

Financial Services Practice



Charitable Giving in The Property-Casualty Insurance Industry

A Note From the Insurance Industry Charitable Foundation

Much has been written about corporate philanthropy and how companies can operate in a socially responsible manner. Yet little has actually been recorded or published about the many philanthropic activities of the insurance industry. Today, with the help of McKinsey & Company, we have been able to measure and take a look at philanthropy in the property-casualty segment of the industry. It is our intention that this survey and report will be the beginning of the ongoing measurement and documentation of the industry's philanthropic contributions, as well as a call-to-action to companies to enhance the impact of their charitable giving.

This report provides, for the first time, a comprehensive picture of philanthropy in the property-casualty industry. There is much that we can learn from this evaluation. Measuring and better understanding our industry's philanthropic involvement and activities also makes it more likely others, including the general public, will better understand and appreciate our contributions to society and the communities we support.

Each company brings its distinctive culture, values and business objectives to its philanthropic endeavors. The unique combination of specialized knowledge, talent and leadership that the industry provides to the philanthropic causes we support is invaluable. As an industry we can and do achieve exceptional results through our charitable giving, but we always strive to do better.

It is our hope that this report will encourage further thought, discussion and actions on the important topic of corporate philanthropy in the insurance industry. Our purpose is to document what exists today and to imagine not only what is possible, but also what will be needed and expected from us in the years ahead. We also believe this report can be used as a tool to help companies evaluate, analyze and determine the future course of their individual philanthropic programs.

Lastly, we are conducting our philanthropic activities today in an environment that has changed dramatically since many of our current practices were developed. Globalization, the social network, sustainability and a flagging economy have created new needs in our society and new ways of meeting them. As innovative leaders, we must find the time and resources to broker new solutions to the challenges our communities face and to devise the most impactful strategies for solving these problems, including joining forces with competitors in a collaborative network rather than holding onto our own separate and individual niches.

Thank you to each company that took the time and contributed to this research and report, and special acknowledgement and thanks to McKinsey & Company for its commitment and work on this project.

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Introduction

The property-casualty industry has made significant contributions to society through its charitable giving programs. The industry's initiatives are helping to save lives, educate the public and rebuild devastated communities, while engaging boards and employees alike. They are also building relationships and goodwill in local communities.

Recent research – interviews with industry executives and board members, surveys, focus groups and analysis of other industries – by McKinsey & Company has identified significant opportunities for the industry to increase the impact of its charitable giving. In particular, when observing those companies whose charitable giving programs are particularly effective, several characteristics stand out: strong senior management engagement; programs connected to the company's business strategy that are consistent with its image, brand and values; commitment to a select number of causes with a clear definition of goals; and disciplined measurement of outcomes.

McKinsey's key findings from this research are:

- *In terms of overall charitable giving and impact, the industry mirrors other industries, but more can be done.* Charitable giving in the property-casualty

industry, which totaled approximately \$500 million in 2010, is in line with other industries. However, industry executives believe the industry could receive more recognition for its efforts and that charitable giving could be more impactful.

- *To deliver maximum impact and achieve greater recognition for their charitable giving, companies in the industry should alter their approach to giving by:*
 - ◆ Improving the link between business and social goals
 - ◆ Committing to causes that leverage unique insurance-related skills
 - ◆ Managing charitable giving like any major business investment, by setting objectives, measuring results and raising awareness of charitable giving in new ways (for example, greater use of third-party voices to tell the story).
- *Property-casualty companies will have the greatest impact if they increase collaboration.* The industry could play a major role in addressing pressing problems where there is a need for insurance knowledge. Working together on these types of societal issues, however, will require a greater level of collaboration than has been the case historically.

