



CEO Agenda: Keep Looking

In the second of a series of three curtain raisers to the IIS conference in Chicago this July, **Mr Patrick W Kenny**, President and CEO, International Insurance Society Inc, USA, talks about the growing concern of corporate governance in the wake of high-profile incidents in the market.

Last month, I commented on the principal triggers causing the prominence of the role of regulation and distribution issues as the top-two issues on the minds of the insurance industry leaders, based on an industry survey conducted at the IIS annual seminar in Hong Kong last July. Subsequent to these leading concerns, Corporate Governance ranked as the next prevalent issue, and remains among the top concerns of insurance CEOs worldwide.

Following a collapse in consumer confidence in the wake of heavily publicised corporate scandals, the issue of corporate governance has been at the forefront of concern and discussion for the past several years. From Enron to Parmalat, corporate capriciousness has scorched many industries and spanned many regions. By now, the world is weary and has become somewhat cynical towards the role of legislation, such as Sarbanes-Oxley, devised to “cure” the epidemic and prevent the recurrence of these incidents. Perhaps legislation which puts form above function, adding to the complexities of an industry bound by arcane language, esoteric business practices and increasingly complicated compliance, disregards the simple premise that **good corporate governance is good business**.

Crippling Effects

Am I oversimplifying this issue? Perhaps, yet the answer to me is simple. Poor or less-than-adequate corporate governance more effectively destroys a company’s reputation and is more crippling than the potential financial losses from poor underwriting or less-than-satisfactory handling of claims. While bad judgment in underwriting can cost money, and unsustainable risks are incurred or incurred at inadequate rates, these errors manifest quickly and effective measures can be implemented immediately to rectify the loss or potential loss.

On the other hand, corporate governance errors, such as poor oversight at the Board level or poor tone at the top, costs reputation, becomes systemic and ultimately invites regulatory intervention.

Companies that do not practice good corporate governance and oversight lose clients much faster than those with poor underwriters, and their reputation quickly deteriorates. This pervades both consumer opinion and corporate relationships since well-governed organisations generally do not want to do business with companies that lack strong governance and leadership.

Effective corporate governance starts with an attitude at the senior-management and Board level, and transcends the organisation through its corporate culture. While it may not be expressed in manuals or a code of ethics, it is engrained in the corporate culture through leadership example and behaviour. Employees in a culture of good

governance do not need to “check with the boss” or consult a manual because good behavior is second nature to them.

Social And Economic Responsibility

The “aftermath” of corporate governance is a focus on corporate responsibility and reputational risk. On a daily basis, all across the world, the insurance industry provides extensive services to society and plays a pivotal role as an integral component of the foundation of modern economies and infrastructure, both in developing and mature markets.

From insuring airplanes and transport, shipping ports and building developments to settling claims that ease the burden associated with calamities, generally these imperative functions take place seamlessly and efficiently with few exceptions.

It is, however, those exceptions which gain media attention and therefore present the biggest challenges to the industry by causing extensive damage to the reputation of the industry. While the insurance industry is responsible for much of the foundation of a functioning society, it is not rewarded with civic applaud. Rather, the public continues to be derisive and suspecting of the industry as a whole.

The industry does not effectively promote its positive impact on society and, therefore, its impact is overlooked and excessively undervalued by the public at large.

The issue of reputational risk is an industry-wide problem, and is difficult to quantify because it manifests in negatives, not positives.

“Attitudinal Risk”

Another issue impacting reputational risk is “attitudinal risk”. The insurance industry has historically been characterised as a reactive rather than proactive industry. But when polarised, as exemplified by actions following Hurricane Katrina, the industry can fuel positive change and act as a stimulus for effective regulation and pre-emptive action. The industry gets extremely high marks in public opinion following a devastating event like a hurricane or a tsunami, but generally has not been at the forefront in seeking legislation or regulatory reform to make insurance more available or affordable, much less more understandable by the consuming public.

As we consider the impact of corporate governance, corporate responsibility and the compelling effects of reputational and attitudinal risks on the industry, it is vital that the industry, as a whole, advance its reputation and promote itself as an integrative tool for the community and a source of advancement, stability and growth for individuals and communities alike. ■