

strategy&

Part of the PwC network

General and administrative expenses in insurance

Strategy&

2021

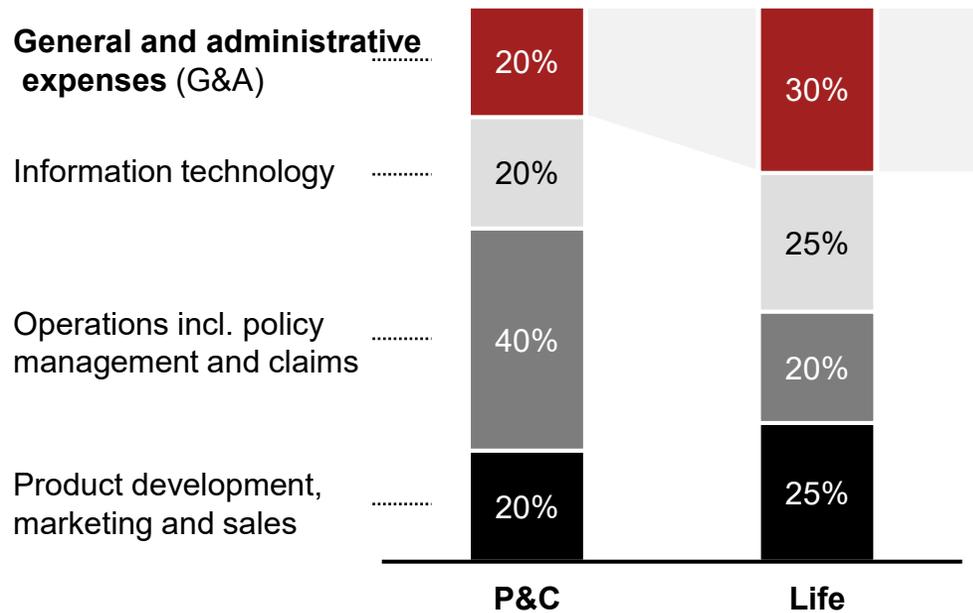
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Rising general and administrative costs

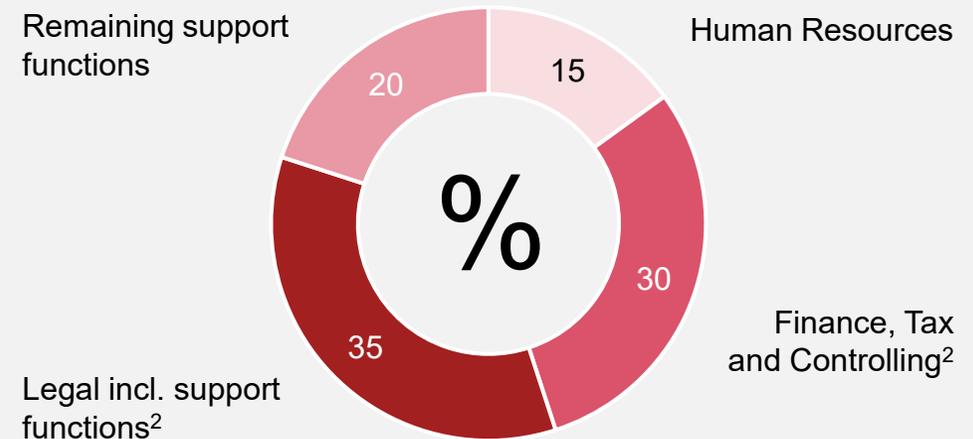
For years, cost savings, along with digitalization and growth, have been among the top priorities of insurance executives. Although much has already been achieved in these areas, we see a significant need for further cost optimization as well as corresponding potential, particularly in the area of growing general and administrative (G&A) expenses

As G&A costs typically account for ~30% of operating costs, they offer enormous optimization potential

Typical cost distribution along the value chain for P&C and for life insurers (in percent)



Exemplary cost breakdown structure for general and administrative expenses (in percent)



“The typical savings target of G&A cost optimization programs is 10-20% on average.”

Tim Braasch

TARGET SAVINGS

Ø10-20%

”One-size-fits-all“ G&A functions

The “one-size-fits-all” G&A functions cost optimization model is still the most widely used, even though it does not consider any distinction between good and bad costs.

SUCCESS RATIO

↓ 20%

Low success rate

Unfortunately, not even one in five decision makers today believes they will fully achieve their G&A cost optimization goals. Accordingly, we believe it is time to learn from past mistakes and adopt a clearly differentiated approach

COSTS OF COMPLIANCE

+200%

FINANCE RELATED COSTS

+30%

A trend that is expected to continue?