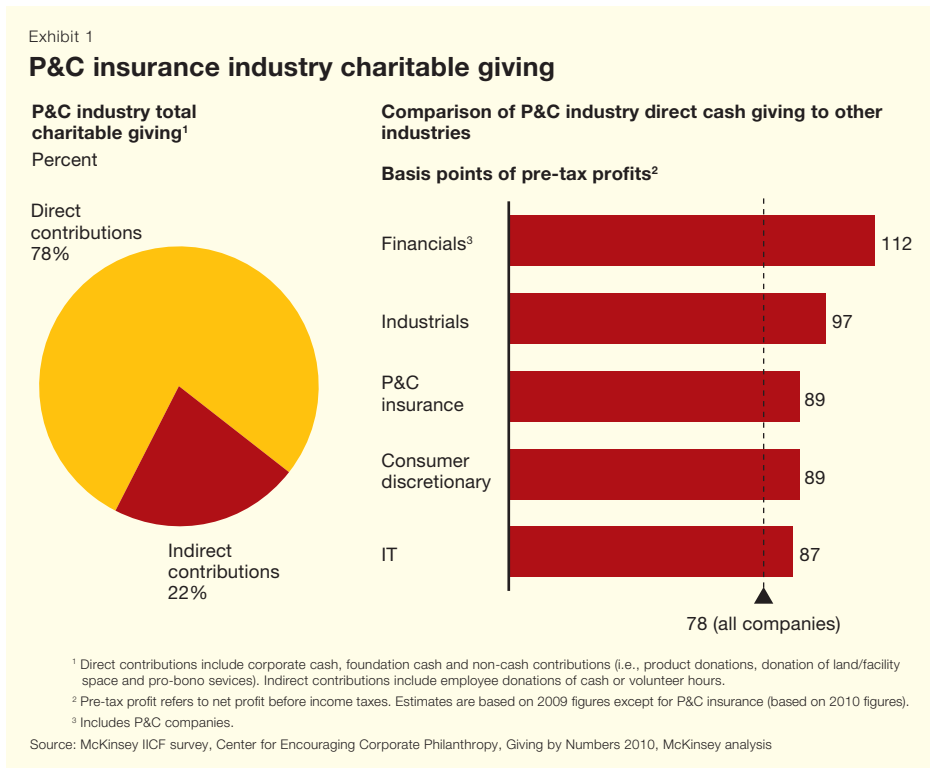


The Current State of Charitable Giving in the Property-Casualty Industry

In 2010, the industry gave more than \$500 million to charity. Most of this giving was in the form of direct cash contributions from companies (80 percent); the remaining 20 percent includes estimated employee donations of cash or volunteer hours.

This level of giving is comparable to other industries. As a percent of pre-tax earnings, the industry's contributions are slightly above average at 89 basis points, compared to 78 basis points across all industries (Exhibit 1). As a percent of revenue, the industry is in line with other industries at 10 basis points, the average across all industries.

Most charitable giving was directed to causes that are widely supported by corporate America, including education (34 percent), health and social services (20 percent), community and economic development (18 percent),



and culture and arts (7 percent) (Exhibit 2, page 8). However, 45 percent of the executives surveyed did not believe that charitable giving in the property-casualty industry is allocated to the right causes.

For carriers and brokers, geography is a key factor in allocating funds. Giving by the industry is concentrated in the regions where corporate headquarters and major operations are located (Exhibit 3, page 10). Employees' residency (45 percent) and the location of company headquarters (27 percent) are key factors in determining the geographies companies target in their giving. Fewer than 5 percent of companies make charitable giving decisions that are agnostic with respect to geography.

While the industry's giving is in line with that of other industries, industry executives believe they are not maximizing the impact of charitable giving or receiving full recognition for their companies' contributions. Sixty percent of executives believe the industry can increase the social and business impact of its charitable programs while maintaining current levels of giving (Exhibit 4, page 13). In addition, nine out of 10 companies feel there is a significant

opportunity to raise public awareness of the level and impact of their charitable giving, as well as for the industry overall.

To increase the impact of their charitable giving, property-casualty companies should consider:

