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Preface

In this edition, we went back to history to bring to the attention of our readers the genesis of insurance. Chidinma's write up about the history of insurance took us back memory lane to the great fire of London in 1666 and refreshed our memories. The circumstances that gave rise to the fire are still evident with us today.

The Nigeria Insurance Industry continues to be used as an example of an underperforming sector, Rahmon identified the issues as recessed economy, lack of public confidence, narrow product line, low financial standings and human capacity challenges amongst others, he also proposed some solutions around investment in research, education for all stakeholders, adequate and professional staff and information technology. With these proposed solutions, he believes the industry can overcome the challenges bedevilling it.

"The future, they say, belongs to those who sees it before it becomes a reality" anonymous, transactions have moved from physical to digital, the implication of this movement is that risks associated with these transactions have also changed form and mode. In view of this change in risk landscape, DENNIS VANDERLIP AND TONY JACOB's, MICROSOFT write up on "Creating the digital Insurer of the future" summarised by saying that "The digital insurer is a customercentric, proactive and competitive organisation that delivers a unique and engaging experience to customers and agents".

The last two write ups in this quarter's edition rounded up with key points in Steven coveys 8Th habit and "a reputation risk in a social media culture". These two write-ups are interrelated, as in most cases organisational habits and behaviour ends up being organisational culture.

However, the social media have become the "Policeman" of organisational behavioural failings. The fear of brand damage due to bad reputation attained from service and other failures, and arising from either attitudes of the staff or actions or inactions of the organisation itself; has become a major concern for organisations; hence a subject of risk for insurance practitioners.

Overall, this is another Scib digest that you would find enriching, educative and generally a source of reference for personal lifestyle management.

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HISTORY OF INSURANCE

by Chidinma Emereole

"Insurance as we know it today, can be traced to the Great Fire of London of 1666 that ravaged London from Sunday, 2 to Wednesday, 5 September. The fire started in Pudding Lane in the king's appointed baker's shop (Thomas Farriner). His maid failed to put out the ovens at the end of the night, and ignited the wooden home of Farriner"

Imagine a world without insurance. No shipping and travel, no construction, no factories and offices, no doctors or other professional consultants, no motoring - potentially even no home ownership. Insurance exists because people need security. Without insurance there would be far less risk-taking. And without any risk-taking there would be no businesses and no innovation. Put simply, insurance is what enables the modern world to get on with life.

Insurance is a form of risk management, primarily used to hedge against the risk of a contingent loss. In essence, insurance is simply the equitable transfer of a risk of a loss, from one entity to another, in exchange for a premium. Where there are many similar risks, insurers can predict fairly accurately how many losses there will be. In fact, only a few of all those insured suffer a loss. The insurer offers protection by grouping together lots of people exposed to the same risk. They collect money (a premium) from each one to create a fund (a pool) to pay the few who do suffer losses.

Gambling transactions also hedge against risk, but it offers the possibility of either a loss or a gain. Gambling creates losers and winners, whereas in insurance offers financial support sufficient to replace loss, not to create pure gain. Gamblers can continue spending, buying more risk than they can afford, but insurance buyers can only spend up to the limit of what insurers would accept to insure; their loss is limited to the amount of the premium. Gamblers, by creating new risk transfer, are risk seekers. Insurance buyers are risk avoiders, creating risk transfer in terms of their need to reduce exposure to large losses.

Early methods of transferring or distributing risk were practiced by Chinese traders as early as the 3rd millennia BC. These merchants travelling treacherous river rapids would cleverly distribute their wares across many vessels to spread the loss due to any single vessel's capsizing. Modern profit insurance manifested in Babylon almost 2000 years B.C, in a contract of loan of trading capital to travelling merchants. The contract contained a clause that the risk of loss due to robbery in transit was

borne by the party providing the loan. In consideration for bearing this risk, the lender calculated interest on the loan at an exceptionally high rate.

The Greeks and Romans introduced the origins of health and life insurance to us around 600 AD, when they organized guilds/benevolent societies (such as sodalitates (which serve as "special interest groups" for people who are interested in a particular aspect of ancient Roman life), collegia and military societies) which afforded members certain benefits, such as proper burial rites, or a financial contribution towards burial costs (funeraticium) or travelling expenses of members of the army. In exchange for this benefit, members of the society made regular contributions to it.

During this time, Achaemenian (Iranian) monarchs were the first to 'insure' their people to some extent, formalising the process by registration thereof at court. In accordance with tradition, during Norouz - the beginning of the Iranian New Year - the heads of different ethnic groups presented gifts to the monarch. The purpose of these gifts was to ensure (insure) that whenever the gift-giver was in trouble, the monarch (and the court) would help him. In return, whenever the giver was in trouble or needed finance, the court would check the gift's registration, and could even - if the amount exceeded 10,000 Derrik - double that in return.

All these instances gave effect to the concept of mutual assistance in case of loss, but the actual concept of mutual assistance came to the fore in guilds and similar associations and societies which existed in Europe and England during the middle-ages. These associations afforded members (or their dependants) assistance in case of loss caused by perils such as fire, shipwreck, theft, sickness or death. Originally, the extent of the assistance was determined by the actual need of the member who suffered the loss, eventually, however, he would be assisted to the extent of his actual loss. In many of these guilds individual members, and not merely the guild itself, were under a legal duty to assist those members who suffered a loss. Once provision was made for the latter to have a corresponding legal right to claim such assistance, the development towards proper mutual insurance was completed.

Separate insurance contracts (i.e. insurance policies not bundled with loans or other kinds of contracts) were invented in Genoa in the 14th century, as were insurance pools backed by pledges of landed estates. These new insurance contracts allowed insurance to be separated from investment, a separation of roles that first proved useful in marine insurance. Insurance became far more sophisticated in post-Renaissance Europe, and specialized varieties developed.

Toward the end of the 17th century, London's importance as a trade centre led to an increasing demand for ship and cargo insurance. In the late 1680s, Mr. Edward Lloyd opened a coffee house, which became a popular haunt of ship owners, merchants, and ships' captains, and thereby a reliable source of the latest shipping news. It became the meeting place for parties wishing to insure cargoes and ships, and those willing to underwrite such ventures. From those beginnings in a coffee house in 1688, Lloyd's has been a pioneer in insurance and has grown over 325 years to become the world's leading market for specialist insurance.

Insurance as we know it today, can be traced to the Great Fire of London of 1666 that ravaged London from Sunday, 2 to Wednesday, 5 September. The fire started in Pudding Lane in the king's appointed baker's shop (Thomas Farriner). His maid failed to put out the ovens at the end of the night, and ignited the wooden home of Farriner. The maid failed to escape the fire, and was one of its few victims. Once it started, however, the fire spread quickly. The city was basically made out of wood, and the weather in September was very dry. Strong winds fanned the flames.

The fire gutted the medieval City of London inside the old Roman City Wall. It consumed 13,200 houses, 87 parish churches, St. Paul’s Cathedral, and most of the buildings of the City authorities. It is estimated that it destroyed the homes of 70,000 of the City’s 80,000 inhabitants. The death toll from the fire is unknown and has traditionally been thought to have been small, as only a few verified deaths are recorded.

The Great Fire cost London an estimated £10million, at a time when its annual

income was just £12,000. Not surprisingly, this expense focused minds on the idea of insuring against fire.
By the end of the 17th century, three London societies were actively engaged in the business – Nicholas Barbon's "Fire Office" (later known as the "Phoenix Fire Office") was established in 1680, the "Friendly Society" established in 1683, and the "Hand-in-Hand" Office. (The Hand-in-Hand was originally formed in 1696 in Tom's Coffee House as the 'Amicable Contributionship for the Insurance of Houses against Fire', but the name was changed after the company adopted an emblem of two hands joined beneath a crown. It still exists as part of the CGNU insurance conglomerate, but is being rebranded to AVIVA.

The first insurance company in the United States underwrote fire insurance and was formed in Charles-Town (modern-day Charleston), South Carolina, in 1732. Benjamin Franklin helped to popularize the practice of insurance in North America - particularly against fire – and in 1752, he founded the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. Franklin's company was the first to make contributions toward fire prevention. Not only did his company warn against certain fire hazards, it refused to insure certain buildings where the risk of fire was too great, such as "all-wooden" houses.
As other needs for insurance arose in the 1830s, the practice of classifying risks had begun.

The insurance companies had a rude awakening in 1835 when the New York fire struck. The losses were unexpectedly high and they had no reserves prepared for such a situation. As a result of this, Massachusetts led the states in 1837 by passing a law that required insurance companies to maintain such reserves. The great Chicago fire in 1871 reiterated the need for these reserves, especially in large, dense cities.
The industry was growing into massive scale, carrying equally massive risk, and - although competitors - to find a solution to the challenge of large losses they worked together to create systems that could be used throughout the industry. Reinsurance - whereby losses can be distributed among many carriers - was devised, a plan not unlike the Chinese farmers' solution a thousand years earlier. This system is now commonly used in all types of insurance.

The first American life insurance association was sponsored by a church – the Presbyterian Synod of Philadelphia – and set up for the benefit of their ministers and their dependants. Although there was initial religious objection against the practice of insurance by a church, after 1840, life assurance simply boomed as people used the opportunity to protect themselves against major losses.

Insurance had become accepted practice. Farmers wanted crop insurance. Travellers wanted travel insurance. Everybody turned to insurers to buy peace of mind.
Today, insurance is being conducted over a vast array of "lines of business" that encompass personal, commercial, marine, aviation, agriculture, life, health, financial and engineering insurance. Virtually anything - from the mundane to the bizarre - can be insured, as Lloyd's is famous for insuring the life, health, legs or even noses of actors, actresses and/or sports figures.

Did you Know?

A South African soap maker insured Princess Diana for two months back in the early 1990s, but she probably never knew anything about it. The soap maker invested R400,000.00 into an eight-week ad campaign that used a Diana look-alike. If anything would have happened to the real Diana, the company worried it would have to pull its ads and would lose its investment, and such risk was insured!