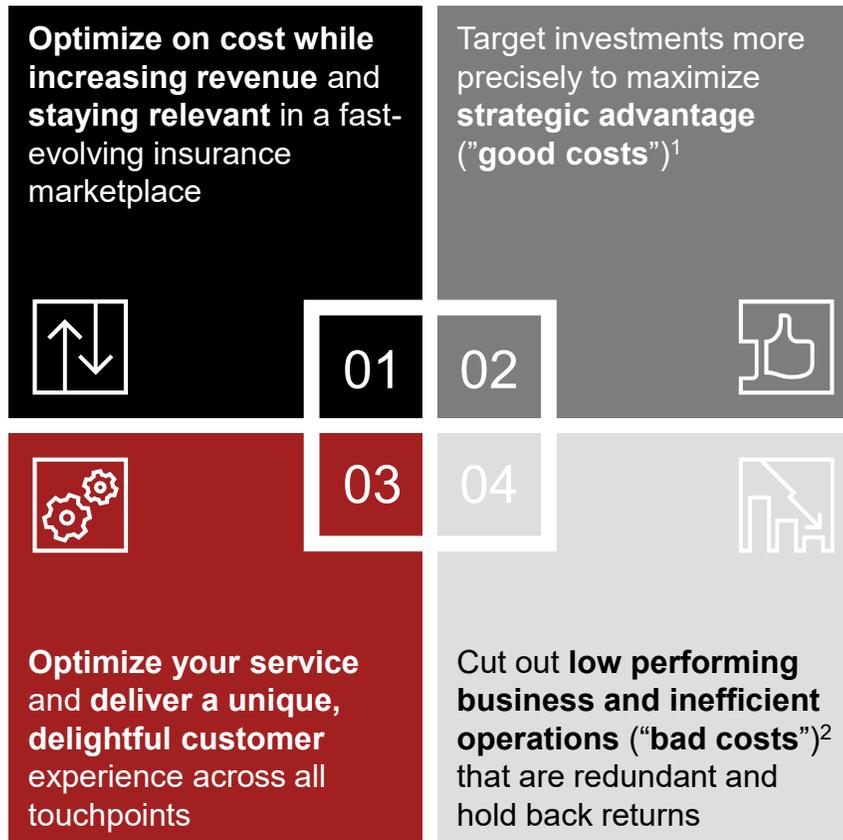
In recent years, ever-increasing regulation, for example through the "new" Solvency II, IFRS 17 and General Data Protection Regulation (GDPR) rules, has led to a significant increase in (not only) compliance and financial costs, but also costs for sales in the insurance industry. Against the background of current talks, we assume that the trend towards further regulation will increase rather than decrease.

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Typical challenges

For many years, the topic of cost management has been at the top of the Executive Board's agenda. At the same time, only a small number of those responsible believe in the success of the G&A cost reduction programs currently underway. In our opinion, this is partly due to the fact that not all the necessary challenges have been properly identified and addressed within the framework of current G&A cost reduction initiatives.

In programs to optimize G&A expenses, there are four typical challenges to address



Good and bad costs

The key priority in strategic G&A cost reduction is targeting resources where they can earn the best return, rather than just cutting costs in itself.

The starting point is differentiating the capabilities needed to fuel profitable growth ("good costs" targeted for investment) from low-performing business and inefficient operations ("bad costs" targeted for overhaul or elimination).

Good costs are capabilities that differentiate your business, move it closer to customers, and enable it to develop new value propositions. Determining and focusing on what really matters to customers in today's market.

Bad costs are non-essential areas of spending.

10x: Aiming higher

10x, a concept pioneered in the digital and InsurTech sectors, looks beyond marginal efficiency savings at how to achieve a game-changing boost in capabilities. Improving efficiency by a few percentage points means that you're probably doing what you've always done, just a little better, and all your peers are likely to be doing much the same. A 10x improvement enables you to reshape customer expectations and set the competitive bar for others to follow.