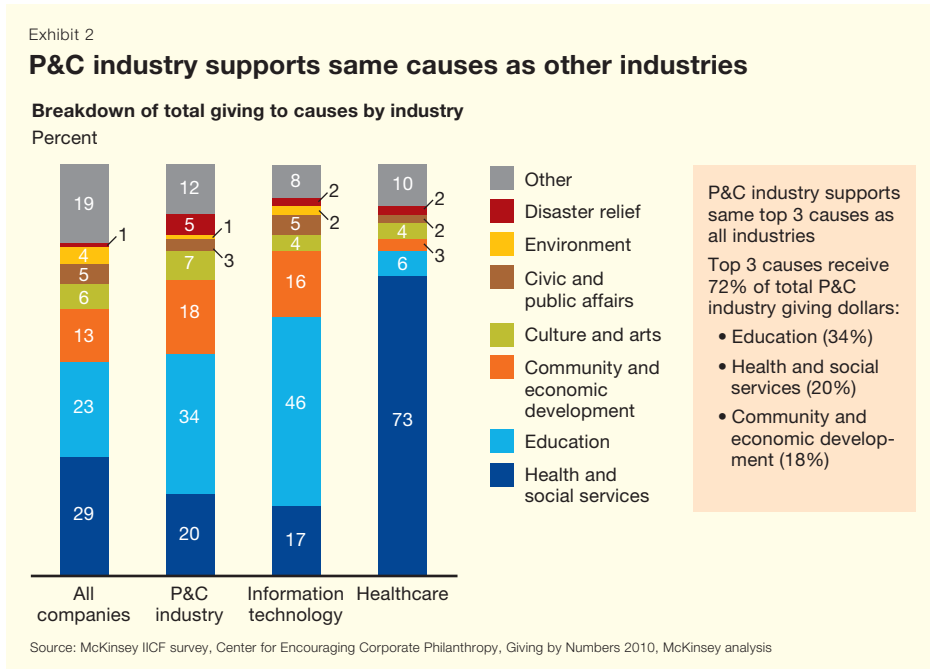
- Better linking social and business goals
- Identifying and committing to a limited number of causes that leverage their unique skills
- Managing charitable giving like any major business investment.



Developing a Giving Strategy That Links Social and Business Goals

Cross-industry research on charitable giving suggests corporate philanthropy does not fully realize its potential if it focuses solely on social impact instead of business benefits, or the opposite. Focusing on social impact alone decouples giving from business activities, often leading to an underfunding of social programs and putting them at risk of termination during business downturns. Focusing exclusively on business goals can hurt a company's credibility and undermine potential reputational gains.

Across all industries, only one in five companies believes that its corporate philanthropy programs are very effective at meeting their goals. These companies tend to combine business and social goals in mutually reinforcing ways, creating programs that strongly reflect business strategy, corporate values and brand identity. Business benefits can be straightforward – such as enhancing corporate reputation or improving customer relations – or they can be more nuanced, such as building knowledge or informing innovation. In the property-casualty industry, most companies focus on the broad benefits of



philanthropy (80 percent of companies surveyed viewed enhanced reputation as the principal business goal of philanthropy), while few companies indicated that building knowledge or informing innovation was one of the top three goals of their charitable giving (Exhibit 5, page 15).

Wells Fargo is an example of a company that consciously links social and business goals. While supporting ethnic communities, Wells also seeks to develop insights into new markets. President and CEO John Stumpf believes the bank's charitable giving program significantly accelerated its learning curve on branch design in ethnic neighborhoods. "When we build in ethnic communities, we build ethnic stores. Might we have gotten that concept without our community outreach? Maybe," says Stumpf. "But we wouldn't have gotten there as fast."