- In 1901, the first car insured at Lloyd's was covered by a marine policy. Cars were such a novelty that specific policies did not yet exist, so the marine underwriter wrote a normal marine policy for the car on the basis that it was a ship navigating on dry land.
- Insurers (basically) earn their profit from:
  a) underwriting (the process by which insurers select risks to insure and decide how much in premiums to charge for accepting those risks), and
  b) investing premiums collected from policyholders. The investment component (albeit risky in itself) is a major component of the business of insurance, and often more profitable (and absolutely necessary in times of volatile claim periods) than underwriting.
- Non-life insurance premiums written in 2005 (globally) grew 9.7 % from 2004 to reach an astounding $3.3 trillion ($ 3,300,000,000,000.00).

From its humble origins of neighbours assisting one another on a river in Asia, to (perhaps) the biggest industry in the world, insurance has always been, and remains inextricably interwoven in our way of life.

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Overcoming the Challenges of the Nigerian Insurance Industry

"There is lack of innovation in the Nigerian Insurance industry as Insurance covers present in developed countries are not obtainable in the Nigerian Insurance industry.
This is as a result of weak investment in research and development. Cybercrime Insurance is a good example of cover much needed but not obtainable in the market currently"

Insurance in Nigeria can be traced back to the 20th century when Nigeria's economy was solely dependent on agriculture. There was a need for merchants to transport their cash crops to Europe and also reducing the risk of such transportation. This majorly contributed to the dominance of marine insurance in Nigeria at that time. Despite its importance for economic development, the gross premium collected by insurance companies in Nigeria is about 1.9 Billion United States Dollars compared to the 3.8 Billion United States Dollars collected in South Africa (Osinuga, 2016).
In the United Kingdom, the insurance industry contributes about 20% of the total GDP of the country. In South Africa, the insurance industry contributes 17% of the total GDP and in Kenya, the insurance industry contributes 3.4% of its nation's GDP (Osinuga, 2016).

Antagonistic/ recessed and hostile economy

A stable economy promotes the savings necessary to finance investments which is a prerequisite for achieving a viable insurance industry which can help sustain economic growth. Insurance companies are sensitive to economic fundamentals and sometimes have to factor a lot of economic variables so as to make the right investment decisions. These variables include foreign exchange reserves, government debt, government deficits, inflation, interest rates and exchange rates which have all suffered in recent years as a result of Nigeria's financial indiscipline and misappropriation.

What this means is that for the insurance industry to thrive and attain its potentials, the government must be sincere in promoting a favourable environment that will allow the financial service industries thrive. This will help increase the operational efficiency of the insurance industry.

Presently, insurance companies are unwilling to invest the premiums in long-term instruments because of the fear of inflation built up over several years due

to fiscal indiscipline and high inflation. It is a very simple principle of economics and investment that short-term investment will yield lower returns. If these trend continues to occur, insurance companies will not be able to solve their liquidity problems which might deter insurers to pay claims.
Lack of Public confidence in the industry
Anybody who has spoken to the average Nigerian about insurance can give a firsthand experience of how Nigerians generally have a negative attitude toward insurance. This accounts for the low patronage of insurance companies in Nigeria.

The negative attitude of Nigerians might not be unconnected to the poor attitude of the insurers as regards non-payment of claims. Some insurance companies are very notorious of defaulting in payment of claims which has adversely affected the publicity for the industry and consequently the confidence in the industry buy the prospective assured. Also, there are clauses in policy documents which escalates the distrust in Nigerians *(The more reason Insurance brokers are indispensible)*

Narrow product line

There is lack of innovation in the Nigerian Insurance industry as Insurance covers present in developed countries are not obtainable in the Nigerian Insurance industry. This is as a result of weak investment in research and development. Cybercrime Insurance is a good example of cover much needed but not obtainable in the market currently. Some special insurance risks (such as aviation, oil and gas, etc.) are not fully underwritten by domestic insurers because of lack of local professional underwriters.

Relatively Low Financial Standing

Only a few operators in the Nigerian Insurance industry have a solid financial standing that can drive or facilitate expansion of their business. As a matter of fact, we have only a few of them as public companies capable of raising the finance from the Nigerian Capital market through the Nigerian Stock exchange as well as from foreign markets.

Human capacity development

Human capacity/capital development is a key driver and critical determinant to success of any company and industry. Capacity development is about the critical skills required and how such skills are harnessed efficiently in the organization to attain corporate objectives. There is a general shortage of skilled professionals (underwriters, brokers, actuaries, etc.) in the entire insurance industry and some of the reasons behind the shortage are explained below.

The demand for actuaries in the Nigerian financial services industry became more pronounced following the introduction of IFRS. Incidentally, in the insurance industry, every insurance company needs to have an actuary, as IFRS requires that every entity's balance sheet reflects true and fair representation of the obligations (e.g., to policyholders). Thus, the dearth of actuaries in Nigeria would not only affect the insurance companies' operations but also the oversight functions of the regulatory body. Furthermore, there is lack of awareness about the actuarial profession and what actuaries can do.

Possible Solutions

- Intense investment in research and development to drive innovation of new and bespoke insurance covers for exposures of Nigerians.
- Continuous education on the importance of Insurance to counter the negative orientation held by Nigerians on insurance. This may come in form of Seminars, promotions, advertisements etc.
- Engagement of adequate staff with professional background to carry out oversight functions: The CIIN should ensure that insurance professionals live up to the bidding of true professional in word and in deed. To this end, the CIIN should constantly review and expand their curriculum beyond core insurance courses in order to build knowledge capacity. CIIN also needs to introduce Continuous Professional Development (CPD) programme in order to keep its qualified members abreast of professional standards and practices.
- Actuarial professional training programmes are needed to create the awareness of the profession. Funds should also be allocated for training of employees and/or Board of Directors.
- Information Technology: Many companies in the insurance industry do not have a fully automated and/or integrated computer software system (i.e., only few companies make use of integrated business application and IT infrastructure to drive business value). Thus, insurance data and document management system is relatively poor compared to other sectors in the economy.

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Creating the Digital Insurer of the Future

By unlocking digital experiences for customers and employees, insurers can enable unique insight and engagement

Dennis Vanderlip and Tony Jacob, Microsoft

> *"The digital insurer is a customer-centric, proactive and competitive organisation that delivers a unique and engaging experience to customers and agents"*

Digital has transformed the way we work, shop and socialise. Today, customers can research their products and services before contacting sales staff; they can continue a conversation across a growing range of devices and platforms; and they share their opinions and experiences with a global audience at the touch of a fingertip. They expect the same immediacy from the businesses they deal with. In this connected, digitally-enabled environment, businesses of all kinds are re-examining every aspect of their customer engagement and operations – and insurers are in a unique position to benefit. Many insurers are working with disparate information silos and complex networks of agents, brokers, underwriters and claims adjusters. They are also increasingly under pressure from new entrants who have none of those legacy issues and can afford to compete on a cost basis. But cost isn't everything. In this fast-moving industry, true differentiation lies in delivering a unique experience that connects staff and agents with the resources they need to put the customer at the centre. It's not simply about transacting with customers anymore; it's about attracting and engaging with them, partnering with them to achieve their goals, and making it easy for them to do business with you. That is what we mean when we discuss the digital insurer.

The digital insurer is built on three pillars: creating omni-channel experiences for customers and agents; delivering insight to producers, sales teams and agent networks; and enabling digital work styles. Putting those pillars in place enables insurers to unlock the potential of customers, employees and intermediaries.

Creating an omni-channel experience means putting the customer at the centre of a seamless, interactive

environment so they can pick up a conversation on any channel they choose. By digitising interactions across all channels, including mobile applications, consumer portals, call centres and social media, you can make that experience available in the anytime, anywhere mobile environment people expect.

This presents a unique challenge for insurers. Unlike banking, where customers typically contact the corporation direct, insurance often involves a middle tier of agents, some employed by the company and some working independently. Insurers know that in order to build loyalty and increase sales, they need to treat those agents like customers too.

Insight is the key to delivering that experience. Digital interaction yields unprecedented amounts of information about your customers, but too often it is locked in silos that prevent agents and service staff seeing the full picture. Breaking down those silos to enable a 360-degree view of the customer's relationships, products and interactions will establish the customer as the focal point of sales and marketing efforts, turning data into insight that can empower insurance carriers to price their offer correctly, assess risk, and recommend the best products for that customer.

A digital insight system will take interactions from the agent channel, customer web and mobile channels, the service centre, existing siloed back-end systems and from marketing and social interactions, bringing them all together to create that 360-degree view. The features in this publication explain how applying these principles and making that 360-degree view available to salespeople, agents and service desk staff will create an environment that supports proactive service to customers.

Enabling digital work styles is the third key pillar of the digital insurer concept. Many insurance companies have thousands of agents, some of whom are employed by the company while others are independent – and all of them need access to key information and productivity tools, wherever they are and whatever device they're using. Providing familiar tools that can be used on any device is essential to enabling your people to collaborate more effectively and be more productive whether they're in the office or in the field with customers. This is about setting agents, brokers and claims adjusters free on a mobile device and empowering them with mobile applications that replicate everything they can do in the office so they can engage, support and sell to customers wherever they are, on their device of choice. And with today's technologies, the promise is to make that one single, secure, and easily managed device that supports business applications, and serves as a unified communication device, a slate or tablet with all of the necessary product information, forms and eSignature capabilities, and a laptop or desktop replacement in one. The digital insurer is a customercentric, proactive and competitive organisation that delivers a unique and engaging experience to customers and agents. It's about achieving the 360-degree view that has become essential to success in this intensely competitive industry. It's a concept that looks to the future of the industry, and one that Microsoft, and our network of global, regional and local partners, are making a reality for insurers today.