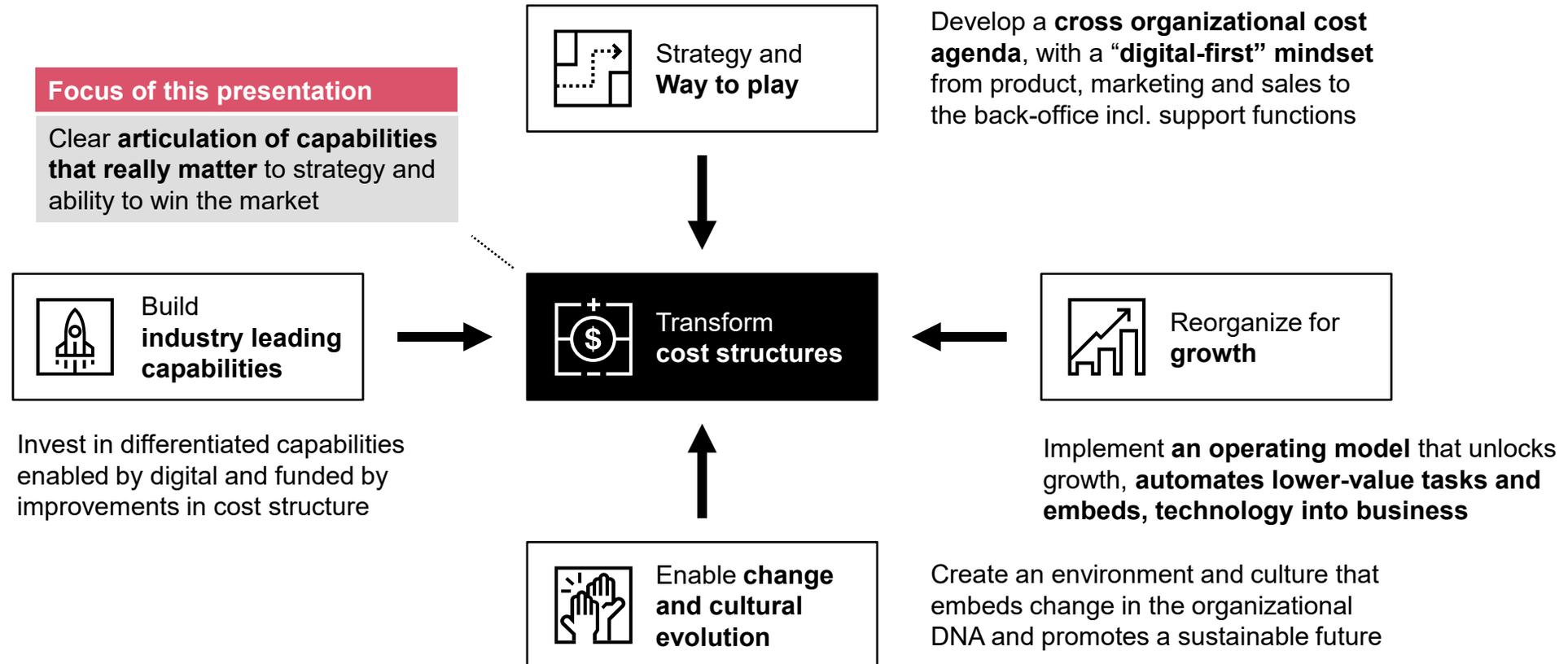
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Distinctive approach

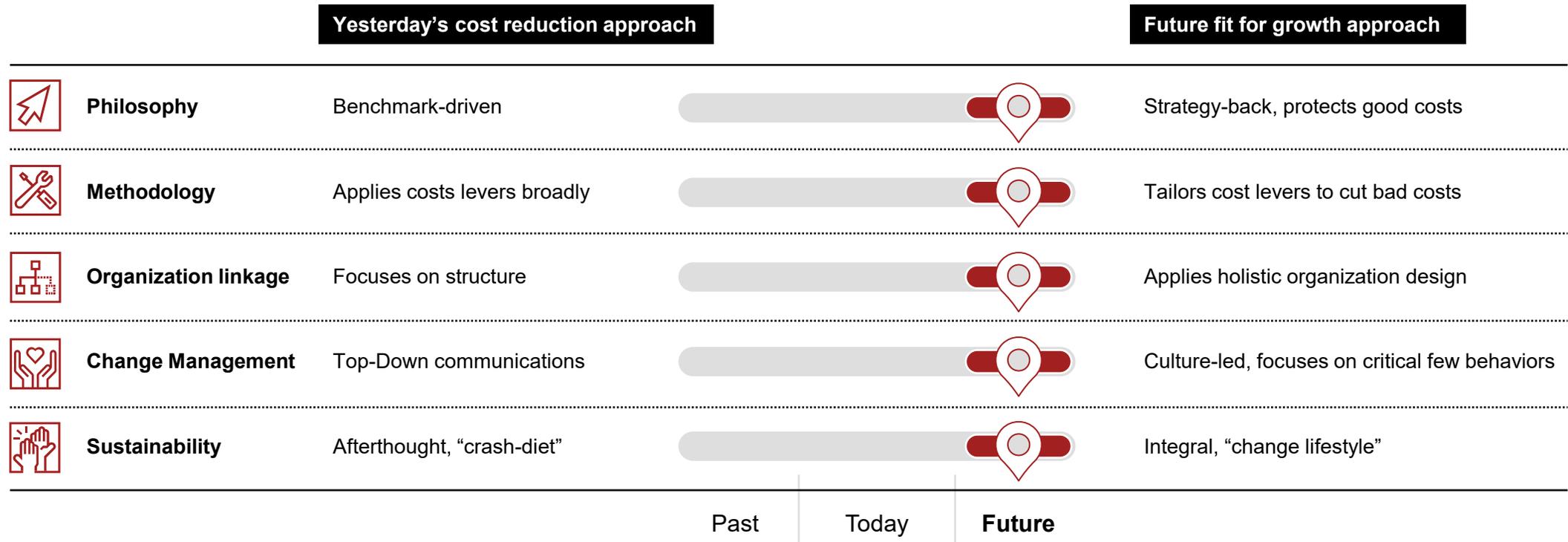
The most successful companies in the world, such as Apple, Microsoft, Amazon, Alphabet, Facebook, Alibaba, Tencent, Tesla, etc., invest heavily in the right growth areas, making a clear distinction between good investments (in their future) and bad costs (to be critically scrutinized, brought down to a minimum)