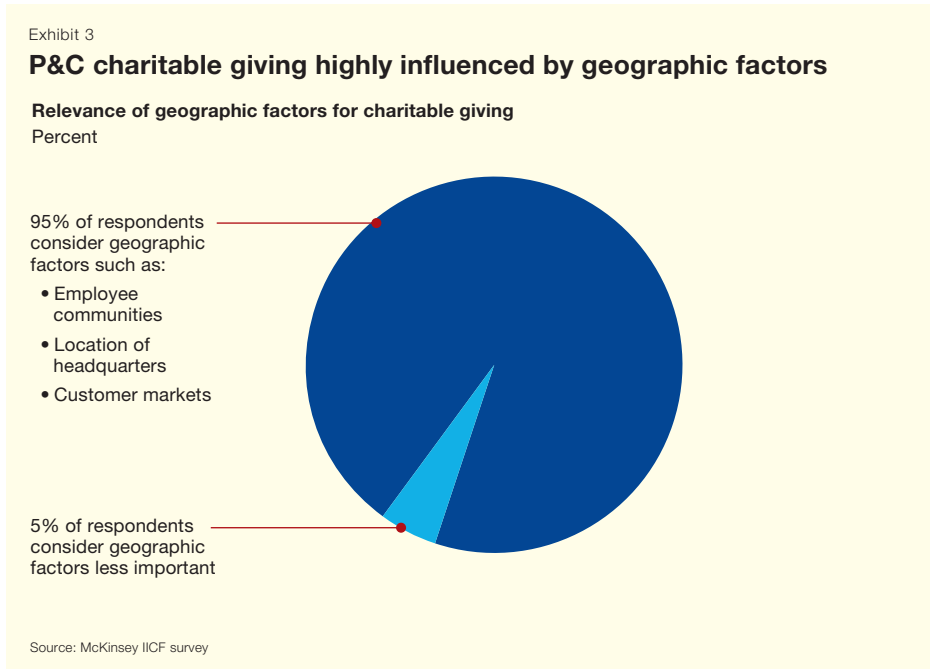
Safety for teenage drivers is an example within the property-casualty industry of combining social and business goals. While safe driving programs reduce teen accidents and fatalities, they also support the business goal of reputation-building. Additionally, these programs can support more sophisticated business goals – for instance, providing actuarial insight into risk factors.



Leveraging Unique Insurance-Related Skills

Successful philanthropists typically focus on causes that build from their corporate capabilities. They explicitly attempt to solve those issues about which they are deeply knowledgeable. In the property-casualty industry, only 12 percent of companies surveyed consider the ability to leverage corporate capabilities a key determinant in shaping giving strategy.

A company's unique expertise or knowledge can be more highly valued than cash by beneficiaries and is often more advantageous to the donor. Citigroup, for example, uses its banking expertise to reduce financial vulnerability and improve economic self-sufficiency in emerging markets. Across 60 countries, Citi's customized financing for micro-finance and micro-enterprise programs enables local entrepreneurs to build a solid base for their businesses. This has had more long-term impact than simply providing cash, since skills are developed that ensure sustainable change. Another example is Home Depot, which offers the services of its staff to repair homes for the elderly.



The more a company leverages its unique strengths, the more it can gain from a business perspective. In China and developing countries around the world, Nestlé has developed programs that provide dairy farmers with technical assistance. Nestlé conducts training sessions for these farmers on topics ranging from cow selection to quality feed. While providing the societal benefit of improved productivity for local farmers, these programs also provide Nestlé with unique insights and experience in new markets.

Another example involves a global insurer that created micro life insurance products that offer low-cost protection to rural communities in developing countries. These products benefited the local market by making insurance coverage available for the first time, while providing the insurer with the opportunity to develop new types of coverage that it could leverage across other markets.



Managing Charitable Giving as A Major Business Investment

Regardless of which causes they support, companies with strong philanthropic programs typically manage their giving as they would any major business investment. They have deep senior management engagement, consistent focus and commitment, rigorous performance measurement and targeted communication of results. The property-casualty industry has adopted some, but not all, of these best practices.

1. A prominent place on the CEO's agenda

CEO engagement is a hallmark of successful corporate philanthropy, and the property-casualty industry performs well in this regard. Among effective corporate givers, a majority (70 percent) have CEOs who are very involved in their company's charitable giving. The CEO, along with the Chief Giving Officer (CGO) or company foundation head, is often the key decision-maker for philanthropic programs. These leaders serve as role models for the organization and are actively involved in communicating the purpose and

goals of charitable giving programs both internally and externally. As one CEO says, “If [philanthropy] is part of the core program that you stand for as a CEO, you can change completely the attitude towards philanthropy and make it happen as any other big achievement that you are seeking from your team.”

2. Focus and long-term commitment

Leading corporate philanthropists typically focus on a limited set of specific issues and commit to them over the long term. In recent years, corporate giving has become more focused. In 2009, one out of four companies reported that 50 percent or more of total giving was directed to a single program area, versus one in six in the prior year.