Tony Jacob is managing director and Dennis Vanderlip is industry solutions director for worldwide insurance at Microsoft

The 8th HABIT
From Effectiveness to Greatness
(Culled from Sound Ideas by Peter Offiong)

The Author

STEPHEN COVEY is cofounder and vice chairman of Franklin Covey, a global professional services firm. Acknowledged by Time Magazine as one of the 25 most influential Americans, Dr. Covey is the author of seven books including The 7 Habits of Highly Effective People, First Things First and Principle-Centered Leadership. Dr. Covey holds an undergraduate degree from the University of Utah, an MBA from Harvard and a Doctorate from Brigham Young University. He is the recipient of a large number of awards and recently founded the Covey Leadership Center.

Main Idea

The 8th habit of highly effective people is: "Find your voice and inspire others to do likewise". This latest habit is not an add-on to the original seven habits, but represents another dimension of effectiveness which will enhance the performance of each of the other seven habits.

The 7 Habits of Highly Effective People

1. Be proactive — Dependence
2. Begin with the end in mind
3. Put first things first — Independence
4. Think win/win Independence
5. Seek first to understand... Then to be understood
6. Synergise — Interdependence
7. Sharpen the saw

Find your voice	1. Discover your own voice	
	2. Express your voice	
Inspire others to find their voices	Focus	Execution
	1. Expand your influence	1. Align goals and systems
	2. Be trustworthy	2. Empower others
	3. Build trust	
	4. Blend other's voices	
	5. Create a common vision	

To find your voice means to engage in work that genuinely taps your talents and fuels your passion. It means to do something significant with your career – to sense an unmet need and then to fully harness all your talents and passion to meet that need. To find your voice means to take the path to greatness rather than settling for mediocrity.

B. Inspire Others To Find Their Voices

Once you've found your own voice, the way you can continue to increase your feelings of achievement is by helping others to find their own unique voices as well. Most likely, this will be done through an organisation of some kind because most of the world's work is done by organisations rather than by individuals. To inspire others means to recognise, respect and create meaningful opportunities for others to express their voices. The word inspire is derived from the Latin inspirare which literally means to breathe life into another. This is exactly what you do when you encourage and positively influence others within your own organisation to find their voices.

A. Find your voice

1 Discover your own voice

To find your voice means to engage in work that genuinely taps your talents and fuels your passion. It means to do something significant with your career – to sense an unmet need and then to fully harness all your talents and passion to meet that need. To find your voice means to take the path to greatness rather than settling for mediocrity.

One of the most frustrating things for the majority of people is the fact they rarely have the opportunity to realise a life of greatness and contribution. Instead, people spend the majority of their careers operating at a much lower level. They are aware of the tremendous challenges and problems which exist, but most people have not developed the internal power nor the moral authority to become a force in solving those problems.

To address this challenge, you need to find your own voice. When this happens, a fire will light inside you which will fuel tremendous drive and commitment. To be able to actually find your voice, however, you first need to understand a simple way of thinking about life.

A whole person has four basic components:

1. A physical body.
2. A mind capable of independent thought and analysis.
3. A heart which can feel emotion.
4. A spirit – your soul or philosophical center.

Each of these components has a corresponding basic need or motivation:

1. Physical body – "To live".
2. Mind – "To learn".
3. Heart – "To love".
4. Spirit – "To leave a legacy".

The highest manifestations of these capacities are:

1. Physical body – Discipline
2. Mind – Vision
3. Heart – Passion
4. Spirit – Conscience

As you begin to understand, respect and ultimately balance these highest manifestations for yourself, synergy is created. You become energised as you begin to understand what you're actually capable of achieving. When you engage in work that taps your talents and fuels your passions, and which fills the need your conscience has drawn you towards, you find your voice. This is often described as "finding your true calling in life" or "unlocking your soul's code".

The human voice is unique and significant because it lies at the intersection of your own unique:

1 Talents – your natural gifts and strengths.
2 Passion – those things that excite and enthuse you.
3 Needs – the necessity that you earn a living by providing what people are willing to pay for.
4 Conscience – that still, small internal voice or compass which confirms what is right and when you're doing it.

The challenge of life is to discover your own quite unique voice, which will lie in the potential that was bequeathed to you at birth. When you discover that, no longer will you feel like a victim of your circumstances. Instead, you'll be in a position of power to move forward with confidence into the future.

"All children are born geniuses; 9,999 out of every 10,000 are swiftly, inadvertently degeniuized by grownups." – Buckminster Fuller

"I have found that by making four simple assumptions in our lives we can immediately begin leading a more balanced, integrated, powerful life. They are simple – one for each part of our nature – but I promise you that if you do them consistently, you will find a new wellspring of strength and integrity to draw on when you need it most.

1 For the body – assume you've had a heart attack; now live accordingly.
2 For the mind – assume the half-life of your profession is two years; now prepare accordingly.
3 For the heart – assume everything you say about another, they can overhear; now speak accordingly.
4 For the spirit – assume you have a one-on-one visit with your Creator every quarter; now live accordingly."

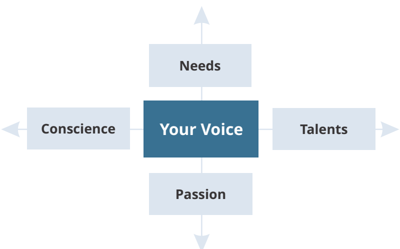
– Stephen Covey

"There are a thousand hacking at the branches of evil to one who is striking at the root." – Henry David Thoreau

	Components	Basic Needs	Key Attributes	Dimensions
Whole Person	Body	"To Live"	Discipline	Need
	Mind	"To Learn"	Vision	Talent
	Heart	"To Love"	Passion	Passion
	Spirit	"To Leave a Legacy"	Conscience	Conscience

2 Express your voice

All of history's greatest achievers have only one thing in common. Through long-term effort and intensive inner struggle, they have greatly expanded their talents, passions, needs and conscience. By doing this, they have enhanced the power of their voices, thereby increasing their influence and reach.



Similarly, in order to express your voice more decisively and distinctively, you need to work at building your capacities in each of these four dimensions:

1. Vision – being able to see a future state in your mind's eye before it materialises in the flesh. Vision is simply applied imagination, as most things are created mentally before being brought into physical reality. Great leaders see the untapped potential in their people, and inspire them to move towards realising that potential. In comparable fashion, to express your voice more powerfully, you need to cultivate the habit of looking for the good in people and affirming that. As you communicate to the people around you, your belief in them and their future, you'll bring out the best in them.

2. Discipline – which is effectively willpower embodied. Discipline is needed to actually make things happen. To be disciplined means to accept reality, become totally immersed in the facts and then move forward from there. Without exception, successful people are disciplined enough to do what has to be done rather than what would be expedient or easy to do. Or put another way, discipline in practical terms usually means forgoing immediate pleasure in anticipation of a far greater future payoff.

3. Passion – the unrelenting drive which comes from the heart. People with passion are motivational to be with because they believe the best way to predict the future is to take part in shaping it. Influential people are passionate about what they do because they have found their purpose and role in the world, their mission in life. When people are passionate about what they do, they don't require any supervision to get things done. Their fire and motivation comes from within rather than being imposed from without.

4. Conscience – your moral sense of what's right and what's wrong. Every religion and every culture of the world has an accepted set of values which dictates a sense of fairness and the concepts of honesty, respect and contribution. Conscience encourages people to sacrifice something good in order to obtain something even better. Ego may suggest that the end justifies the means, but conscience will tell us a worthy end can never be accomplished with an unworthy means. Conscience transforms passion into compassion and allows us to build relationships of trust with other people. In short, people who live by their conscience will have inner integrity and peace of mind.

If you apply these four dimensions to any role that you carry out in life, you can and will find your voice in that role. The key is to be able to answer four questions in the affirmative in each of the primary roles of your life:

1 What need do I sense in my family, in my community or in the organisation I work for?
2 What talent do I possess which, if properly disciplined and applied, would meet that specific need?
3 Does the opportunity to meet that need tap into the things I feel most passionate about?
4 Does my conscience allow me to take action in this way and become intensively involved?

"When you can give yourself to work that brings together a need, your talent, and your passion, power will be unlocked."
– Stephen Covey

"Conscience often provides the why, vision identifies what you're trying to accomplish, discipline represents how you're going to accomplish it, and passion represents the strength of feelings behind the why, the what and the how." – Stephen Covey

"Wisdom denotes the pursuing of the best ends by the best means."
– Frances Hutcheson

"The best leaders operate in four dimensions: vision, reality, ethics and courage. These are the four intelligences, the four forms of perceiving, the languages for communicating that are required to achieve meaningful, sustained results. The visionary leader thinks big, thinks new, thinks ahead – and most important, is in touch with the deep structure of human consciousness and creative potential. You must gain control over the patterns that govern your mind: your world view, your beliefs about what you deserve and about what's possible. That's the zone of fundamental change, strength, and energy – and the true meaning of courage."
– Peter Koestenbaum

"From now on, the key is knowledge. The world is not becoming labour intensive, nor materials intensive, nor energy intensive, but knowledge intensive."
– Peter Drucker

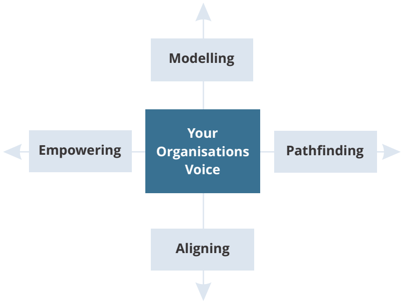
"Most ailing organisations have developed a functional blindness to their own defects. They are not suffering because they cannot resolve their problems but because they cannot see their problems."
– John Gardiner

"I am no longer a young man filled with energy and vitality. I'm given to meditation and prayer. I would enjoy sitting in a rocker, listening to soft music, and contemplating the things of the universe. But such activity offers no challenge and makes no contribution. I wish to be up and doing. I wish to face each day with resolution and purpose. I wish to use every waking hour to give encouragement, to bless those whose burdens are heavy, to build faith and the strength of testimony. It is the presence of wonderful people which stimulates the adrenaline. It is the look of love in their eyes which gives me energy."
– Gordon Hinckley, age ninety-two

"There is nothing so powerful as an idea whose time has come."
– Victor Hugo

B. Inspire others to find their voices

Once you've found your own voice, the way you can continue to increase your feelings of achievement is by helping others to find their own unique voices as well. Most likely, this will be done through an organisation of some kind because most of the world's work is done by organisations rather than by individuals. To inspire others means to recognise, respect and create meaningful opportunities for others to express their voices. The word inspire is derived from the Latin inspirare which literally means to breathe life into another. This is exactly what you do when you encourage and positively influence others within your own organisation to actually find their voices.



