



What Global CEOs Should Be Thinking About



To get CEOs at this august gathering to focus beyond the new world of thoughts into action, we approached a thinker, researcher and dedicated economist in the industry, **Dr Kai-Uwe Schanz**, Chief Communication & Corporate Development Officer, Converium Ltd, Zurich, to share his opinions and views on what ails the CEOs at the global level with some musings on what they can do to track the Magic Wand.

The global insurance industry has weathered the turbulences of the millennium's first few years remarkably well. A dramatic deterioration of investment conditions as well as the largest insured catastrophe loss in history (September 11) have been absorbed by the sector's balance sheets. Those who had predicted a spate of corporate failures and a systemic crisis of the global insurance and reinsurance systems were proven wrong.

At the same time, insurers around the world have adjusted to a new financial markets paradigm characterised by low fixed-income yields and less vibrant stockmarkets. The imperative of generating profits from core underwriting activities is widely accepted and industry executives have so far not succumbed to the temptation of relaxing underwriting standards in a more competitive environment.

Staying Awake at Night

Having said this, the industry still faces formidable challenges which are likely to keep many CEOs awake at night:

- In many lines of business, premium growth is slowing down in the wake of cyclically weakening premium rates. CEOs face the task of steering their companies through a phase of retrenchment. A firm resolve not to engage in competitive rate cutting as well as a tight grip on operating costs are key success factors in meeting this challenge.
- CEOs have to work from the premise that investment yields will remain low for the foreseeable future. This dictates an unconditional adherence to underwriting profitability and requires major adjustments to business models.
- Liability claims inflation (in excess of economic inflation) is continuing unabated. The US tort system and indications of its spreading to other jurisdictions challenge the fundamentals of insurability and affect underwriting strategies.
- There are significant uncertainties surrounding major regulatory changes such as risk-based solvency requirements and fair-value based accounting standards. These developments will have a major impact on key areas of strategic decision-making such as capital, asset and product management.
- In light of the various probes initiated by supervisory authorities and prosecutors, regulatory scrutiny and

investigative pressures have heightened substantially. CEOs must ultimately deal with the challenge of being under the spotlight of an increasingly critical public.

The Pre-requisites

A necessary condition for coping with these challenges is a thorough and sometimes radical review of the insur-



ance value chain, ranging from product design to claims management. CEOs can choose from a range of long-established strategic and operational tools when it comes to reconfiguring the value chain. The main proposition of this article, however, is that a systematic management of all relevant stakeholder relations can provide insurers with a new and additional powerful catalyst for managing the change processes ahead of them.

The global insurance industry generates about US\$3 trillion in premium income accounting for more than 8% of global GDP. Nonetheless, it has rather late started to embrace the notion and necessity of stakeholder management, primarily encompassing shareholders, employees, policyholders, governments and regulators.

Managing and meeting shareholders' expectations, for example, is a major challenge in an environment characterised by mounting volatility arising both from the assets and the liabilities side of balance sheets. Favourable investor relations based on utmost transparency, regular information and clear messages can help keep the sector's cost of capital at acceptable levels – even in a demanding environment.

Policyholders focus on product quality, ie. the economics and the reliability of the contingent payment promise made by their insurers. Favourable customer relations generally enhance customer loyalty which is particularly important in market phases characterised by tightening terms and conditions, concerns about security and reputational issues affecting the entire industry.

Another key stakeholder management challenge faced by CEOs is to maintain employee morale and commitment in times of corporate belt-tightening and a growing feeling of uncertainty in light of what could appear to be a public backlash against the industry. Meeting this challenge is crucial for knowledge-based insurers and reinsurers

whose human resources are widely regarded as their most important assets.

The public-policy environment as defined by governments is developing into an increasingly important determinant of the industry's strategic and operational degrees of freedom. Therefore, the sector needs to engage into a more regular dialogue with government entities and legislative bodies focusing on a clear and compelling articulation of its contribution to economic and social progress and development.

Regulators are charged with protecting the policyholder against the potentially detrimental consequences of an asymmetric distribution of information between the insurer and the insured. In performing this role, insurance regulations can impose increased operating costs on the regulated entities. As such, relations with supervisory authorities need to be managed diligently.

Against the background of the recent seismic shifts in insurers' business environment, a systematic management of stakeholder expectations is increasingly crucial to maximising profitability and securing the necessary degrees of freedom for corporate management.

An exclusive reliance on the traditional tool kit of operational and strategic management could prove insufficient in view of the social pressures the sector is facing due to various changes to its business model imposed by more volatile financial markets, accelerating claims inflation and heightened scrutiny from regulators and prosecutors. A comprehensive stakeholder management approach based on an up-to-date view of corporate performance drivers should complement more conventional approaches of dealing with external challenges. ■

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