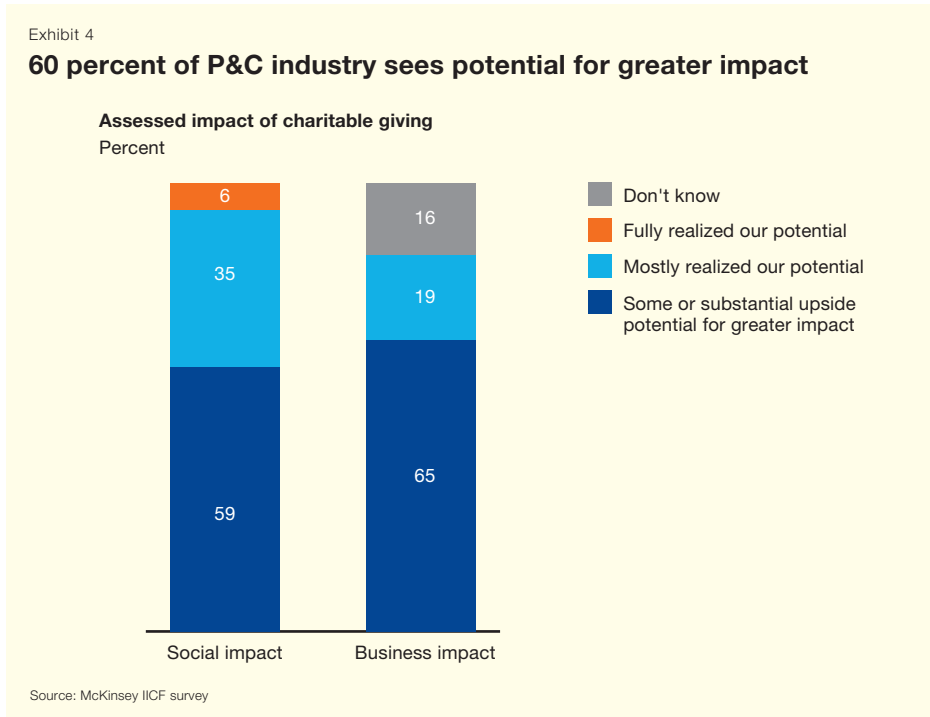
Target provides one such example, with its singular focus on improving literacy among young children in first through third grades. Target works with both local schools and national organizations to help provide a path to graduation for students. Since 1997, the company has helped to fund programs at more than 100,000 schools in neighborhoods where it does business.

In the property-casualty industry, many companies have made a long-term commitment to education their philanthropic focus. They have provided support to local schools and colleges, in some cases for more than 20 years. In addition to helping the community, these companies have realized several indirect benefits from their charitable giving, including hiring graduates of the schools they support.

Companies face a number of decisions when considering how to organize charitable giving. Should they build an internal capability? Should charitable giving activities be centralized? Should they establish a corporate foundation to oversee and manage philanthropy?

3. Effective organizational models

Companies face a number of decisions when considering how to organize charitable giving. Should they build an internal capability? Should charitable giving activities be centralized? Should they establish a corporate foundation to oversee and manage philanthropy? Discussing philanthropy at Time Warner, former Chairman Richard Parsons noted, “Operating our business in a way that is sustainable over the long term is core to our success. And



therefore corporate philanthropy – and how we manage it – is no different than any other operational function.”

When deciding between establishing a corporate foundation or an internal management function to oversee philanthropy, a number of factors should be considered, including aggregate funding volume, donation size, taxes and write-offs, available resources and company governance structure. When companies opt for a foundation structure, it is often to ensure the clear separation of philanthropic and marketing spend. This structure is also better suited to supporting multi-year funding commitments than direct contributions from the corporate budget. On the other hand, a foundation may make it more difficult to serve both social and business goals simultaneously.

Genworth Financial is an example of a company that manages charitable giving as though it were an individual business unit. According to Mike Fraizer, chairman, CEO and president of Genworth, “The corporate philanthropy plan looks like a business plan. It goes through mid-year and fall close-out reviews, and then we refresh it and look at a multi-year, multi-generational plan. We say: we want to get here, but it’s going to take us this amount of time.”

An additional consideration is how best to collaborate with external partners. Property-casualty companies have forged strong partnerships with non-profit organizations, with 50 percent collaborating “extensively” and 30 percent “somewhat.” Collaboration, however, has the potential to go deeper. Eighty-four percent of current collaboration involves co-hosting events, and 54 percent takes the form of providing challenge grants. Only 16 percent of collaboration involves companies and non-profits actively “teaming up to tackle problems.”