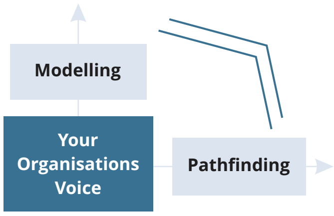
four dimensions – vision, discipline, passion and conscience – you are displaying personal leadership. For an organisation to do something comparable and express its voice, its leaders must fill four equivalent roles:

1. Modelling – the organisation's leaders have to set a good example themselves. They must create and buy into a corporate culture which is aligned with the organisation's vision, customers and future directions. Modelling inspires trust without expecting it.

2. Pathfinding – the organisation must jointly develop a viable strategy which will allow it to move from where it is now to where it wants to be in the future. Pathfinding creates order without demanding it.

3. Aligning – the organisation has to put in place structures, processes and systems which will engender the behavior which is desired and keep everyone on course. Aligning produces a form of institutionalised moral authority to act. Alignment nourishes both vision and empowerment without enshrining them as imperatives.

4.Empowering – focusing the organisation's talent on the results needed rather than the methods used



of people's way. Empowering is all about execution. In an empowered organisation, leaders give help and direction only when requested. Empowerment unleashes human potential without externally motivating it.

"In everyone's life, at some time, our inner fire goes out. It is then burst into flame by an encounter with another human being. We should all be thankful for those people who rekindle the inner spirit."
– Albert Schweitzer

Focus

Focus embodies both the modeling and pathfinding roles in helping organisations find their voice and achieve greatness. There are five things you can do to build and enhance your focus:

To Build Focus 1. Expand your influence

Regardless of whether you're the boss or not, you can influence your organisation to do better in the future. In practical terms, this requires that you take the initiative and act as a trim-tab for your organisation. A trim-tab is a very small rudder on a boat or plane that turns the bigger rudder, which then turns the entire ship. History is full of influential people who exerted loads of influence even though they had no formal authority. This is the spirit of what you need to do within your own organisation. In practical terms, being a trim-tab means:

- You strive for personal excellence – and encourage all those within your circle of influence to do likewise.
- You always do what's right – rather than waiting for explicit permission to be given. Instead of being assigned, you take personal responsibility and use your initiative to solve any problems and move forward.
- You avoid complaining, criticising or being negative – and view these actions as shallow attempts to shift the blame from your shoulders to someone else.
- You empathise with your boss – and try to anticipate the pressures he or she is operating under. Whenever you're given an assignment, you pause and consider the "why" this matter is important. Then take the initiative and provide more than was asked of you. This will make a big impression.
- You have to be constant – and encourage your peers to stick to sound principles and good business practices rather than twisting and turning with every social wind that blows.

As you do these things consistently well, your boss and others in formal positions of power will have increasing trust in your ability to perform. That, in turn, will lead to more opportunities for you to take the initiative. Over time, you will be able to substantially build focus within your organisation by creatively trim-tabbing your way through.

"We must become the change we seek in the world." – Gandhi

"Leadership is communicating to people their worth and potential so clearly that they come to see it in themselves." – Stephen Covey

"Give the world the best you have and you may get hurt. Give the world your best anyway. Few of us can do great things, but all of us can do small things with great love." – Mother Teresa

To Build Focus 2. Be trustworthy

"Just as trust is the key to all relationships, so also is trust the glue of organisations. It is the cement that holds the bricks together. I have also learned that trust is the fruit of the trustworthiness of both people and organisations. Trust comes from three sources: the personal, the institutional, and one person consciously choosing to give it to another – an act that leads me to feel your belief that I can add value. You give me trust and I return it. Trust is a verb AND a noun. When it's both a verb and a noun, it's something shared and reciprocated between people. That is the essence of how a person becomes the leader of their boss. They merit trust by giving it."
– Stephen Covey

Over the long haul, who we actually is far more important than who we appear to be. Trustworthiness derives from the wisdom found in a person at the intersection of their character and competence. In practical terms, to be trustworthy, you must have:

- Personal integrity – you live a principle-centered life rather than doing whatever is expedient.
- Maturity – the ability to deal with tough issues compassionately and on the strength of your own private victory over self.
- An abundance mentality – where you can be genuinely happy for the success of others rather than viewing everything in terms of a winner-takes-all competition.
- Technical competence – the skills and knowledge needed to accomplish the task at hand.
- Conceptual knowledge – the ability to see the bigger picture and therefore to think strategically.
- Awareness – that all life is interdependent and connected to some degree or another.

A trustworthy organisation will keep its promises. The people within it do what they say they will do consistently. They will be able to make promises and keep them because their own lives are in order. They will live universal principles of personal effectiveness, such as those embodied in programs like The 7 Habits of Highly Effective People. They will also have a personal planning system in place, which will enhance their productivity and ensure what they do is aligned with what matters most.

"Character, in the long run, is the decisive factor in the life of an individual and of nations alike." – Theodore Roosevelt

"The supreme quality for leadership is unquestionably integrity. Without it, no real success is possible no matter whether it is on a section gang, a football field, in an army, or in an office." – Dwight David Eisenhower

"One man cannot do right in one department of life whilst he is occupied in doing wrong in any other department. Life is one indivisible whole." – Mahatma Gandhi

"There is no way you can make significant progress in your relationships with other people if your own life is a mess or if you're basically untrustworthy. That's why, in the last analysis, to improve any relationship, you must start with yourself; you must improve yourself." – Stephen Covey

To Build Focus 3. Build trust

In order to inspire others to find their voices, you have to build strong relationships with them first. Effective and sustainable relationships are always built on a foundation of trust. This is significant because the bulk of the world's work actually gets done through relationships between various organisations and between people within the same corporate entity. Thus, the higher the level of trust that exists, the more you can and will get done.

Trust is like an emotional bank account. Whenever you do something that builds trust, you make a deposit. If you do anything that destroys trust, you automatically make a withdrawal from this account. What's left is the equity you can invest in building a strong relationship.

There are ten ways you can increase the amount of trust in your emotional bank account:

1. You can create mutual understanding – by seeking first to understand the other person's point of view before worrying about your own agenda.
2. You can generate an environment of

integrity – by always following through and keeping your promises, big and small.

3. You can practice openness – by being honest about what you need rather than manipulative.
4. You can be kind and courteous – showing you avoid stereotyping and let the facts speak for themselves.
5. You can always think win/win or no deal – demonstrating definitively that you respect the other party in the relationship and have your own competitiveness under control.
6. You can always clarify your expectations clearly – so the other party will have a genuine opportunity to add value rather than going off on a tangent.
7. You can be loyal, even to those who are absent – showing that you have integrity and commitment rather than superficial intent.
8. You can be prepared to accept the apologies of others – demonstrating that your ego is in check and you're realistic about the possibility of short-term setbacks.
9. You can give and receive genuine feedback – so that everyone in the relationship (especially yourself) has an opportunity to become aware of their blind spots.
10. You can be forgiving – willing to forget, let mistakes go and move on rather than endlessly mulling over an earlier misstep.

"It is a greater compliment to be trusted than to be loved." – George MacDonald

"No man for any considerable period can wear one face to himself, and another to the multitude without finally getting bewildered as to which may be true." – Nathaniel Hawthorne

"I know this now. Every man gives his life to what he believes. Every woman gives her life for what she believes. Sometimes people believe in little or nothing, and so they give their lives to little or nothing." – Joan of Arc

To Build Focus 4. Blend other's voices

The best way to resolve conflicts within any organisation is to search for a third alternative which creates synergy as it addresses differences. When organisations do this, they create conditions where the organisation's voice can be more clearly projected.
In practical terms, the search for a workable third alternative which is "our" solution rather than this party or that party's solution requires a whole new mind-set. There must be a willingness to consider creative solutions, empathy for the viewpoint of the other person and on-going two-way communication before this even becomes feasible.
So how do you develop a third alternative which will blend together people's voices rather than allowing conflict to rule supreme? There are two key questions you should ask when trying to develop a workable third alternative:

1 "Would you be willing to search for another alternative solution that is better than what either you have proposed or what we have proposed thus far?"
2 "Would you agree to one simple ground rule while we discuss this: No one can make his or her point until they have restated the other person's previous point to his or her satisfaction?"

If the other party will agree to both these suggestions, then you have a chance to work together to develop a synergistic plan which will work for both of you. Again, this is a win/win approach rather than a zero sum option where the only way one party can win is if the other party loses.
Note that synergy is never a compromise. Instead, synergy is created whenever a solution is developed which both parties acknowledge is even better than what they were originally suggesting. When properly crafted, the third alternative should be so enticing both parties become enthusiastic about it.

"Leaders do not avoid, repress, or deny conflict, but rather see it as an opportunity." – Warren Bennis

"The Third Alternative isn't my way, it isn't your way – it's our way. It's not a compromise halfway between your way and my way; it's better than a compromise. A third alternative is what the Buddhists call the middle way – a higher middle position that is better than either of the other two ways, like the tip of a triangle. The Third Alternative is a better alternative than any that have been proposed. It is a product of sheer creative effort. It emerges from the overlapping vulnerabilities of two or more people – from their openness, their willingness to really listen, their desire to search. You simply don't know where it's going to end up. All you know is that it's going to end up better than where it is now. The Third Alternative usually starts with oneself. But it often takes the force of circumstances like some person opposing you before it really begins to take place within you." – Stephen Covey

"Service is the rent we pay for living in this world of ours." – Nathan Eldon Tanner

"I know not what your destiny will be, but one thing I know: the only ones among you who will be truly happy are those who have sought and found out how to serve."
– Albert Schweitzer

To Build Focus 5. Create a common vision
Every organisation grapples with four basic realities:

1 The realities of the marketplace.
2 The organisation's core competencies.
3 Stakeholder wants and needs.
4 The organisation's value system and sense of purpose. Before everyone can focus effectively, these four realities must be clarified, integrated and harmonised. Getting everyone in the organisation on the same page is a necessary prerequisite before the organisation's voice can be projected with any degree of success.

