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Layout & Distribution: Valeria Kozakova

Reputation and Reputational Risk

Bruno Porro

Description of Reputation at Wikipedia

- **Reputation** is the **general opinion** (more technically, a social evaluation) **of the public** toward a person, a group of people, or **an organisation**.
- It is an important factor in many fields, such as business, online communities or social status, and includes the social connotations associated with an individual's name

Reputation (continued II)

- Reputation is known to be a ubiquitous, spontaneous and highly efficient mechanism of social control in natural societies.
- It is a subject of study in social, management and technological sciences. Its influence ranges from competitive settings, like markets, to cooperative ones, like firms, organisations, institutions and communities. Furthermore, reputation acts on different levels of agency, individual and supra-individual.

Reputation (continued III)

- At the supra-individual level, it concerns groups, communities, collectives and abstract social entities (such as firms, corporations, organisations, countries, cultures and even civilisations). It affects phenomena of different scale, from everyday life to relationships between nations. Reputation is a fundamental instrument of social order, based upon distributed, spontaneous social control

Country Listing: Norway

First, the World Bank and International Finance Corporation found that of 155 countries, Norway was the best country in Europe for business. It takes a mere two weeks (13 days) to establish a company in Norway compared to nearly half a year (198 days) in Laos. (<http://worldbank.org>)

Second, the WSJ reported yesterday on its front page (December 1, www.wsj.com) that the Norwegian government Petroleum Fund choose a philosopher, Henrik Syse, to be their in-house ethicist. What does a country need with such a high brow thinker? Well, finding the right mix between wealth and responsibility. Norway, as most of us know, is the world's third largest oil exporter and its coffers are teeming over from escalating oil prices. The Fund wants to insure that Norway matches profit with purpose. The Journal author Andrew Higgins writes that "this nation of just 4.6 million has long used its reputation for moral rectitude to wield influence around the globe out of proportion to its size."