4. Rigorous performance management

Effective corporate philanthropists set clear objectives for charitable giving, closely monitor their investments and measure impact with well-defined metrics. In some cases, employee incentives are aligned with the company’s philanthropic performance. In the property-casualty industry, however, nearly half of all companies do not systematically measure their performance.

Corporate philanthropic performance can be measured in many ways, and often metrics must be tailored to fit specific initiatives. For instance, many companies champion post-secondary education, seeking to increase the number of students who complete a bachelor’s degree and pursue a career in financial services. To measure the success of such programs, these companies track a variety of critical metrics. These include how many students in their target groups apply to college, how many subsequently enroll and attend college, and how many go on to complete their college degrees.

One approach is to track inputs that have a major impact on outcomes. For instance, when Target measures its success in promoting literacy, it recognizes that its efforts are among many factors that influence the outcome of a very complex issue. Target tracks the number of libraries it supports and the number of hours that children spend in its programs as critical inputs in improving literacy rates.

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Exhibit 5

Charitable giving focused primarily on broad business goals**Business benefits of charitable giving ranked among top 3 by P&C companies**

Percent



NOTE: 13% of survey participants said they do not attempt to meet any business goals through corporate philanthropy
 Source: McKinsey IICF survey

5. Targeted communication of results

Property-casualty companies believe that the industry's charitable giving efforts are underappreciated and do not receive appropriate recognition. This is not an uncommon perception: two-thirds of companies across all industries feel they do not receive appropriate credit for their giving programs. Lack of awareness among key stakeholders is cited as a primary reason for low levels of recognition, despite the fact that six of seven companies believe that their philanthropic programs are aligned with stakeholder priorities.

Communicating with key stakeholders carries some downside risk. Excessive communication can create negative perceptions, if charitable giving is seen as self-serving. Charitable giving might also be viewed as detracting from shareholder value, or customers might believe it could lead to higher prices.

Communication plans should therefore be crafted with the audience in mind. Messaging to the general public should focus on meeting community needs, and only secondarily on the company's role. In fact, the beneficiary of a company's giving is often in the best position to lead communication

about the program. This third-party voice is considerably more effective than self-promotion that comes from a company spokesperson. Internal communication to a company's board and staff can be more direct and should emphasize both the positive community impact of corporate giving *and* the business benefits (e.g., enhancement of the company's image).

The medium must also be thoughtfully considered. Most property-casualty companies include information about their charitable giving in their annual reports and issue press releases on major initiatives. Only 10 percent have implemented broad-based media campaigns to promote their philanthropic activities.

In addition to conventional media, companies can develop strategies to harness the power of social and digital media. Chase, for example, has a Facebook page that allows "friends" to provide input into its giving agenda.

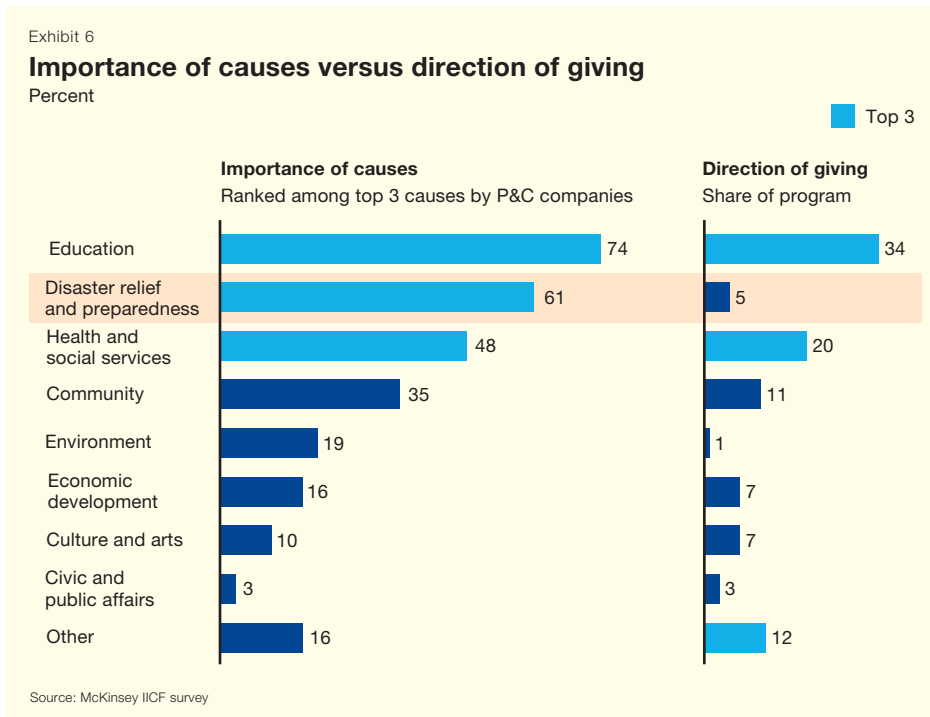
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Industry Collaboration