So how do you achieve shared visions and values across an entire organisation?

WHY WHAT HOW
The key is to mix together two elements to create a

1 Your organisation's mission, vision and values – which effectively describe "Why" you are in business.

2 Your line-of-sight strategy – which is your overall strategic plan brought down to a daily level and complimented by a line of accountability. In effect, this articulates "How" business will get done.

When organisations and individuals know what their key goals are and how they will be accountable for acting to achieve those goals, they can then focus on "What" needs to be done much more intensively and passionately. When this happens, the organisation will find its collective voice and a powerful culture will emerge which will facilitate the achievement of those specified goals.

"The very essence of leadership is that you have to have vision; you can't blow an uncertain trumpet."
– Theodore Hesburgh, president, Notre Dame

"Leadership is creating an environment in which people want to be part of the organisation and not just work for the organisation. Leadership creates an environment that makes people want to, rather than have to, do. It is a business imperative to create that environment. I must give purpose, not just work and function. As a businessperson, I feel obligated to create an environment where people feel part of something, feel fulfilled and have purpose. It is purpose – it is value in their lives – that leads people to truly give of their minds. Then you are getting the maximum from them, are giving the maximum to the person. Anything less is irresponsible to the organisation and demands more handling by the individual. When you see people as only fulfilling a function, you're treating them like a thing, like the chair you're sitting on. I don't think we as humans can assume the right to do that. We found the greatest satisfaction for an employee is to feel part of something and to feel trusted to make decisions."
– Horst Schulze, former CEO, Ritz-Carlton

Execution

Execution embodies the empowering and aligning roles in helping organisations find their voice and achieve greatness. Two things you can do to enhance your ability to execute are:

To Execute Better 1. Align goals and systems

Organisations need to design and utilise systems and structures that will reinforce rather than act at cross purposes to core values and highest strategic priorities. Systems always override all the rhetoric and best intentions of managers. This is an area where actions most definitely speak louder than words.
To create systems that are aligned with your organisation's goals:
Develop information systems which match your organisation's value systems – if you value long term results, measure both short term and long term results.
Create a compensation system that holds supreme and reinforces the organisation's values – by making cooperation and synergy key elements of the compensation program. Reward cooperative effort even-handedly rather than focusing exclusively on individual effort.
Have an abundance mentality – and make it feasible for everyone to win rewards when they accomplish the desired results and not just the elite top performers.
Stay flexible with your business systems and processes – so you can respond to changing circumstances intelligently rather than being locked into something unworkable.
Look constantly at what the world-class performers in your industry are doing – and learn from their example. Pick up what works for them and see whether a similar idea will be of benefit to your organisation.
Set up a great feedback system – which will allow ideas to circulate around the organisation without impediment or alteration. Get into the habit of asking people "What do you think we should do?" You'll be amazed by the quality of the information they will provide.
Achieve a good balance between getting results today and developing the capacity to generate noteworthy results in the future – so your organisation can be effective. In particular, avoid actions that are expedient today but which will have the effect of holding your entire organisation's future hostage. Measure progress on your most important goals – so everyone have clear, accurate, and timely updates on what's actually happening. The more actionable intelligence you can provide for your front-line people, the better.

"Aligning structures and systems with values and strategy is one of the toughest of all leadership and management challenges simply because structures and systems represent the past – tradition, expectations and assumptions." – Stephen Covey

To Execute Better 2. Empower others

Empowerment is a natural flow-on result. When an organisation models trustworthy behaviour, it inspires trust implicitly. Pathfinding creates order without actually demanding it. Aligning nourishes both vision and empowerment. Empowerment is the logical result of personal and organisational trustworthiness. When people are empowered, they find their voice by doing the things they feel passionate about. Their individual voices and the voice of their organisations blend together.

When people feel empowered, they need little or no supervision. Empowered employees use their own initiative to leverage and optimise the use of the organisation's assets – a type of directed autonomy. In this kind of workplace, the role of the manager shifts from being a controller to that of an enabler.
Managers collaborate with their people to remove barriers and then become an on-going source of help and support.
The key empowering tools for organisations are:

1. Win-win agreements between employees and the organisation – open-ended agreements in which the organisation's goals are specified but the means by which those goals are achieved are left entirely to the employee's discretion. Of necessity these agreements will be completely flexible and able to be changed to respond to the changing circumstances of the marketplace.
2. Self-evaluation and performance appraisal – in which the employee evaluates their own performance on the basis of the 360-degree feedback received from sources around them. For empowered people, self-evaluation will always be tougher than anyone else's evaluation because the employee knows where their true weaknesses lie.
3. Servant leaders – who see their role as creating the conditions of empowerment and then getting out of their people's way and providing help only when needed. A good servant leader is far more interested in getting the job done than in having his or her ego stroked. The leader should effectively run alongside employees asking:
   - "How's it going?"
   - "What have you learned that's new?"
   - "What are you now trying to accomplish?"
   - "How can I help you achieve your goals?"

"It's when the spirit of servant leadership takes hold in a team, and between a manager or team and an associate, that trust fully blossoms. Again, it's the trust that one person or team consciously chooses to give to another – an act that leads me to feel your belief that I can add value. You give me trust and I return it. Trust (the verb) comes from the potential trustworthiness of the one receiving the trust and the clear trustworthiness of the one giving the trust."
– Stephen Covey

"The best way to inspire people to a superior performance is to convince them by everything you do and by your everyday attitude that you are wholeheartedly supporting them."
– Harold Greneen, former chairman, ITT

"Duty, love and meaning are the highest sources of motivation." – Stephen Covey

"Leadership is today's hottest topic."
– Stephen Covey

There are four disciplines which can help close the gap between focus and execution for any organisation:

1. Always focus on the one thing that is wildly important.
People are naturally wired to be able to do only at a time to a standard of excellence. Therefore, have just a few goals which are of the greatest strategic importance and which will provide you with maximum leverage

To decide your organisation's two or three "wildly important" goals:

Use a stakeholder screen
Ask: Which goals are the most important for your stakeholders?

Use a strategic screen
Ask: What is the most consequential thing that can be done to advance your strategy?

2. Create a compelling scoreboard everyone will wants to use.
People play differently whenever they know a score is being kept. With this in mind, it's vital that you create a scoreboard which is highly visible and which will reflect how you're doing. Your scoreboard needs to be highly visible and must reflect progress towards your wildly important goals. it must be visible, dynamic and accessible. It also must be updated daily to reflect the impact of current events.

Your scoreboard may be in the form of a bagraph, a trendline, a pie chart, a Gantt chart or it might look like a thermometer or speedometer. For example, a scoreboard for a services company might look like this:

To save customers $50 million by year-end	
	$50 million
Customers dollars saved	**40**
$40 million	**30**
$50 million	**20**
End of fiscal year	**10**

3. Translate lofty goals into very specific actions.
There's always a vast difference between lofty goals and what's happening at the front line. The stated strategy is what leaders talk about. The real strategy is what people do every day. Close the gap by explaining exactly what everyone is supposed to do about the organisation's goals. Usually, this will take some creativity. You'll have to identify the new and better behaviours needed to achieve your goals and then translate those intentions into specific weekly and daily tasks. This is necessary, however, if you want the people at the front lines to be sufficiently empowered.

4. Hold each other accountable for results all the time.
People need to meet together frequently – monthly, weekly or daily – to account for progress on goals. These sessions should then help the organisation to refocus on what's wildly important.

To make these accountability sessions work, keep them brief. Focus on three key issues only:

- A quick report on the vital few issues at hand.
- A quick discussion on any viable new alternatives which have come to mind.
- A short give-and-take discussion where managers focus on clearing the path forward and removing obstacles for the people in the organisation.

The key to institutionalising a culture of execution is to regularly measure and track how well the organisation is doing.

Some people develop a collective measure of execution which is analogous to an IQ (intelligence quotient). This new measure – xQ (execution quotient) – may be quantified by grassroots information gathering at regular intervals. If the organisation is getting better at executing, its xQ will rise.

Once an organisation becomes effective using the 8th Habit, it can then use its voice to serve others. As this happens, organisations will take the lead in solving some of society's most pressing problems and needs. This will enhance the sustainability of the organisation and move society as a whole into an era of wisdom that has never before been feasible. In this environment, organisations will no longer be focused on "What's in it for me?" Rather, the key question to be answered will become, "What can we contribute as an organisation?"

"I believe that the rendering of useful service is the common duty of mankind and that only in the purifying fire of sacrifice is the dross of selfishness consumed and the greatness of the human soul set free."
– John Rockefeller, Jr.

"The surest way to reveal one's character is not through adversity but by giving them power." – Abraham Lincoln

"The inspiration of a noble cause involving human interests wide and far, enables men to do things they did not dream themselves capable of before, and which they are not capable of alone. The consciousness of belonging, vitally, to something beyond individuality; of being part of a personality that reached where we know not where, in space and time, greatens the heart to the limit of the soul's ideal, and builds out the supreme of the character."
– General Joshua Lawrence Chamberlain

Reputation Risk in a Social Media Culture

How well is the insurance market responding?

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Reputation management starts with measurement. If you cannot measure it, you cannot manage it. Over the past 15 years Reputation Institute has studied how to measure and quantify reputation and reputation risk. Having a clear definition of what reputation is, and how to measure it allows companies to quantify the risk exposure within reputation.

So what is a reputation risk? Simply put, a reputational risk is an event that reduces the perception stakeholders have of your company.

This means, that the event only becomes a reputation risk if it impacts how stakeholders think and feel about your company. And this is a critical point, because this is the "trigger". When people heard about the event, did it change their perception? If it did, then there will be a loss, as they will buy less, boycott you, and say something negative about you. If they heard about it, but their perception did not change, then the event had no or very little reputation risk.

