

Leading through turmoil – An insurance perspective



With global economic numbers in the spotlight again, **Dr Kai-Uwe Schanz**, Principal Partner, Dr Schanz, Alms & Co, Zurich, looks at how leadership can and should flourish under adversity. This article is based on a speech the author delivered recently at the Swiss Re Centre of Global Dialogue in Rueschlikon/Zurich as part of Swiss Re's Risk Talk series.

The global economy slowly emerges from the most severe downturn in decades. Countless companies have been confronted with unprecedented adversity. Many of them were forced out of business by the onslaught of the financial crisis. The banking sector has been particularly hard hit. In contrast, the (re)insurance industry has weathered the crisis relatively well, the main reason being its limited exposure to liquidity risks due to a funding cycle which is based on the upfront payment of premiums and the absence of anything resembling a bank run.

Having said this, the financial crisis has presented insurance executives with formidable challenges. Many of them went through a unique learning experience as leadership teams were put to the test and existing assumptions radically challenged. How can far-sighted leaders prepare the ground pre-crisis? What are key success factors when it comes to steering an organisation through turmoil? And, finally, how can companies make a virtue of adversity overcome?

Preparing the ground pre-crisis

Executives are well advised to lay the foundations for successful leadership in adversity while the sun still shines. One straightforward piece of advice is to continuously build reservoirs of trust and goodwill with customers, investors, journalists, the local community etc. These intangible assets can be drawn upon in times of turbulence.

In that respect, organisations should, for example, think of enlarging their corporate goals by painting the big picture, outlining how they fit into the wider context of basic economic and societal needs.

Insurance companies are notoriously bad at capturing this potential and regularly struggle to convey their fundamental value proposition – enabling commerce and providing peace of mind to millions of people.

Another recommendation is to systematically instil a culture of crisis awareness, mitigation and planning. Employees on all levels need to understand that crises and adversity are integral parts of doing business. This may sound trivial but it is actually not, especially not for organisations which are spoilt by success or never have experienced choppy waters. Instilling such a culture ensures that a company avoids denial and paralysis when turbulence strikes. “An ounce of prevention is worth a pound of cure” perfectly sums up our thoughts on pre-crisis preparation.

Steering through the crisis

In the midst of turmoil it is of crucial importance to strike an appropriate balance between analysis, management and communication. First of all, the chief executive needs to recognise the crisis and make sense of it. Again, this sounds simple but can turn out a delicate balancing act in practice. On the one hand, it is important not to waste any precious time by denying adversity and “keep fiddling while Rome burns”. On the other, the CEO must not panic, overreact and resort to knee-jerk reactions. After making sense of the situation, she needs to come up with a straight, focused

and simple plan without any delay, ideally building on contingency templates established pre-crisis.

Following this analytical phase, the CEO should assemble a core team, ideally not exceeding five individuals. Considerably more demanding is the instilment of a sense of purpose into each and every employee. This is a critical juncture which can decide the fate of the organisation. Executive management needs to succeed in fighting perfectly human reactions such as shock, anger, denial, fatalism and cynicism by injecting a “fighting spirit” which makes employees on all levels go the extra mile.

Also, the CEO needs to encourage lateral and creative thinking which, especially in times of turmoil, arguably matters more than adhering to formal patterns of behaviour. And finally, the CEO must not shy away from being ruthless if necessary. He must part company with destructive cynics (not constructive sceptics!) who damage morale. This is easier said than done, particularly when personal loyalties need to be set aside. Such decisive behaviour also entails the risk of temporary setbacks. However, for the overall “mental” health of the organisation it is imperative to go down that route.

The third key pillar of successful leadership in adversity is communication. The CEO and his executive team must communicate credibly, compellingly, passionately and continuously. In order to be credible, executives must address the seriousness of the situation and potential obstacles to rectifying it. Throughout the crisis, they should display a sound sense of reality. Also, continuity is of the essence to stop rumour mills from developing.

Make a virtue of adversity

What do successful leaders do post-crisis? They should not lean back but carefully examine the scope for making a virtue of the crisis their organisation has just emerged from. “Never waste a good crisis”. This adage is currently the flavour of the day as politicians, corporate executives and academics design blueprints for the post-financial crisis economic and regulatory paradigm.

Obviously, a crisis enables decision-makers to do things that they would never have done before. From a corporate perspective, we would like to share four specific recommendations: First, amend your business model and corporate strategy: The financial crisis, for example, has given a boost to all those corporate leaders who cherish the principle of “stick to your knitting”. Getting the basics right rather than chasing lofty visions: This rather bland corporate strategy would have met with severe resistance from investors and other stakeholders pre-crisis. Whether it is the right thing to do from a longer-term perspective remains to be seen, however.

Second, rebuild your corporate structures following a crisis: A major corporate or broader economic dislocation can be viewed as a sort of “creative destruction”. It provides management with a unique opportunity to take a fresh perspective and rejuvenate corporate structures. Third, identify and promote people who thrive on the crisis: The particular challenges in times of turmoil help unearth hidden talents, people who have risen to the occasion and shown their ability to think and act outside the box, people who would just go unnoticed as long as the corporate ship sails smoothly. And, finally, fourth, remove destructive

cynics from the organisation. It is in bad times that the wheat separates from the chaff. And leaders should not waste these findings and rather act upon them, not only during a period of crisis, but also after it, in preparation of the next turmoil.

Key takeaways

First, we advocate a “life cycle” approach to leadership in adversity. It starts before turbulence strikes and ends long after it has receded. Second, during the crisis, the main challenge is to strike an appropriate balance between sober analysis, effective management and passionate, yet realistic communication. Third, the unique findings unearthed by periods of turmoil must not be squandered.

Executives need to ensure that the lessons learned from adversity are put to effective use to further enhance an organisation’s strategy, structures and the quality of its people. It all boils down to harnessing adversity as a catalyst to corporate development, with the ultimate objective of building a more resilient and viable organisation.▲

(See Side Box on the existential crisis which struck Converium, a former global Top 10 reinsurer where the author served as Head of Corporate Communications & Development from 2004 to 2007).

Converium as a historical case study – A short but eventful corporate life

In 2001, the Zurich Financial Services Group divested from its reinsurance operations through an Initial Public Offering. This transaction, the largest Switzerland had seen up to that point, gave birth to Converium. In its first two years, the company grew steadily and profitably, exceeding the expectations of the investor community. It rose to the league of the global Top 10, with premiums and shareholders’ funds exceeding US\$4 billion.

In July 2004, however, a substantial reserve shortfall in US casualty business blew a huge hole in the company’s balance-sheet, wiping off more than 20% of shareholders’ funds and sending the stock price plummeting by half. Despite a successfully engineered emergency capital increase which pulled the company back from the brink, Converium lost its “A” financial strength rating. This crippling downgrade set off a vicious spiral of client and key employee defections and triggered a “perfect storm”.

During 2005, Converium started to stabilise. In 2006, a turnaround in financial performance was achieved. In the following year, Converium was acquired by SCOR, following an unsolicited bid and an acrimonious defence battle which ultimately turned friendly and led to a smooth integration as from fall 2007.