For the property-casualty industry to increase the impact of its charitable giving and receive greater recognition, the industry should consider more collaboration. Collective effort placed against a major national issue could potentially yield widespread and visible results. However, only one in seven companies surveyed expressed interest in collaborating more closely as an industry. Concerns included brand dilution and the higher “transaction costs” likely to be incurred by coordinating with competitors. To overcome these reservations, the industry must agree on a critical issue where it has unique expertise and where it can benefit from scale.

The industry has some track record of philanthropic collaboration, most notably the establishment of the Insurance Institute for Highway Safety (IIHS) in 1959. Three major insurance associations, representing 500 insurers and comprising 80 percent of the U.S. auto insurance market, jointly launched the Institute. IIHS’s initial purpose was to support the highway safety efforts of other organizations, but it evolved to directly attempting to reduce fatalities and injuries from highway accidents. IIHS is now an independent research organization focused on three areas responsible for accidents: human factors (preventing crashes by changing driver behavior), vehicle factors (improving



vehicle design) and environmental factors (changing roadway design, signs, signals, etc.). The organization has had demonstrable success in fulfilling its mission. Although the number of driving fatalities is still tragically high, it has been falling since 1979, reaching an all-time low in 2009 – even as the population and the number of miles driven have been climbing. While many factors contributed to this decline, the work of the IIHS has clearly been influential.

There are other areas where the property-casualty industry is uniquely positioned to provide expertise to solve social issues – for instance, disaster preparedness. Beyond providing financial aid in the aftermath of disasters, the industry has the unique skills to *anticipate* hazards before they occur. With higher levels of preparedness, the damage caused by a loss event – earthquakes, hurricanes, fires – can be mitigated. The Insurance Institute for Business and Home Safety (IIBHS) is an example of existing industry collaboration on this issue. The IIBHS conducts research to identify ways to strengthen structures and enable them to better withstand perils such as earthquakes and hurricanes. The industry's expertise in catastrophe modeling and loss prevention could help communities anticipate and prepare for disasters in ways that no other industry can.

Surprisingly, while most property-casualty companies believe that disaster relief and preparedness rank among the most important issues for the industry to address, in practice these causes receive less than 5 percent of total industry contributions (Exhibit 6). Given the recent spate of destructive natural disasters in the United States and globally, not to mention increasing concern about climate change, there is perhaps a greater need now than ever before for the unique expertise that only the insurance industry can offer.

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Despite having contributed over \$500 million to charity in 2010 – which was in line with other industries – the property-casualty industry has not been satisfied with its “return on giving” and believes that more can be done. Achieving the desired results may require a change in approach to giving. Social and business goals should be more closely linked, charitable programs must be managed with the same rigor and discipline as any other business, and the public profile must be raised. In addition to addressing these fundamentals, the industry must determine how to build charitable programs that capitalize on its unique insurance-specific knowledge and expertise, so that it can contribute to society in ways that others cannot. Finally, the industry will be particularly effective in leveraging its unique strengths if multiple parties across the industry collaborate. This will be no simple task, given the complexities involved in this type of collaboration. If the property-casualty industry can change its approach to charitable giving, it has the potential to play a transformative role in addressing some of the most critical, highest-profile problems facing society today, especially around disaster prevention and preparedness.

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