improvements in gender diversity. I think the same is required for ethnic diversity on boards because most boards won't react unless shareholder engagement creates the need for change."* Others noted that a better-described business case could also lead to improvement. A director said, *"Clearly, in the past it's often been driven by outside stakeholders making a stand, but I'd love to see a different dialogue about the true value of diversifying a board or a company. It needs to be data driven: the value of diverse experiences and the value it brings to bottom lines and shareholder value. If we can get to that conversation than we can see change happen organically both among boards and across companies."*

Efforts to address DEI issues are tied to a growing focus on broader oversight of human capital management. A director said, *"For publicly traded companies you're hearing more about human capital management and board oversight of human capital management writ large. How is executive compensation aligned with compensation across the organization? How are we upskilling workers? How are we improving diversity? It's really about oversight of human capital management and how the board is overseeing it."* As in other areas, setting goals and tracking progress are critical as firms work to demonstrate improvement. One director said,

*“You must set targets. Whether by senior management or together with the board, that’s how you will start to see real improvements.”*

## Confronting climate change continues to be a critical priority

Insurers continue to focus on managing potential exposure to climate change. Participants shared observations on the obstacles and opportunities they see for the industry:

- **Boards are responding to climate change at varying speeds.** Many see climate change not just as a risk for an individual organization, but as a potential existential risk for the industry. A director said, *“Climate risk is critical because it hits both sides of the balance sheet. It is also so big that it is a survival issue for the industry. If boards have not at least tried to have some realistic discussion about what could happen, they’ve failed miserably.”* Some noted that the sense of urgency around climate change still varies globally. One director observed, *“I’m surprised when I talk to people on North American boards that this still isn’t as important to them as it is to us.”* Another said, *“We cannot put enough emphasis on this as boards that it’s something we have to address now, we should have done it earlier, and the good insurance companies have already done it.”*
- **A lack of standardization across and within sectors continues to challenge benchmarking and reporting.** While many insurers are making public commitments and enhancing disclosures in response to stakeholder pressure on climate change, a director said, *“The key is how do we make sure we’re doing this accurately and consistently across the sector.”* The lack of standard frameworks and metrics remains a challenge left to individual firms to implement often broad guidelines to address a range of divergent stakeholder interests. One director said, *“There has been effort to standardize but we’re a long way from a generally-accepted framework. Until there is a framework that most regulators, governments, investors, and companies accept, there’s going to be all this unevenness on how we approach this very critical issue.”* Companies within and across sectors are also starting from very different places. A director observed, *“Where you stand depends on where you sit as a company and in what sector ... You have to decarbonize assets and improve, but you can’t just broadly cancel investments and move away. How do you take these issues that can be abstract and mean different things to different stakeholders, and apply them to your individual business? That’s the central challenge.”*
- **The industry would benefit from sharing good practices.** In the absence of universally accepted standards, the industry could benefit from discussing good practices in the interim. One said, *“I think there are a great many things we could learn from one another, whether it’s financial services specific or insurance specific ... There would be great value in learning from others in the sector about how we’re all thinking about it.”* Another agreed, *“The more we’re able to get on the same page the more we can get some convergence on this issue.”* One director suggested that those practices go well beyond reporting and disclosure: *“The question is, how do you improve your current situation? What are the best*

*practices? What are we doing to build this into our strategy while also recognizing that there is not a one-size-fits-all solution?"*

- **Monitoring regulatory and litigation risk.** A shifting regulatory landscape is likely to contribute to challenging discussions at the board level. A director said, *"Many companies today engage in self-restrictions or statements of commitment. The question is how does this interact with regulatory changes? I think in the European context we'll see a wave of environmental regulation and that might lead to a shift from these being company-driven efforts to being regulation-driven."* Another said, *"Some politicians think insurers should play a larger role in financing the transition to a carbon neutral economy. That's going to be a moving space this year."* Litigation risk is also a concern. A director said, *"I'm hearing more ESG litigation coming through as a trend. I worry less about general regulatory changes and more about whether we get class actions in a few years that are very time consuming and detrimental."* Another shared a similar concern: *"If boards don't take it seriously, they might regret it when they get sued later on."*

## The changing shape of the sector and evolving risks

Participants discussed the structural and competitive changes to the insurance landscape and how firms are adapting.

