The Insurance Institute of London

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Ambassadors for the industry

A year at the presidential helm provides the most vivid reminder of the prodigious efforts made on behalf of all our members, not only by the IIL's indefatigable secretariat team but also by a wide range of volunteers.

This is the perfect opportunity to thank everyone who gives their time and effort to enable our committees, lectures, research and social activities to flourish, and the veritable army of wordsmiths who have created this 2013 Journal.

Nearly a quarter of Institute members are also members of the Personal Finance Society, where life after the Retail Distribution Review involves an evolving landscape, as Chris Hannant outlines. Keith Richards has no doubt that there will be an ever-greater need for services to be provided by those with independently validated evidence of professionalism. In Richard Hobbs' view, regulators and practitioners owe it to each other to establish the right framework for conduct.

Key themes

Regulation is a theme that runs through the interview with Robert Hiscox, who looks with undiminished enthusiasm across the London Market in which he has played a major role for many years. In calling for better-educated regulators he calls also for a first line of self-regulation, acknowledging that this would come about more easily under pressure from a (yet to be created) body representing the whole non-life market. On this point Huw Evans underlines the need for that voice to be louder if the insurance industry is to be recognised and valued properly by customers, governments and regulators.

While Robert Hiscox believes that London will continue to attract young people with drive, common sense and a desire to learn, Terry Hayday believes that for independent non-executive directors, ongoing education is equally vital, as has been recognised by the Worshipful Company of Insurers. Derek Atkins and Anthony Fitzsimmons underline this with their observation that the root causes of reputational damage are to be found within a company's leadership team including the board.

We have a host of explanations – Natalie Ceeney, the Financial Ombudsman, on how the PPI story has illustrated not a new compensation culture but a new communication culture; Stuart Willoughby on why claims adjusters can and should act as ambassadors for the insurance industry; Anthony Jefferys on the need, in today's information-suffused environment, for systems and processes that match the ambitions of a modern world-leading market place; Andrew Kendrick with a clarion call to apply tested traditions of product innovation and broking expertise to the reality of a shift in economic power to the East and elsewhere (not that this has deterred the International Union of Marine Insurers from holding their annual conference in London this September); Gina Butterworth on how to manage emerging risks; and Erik Johnson on why and how diversity should be embraced by the London Market.

There is no shortage of information. Sate yourself on Charles Scawthorn's facts and figures – and then prepare for sleepless nights. Dominic Christian tells you all that you wanted to know about ILS but were too afraid to ask. Andrew Bathurst and Andrew Bardot shed light on some of the challenges now facing the P&I clubs.

If there was any doubt about our collective commitment to professionalism it will be dispelled by Graham Clarke's calling for mentoring as the best way to channel experience from one generation to the next; Sian Fisher's championing of the MGAA's role as a professional trade body for the burgeoning MGA world; and Hollie Dearman's inspiring cry to anyone who doubts the value of tackling professional qualifications.

A rich seam of seriousness of purpose has been mined to produce this Journal – please enjoy the output.

Thank you to everyone who gives their time to enable the IIL to flourish


Derek Atkins
Visiting professor, Cass Business School, London; partner, Reputability LLP

Anthony Fitzsimmons
Chairman, Reputability LLP

Reputational risk

These risks are as relevant to insurers as they are to other types of firm.

Risk management has a huge blind spot. It does not systematically cover the risks caused by humans involved in organisations. These risks cause crises and are the key drivers of reputational damage. Yet they are missing from most, probably almost all, risk maps.

The first systematic research into this area, *Roads to Ruin*,[1] identified a series of risks that lay at the root cause of about twenty major crises.

Since *Roads to Ruin*, we have more than doubled the cohort of case studies. With over forty companies and pre-crisis assets totalling more than $20 trillion,[2] many companies nonetheless faced bankruptcy. 'Shareholder value' was shredded on a prodigious scale, with shareholders of many companies completely or nearly wiped out. Most of the survivors suffered severe reputational and operational damage. Many leaders lost their jobs as well as their personal reputations.

Following our research, we now classify these elusive but dangerous risks into two main categories:

Behavioural risks – risks from groupthink; inadequate skills, aptitudes, leadership and communication; poor governance, ethos and culture; and undesirable incentives.

Organisational risks – risks from the organisation's structure and strategy, and from complexity.

These are among the most important drivers of both crises and reputational damage. To a great extent, they are not directly covered by insurance.

What risk manager will be prepared to let their boss know that they are investigating the leadership as a source of potentially catastrophic risk?

The combined conclusions from the research can be summarised in five points.

- Despite disparate natures and industries, the companies studied shared deep-seated behavioural and organisational risks which made them more vulnerable to have crises.
- Once a crisis had struck, the same risks were critical in tipping the crisis into a reputational catastrophe.
- The root causes of these risks lay within the leadership team, including the board.
- These risks, which lie at the root of many, probably most, major corporate disasters, are seldom captured, let alone systematically, by classic risk management techniques. They are beyond the know-how of most risk managers; and they are often taboo or invisible to insiders.
- As a result, these risks pose a hidden but potentially catastrophic threat to any firm, however substantial. Unrecognised, they remain unmanaged and unnecessarily dangerous.

Another factor makes the problem more difficult to solve. What risk manager will be prepared to let their boss know that they are investigating the leadership as a source of potentially catastrophic risks to the organisation?

Special measures are needed both to find such truths and to explain them to corporate leaders.

Lessons for the insurance industry

We offer two insights to the insurance industry.

First, these risks are as relevant to insurers as they are to other types of firm – our cohort of forty includes eight insurers, four of which faced insolvency. Firms should consider whether they are systematically dealing with behavioural, organisational and board risks as assiduously as they deal with other types of risk. Boards should grasp this issue before regulators regard not addressing it as a governance failure.

Second, insurers can develop tools to rank insurance buyers according to whether they are better or worse at managing these risks. Those that are worse are quite likely to be more susceptible to insured events and their escalation into major crises. Particularly important in liability and in directors' and officers' risks, this could apply to many other types of risk.

[1] Professor Derek Atkins, Anthony Fitzsimmons, Professor Chris Parsons, Professor Alan Punter, Roads to Ruin (London: Airmic, 2011)

[2] By way of comparison, the GDP of the United States is $18 trillion