Understanding how G&A cost reduction fits into a comprehensive transformational change program

Complete picture of a transformational change program



It takes an entirely new approach to reduce G&A costs, that is fundamentally different from what you have done in the past



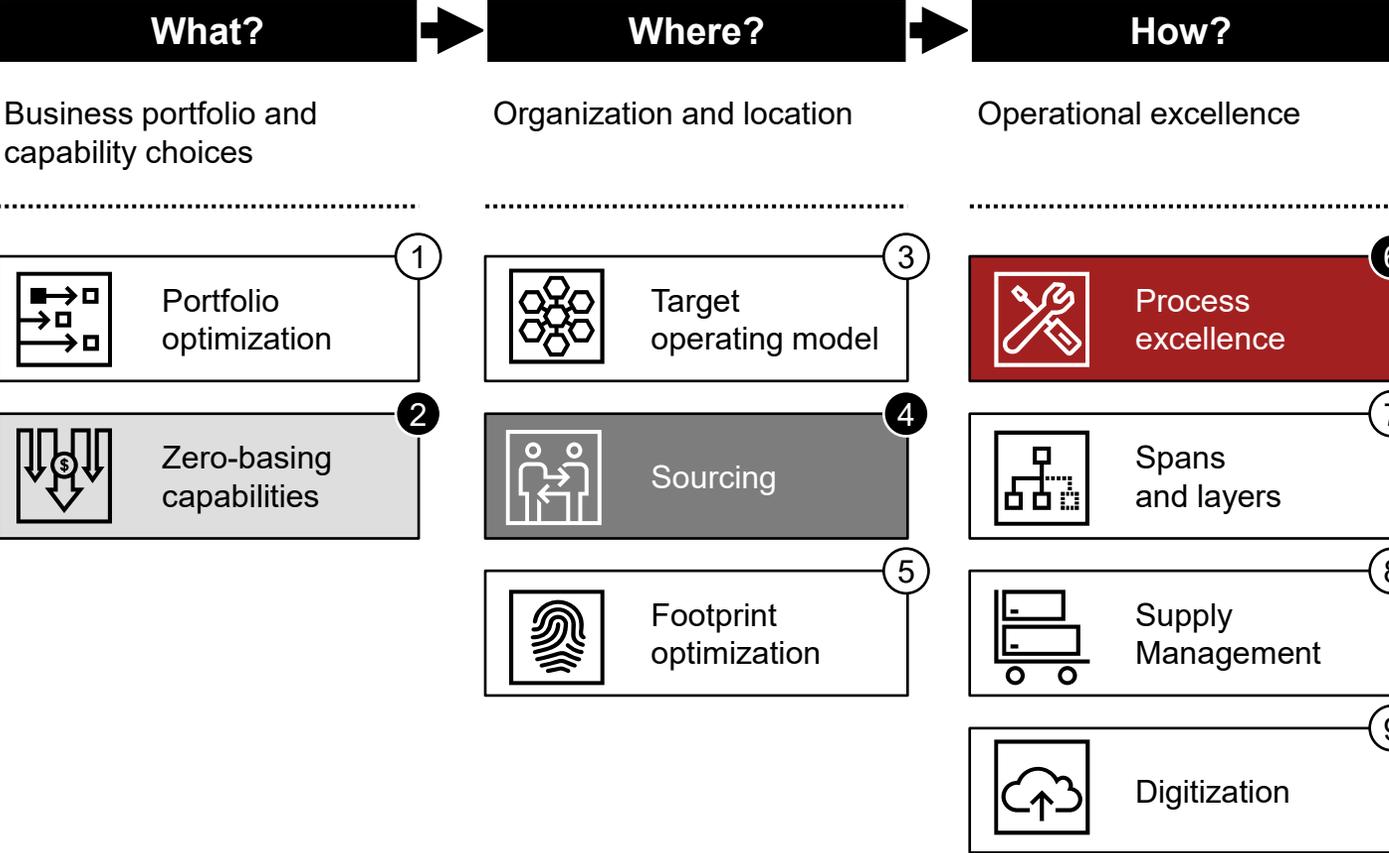
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Reducing G&A costs from a capabilities lens

After an ambitious G&A cost reduction target and timing is set it is crucial to select the most appropriate combination of cost reduction levers for your company from a wide range of possible ones. This frees up resources that will give you a unique advantage.