### Technology continues to transform firms and their competitors

Participants expect the ongoing digital transformation of the industry will continue to drive new models and potential disruption. A director said, *"More and more I'm wondering how other insurers are looking at technology as a disruptor of the business model by removing the middleman and dealing directly with clients."* Insurtechs and technology companies that have entered the market, offering new products and services are attractive to customers increasingly looking for personalized, simplified digital experiences. A participant said, *"Insurers and banks organize themselves around process. It's a stark contrast to big tech platforms and startups that organize around data. There's a fundamental difference."* In response to the threat posed by new entrants, many incumbents are now partnering directly with technology companies or insurtechs to provide services and infrastructure. Yet, such partnerships present new risks that must be managed accordingly. A director said, *"This is an evolution that's happening in a lot of sectors, it's really about the governance you establish."*

### Major transactions are likely to change the shape of individual firms and the sector

M&A and divestment activity is likely to continue in 2021. Some firms are getting bigger in search of scale in core businesses or to diversify, while others are looking to reduce scope and reallocate capital to core businesses. Participants also see a continuing expansion of private capital in insurance. A participant observed, *"A driver of M&A is often the misfits in the*

*market – can we identify the things that don't work well and identify new ways to address them, for example taking a more dynamic approach to fleet insurance?"*

A director said, *"The role of private capital is a very important topic. Capital will go where it gets returns."* Another added, *"Private equity capital has been coming into the industry. They see ways of creating value that sometimes we can't do within a public company model. I wonder if as directors we're creative enough ourselves about the value we've got."*

### **Being part of a more complex ecosystem introduces new risks**

As firms explore strategic alternatives, whether M&A or new forms of partnering and new vendor relationships, they introduce risks that challenge oversight. A director said, *"As the industry continues to get softer at the edges, whether via M&A or incorporating insurtechs or working through platforms and ecosystems, the whole security and ethics aspect of data and privacy is going to be a challenge. As boards, how we manage and look at that risk is something we'll be putting more effort into for the next few years."* Participants noted that cybersecurity incidents have contributed to greater third-party risk concerns as firms rely on an expanding set of partners and suppliers. A director said, *"Solar Winds has been eye-opening in an area that has gotten more focus over the last several years: supply chain and third-party risks. We still haven't come up with a lot of great ways to address that risk, and it's going to be a continued focus for the industry for sure."* This director added, *"Oversight of systems, generally, is a topic that will continue to grow as the industry evolves. To the degree that this industry will undergo mergers and acquisitions in the coming years, how do you look at the technology risk you're inheriting? How do your systems connect to others?"*

### **The future of work and its implications for operations, culture, and talent**

Participants discussed the impact that COVID-19 and other factors have had on the workforces and on operations, noting that this period offers an inflection point to consider new approaches. The long-term effects of such drastic shifts in operations are still being understood. A director said, *"After the pandemic we will not go back to the way we were organized before. A large portion of our employees would prefer to work from home. That is a huge impact on culture. We have to find ways to get people working flexibly while maintaining culture and being conscious of the impact this has on our clients, brokers, etc. Let's not underestimate the change we're facing."* The potential for culture to deteriorate as employees work remotely is a growing concern. A participant asked, *"How are companies creating or maintaining culture at a distance? I know a lot of my CEOs worry about the hit to culture."*

Leaders have an opportunity to change the way they approach work and consider alternative approaches. A director said, *"We have to guard against the language of 'getting back to the office.,' because it may point you in a direction that could be the absolute wrong direction of travel. If we don't use this as the potential for a sea change in how people work, I think it's a*

*missed opportunity. For my board, the conversation I'm going to force is changing the words around how we talk about where we're going, because the typical nomenclature has the potential to point us towards a place where we may not really want to end up."*

The pandemic's impact will also have repercussions for recruiting and retaining talent and reskilling employees, areas that were already expected to evolve significantly due to digital transformation. A director said, *"Even before the pandemic, we estimated over 35% of our jobs would be affected by digital transformation. Now that does not mean elimination, but changing the work, how employees interact, and creating new roles. Don't lose track of the big overlay that digital transformation was already happening."* As large insurers increasingly compete with technology companies for talent, they will need to find new ways to appeal to young and promising employees. One director said, *"It's really separate from the pandemic. Being able to recruit and retain the necessary technology talent – whether it is data scientists or engineers – is really difficult in regulated industries. Technology talent was already hard enough to get, but now the younger talent wants to be free to roam and explore and we are looked at as a constraining industry."* Another said, *"There is a clear difference in culture between the new technology guys and the old guys, us. That's one thing insurers have to overcome and it's very difficult because tech companies just have a very different way of working and thinking and we don't fit that."*