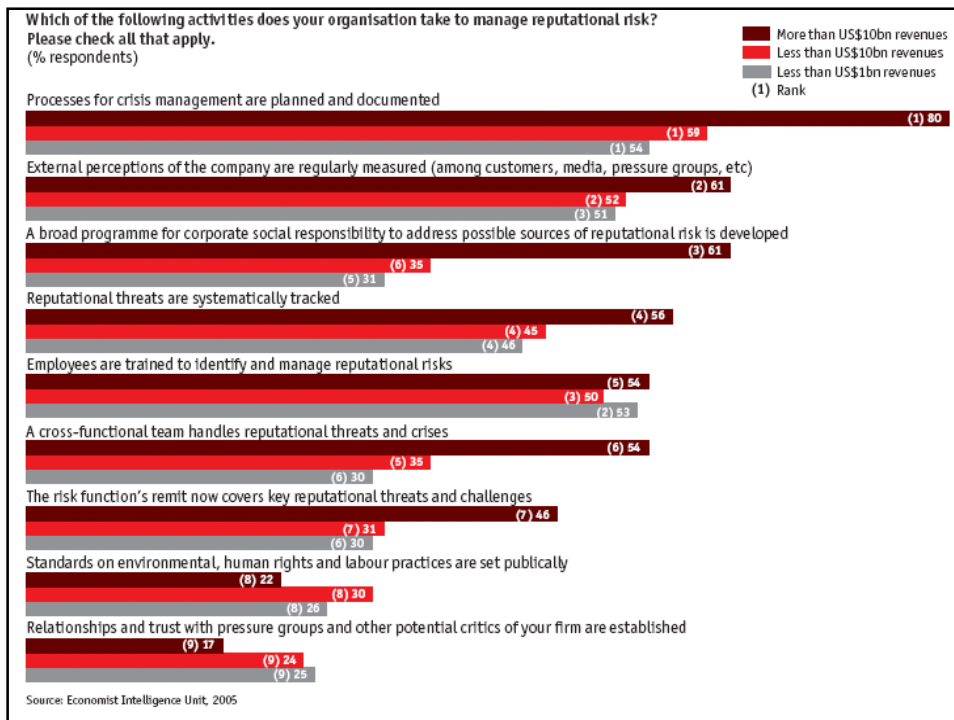
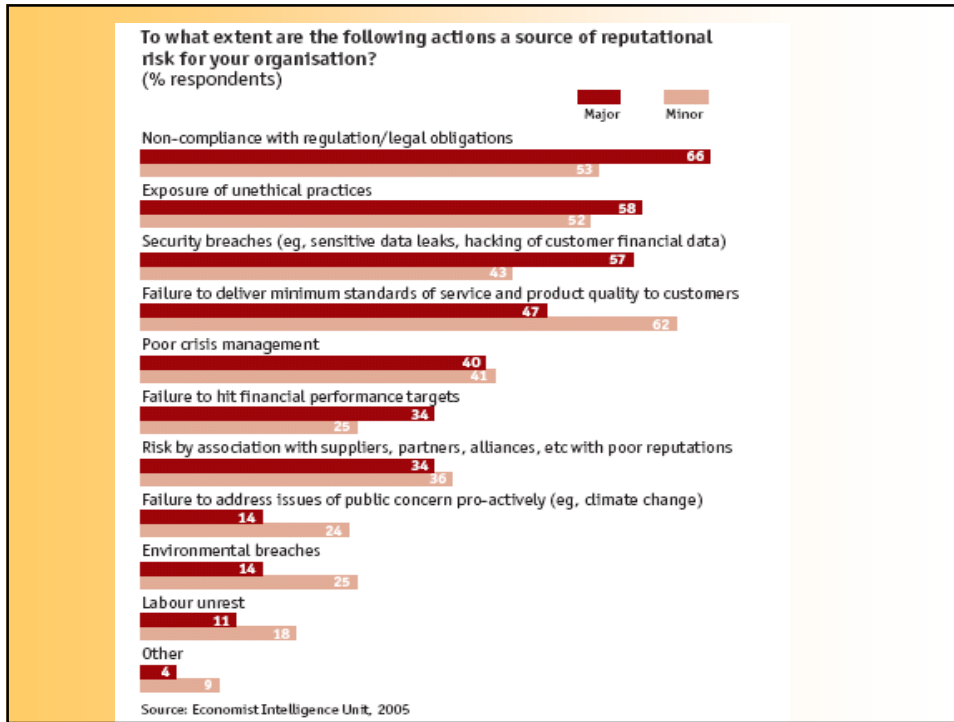
Country reputation can be easily spoiled. Although it has had its own hiccups along the way, Norway is one country that has been steady as she goes.

