

## Containing the Damage: How To Preserve Trust in Times of Crisis



**Dr Kai-Uwe Schanz**, Principal Partner, Dr Schanz, Alms & Company AG, Zurich, shares the lessons for insurance companies from the recent financial turmoil.

The subprime crisis and the subsequent global financial upheaval have taken a heavy toll on the insurance industry. Some industry players with significant financial market and banking operations were seriously damaged. But these were spectacular exceptions, rather than the rule. The solvency position of most insurers weathered the financial tsunami, in contrast to many banks.

This comparatively mild assessment notwithstanding, the insurance industry's reputation and image have been dealt a blow, with stakeholders' eyes on the fate suffered by former industry icons such as AIG and Fortis, companies that were felled by their non-insurance operations. The losses in reputation and trust represent an extraordinary threat to an industry which basically sells contingent promises to pay, more often than not at a distant point in the future. Insurance is a business of trust.

### Maintaining Trust in Times of Turmoil

Trust is rooted in repeated interactions which lead stakeholders to expect a company to perform and communicate in a certain way. Thus, our advice to corporate decision-makers is simple: "Consistently deliver the promise and enhance your communication efforts".

The necessary condition for preserving stakeholder trust in trying times is to maintain corporate performance at expected levels. For this purpose, companies need to regularly and critically review their core business processes, such as marketing and claims management. Do all these elements of the value chain continue to perform in a way which would prompt stakeholders to make favourable bets on a company's future contingent actions, ie to maintain their trust in the insurer?

In addition, corporate communication efforts assume a critical role as stakeholders' thirst for instantaneous, comprehensive, transparent and relevant information increases exponentially.

The credit crisis has demonstrated that even the most venerable and reputable institutions can find themselves on the brink of demise within a few days or even hours. In jittery and panicky markets, a 24/7 communication mode, characterised by responsiveness and speed is of vital importance.

Another key lesson from the credit crisis is the need for massive improvements in meaningful transparency. The complexity and opacity of certain financial products had grown to such proportions that even senior finance executives have failed to keep pace with these developments, let alone ordinary investors or the public at large. Against this backdrop, transparency and simplicity are back in vogue, both in terms of product features and communication.


In addition, demonstrating that an insurer is more than just a profit-generating abstract entity is especially relevant

in times of crisis when reservoirs of trust are most jeopardised. Insurers are well-advised to constantly emphasise their vital contribution to economic and societal progress – from peak risk mitigation enabling entrepreneurial risk-taking and innovation to comprehensive financial protection offering "peace of mind" for millions of policyholders.

Optimising the mix of channels deployed is another key challenge for corporate communications management. Especially in times of turmoil, retail insurers with millions of individual policyholders should focus their communication efforts on the print and electronic media. As confidence in the corporate sector unravels, target audiences attach a particular importance to what they perceive as quasi-objective media reporting.

As uncertainty spreads and confidence wanes, face-to-face communication gains in importance. This seems to be a truism based on common sense. Still, many companies fail to live up to this imperative when it would be most important to do so. Executive management needs to meet regularly with key constituencies to successfully navigate the corporate ship through troubled waters.

### Rewards if You Do it Right

The trust of existing customers and a solid reputation with prospective clients is set to result in more successful business production, be it direct or through intermediaries. Further, trust and reputation could enable an insurance company to command a premium on market prices. In different words, both determinants of a company's revenues, ie quantity and price, could be favourably affected by trust and reputation. It is also likely that a trusted company will expand its market share at the expense of less favourably perceived rivals. Durable trust may be instrumental in reshaping the marketplace and establishing a much stronger corporate position post-crisis. 

The author can be contacted at [kai-uwe.schanz@schanz-alm.com](mailto:kai-uwe.schanz@schanz-alm.com)

