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Financial Services Practice

Charitable Giving in the Property and Casualty Insurance Industry: An Update

Foreword

A Foreword from the Insurance Industry Charitable Foundation

Corporate social responsibility (CSR) is much more than a corporate buzzword. More and more, companies look to distinguish themselves to their customers, clients, partners and the general public. A basic element of any CSR plan is providing resources to important social causes, such as donating funds or employee time to community charities. Tracking and measuring your corporate commitment to the community is a sound business practice. Where can we in the property-casualty industry find the results of our combined efforts? Today, with the help of our friends at McKinsey & Company, we take a new look at charitable giving in the property-casualty insurance industry.

The following report revisits the state of charitable giving in the property-casualty sector of the insurance industry. This collaboration between McKinsey and the Insurance Industry Charitable Foundation provides the latest and only comprehensive data available on the commitments and accomplishments of our industry. Companies wishing to protect and grow their corporate brand identity and loyalty understand participation in the community is an integral part of public perception. Social responsibility in the form of community giving and/or employee engagement in volunteer programs creates positive branding, enhancing relationships with clients, customers and employees, and generating a deeper connection beyond products or services.

Please join me in thanking each company who contributed to this important research. Their involvement in this study benefits the entire industry. Thank you to McKinsey for their continued leadership, commitment and work in helping the industry better understand its achievements and highlighting areas where opportunities may exist.

As the millennial generation replaces baby boomers as the largest U.S. working cohort, this group has the potential to become the most civically inclined work group yet. Community leadership and service will look very different in the future. The better we understand and measure our industry's contribution to the community, the better we are able to meet increasing employee expectations, align partner opportunities, and respond to growing public expectations.

William E. Ross

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Introduction

American property-casualty insurers have increased their charitable giving by an average of 15 percent since 2011, and an increasing number are aligning their programs with their business strategy. The top three program areas for giving have remained consistent, but the order has shuffled: direct giving to education has fallen by almost 50 percent, while health and social services and community needs are receiving much more attention. And as McKinsey found in its previous research,[1] fewer than half of the carriers surveyed measure either the social or business impact of their charitable giving.

In 2014, McKinsey conducted surveys and interviews at almost two dozen insurance company foundations.[2] Comparing the results of this research with 2011 provides a perspective on how corporate charitable giving in the industry is changing, with a number of meaningful trends:

- **The industry is giving more:** Since the last round of research in 2011, property-casualty industry foundations increased their annual contributions by an average of about 15 percent, to an industry total of $575 million, outpacing inflation and moving closer to what many industry leaders believe the public expects.
- **The focus of giving is shifting:** While the industry continues to direct almost two-thirds of its giving to three areas – education, health and social services, and community needs – the emphasis has shifted since 2011. Education funding has declined by about half, while contributions to health and social services increased by half and contributions to community needs rose by about 70 percent.
- **More foundations are aligning philanthropy with business strategy:** The research showed a strong trend toward aligning charitable giving strategy with business strategy; more than

1 *Charitable Giving in the Property-Casualty Insurance Industry,* McKinsey & Company, October 2011.

2 Twenty-three insurers participated in the 2014 survey, compared to 31 in 2011. Ten individual insurers took part in both surveys.

one in five foundations are now seeking this alignment.

- **More foundations judge the impact of their giving according to its appeal to employees:** Few foundations track the social impact of their contributions, but many see giving as a tool for engaging employees.
- **Many property-casualty insurance CEOs continue to direct giving strategy:** About 30 percent of foundations say that the CEO of the insurer sets charitable strategy, versus only 13 percent who describe foundation leaders as the chief strategists–half as many as in 2011. CEOs are now also much more likely to act as role models for charitable giving and communicate with internal audiences about giving.

Rise in Charitable Giving

The U.S. property-casualty insurance industry contributed $575 million to charity in 2014, up about 15 percent from 2011. A higher percentage of respondents to McKinsey's survey and interviews now believe the industry is meeting or exceeding public expectations for charitable giving. But while nearly every respondent said his or her company received at least partial recognition for its charitable giving, only two respondents reported that their companies received full credit.

About 38 percent of charitable contributions were made in the form of direct cash donations or grants. Another 11 percent were matching funds for employee donations, of which more than 90 percent were made in cash. Roughly 6 percent of company contributions were in the form of scholarships, in-kind donations and other non-cash gifts. Some firms contributed by allowing employees to volunteer for charitable organizations on company time. In fact, many respondents see opportunities to drive further impact by giving employees more incentives to volunteer.

Most of the companies surveyed prefer to make contributions in communities where their employees live and work, especially near corporate headquarters. Only 16 percent say they do not consider geography when making contribution decisions.