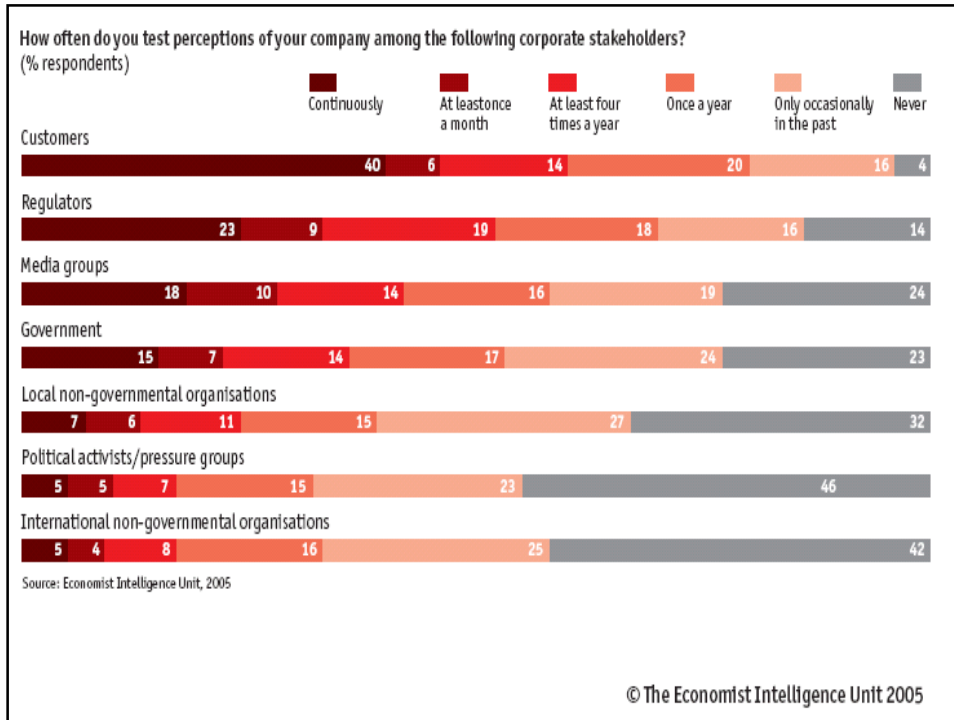
Reputation: Risk of Risks

How significant a threat do the following risks pose to your company's global business operation today?
(Index score, where 100 = highest)

Reputational risk (eg, events that undermine public trust in your products or brand)	52
Regulatory risk (problems caused by new or existing regulations)	41
Human capital risks (eg, skills shortages, succession issues, loss of key personnel)	41
IT network risk (eg, network security breaches, IT systems failure)	35
Market risk (risk that the market value of assets will fall)	32
Credit risk (risk of bad debt)	29
Country risk (problems of operating in a particular location)	22
Financing risk (difficulty raising finance)	21
Terrorism	19
Foreign exchange risk (risk that exchange rates may worsen)	18
Natural hazard risk (eg, hurricanes, earthquakes)	18
Political risk (danger of a change of government)	18
Crime and physical security	15

Source: Economist Intelligence Unit, 2005





<http://www.harrisinteractive.com/services/reputation.asp>



Fortune's list of 50 most admired companies

- 1General Electric
- 2Toyota Motor
- 3Procter & Gamble
- 4FedEx
- 5Johnson & Johnson
- 6Microsoft
- 7Dell
- 8Berkshire Hathaway
- 9Apple Computer
- 10Wal-Mart Stores
- 11IBM
- 12Target
- 13BMW
- 14United Parcel Service
- 15Home Depot
- 16PepsiCo
- 17Costco Wholesale
- 18Intel
- 19Singapore Airlines
- 20Nokia
- 21Citigroup
- 22Coca-Cola
- 23BP
- 24Bank of America
- 25ExxonMobil
- 26Cisco Systems
- 27Nestle
- 28Samsung Electronics
- 29Caterpillar
- 30L'Oreal

P&C Industry ranking

- | | | |
|------|---------------------------------------|------|
| • 1 | <u>Berkshire Hathaway</u> | 7.90 |
| • 2 | <u>Allstate</u> | 7.04 |
| • 3 | <u>Hartford Financial Services</u> | 6.85 |
| • 4 | <u>American International Group</u> | 6.65 |
| • 5 | <u>State Farm Insurance</u> | 6.10 |
| • 6 | <u>Swiss Reinsurance</u> | 6.02 |
| • 7 | <u>Liberty Mutual Insurance Group</u> | 5.96 |
| • 8 | <u>Munich Re Group</u> | 5.88 |
| • 9 | <u>Allianz</u> | 5.84 |
| • 10 | <u>St. Paul Travelers</u> | 5.79 |
| • 11 | <u>Zurich Financial Services</u> | 5.75 |
| • 12 | <u>Nationwide</u> | 5.59 |
| • 13 | <u>Mitsui Sumitomo Insurance</u> | 5.34 |
| • 14 | <u>Groupama</u> | 5.30 |
| • 15 | <u>Millea Holdings</u> | 5.25 |