Identifying appropriate G&A cost reduction levers

The what, where and how of cost reduction



For **illustrative purposes**, we present exemplary value levers in more detail on the following pages

- 2 Zero-basing capabilities**
Justifying what to keep, not what to kill.
- 4 Sourcing**
Let external service providers generate value for you
- 6 Process excellence**
Simplifying work and minimizing bureaucracy incl. eliminating obvious and hidden redundancies

If you are interested in more detailed information on other value levers, please do not hesitate to contact us at any time.

Justifying what to keep, not what to kill

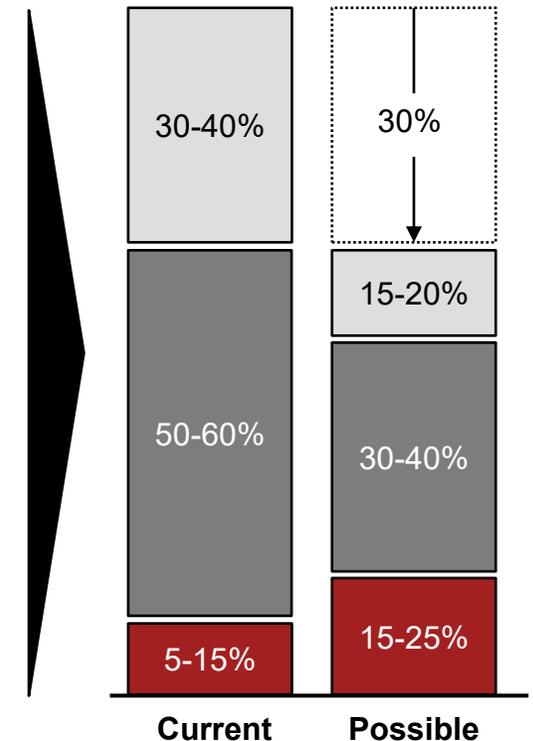
Zero-basing the costs of all G&A related activities¹

Decision tree analysis (based on five questions)

- 1 What do we need to absolutely keep the G&A functions going/ to **keep the lights on** ? What is **the bare minimum** we need to do?
- 2 Which non-lights-on G&A capabilities drive **true competitive differentiation** and support **our right to win**?
- 3 Of the G&A capabilities that are not differentiating or lights-on, **which ones do we think we can cut altogether**?
- 4 Of the G&A capabilities we want to preserve, is there **a more economical way of deploying them**?
- 5 **What risks** would the business run, **if it made the cuts and changes**, we're considering?

<p>Not required Legacy investments and activities that no longer support the go-forward strategy</p>	<p>Eliminate</p>
<p>“Lights-on” Bare minimum activities needed to “keep the lights on” in the business</p>	<p>Aim for cost levels below competition</p>
<p>Table stakes/ entry ticket Basic competencies/ activities required by everyone to participate in the industry</p>	<p>Cut costs to keep a “good enough” quality</p>
<p>Differentiating activities Activities that provide you with a competitive advantage and/ or are needed for future differentiation</p>	<p>Invest at levels above peers to gain competitive advantage</p>