How Priorities Are Shifting

Overall, survey respondents ranked the same three factors for determining the focus of charitable giving at the top of their list in 2014 as they did in 2011: serving local communities, aligning with business needs, and meeting the interests of stakeholders such as employees and customers (Exhibit 1). The emphasis has shifted, however: 28 percent of carriers now put local community needs at the top, up from to 22 percent in 2011. The biggest shift was in the increasing alignment with business needs: 22 percent now consider this factor most important, up from 14 percent in 2011. The survey revealed that firms that look for such synergies are more likely to select charitable causes that could lead to opportunities for innovation or building new market knowledge.

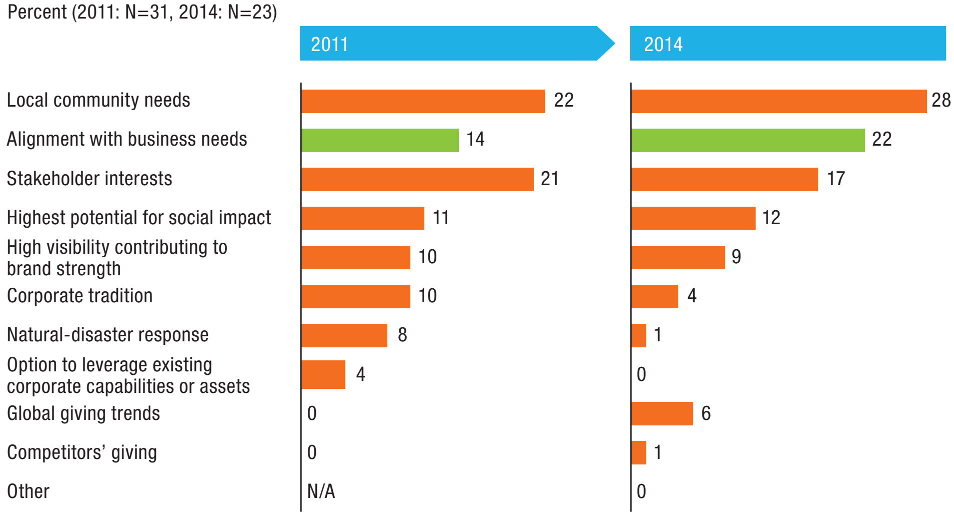
The fourth- and fifth-ranked priorities – maximizing social impact and strengthening the brand – remained essentially unchanged from 2011. While they now see stakeholder interests as slightly less of a priority, most respondents expect corporate giving to have an impact on job candidates and employees, improving recruitment, engagement and retention. Further down the list of priorities are differentiating from competitors, building leadership skills among employees and generating positive publicity.

Direct contributions flowed to different program areas in 2014. For instance, funding for education declined by about half, while contributions to health and social services rose by half, and those to community needs (e.g., new playgrounds, poverty programs) increased by 70 percent (Exhibit 2).

Exhibit 1

More property-casualty insurers are seeking to align charitable giving with business needs

Top three ranked factors determining focus of corporate giving
Percent (2011: N=31, 2014: N=23)

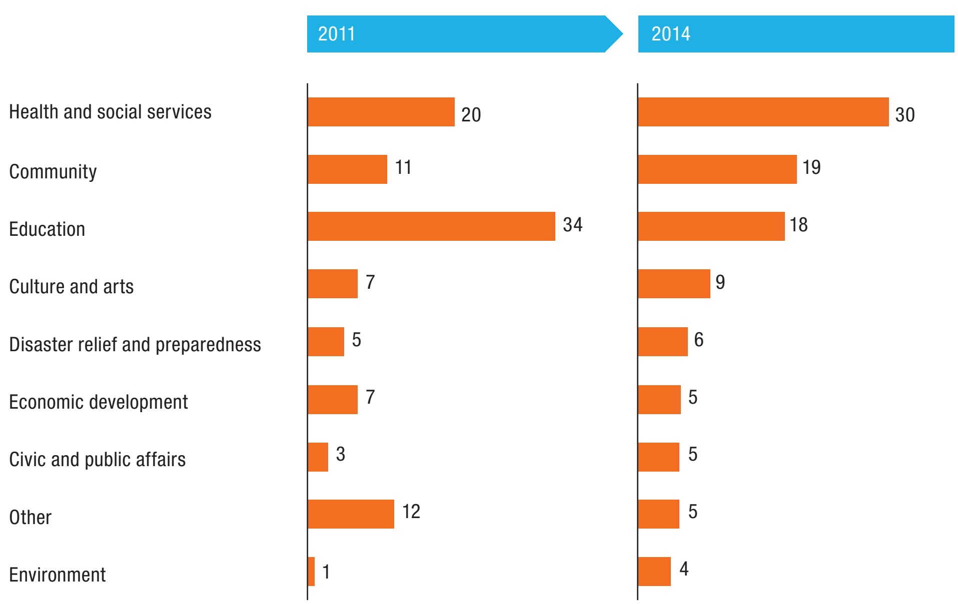


Source: McKinsey Charitable Giving in P&C Survey

Exhibit 2

Direct giving rose for health and social services and community needs, while declining sharply for education