P&C Industry Ranking: 2 Examples

Berkshire Hathaway

<u>Globalness</u>	2
<u>Innovation</u>	1
<u>Employee talent</u>	1
<u>Use of corporate assets</u>	1
<u>Social responsibility</u>	3
<u>Quality of management</u>	1
<u>Financial soundness</u>	1
<u>Long-term investment</u>	1
<u>Quality of products/services</u>	1

Swiss Re

<u>Globalness</u>	3
<u>Innovation</u>	7
<u>Employee talent</u>	6
<u>Use of corporate assets</u>	7
<u>Social responsibility</u>	8
<u>Quality of management</u>	7
<u>Financial soundness</u>	7
<u>Long-term investment</u>	6
<u>Quality of products/services</u>	10

2005 World's Most Admired Chief Executives

- 1 Bill Gates/Microsoft
- 2 Steve Jobs/Apple
- 3 Warren Buffett/Berkshire Hathaway
- 4 Michael Dell/Dell
- 5 Richard Branson/Virgin Group
- 6 John Browne/BP
- 7 Carlos Ghosn/Nissan Motor & Renault
- 8 N. R. Narayana Murthy/Infosys Technologies
- 9 Jeffrey Immelt/General Electric
- 10 Rupert Murdoch/News Corporation
- 11 John Bond/HSBC Holdings
- 12 John Chambers/Cisco Systems
- 13 Jorma Ollila/Nokia
- 14 Terry Leahy/Tesco
- 15 Lakshmi Mittal/Mittal Steel

Source: Understanding CEO Capital™, 2005, Burson-Marsteller

Reputation management

- **Reputation management** involves recording a person or agent's actions and the opinions of others about those actions. These records can then be published in order to allow other people (or agents) to make informed decisions about whether to **trust** that person or not.
- A reputation management system which uses pre-programmed criteria for reputation management automates the process of encouraging cooperative behavior over selfish behavior.
- Reputation management is also a definition of the objective of **public relations**

<http://www.continuitycentral.com/news01427.htm>

In PricewaterhouseCoopers first briefing on risk management in financial services, ten attributes were identified to help companies create a world-class culture of risk management. Two years on, PricewaterhouseCoopers believes they are as valid now as they were then:

- Pay equal attention to quantifiable and unquantifiable risks
- Identify, report and quantify all possible risk
- Let an awareness of risk pervade the enterprise
- Make risk management everybody's responsibility
- Avoid products and businesses the enterprise does not understand
- Accept that uncertainty exists
- Monitor your risk managers
- Good risk management delivers value
- Define and enshrine your company's risk culture. www.pwc.com/financialservices