The RepTrak® model designed by Reputation Institute identifies the reputation risk of any event by determining the impact on the 7 dimensions of reputation. When a negative issue or crisis emerges, the question is to what extent it will reduce the perception of the organisation to deliver on the specific expectations within each dimension. In assessing this, you can assess the reputation risk of any issue.

1.Products & Services: Issues that will reduce people's belief that we deliver high quality products and services that are good value for the money

2.Innovation: Issues that will reduce people's belief that we are an innovative company that brings new products and services to the market first

3.Workplace: Issues that will reduce people's belief that we have the best employees and that we treat them well

4.Governance: Issues that will reduce people's belief that we are open, honest, and fair in the way we do business

5.Citizenship: Issues that will reduce people's belief that we are a good corporate citizen who cares about local communities and the environment

6.Leadership: Issues that will reduce people's belief that we have a clear vision for the future and are a well-organised company

7.Financial Performance: Issues that will reduce people's belief that we are a profitable company with strong growth prospects

So the definition of reputation and reputation risk is set, and the measures are here for companies to use. The only thing missing is agreeing on the measure to capture the negative reputation impact. When that is done the insurance industry can develop a credible product for reputation risk insurance on the market.

I encourage you to take that step, as this will help many companies move forward in this new and complex social world.

Introduction

A trusted reputation and strong brand have always been paramount to the success of any business.


YouTube
Google+
Flickr
Facebook
Twitter
LinkedIn
Instagram
Social Media

With the advent of social media and global connectivity, incidents that have the potential to cause damage to a company's reputation have increased almost beyond comprehension.

Organisational behaviour and corporate social responsibility are under scrutiny by a technology savvy customer who has various mediums through which to expose a company to reputational damage – in some instances, by just a single 'tweet'.

A 2015 study by Reputation Institute in conjunction with Airmic found:

"Members report reputational risk as both their number one 'keep me awake at night issue' and a high concern for their executive management and Board". 1

So how has the insurance industry responded? The insurance industry is quick to promote the idea that 'anything can be insured'. From celebrity legs to footballer's feet, the insurance industry can usually offer a solution in return for a premium. However, whilst a small number of insurers have adapted to the idea of covering brand and reputational damage, the difficulty remains in defining and quantifying the exposure.

Reputation is inherently intangible. Losses can arise as a result of many different events, which make brand and reputation risk a complex exposure for the insurance industry to subsume.

In many cases, customers themselves are unsure exactly what they want cover for; despite a recent report suggesting 81% of firms view reputation as their most valuable asset.2
Whether it is product recall, an employee's stray comment on social media, a disgraced celebrity endorser, or simply an unjustified review on trip advisor - the consequence can be devastating. In addition, the expectation around the role of the insurance market can vary greatly.

A large Plc's primary concern may be to protect their market capitalisation or revenue. Expert assistance in managing the unfolding crisis can often mitigate the potential damage – which is especially relevant for smaller firms unlikely to have the luxury of an in-house public relations function.

Determining the impact of an event in terms of claims quantum, to allow an insured to be indemnified for reputation damage is an altogether more complex affair.

Over the past eighteen months or so, there have been a significant number of articles within the insurance and wider press discussing reputation risk. Almost all point to a lack of response by the insurance industry, and the difficulties associated with providing cover for brand and reputation damaging events. Jason Eatock, Head of SME at Zurich insurance commented in the Insurance Times:

"While the market for reputation-related insurance products is becoming more relevant, it remains underdeveloped and in need of more options for businesses to transfer such risk".3

The purpose of this paper is to consider:

- The need for brand and reputational risk cover
- The barriers to insurer participation
- The level of coverage currently available
- How the insurance industry should respond

Recent examples of reputation loss
Oil Crisis

Damage to brand and reputation resulting from an incident reported on social media is a major concern for both SME and larger companies alike. As more and more people participate in social media, the intricate detail of any adverse incident can now reach a far larger audience - thus impact exponentially on a company's brand and reputation.

It comes as little surprise, that according to the Pew Research Centre, 52% of online

Chelsea Football Club - Paris Metro
This particular example of brand and reputation loss demonstrates how a single event captured by camera phone can go viral on social media in a matter of hours. The incident involved a group of Chelsea fans racially abusing a commuter on the Paris Metro, refusing him access to a busy train.

Although difficult to quantify, Chelsea Football Club acted quickly to ban the fans involved in an attempt to mitigate any loss of reputation.

times a day and can spend up to 20% of their time on social networks such as Facebook, Twitter and Instagram.5

There have recently been a number of high profile incidents causing significant brand and reputation damage to the companies involved. These incidents have led to an erosion in share price, a reduction in revenue, a lack of customer confidence in the brand and often a damaging effect on corporate and social reputation.

BP Deepwater Horizon Oil Crisis
The event itself was the biggest offshore environmental disaster in US history.

BP's lack of apparent empathy and compassion was personified by former BP CEO Tony Haywood who famously commented in an interview: "I'd like my life back".

LG's mockery of iPhones backfires
When the new iphone was found to bend in peoples pockets, LG tried to make fun of Apple, tweeting from the LG France account that:

"Our smartphones don't bend, they are naturally curved ;)."

The only problem was that the LG tweet was sent from an iPhone!! The story trended on social medial within hours to the detriment of the LG brand.

The recent emissions cheating scandal involving Volkswagen has undoubtedly brought about immeasurable reputation damage to the world's third largest car manufacturer. Arguably, the media coverage has been such that damage to the Volkswagen brand would most likely have occurred with or without the propellant of social media.

Nonetheless, social media contributed to a larger audience becoming well informed of the situation as it unfolded.

Risk perception

An extensive amount of research and literature exists regarding the management of a company's reputation; most of which centres on public relations, marketing and finance.

That said, there has also been a wealth of research conducted around measuring corporate reputation led predominantly by Charles Fombrun, founder of the journal 'Corporate Reputation Review'.

The research and advisory firm 'Reputation Institute', of which Fombrun is also founder and Chairman, has been at the forefront of research into the tracking and measurement of corporate reputation since 1997. Their Reptrak product is used by many top FTSE and Fortune rated companies.

Kasper Ulf Nielsen, Co founder of the Reputation Institute commented that *"83% of consumers say they would definitely buy products sold by companies with top reputations while only 9% want to buy from companies with poor reputations".6*

Research recently conducted by the 'Economic Intelligence Unit' and law firm 'Clifford Chance' found that:

"74% of UK board members see reputational damage as the most worrying consequence of an incident". This comes ahead of the potential financial costs, loss of business and even effect on share price.7

In relation to risk perception within smaller organisations, Zurich recently announced the SME results from their annual 'Risk Index' survey, conducted in conjunction with YouGov. The findings showed that Reputation Risk (involving online and social media) ranked second largest perceived area of business risk within all SME companies polled.8

Similarly, Research conducted by reputation management specialists, Igniyte found:

"Reputation risk is now the biggest risk concern, due in large measure to the rise of social media".

Many of the businesses canvassed had recently suffered significant damage to their reputation as a result of adverse social media coverage:

More than half of those quizzed (52 per cent) reveal business had already suffered because of damaging posts. The content wiped out sales and company value prompting average losses of £46,815.

Negative comment created by competitors is the most damaging, creating a problem for 43 per cent, followed by malicious postings from disgruntled former employees (affecting 42 per cent).

Poor reviews are also causing problems for 41 per cent of businesses, while almost a third (30 per cent) feel their online reputation has been affected by the online activity of existing employees.

Negative media coverage is also an issue for 17 per cent, while one in ten have suffered because of critical or offensive social media posts.

The research, which took in the views of 500 UK business leaders, also finds that 88 per cent recognise that a positive online presence is of vital important to their customers.

Almost one in ten (nine per cent) estimate to have lost between £50,000 and £100,000 as a direct result of negative content online, while close to a quarter (24 per cent) are up to £10,000 out of pocket.9

Much of the research cited is in agreement that the risk to a company's reputation and the rise in social media use is inextricably linked. Hill Dickson partner Magnus Boyd stated:

"If reputation risk sits higher in people's minds or on risk registers now, it must be a reflection of the rise of the internet and social media".10

In addition, the Guardian in 2014 stated:

"In an age when any small misdemeanour can be magnified on the world stage in a matter of seconds at the click of a button, it is no wonder that despite their best efforts many brands have lost the trust of their consumer".11

The evidence overwhelmingly points to the majority of business leaders being fully aware of the threat posed to their brand and reputation; many of these having had first-hand experience.

This growing concern has created demand for the development of an insurance based solution to mitigate against the risk of brand and reputation loss.

Barriers to the development of 'Brand and Reputation' insurance

How can an underwriter or loss adjuster assess such a loss, never mind accurately attribute a claims payment?

To fully estimate the impact of an incident, it would be necessary to understand - the loss in market capitalisation, deterioration in customer relationships, impact on potential investors and new customers, and even any fines and penalties that may be attributable.12

Whether through loss of custom, dip in share price, or inability to win contracts, any deterioration of brand or reputation will most likely have one common denominator - in the long term, a reduction in revenue. The extent of this impact can be minimised by effective risk management.

"Drilling down further, it is clear that damage to customer relationships and the financial impact of reputational damage (for example, loss of earnings and the impact on share price) are the areas that executives worry about most"13

Currently there are three insurers providing cover for loss of revenue resulting from brand and reputation damage, all with slightly differing methods of quantifying a loss (see page 14-18).
There are a small number of insurance providers currently developing insurance solutions to assist firms with managing their brand and reputation risk. The extent of these solutions vary somewhat.

However, before discussing the current level of insurance cover available to mitigate brand and reputation damage, it is pertinent to set out some of the perceived barriers to entry faced by insurers.

The five barriers found to be most commonly cited can be categorised as:

1.Quantifying a loss
2.Moral hazard
3.Claims and pricing
4.Defining a trigger event
5.Lack of demand

1. Quantifying a loss
Arguably the most commonly cited barrier to insuring against brand and reputation risk is quantification. How can the loss of reputation or erosion of a brand, as subjective as they are, be put into 'pounds and pennies'?