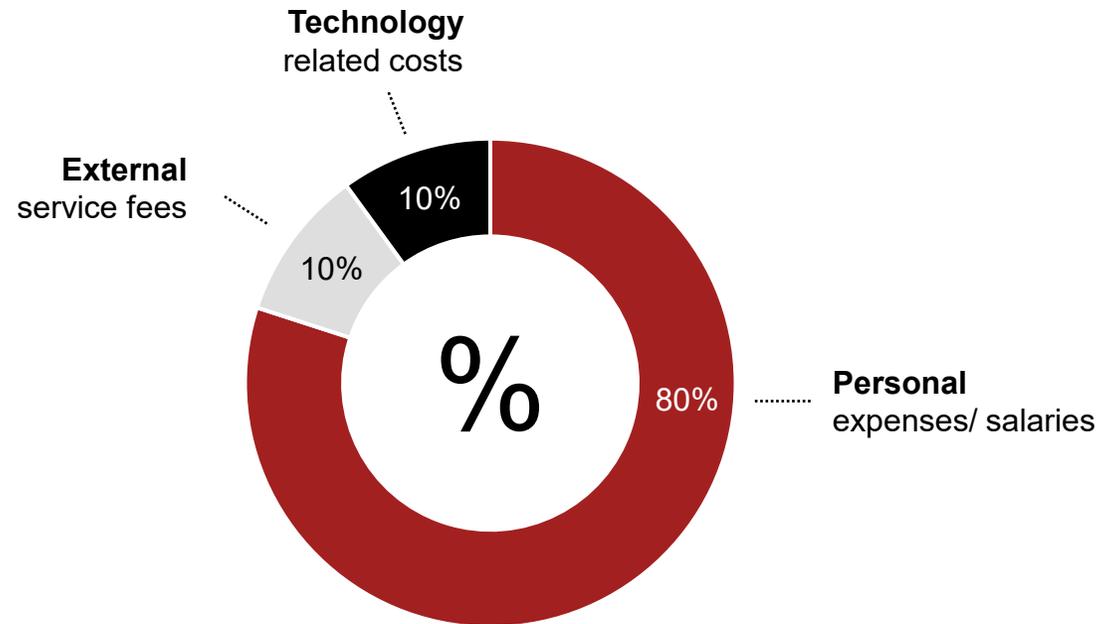
Cost structure



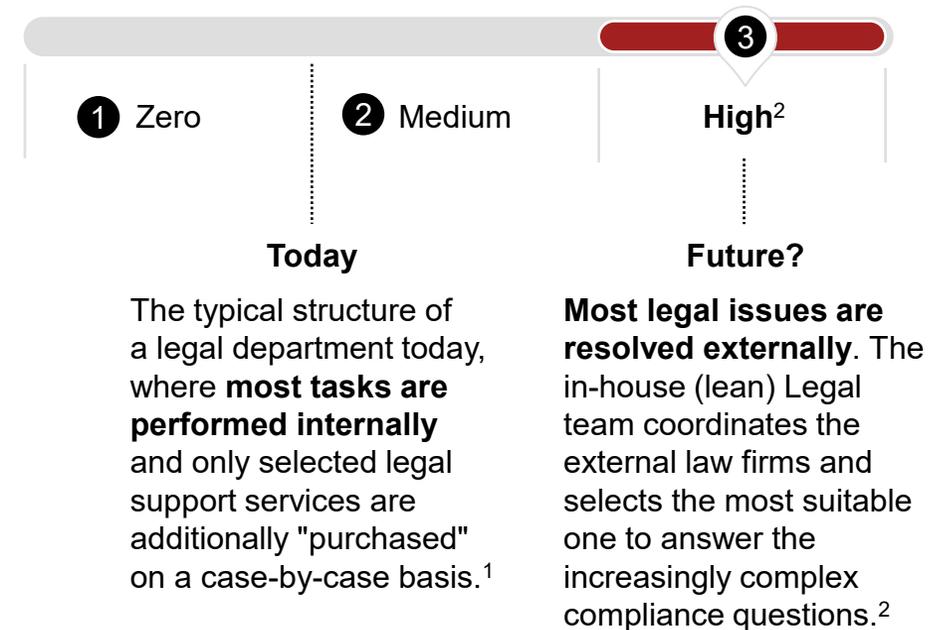
Let external legal service providers generate additional value for you

Sourcing legal activities to a higher degree

Today, 80% of compliance are personnel costs
Exemplary cost breakdown structure for compliance costs (in percent)



Major strategic choice | Degree of external support
The crucial question is, what legal activities will (still) be done internally and what externally in the future?



Simplifying work and minimizing bureaucracy

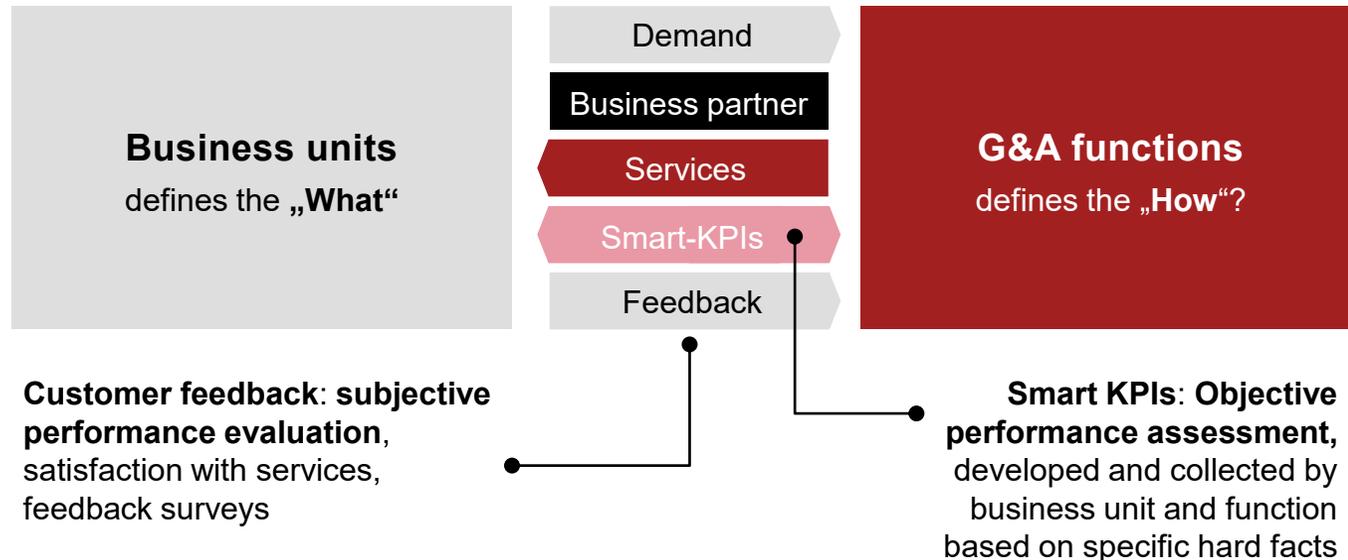
Survey of quantitative value contributions including "internal" customers

