

Dr. Schanz, Alms & Company

Aligning Corporate Strategy and Communication

Reinsurance in the financial crisis: Maintaining freedom of action through stakeholder communication

Zurich Reinsurance Summit

Henner Alms

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Agenda

- **The crisis` impact on the reinsurance industry**
- The role of reputation and reputational risk management
- Recommended communication strategies
- Outlook: Communication post-crisis

The crisis has taken its toll on the reinsurance industry...

- Depletion of shareholders' funds in the wake of investment losses
- Erosion of excess capital supports market hardening
- Cedants own losses and financial market dislocations fuel risk aversion and highlight the role of reinsurance as a contingent form of capital
- Economic downturn weighs on exposure and premium growth
- Increasing regulatory scrutiny as focus on systemic risk heightens
- Reputational damage to the industry as a whole

... with a significant impact on stakeholder sensitivities

Investors

- Asset quality
- Relevancy of disclosure
- Corporate strategy

Ceding companies

- Capital strength
- Claims payment ability
- Asset quality

Regulators

- Capital adequacy
- Systemic risk

Employees

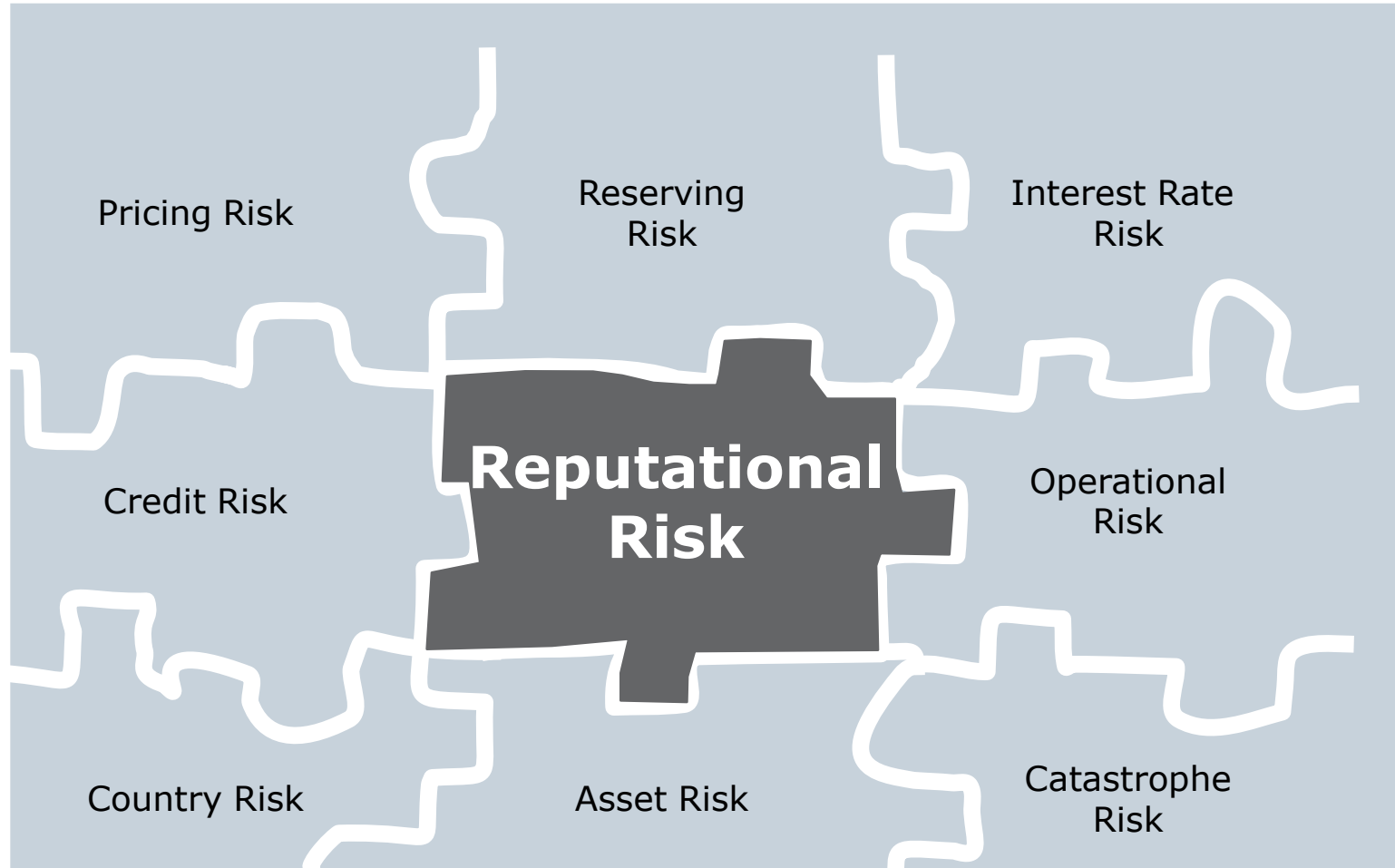
- Job security
- Public image of industry



