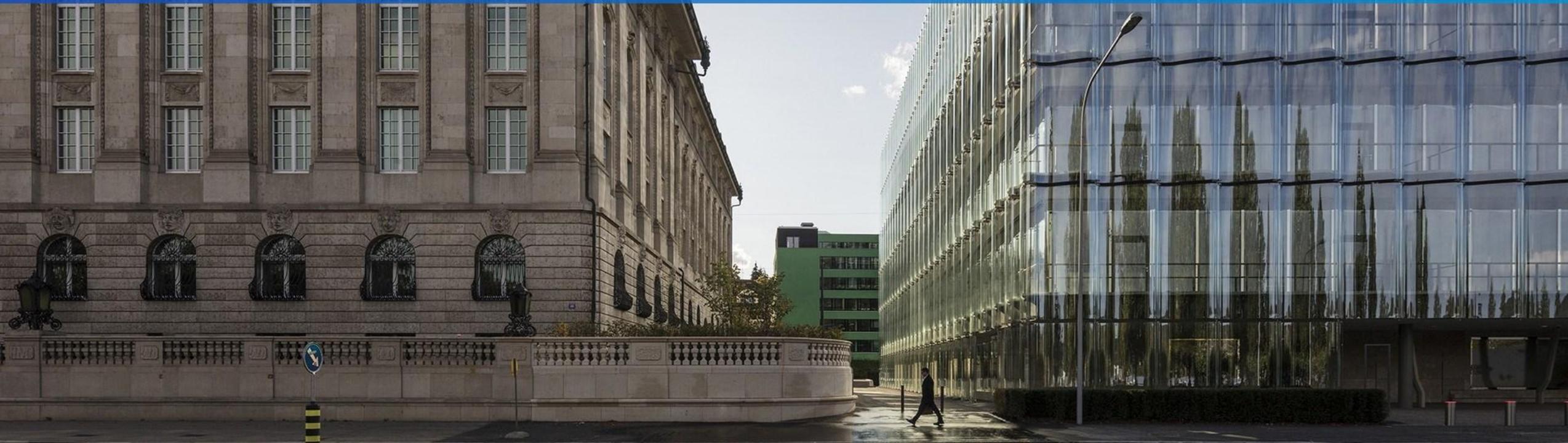


**“We are what we repeatedly do. Excellence,  
then, is not an act but a habit.”** Will Durant

An insurer's view on reputational risk – 31<sup>st</sup> August 2021



# “What makes gambling wrong but insurance right?”

Tim Harford, BBC World Service, 50 Things That Made the Modern Economy

# 01

## introduction

fundamentals of insurance



“Legally and culturally, there is a clear distinction between gambling and insurance. Economically the difference is less visible.” Tim Harford, BBC World Service



**Insurable Interest**



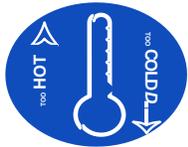
**Perils and Events**



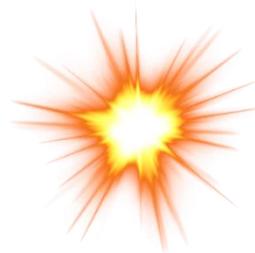
**Damage**



**Indemnity**



unambiguous



random,  
fortuitous,  
sudden and  
accidental?



estimable, assessable,  
quantifiable



independent, moral hazard,  
alignment of interests



asymmetric information,  
business risks



risk sharing



risk distribution



legal, ethical

“CEOs are the top risk managers  
when it comes to reputation”

The Economist

# 02

## current state

value, top ten business risk, market offering

# It is widely accepted that a good corporate reputation is an economic asset with quantifiable financial value

- “The importance of reputation lies in its signaling power.”
- “Reputation is a highly prized, and vulnerable asset. Reputation is one of the most important corporate assets, and also one of the most difficult to protect. Reputational risk can be seen as a risk in its own right or as risk of risks.”
- There is strong anecdotal and empirical evidence that damage to reputation causes financial and/or economic loss. Also, academic research supports the hypothesis that reputational risk events cause economic damage in the form of drop in share price, increase in share price volatility, extra expense as well as loss of income and loss of signalling power.



# Reputational risk consistently ranks as top ten business risk but there is no generally accepted view on it

## ALLIANZ RISK BAROMETER TOP BUSINESS RISKS FOR 2019

The most important corporate perils for the year ahead and beyond, based on the insight of more than 2,400 risk management experts from over 80 countries

Reputational risk is regularly named as one of the top uninsured risks



Reputation risk is in vogue at the moment; what can we do as an industry to offer relevant and value-adding assistance to risk management?



### LOSS OF REPUTATION OR BRAND VALUE

13% (2018: 8 (13%))

A company's reputation is its most valuable asset. Product recalls, cyber incidents, industrial disputes and executive conduct have all tainted the reputations of organizations in recent years, affecting the likes of airlines, car manufacturers and banks. The value of Facebook fell almost 40% in 2018 after a turbulent year which included it being embroiled in a privacy scandal and a massive data breach<sup>3</sup>.

Protecting reputation and brand has taken on urgency in the social media age. There are an estimated three billion social media users worldwide, while Facebook Messenger and WhatsApp handle 60 billion messages a day ensuring a reputational incident can quickly escalate out of control, but social media can also help companies monitor and engage with customers. A study of 125 reputational events over the past decade by Pentland Analytics and Aon<sup>4</sup> found the impact of reputation events on stock prices has doubled since the introduction of social media. Effective planning and crisis management has become essential.