2-3 Business unit managers
define **volume and quality**



Functional G&A managers
prepare **budget proposal**

Survey of quantitative value contribution



- A proven approach to G&A cost optimization is to **involve internal customers** (from business units) **in prioritizing the services received** (from G&A functions). A common approach here is to **simulate waiver scenarios**:

"What services would they forgo if they could use 20, 30, or 50% fewer services?"

- **Internal customers** themselves can **provide the answer** as to **which services are a priority**.
- These **results are compared with the effort required to provide the service** (cost and functional analysis) and typical **improvement levers** are applied.¹

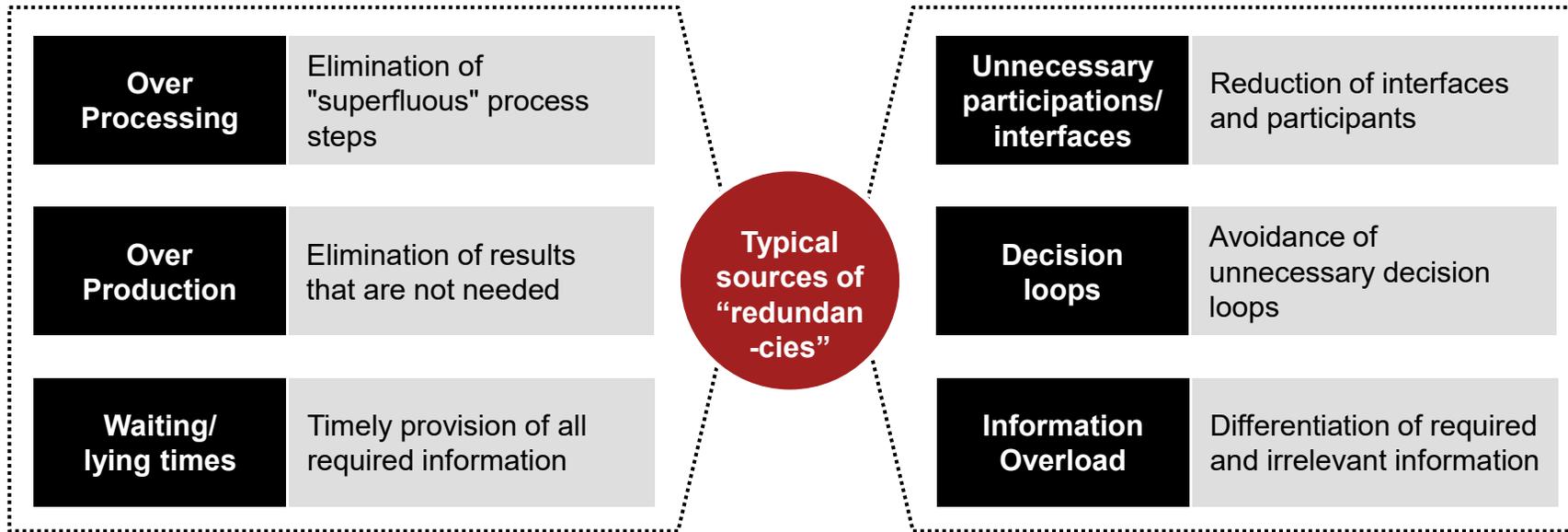
Eliminating obvious and hidden “redundancies”

Most significant value lever, based on our project experience

Usually, the **most significant lever for reducing G&A expenses**

Elimination of „obvious redundancies“

Elimination of „hidden redundancies“



Our experience shows that in support functions - depending on the degree of optimization - typically **>20% of internal services can be cut without noticeably affecting the organization's performance.**

Whereby, the **elimination of “redundancies” is usually the most significant lever for reducing G&A expenses**

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Realizing sustainable G&A cost reductions

We offer you our strategic approach to optimize your G&A costs. We know the key cost drivers and are experienced in their optimization. Thus, we support you in making cost reductions realizable and actionable.

Making G&A cost reductions realizable and actionable

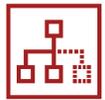
Selected Strategy& services



Aligning your existing cost structure by evaluating your investments (costs) against your key competitive advantages - "protecting good costs and reducing bad costs."