Breakdown of direct giving by program area
Percent (2011: N=31, 2014: N=23)



Source: McKinsey Charitable Giving in P&C Survey

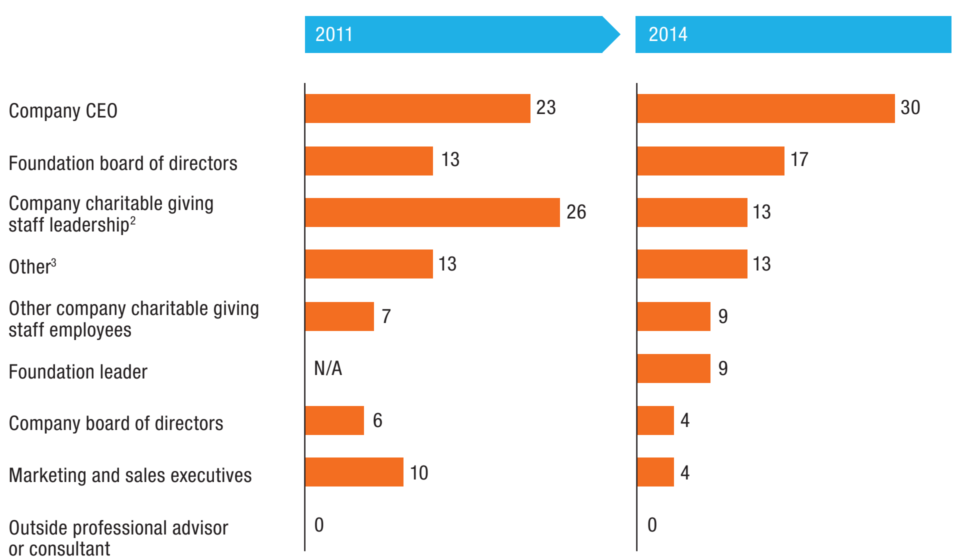
Trends in Decision-Making and Collaboration

For 30 percent of survey respondents, the insurance CEO played a leadership role in charitable giving, up from 23 percent in 2011. Chief giving officers and other charitable giving staff now set strategy in fewer than one in seven companies, down from more than one in four previously (Exhibit 3).

Exhibit 3

More property-casualty CEOs are taking a leadership role in setting charitable giving strategy

Primarily responsible party for setting the strategy of primary charitable giving entity's[1] efforts
Percent (2011: N=31, 2014: N=23)



[1] Channel for the majority of the value of the company's giving
[2] E.g., chief giving officer
[3] E.g., President, CEO, director
Source: McKinsey Charitable Giving in P&C Survey

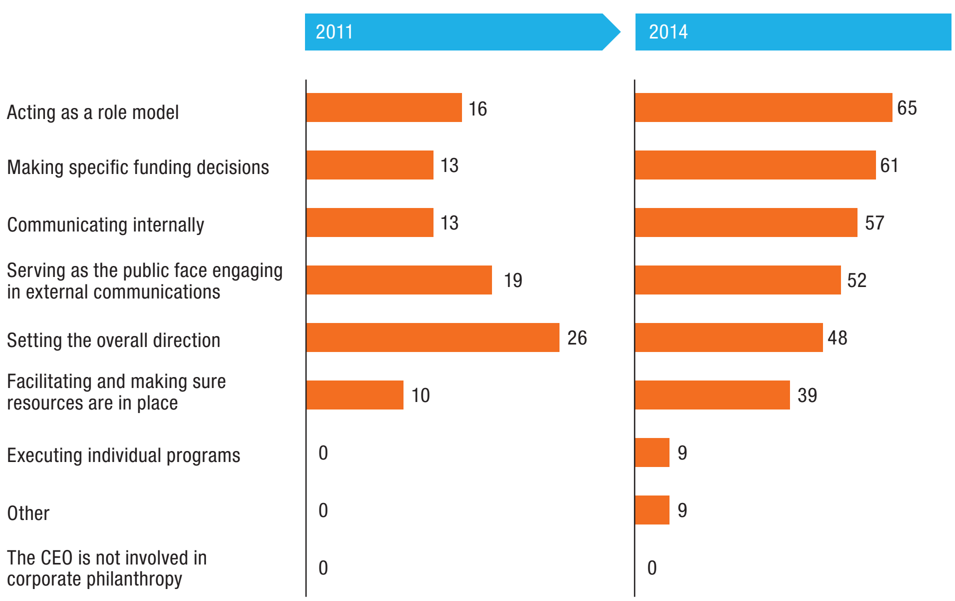
Top executives are also becoming more active. Nearly two in three respondents noted that CEOs are acting as charitable role models, for example, up from only 16 percent in 2011 (Exhibit 4). Well over half of CEOs make specific funding decisions themselves and communicate news about contributions to fellow employees–a major change.