2. Moral Hazard
The Volkswagen emission cheating case noted highlights the potential 'Moral Hazard' involved in tabling an insurance solution for loss of brand and reputation.

Clearly it would be morally wrong to indemnify a person for knowingly acting in an unjust or illegal manner. Most existing insurance policies exclude any loss arising from an insured's wilful, deliberate, malicious, fraudulent, dishonest or criminal act. As a result this provides some measure of protection against moral hazard.

Whilst immoral acts can never be entirely eradicated, they can be mitigated and managed. A robust process of corporate governance embedded into a company's culture can effectively minimise such acts. A well communicated policy on the use of social media for instance, will ensure employees think carefully before engaging via social media.

Moral Hazards exist in other insurance policies and therefore this should not deter insurers from underwriting the risk.

Insurers should also aim to champion good corporate governance. For example, their work ingraining Employer's Liability coverage within the UK legal framework has created a wave of 'Health and Safety' regulations, which most firms take extremely seriously.

3. Claims and Pricing - The Unknown
Some studies have found a direct correlation between certain types of corporate misconduct, especially where the injured parties are customers - and the subsequent loss in equity a company may suffer (i.e. share value).14 Whilst losses of this type may fall under the 'Moral Hazard' category, it demonstrates the unpredictable and disparate nature of potential claims.

As with all new and emerging risks, the types of claims together with their frequency and severity will undoubtedly be a challenge, especially for Underwriters applying a price, and Claims Assessors setting the reserve.

Cyber insurance provides an example of where the experience of claims and expertise around settlement is still in its infancy. Nonetheless, insurers have embraced cyber risk insurance and the product is largely available (although currently scarcely purchased in the UK).15

Capacity to pay claims is also a barrier to insurers developing Reputation Risk policies. The potential for large losses occurring is unknown due to a limited amount of publicly available data. Matthew Hogg, Underwriting Manager at Liberty Specialty Markets commented:

“Small companies won't pay for it, and large companies can't get the capacity they require in the market. The Liberty proposition is therefore typically targeted at mid-market sized companies:”16

4. Defining a trigger event
Of the few reputation risk policies currently available, most are triggered following a crisis event. The term “crisis event” varies between insurers, but generally a loss is triggered by one of the following:

1. An insurance claim under any other policy the insured has e.g. a public liability claim that has caused a drop in revenue.

The problem however is that 1) there must be a valid and paid claim, which may take significant time to agree, and 2) there must be an identifiable connection between the claim and the loss of revenue.

2. Adverse media event likely to cause loss of revenue to the insured, including social media.

This is a much wider trigger, as it is most likely that any adverse event reported in the media will have some impact on a company's reputation.

3. Specific listed perils such as death, injury, food poisoning, outbreak of disease, etc.

In all cases, the trigger must cause some form of financial loss, drop in revenues, a reduction in the share price, loss of suppliers, or loss of investors.

As with any insurance contract, the current policies available assume an element of insurable interest. With this in mind, it is likely that insurers would want to limit their exposure to industry wide events such as the horse-meat scandal, where the fault lay with the supplier.

That said, insurers offer property damage cover for widespread storm damage or pandemic incidents and outbreaks. Ultimately, it is the decision and responsibility of individual insurers as to how they manage aggregations of loss.

It is also the responsibility of the broker to fully understand their clients and to work with insurers to develop triggers, which would not only meet the insured's needs, but are reasonably foreseeable and of value.

5. Lack of Demand
The demand for brand and reputation cover is likely to be relatively similar irrespective of the size of business. Of course larger organisations are better known, further reaching, and likely to be more prepared for a crisis event - however as long as a company has a 'brand' or a 'reputation' to uphold, the demand for a solution to protect that brand and reputation will be present.

With the advent of the internet, companies however small can reach all corners of the world. Similarly, the potential for brand and reputation damage is ever increasing. Despite this, the assumption brokers commonly make is that there is very little demand in the UK for an insurance solution to cover brand and reputational loss or damage. The issue however, may not be a lack of demand, but rather, a lack of discussion between broker and client around the risks associated with brand and reputation.

Again, parallels can be drawn with the introduction of cyber insurance over the past decade. Brokers have been slow to embrace the cover, resulting in low take-up levels. Poor claims data, a fear of catastrophic loss, and a general lack of understanding have also contributed.

Despite this, the status and profile of cyber insurance has recently been catapulted to the fore, due to swift technological web advancements leading to a spate of large losses worldwide.

The possession of a crystal ball may not be required to predict a similar chain of events with regards to brand and reputational risk cover.

Cover available within the UK insurance market

Based on our research, six insurers were found to offer an element of brand and reputation risk cover. The time-line on the following page shows when each insurer entered the market.

We were unable to obtain any written documentation, with insurers commenting that cover was offered on a 'bespoke' case by case basis, and as such, policy wordings were not available to share.

We outline policy highlights for those insurers currently offering some level of brand and reputation cover. The information builds on research conducted by the FAU in a working paper published in June 2014 entitled "Assessing the Risks of Insuring Reputation Risk".

Crisis management costs provided as an extension to policies such as Cyber Liability, Kidnap & Ransom, Product Recall, and D&O.
Munich Re introduce its "Reputation Risk insurance" policy in April 2012 which provides protection against loss of profit arising from a reputation damaging event.
Kiln in conjunction with Willis launch a product providing cover for both crisis management costs and loss of revenue. The policy is for Hotels only, called "Hotel Protection 2.0"
Liberty Specialty Markets also begin offering a reputation risk policy covering crisis management costs and loss of revenue

Chartis/AIG and Kiln follow suit, offering cover for PR costs resulting from reputation damaging events
Kiln launch reputation risk policy for the wider market, covering crisis management costs and loss of revenue. The policy is on a named perils basis.

Zurich pioneer first stand-alone Reputation Risk cover with their 'Brand Assurance' policy in collaboration with Aon and marketing firm WPP. Cover extended to PR costs.

Crisis management and communication costs. In response to a reputation threat (before event gets published) or reputation attack (after event gets published) Variable aggregate, up to $25mSelf-insured retention appliesNo explicit trigger. Coverage starts when policyholder hires any of listed expert panel PR firms in response to reputation threats or reputation attackCosts of communication monitoring pre incident reported / crisis communication costs / social media response costs Criticism of financial performance or any change in the financial rating / an insured's decision to change any business strategy, manufacturing process, vendor, supplier or distributor

Crisis management and communication costs In response to a crisis event with the potential to adversely affect the insured's business reputation€10m aggregateNone on professional fees

For media spend, a contribution would be expectedCrisis event defined as "any established insurance trigger of any other insurance policy. e.g. a liability claim, D&O claim, property loss, with the potential to adversely affect the insured's business reputationFees for professional crisis and reputation management and communications servicesKnown prior matters and notifications / wilful managerial conduct

Coverage to protect earnings following any short to mid-term reputational damage as a result of an adverse media report. Crisis management expenses also available$10mRisk dependent, no minimumAs a result of an adverse media report. Such a report may be factually correct or incorrect, on an issue that is listed as a named peril in the insurance contract.
Named perils are agreed at outset

The loss of Net Profit suffered by the Insured during the period of indemnity and/or any recoverable costs and/or any increase in cost of working incurred by the insured during that period, which is solely and directly attributable to the occurrence of one or other of the insured causes

Lost profits due to reduction in revenue in response to "covered risk event". Requires decline in consumer perception and change in consumer behaviour as well as related reduction in revenues€50m, in exceptional cases up to €150m

(Possible to obtain protection against declines in turnover of significantly more than €1bn)Typically at least 5% of limitOption 1: all risks - Constant media analysis in target markets shows significant increase in negative media Option 2: Named perils Munich Re proposes six "basic events"

Following the event, insured must experience a reduction in revenues as well as a decline in public perceptionPayout determined based on loss assessment result in combination with expected vs. actual revenue

Summary of the cover provided

Zurich was the first insurer to develop a stand-alone Crisis Management policy to respond to reputation damaging events. The policy covers any crisis management consultancy fees and provides high limits of indemnity. Zurich do not actively market the product, it seems that it is reserved for only the very large customers.

Similarly, AIG and Allianz offer cover for only crisis management and communication costs in the aftermath of a reputation damaging event. AIG do however extend cover to provide similar costs prior to the event being publicised (but after its occurrence). As discussed, with the advent of social media reporting, this probably provides little additional cover.

Munich-Re provide cover solely for loss of profits following a crisis event. The policy requires a decline in consumer perception and change in consumer behaviour as well as related reduction in revenues. With the ability to provide protection against declines in turnover of significantly more than €1bn, this product is clearly targeted at the very large organisations with in-house public relations and communications departments.

Kiln and Liberty provide the most advanced products in response to brand and reputational damage. Both products are relatively new and provide cover for Loss of Revenue in addition to Crisis Management costs.

Both are on a named perils basis, where the insured can choose which types of events are included. From discussions with key underwriters at both Kiln and Liberty, the product is targeted at mid-market customers, with the price being currently out of reach of most SME businesses.

At the time of writing, Axa has extended its Management Liability policy for SME clients to cover public relations costs related to negative social media incidents.

In addition there has also been a recent influx in alternative capital available outside of the traditional insurance market. Potential therefore exists for brokers to utilise this capital to supplement existing cover and shape solutions for their clients.

Use of alternative risk transfer for brand and reputation protection

So the question is, could a similar solution be found for brand and reputation risk? In today's market, there are two main issues for fund managers. These are volume and credible measurable data.

Volume allows alternative capital providers to operate above their minimum margin requirements, which far exceed the income derived from a small to medium commercial policyholder. Larger multi-national risks can circumvent this issue given the scale of operations.

However, where Corney & Barrow had statistics in troves, there is a lack of quantifiable brand and reputation risk data readily accessible.

Our view is that alternative capital providers will be unlikely to show interest in what is a relatively new and evolving risk. Historically, it has been the traditional (re)insurance market that has been central to the exploration and mitigation of unquantifiable risk; from the first Marine policies to the modern day cyber equivalent.