## Appendix

The following individuals participated in this discussion:

### Meeting participants

- Bill Anderson, Chair of the Board, Sun Life Financial
- Jeremy Anderson, Vice Chair and Senior Independent Director, Audit Committee Chair, UBS Group AG; Risk Committee Chair, Prudential
- Marty Becker, Non-Executive Director, Axis Capital Holdings
- Jan Carendi, Non-Executive Director, Lombard International Assurance
- Kristie Fair, Director of Enterprise Risk Management, State Farm
- Sheila Hooda, Risk Committee Chair, Mutual of Omaha; Nominating and Governance Committee Chair, ProSight Global
- Joan Lamm Tennant, Non-Executive Director, Equitable Holdings and Hamilton Insurance Group
- Christine LaSala, Senior Independent Director, Beazley
- Sara Lewis, Audit Committee Chair, Sun Life Financial
- Karole Lloyd, Audit Committee Chair, Aflac
- Mike Losh, Audit Committee Chair, Aon
- Monica Mächler, Non-Executive Director, Zurich Insurance Group
- Roger Marshall, Audit Committee Chair, Pension Insurance Company
- Sara Martinez Tucker, Business Transformation and Technology Committee Chair, Nationwide
- Debora Plunkett, Non-Executive Director, Nationwide
- Caroline Ramsay, Audit Committee Chair, Aegon
- Bertram Scott, Non-Executive Director, Equitable Holdings
- Scott Stoll, Audit Committee Chair, Farmers Group; Audit Committee Chair, Farmers New World Life Insurance Company
- Jan Tighe, Non-Executive Director, Goldman Sachs and Progressive
- Rolf Tolle, Risk and Capital Committee Chair, QBE
- Mark Weinberger, Non-Executive Director, MetLife

## EY

- Ed Majkowski, Americas Insurance Sector and Consulting Leader
- Peter Manchester, EMEIA Insurance Leader and Global Insurance Consulting Leader
- Isabelle Santenac, Global Insurance Leader

## Tapestry Networks

- Dennis Andrade, Partner
- Brennan Kerrigan, Senior Associate
- Tucker Nielsen, Principal

## About the Insurance Governance Leadership Network (IGLN)

The IGLN addresses key issues facing complex global insurers. Its primary focus is the nonexecutive director, but it also engages members of senior management, policymakers, supervisors, and other key stakeholders committed to outstanding governance and supervision in support of building strong, enduring, and trustworthy insurance institutions. The IGLN is organized and led by Tapestry Networks, with the support of EY. *Summary of Themes* is produced by Tapestry Networks and aims to capture the essence of the IGLN discussion and associated research. Those who receive *Summary of Themes* are encouraged to share it with others in their own networks. The more board members, members of senior management, advisers, and stakeholders who become engaged in this leading-edge dialogue, the more value will be created for all.

## About Tapestry Networks

Tapestry Networks is a privately held professional services firm. Its mission is to advance society's ability to govern and lead across the borders of sector, geography, and constituency. To do this, Tapestry forms multistakeholder collaborations that embrace the public and private sector, as well as civil society. The participants in these initiatives are leaders drawn from key stakeholder organizations who realize the status quo is neither desirable nor sustainable and are seeking a goal that transcends their own interests and benefits everyone. Tapestry has used this approach to address critical and complex challenges in corporate governance, financial services, and healthcare.

## About EY

EY is a global leader in assurance, tax, transaction, and advisory services to the insurance industry. The insights and quality services it delivers help build trust and confidence in the capital markets and in economies the world over. EY develops outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, EY plays a critical role in building a better working world for its people, for its clients, and for its communities. EY supports the IGLN as part of its continuing commitment to board effectiveness and good governance in the financial services sector.

*The perspectives presented in this document are the sole responsibility of Tapestry Networks and do not necessarily reflect the views of any individual institution, its directors or executives, regulators, or supervisors, or EY. Please consult your counselors for specific advice. EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This material is prepared and copyrighted by Tapestry Networks with all rights reserved. It may be reproduced and redistributed, but only in its entirety, including all copyright and trademark legends. Tapestry Networks and the associated logos are trademarks of Tapestry Networks, Inc., and EY and the associated logos are trademarks of EYGM Ltd.*