Using a combination of appropriate cost reduction levers to **freeing up resources** and **boosting your unique competitive advantages**. And **cutting costs through a capabilities lens**.



Restructuring your organization for growth and sustainable cost reductions. **Management support to achieve planned growth and cost targets**.



Developing a **reliable business case and high-level implementation plan**, which includes **short-term, quick win savings** as well as **medium to long term savings**.

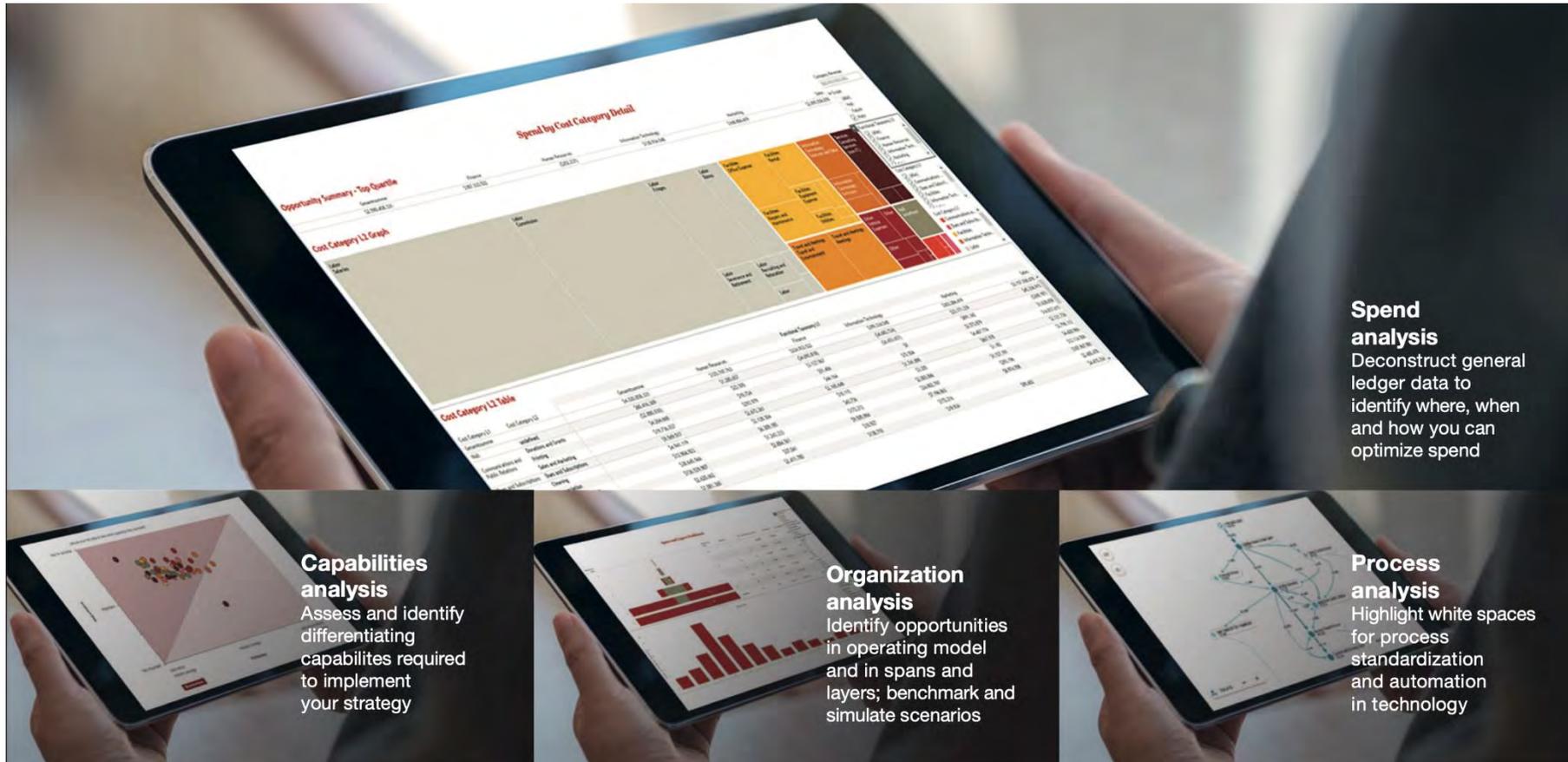


Providing **implementation support** by **assisting you to implement cost reduction initiatives, monitor and evaluate results** continuously in order to **unlock intended savings potential**.



Supporting your decision-making process, using our **proprietary analysis and benchmarking tools and techniques** to develop individual cost reduction proposals across divisions and functions

We bring our own digital assets to accelerate the execution of necessary analyses and gain valuable insights



Your Strategy& experts for sustainable G&A cost reductions



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