Traditional (re)insurers have positioned themselves at the forefront of risk – paving the way for credible and vast data stores from which alternative capital providers choose to operate. It is likely that brand and reputation solutions will evolve in a similar way.

Most permutations of alternative risk transfer (ART) involve some form of capital outside of which brokers consider the traditional (re)insurance supply. For the majority, this alternative form of capital has been utilised in the reinsurance sector, taking the form of Catastrophe Bonds, Reinsurance Sidecars, Industry Loss Warranties and Parametric Covers, to name but a few.

These reinsurance deals tend to be far enough removed from the original risk to allow an element of diversification within a fund without adding an immeasurable amount of volatility. Indeed, the last few years have proved relatively benign in terms of insured losses, which has been a contributing factor to the market's influx of alternative capital. There are however, a number of instances where investors have opted to position themselves closer to the risk.

One such deal includes the much publicised Corney & Barrow weather derivative. Corney & Barrow found that champagne sales were directly correlated with temperature. Through a structured deal with XL Trading Partners, they were able to mitigate the volatility that weather variances could have on their earnings.18

This aside, there are few other examples of direct ART deals that have taken place.

Proposal for an SME solution covering 'Brand & Reputation' risk

Our research indicates there is a significant gap in the UK insurance market for brand and reputational risk insurance, especially for companies trading within the SME market segment.

The largest of companies generally have the means of self-funding the exposures they face, and a handful of insurers are providing some level of cover for the larger mid-market companies. However, SME businesses, that have a large exposure to brand and reputation damage, have been left exposed.

A collective arrangement to spread the risk Cyber Insurance, as an example, has initially been slow to gain popularity. Take-up rates have been poor, although as previously mentioned we can see this beginning to change. One reason is that insurers have been reliant on a small number of brokers to sell the product. Unless brokers become more engaged it is likely that any attempt to market brand and reputation insurance will encounter a similar struggle.

We therefore suggest that an industry wide initiative involving all parties could help to champion the issue of brand and reputation risk, and bring new products to a much wider audience.

A possible option would be a large scale brand and reputation facility administered by an industry body, for example BIBA, CII, LIBA or similar. The facility could have an open panel of all specialist insurers willing to write brand and reputation cover at agreed parameters.

All major brokers would be able to sign up, and the result would be a collegiate pooling of risk across the insurance market. Insurers would offer an agreed amount of capacity, take on an equal share of the risk, and crucially share in the payment of claims thus mitigating the effect on carriers of catastrophic loss. Premium levels would reduce to a realistic level at which SME businesses could afford.

This could act as an initial solution to raising the profile of brand and reputation cover until the product becomes established. From there the market could revert to a more usual means of placement. Ideally we would get to the point where insurers felt comfortable enough with the risk to add the cover by way of extension to a Commercial Combined or Liability policy.

The Product – Brand & Reputational Risk Cover

An insurance product to cover brand and reputation risk should have four distinctive offerings:

Prevention
Pre-loss risk management and consultancy is imperative. Insurers must be comfortable that the company buying the insurance product has a suitable level of corporate governance in place. A social media usage policy should be a pre-requisite, training around brand management could also be offered.

Crisis Costs & Containment

The costs and expenses to employ a public relations firm to manage the brand's reputation during the adverse media period should be provided. All communications should be channelled through the PR firm in the first instance. A payment should also be made available to allow the company to mitigate any further loss occurring, not covered under a business interruption policy.

Resulting loss of revenue
An element of revenue protection would provide the basis of a marketable product, and a tangible level of cover which any insurance buyer would expect.

In order to quantify the revenue loss associated with a reputation damaging event:
A simple declaration of projected turnover at the beginning of the policy period compared with the dip in revenue following the reputation damaging event.

This would allow an underwriter or claims assessor to adequately settle a claim. For the sake of clarity, the insurer could agree that any loss of revenue following such an event, which is at odds with the projected turnover, would automatically be adjudged to be resulting from the reputation damaging event.

With an indemnity period, similar to business interruption cover, any period of sustained loss would be limited.

Post loss Risk Management & Consultancy
Assistance to help restore brand and reputation in the months after a loss is important. Insurers must provide this cover through in-house risk managers, or third party public relations firms.

Insurers should act in the best interest of the customer by assisting them as far as possible to mitigate any further damage. The insurer will still have a vested interest in their client recovering from any brand and reputation damage long after the crisis event.

Our conclusion - Insurance brokers must be more proactive

There are currently few insurers offering brand and reputation cover. Of the more innovative insurers willing to take on such risk, each one tends to target their products at the larger corporations. This has left an uninsured gap for the small to medium sized businesses. Ironically, it is the smaller and medium sized businesses that require the most assistance, as most will not have the luxury of a corporate communications department to mobilise an in-house crisis management team.19

The role of an insurance broker is one of advisor; to identify new and emerging risks, and to utilise the insurance market most effectively. Brokers must endeavour to fully understand their clients operations, and to base decision making on an analytical assessment of the risk. Three way engagement with insurers is imperative for the development of new and innovative means of risk transfer.

In 2013 John Nelson, Chairman of Lloyd's, stated in his speech at the Lloyd's City Dinner:

"There is an even greater need for innovation, particularly in terms of covering less tangible and new risks. One thing is clear, our customers have different demands to those which they had in the past. They are looking to this industry to find ways to cover new forms of risk".20
It is important to remember that insurance is not the only way to manage risk, and if the industry does not take the initiative, then other business models will emerge. Alternative capital must be better understood by brokers and utilised more regularly, not as a replacement for, but in conjunction with traditional insurance markets. This must be driven by insurance brokers, and traditional insurers must be encouraged.

In the same speech, John Nelson also commented:

"Brokers have always grown the insurance base. It wasn't the underwriters who spontaneously decided to write policies for Zeppelins, spaceships or cyber – it was because a broker came over to their box and asked them for cover". It is the brokers who are in the vanguard of developing business"

The coverage must be easy to understand, and this also has to be driven by brokers as the intermediary party best placed to communicate a company's evolving risk profile to the insurance market.

By its very nature reputational risks are intangible and thus it is even more important to set out exactly the cover a client requires. How a policy will respond in the event of a reputation damaging event should be clear to all parties from the outset.

Anthony Hilton writing in the London Evening Standard (2015) stated:

"Reputation has several components, and agreeing on what counts and what does not is an area of debate".21

An article in the Harvard Business Review cited:

"In an economy where 70% to 80% of market value comes from hard-to-assess intangible assets such as brand equity, intellectual capital, and goodwill, organizations are especially vulnerable to anything that damages their reputations".22

Firms spend millions insuring their physical assets so surely they need to start insuring the intangibles.

While a small number of insurers are beginning to offer various elements of brand and reputation cover, none have put together a product which offers a comprehensive solution. Crucially, none have yet been able to market a product suitable for small to medium sized companies, containing the four identified areas of assistance required:

Prevention Crisis costs and containment Resulting loss of revenue Post loss risk management and consultancy Brokers and insurers alike must work together with clients and customers to develop cost effective and comprehensive protection against the risk of brand and reputation damage. Social media use is rapidly increasing and before long, as we have seen with cyber risk, an influx of losses will begin to occur.

When that happens, as an industry, we simply must be ready to react.

Summary of recommendations

First of all, and arguably most importantly – Data capture and collection must develop to allow quantification. Insurers and brokers alike must co-ordinate a shared approach to recording loss data.

Brokers must become far more proactive. In their role as risk-advisor they should discuss brand and reputation risk with their clients as a matter of course. In turn, we will undoubtedly see a raised awareness - and demand for protection will of course increase.

Development of a comprehensive 'Brand & Reputation' solution should offer four distinct areas of protection:

1. Prevention Risk Management
2. Crisis Cost & Containment
3. Indemnity Protection for Loss of Revenue
4. Post Loss Consultancy

SME companies may benefit from a suite of products with which they can pick and choose, depending on their requirements and budget. Insurers should be flexible in this respect.

In the absence of an insurer developing a product as described above, the Insurance industry should collectively assist. We suggest a facility to allow the pooling of 'Brand & Reputation' risk across the UK. Ideally administered by a partisan industry body, this facility would allow brokers to place risks through a panel of insurers. Insurers would offer an agreed amount of capacity, take on an equal share of the risk, and crucially share in the payment of claims thus mitigating the effect on carriers of catastrophic loss. This would kick-start a solution which otherwise may take decades to develop, and crucially, premium levels would reduce to a realistic level for SME's.

Once the Industry becomes more comfortable with brand and reputation risk, and as data becomes available, the industry would revert to a more traditional distribution model. This would allow for insurers to begin offering 'Brand & Reputation' cover by way of an extension to Commercial Combined or Liability policies. In the meantime more insurers could provide policy extensions to assist SME companies in prevention, mitigation and crisis management.

Next steps

When assessing the market appetite to take on emerging risk, history tells us that as a whole, the insurance industry lacks innovative thinking. Whether it be the reactionary discussions currently being had around peer-to-peer technology or a quick analysis of the prolonged difficulty in 'rolling-out' cyber risk insurance - it is not unfair to say, that the insurance industry must become far more pro-active.

As a group of ten industry peers working for different organisations, we have all immersed ourselves in researching brand and reputation risk over the last nine months or so. Specifically due to the rise in use of social media, we can rightly describe the issue as a rapidly emerging business risk - one which we are committed to seeing the industry tackle.

This report hopefully serves as an opener, to give readers a flavour of a topic they may not have previously considered. We understand the limitations of the project thus far, and the need to engage the wider insurance market if we are to drive our recommendations forward.
The next steps for the group are currently well underway. We have made contact with some key industry leaders and are, at time of writing, awaiting face-to-face meetings with potentially interested underwriters.

As a side, we are approaching a range of SME insurers to assess the likelihood of adopting greater levels of cover by way of extension under already existing policies.

Our immediate aim is to obtain support for our recommendations, in addition to discussing any alternative ideas from the key insurers highlighted within our report.

We look forward to providing a follow up paper highlighting our progress in the near future.

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