Agenda

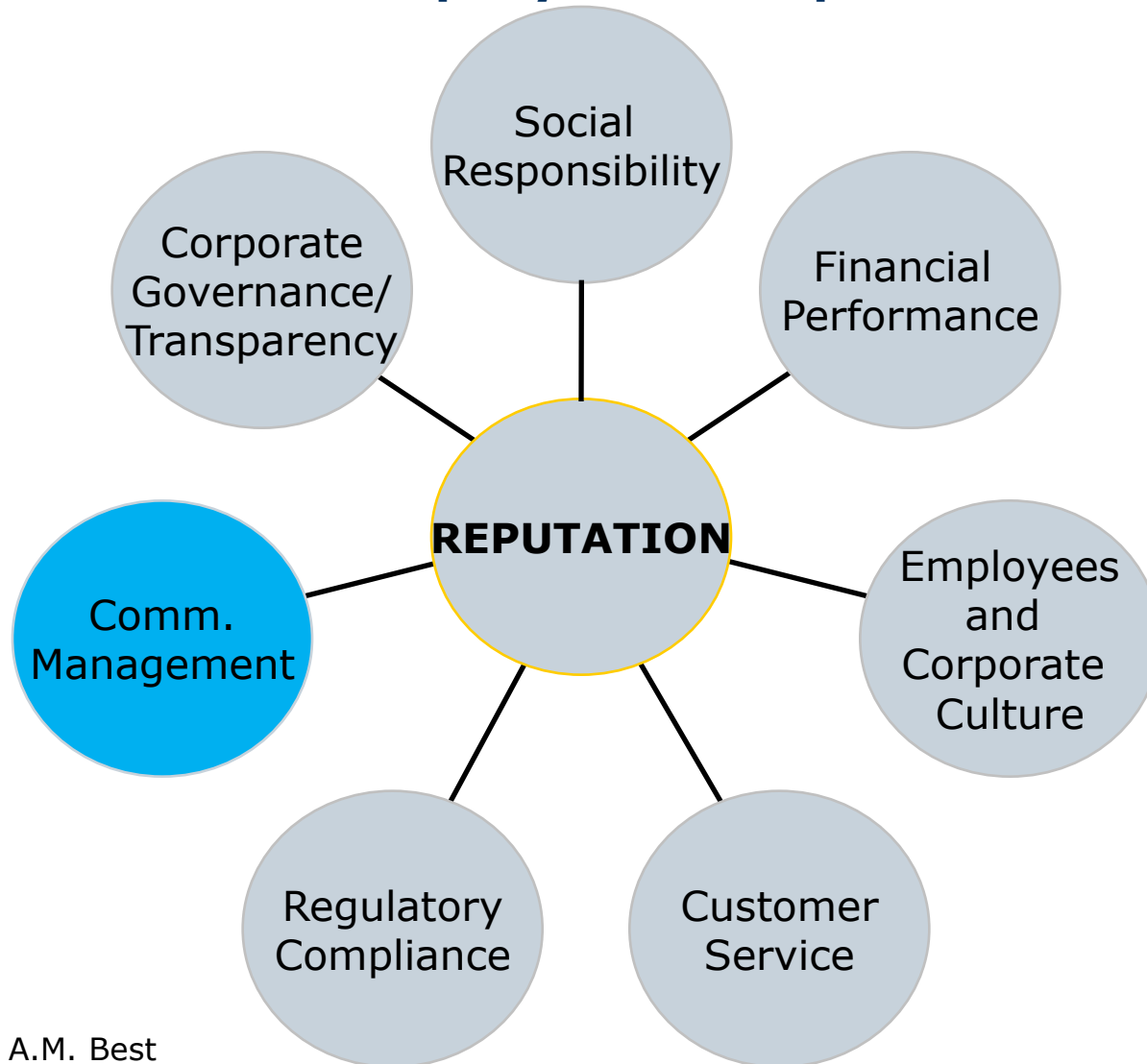
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Sources of reputational risk



Source: A.M. Best

Areas of risk in a company's direct sphere of influence



Source: A.M. Best



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Communication in the financial crisis in case of individual failure

- Values: Demonstrate accountability and sincerity in accepting mistakes. Don't belittle or hide behind "common practises". Don't exaggerate either
- Transparency: Provide relevant data which render the magnitude of the issue transparent. Avoid recurrent corrections – even with a "moving target"
- Performance and Processes: Demonstrate the implementation and impact of decisive measures and processes which assure that mistakes will not repeat
- Operating measures: Assure that the measures taken correspond in their significance to the gravity of the deficiency
- Communication: In a nervous market environment, balance the external demand for further information and detail against the risk of fuelling the crisis. Act fast, especially if you are a market leader

Communication in the financial crisis in case of collective reputational damage

- Performance: Deliver against promises by ensuring that business performance consistently matches expectations and prompts stakeholders to make favourable bets on the company's future
- Values: Ethics, governance, and disclosure are indispensable for rendering performance transparent and predictable, thus building and maintaining trust
- Communications:
 - Ensure speedy, understandable and consistent communication which reinforces the predictability of business performance. Intensify communication beyond pre-crisis levels
 - Accept industry failures. Be humble: Don't promise immunity, rather strengthen processes. Avoid "blame games". Seek third-party endorsements through industry associations or think tanks



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The insurance industry post-crisis: Maintaining freedom of action under more challenging conditions

- Increased relevance of public affairs
 - Tightened regulation
 - More powerful and intrusive public sector
 - Governments may play larger role as clients
- More stringent rules on corporate disclosure
 - Enhanced disclosure on risk management and corporate processes
 - Enhanced disclosure on executive compensation
- Enlarged role of corporate responsibility
 - Corporate responsibility (ie responsible and sustainable entrepreneurial behaviour) will be elevated from a communications topic to a strategic Board-room issue

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