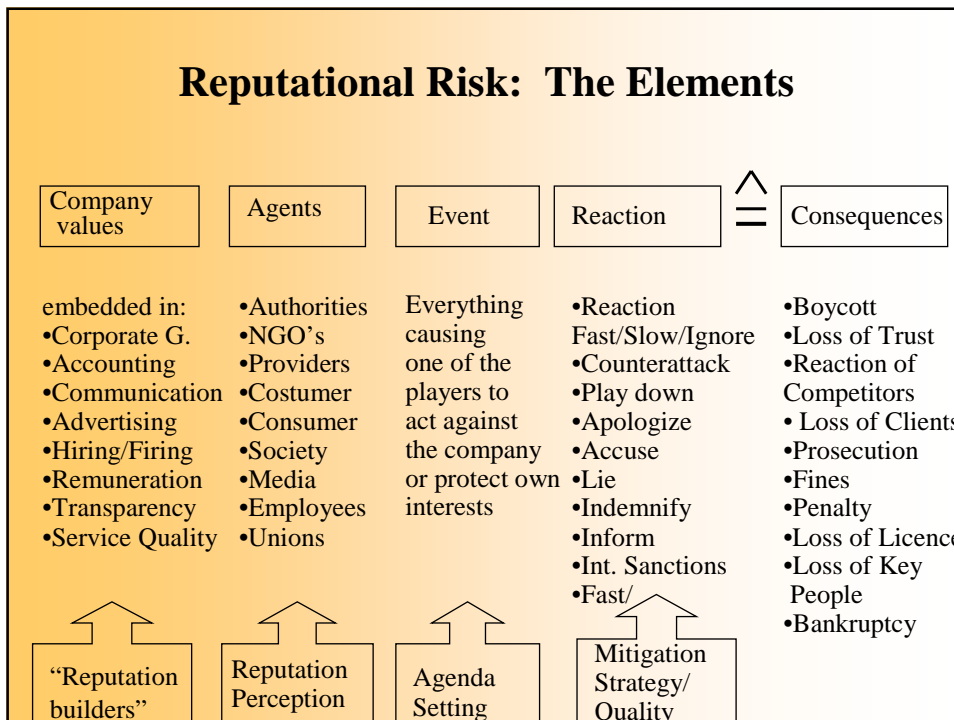
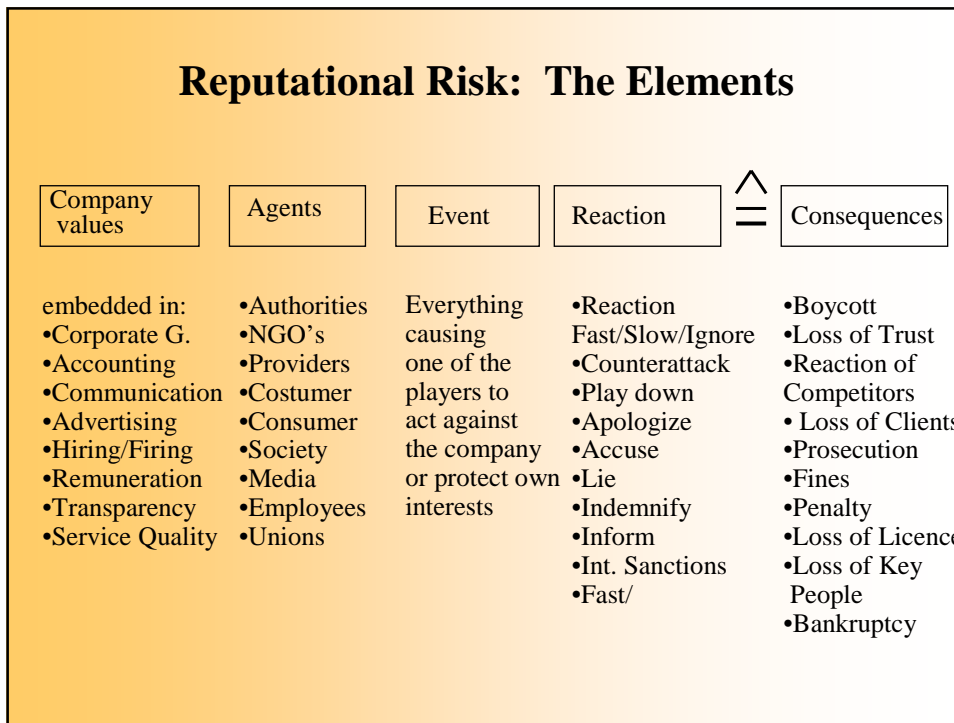
Conclusions:

- Phil Rivett continued: “Financial institutions are increasingly attuned to the dangers posed by less quantifiable risks but they need to turn their good intentions into action. Less quantifiable forms of risk can do as much, if not more, damage to companies’ reputations, shareholder value and the long-term sustainability of their business as the more straightforward types of risk.

Conclusions:

The survey identified four reasons why risk management remains primarily focused on meeting regulatory requirements and **only secondarily on protecting and enhancing the value of the franchise:**

- A culture of risk awareness has yet to emerge
- Compliance is not being turned into competitive advantage
- The importance of governance is underestimated
- Quantifiable risks are still the focus of too much attention.