About 90 percent of respondents believe that partnering with other stakeholders can help increase the value of contributions. Fewer than one in seven are inclined to partner with other property-casualty carriers, however, or participate in joint industry efforts. This is consistent with the survey finding that most respondents set charitable priorities based on the needs of their own employees and customers in specific geographies–not the needs of recipients.

Exhibit 4

The number of property-casualty CEOs serving as role models for charitable giving has jumped sharply

Nature of CEO's involvement in charitable giving efforts
Percent (2011: N=31, 2014: N=23)



Source: McKinsey Charitable Giving in P&C Survey

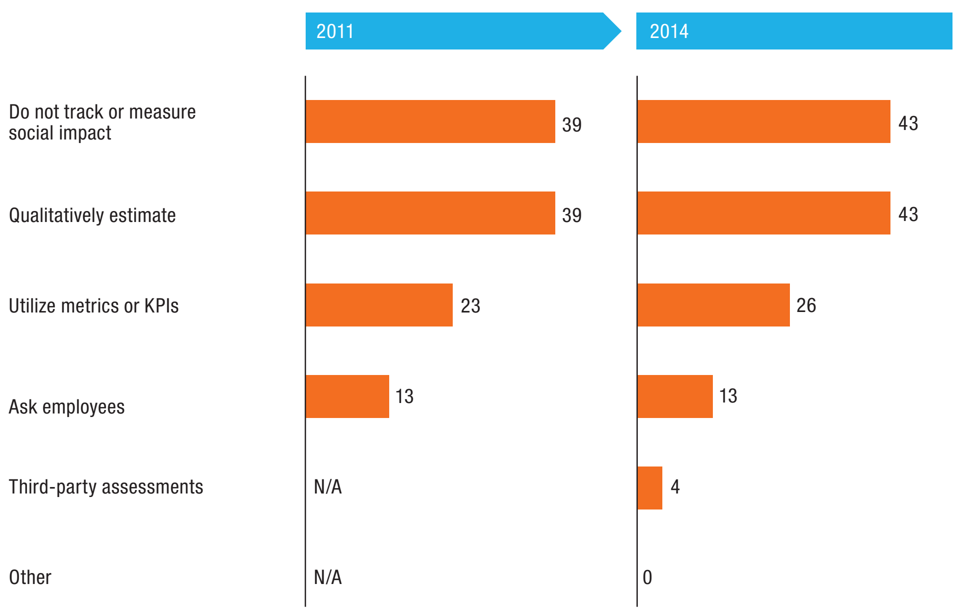
Raising Returns with Better Goal-Setting and Measurement

In its 2011 report, McKinsey emphasized the value of measuring the business impact of contributions, and the new survey results revealed a slight uptick in this kind of analysis. Some companies are now asking independent third parties to evaluate their efforts, for example. But even when they do measure business impact, the companies rely mostly on qualitative rather than quantitative data (Exhibit 5).

Exhibit 5

Fewer than half of property-casualty insurers measure the business benefits of their contributions

How companies track and measure the business benefits of their philanthropic activities
Percent (2011: N=31, 2014: N=23)



Source: McKinsey Charitable Giving in P&C Survey

McKinsey's survey indicates that companies may have opportunities to increase the impact of their contributions by supporting the causes that are worthiest in the eyes of stakeholders. In 2014, 61 percent of participants ranked disaster relief among their top three causes, for example, but they allocated an average of only 11 percent of their funds to disaster relief. They donated 28 percent of their funds to causes that did not rank among the top eight.

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In the three years since the previous McKinsey research on charitable giving in the U.S. property-casualty insurance industry, many of the stated aims of respondents remained in place. Insurers focused much of their direct giving on the needs of the local community and on programs that aligned with their business needs and with the interests of stakeholders. There were shifts in the types of programs that received contributions from insurers, the most significant being the decline in giving for education and the increase in donations for health and social services and community programs.

Overall, the industry increased its bottom-line charitable giving, contributing 15 percent more on average than in 2011. Fewer than 50 percent of foundations track the social or business impact of their contributions, however, which points to an opportunity for insurers to improve the impact of their giving.

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