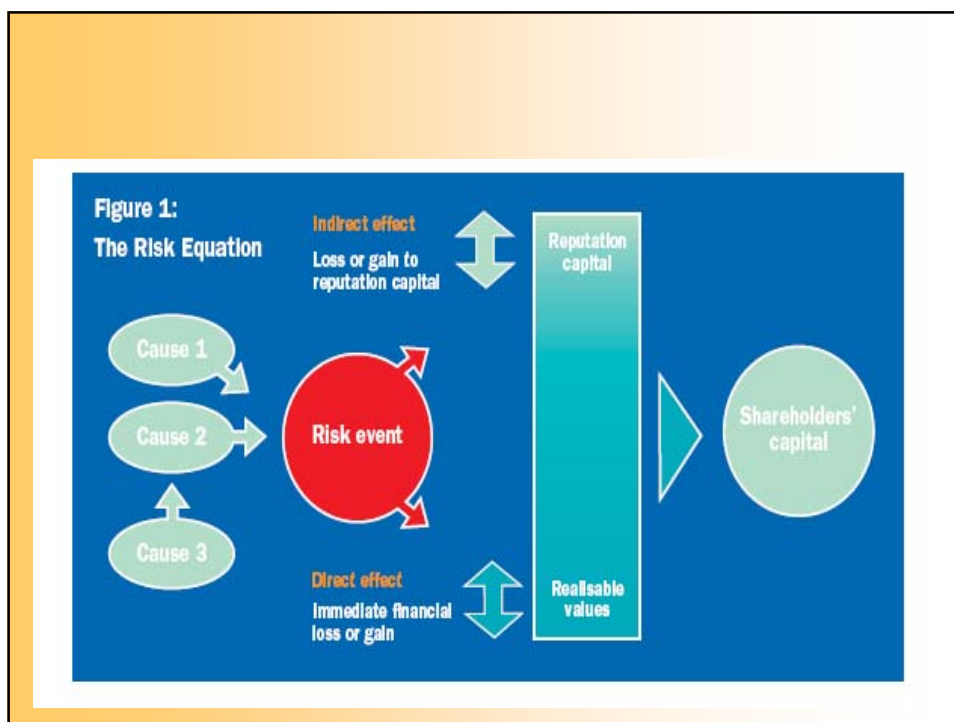


Warren Buffet:

“If you lose dollars for the firm by bad decisions, I will be understanding. If you lose reputation for the firm, I will be ruthless.”
Amen.

Websites

- <http://www.ceogo.com>
- <http://reputationwatch.blogspot.com/2006/01/reputational-failure.html>
- [http://www.ey.com/global/download.nsf/Singapore/Spotbiz_Iss_2_\(2003\)_ar3_Keeping_The_Corporate_Good_Name/\\$file/3_Keeping_Good_Name.pdf](http://www.ey.com/global/download.nsf/Singapore/Spotbiz_Iss_2_(2003)_ar3_Keeping_The_Corporate_Good_Name/$file/3_Keeping_Good_Name.pdf)
- http://www.camagazine.com/index.cfm/ci_id/27610/la_id/1.htm
- http://www.acelimited.com/NR/rdonlyres/2B964DD5-F93E-47C3-BA44-999A0BAEAD40/0/RISK_REPUTATION_REPORT.pdf
- <http://www.nacubo.org/x3761.xml>



10 Components of an Antifraud Action Plan

1. Anticipate questions and manage expectations.
2. Assess existing antifraud programs and controls.
3. Secure management and audit committee sponsorship.
4. Assemble fraud expertise within internal audit.
5. Organize a fraud and reputational risk assessment.
6. Link antifraud control activities.
7. Evaluate and test design and operating effectiveness.
8. Refine audit plan to address residual risk and incorporate fraud auditing.
9. Establish a standard process for responding to allegations or suspicions of fraud or misconduct.
10. Remediate and prevent recurrence.