It is estimated a company's reputation can be damaged in the immediate aftermath of a crisis, an intangible risk, **Industry must cover reputational damage: Aon's Page**  
Bernard Goyder 08 November 2018

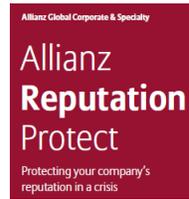


The insurance industry must start to insure reputational damage if it is to remain relevant to corporate clients, the Aon UK CEO told this publication's London Market Conference today.



Brokers and clients are asking for solutions but don't necessarily agree on what kind

# Current market offering is heterogenous, aimed at insurance risk management and deeply rooted in traditional insurance thinking



- carve-out of reputational risk sub-limits from casualty policies into a stand-alone policies. costing / pricing based on existing rates, exposure rating
- focus is on consulting and crisis management assistance
- targeted at corporate insurance management
- links cover to underlying insurance policies thereby making the nature of the risk clearer and easier to grasp
- requirement to pre-select underlying policies puts the task of "risk definition" on the clients shoulders
- focus on consulting and crisis management assistance, covers consultancy and media costs up
- all risk or on a named perils basis, both are offered. covers financial loss due to a reputational risk event
- incident based, constant media monitoring, adverse media
- post event survey required to establish if incident was relevant. survey results determine if cover is triggered, requires a loss adjuster
- all risk or on a named perils basis. covers financial loss due to a reputational risk event
- incident based, adverse media
- analytical, scenario-based, bespoke. pre-agreed triggers and valuation
- effectively a contingent put option on a proxy for stock price
- essentially an operational risk cover with a focus on financial institutions
- "London market" style innovation, i.e. broad cover, smaller limits, higher rate-on-line (experimental)

"You have zero privacy anyway.  
Get over it."

Scott McNealy, Sun Microsystems

# 03

## developments

intangibles and sustainability, heterogenous data,  
technology

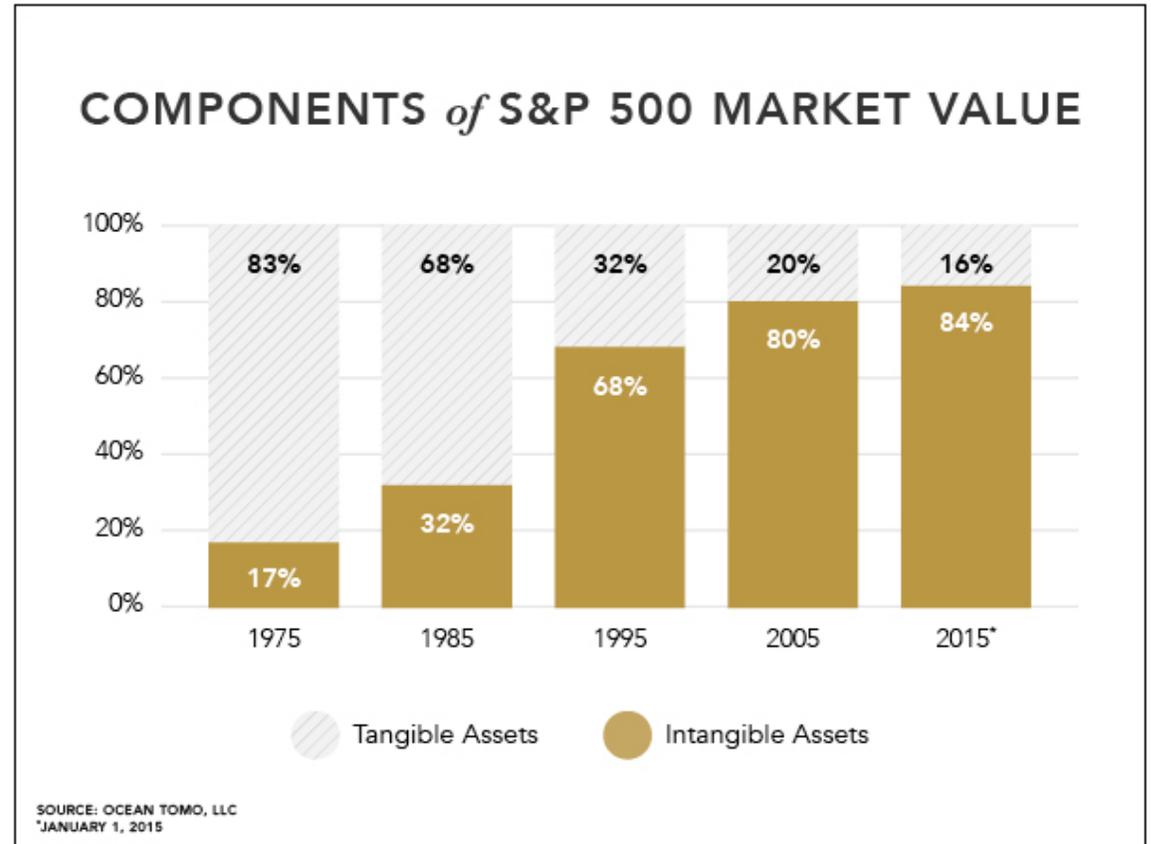


“... when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind.” Lord Kelvin

“Uber, the world’s largest taxi company, owns no vehicles. Facebook, the world’s most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world’s largest accommodation provider, owns no real estate. Something interesting is happening.”

“The Battle Is For The Customer Interface”, by Tom Goodwin of Havas Media on Tech Crunch Network.

> Intangible assets are of increasing importance.



> Understanding of economic value and damages has advanced substantially.

**“To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society”** Larry Fink, CEO Blackrock

We insure, invest, operate and share our knowledge in a way that tackles ESG (environmental, social and governance) challenges and creates long-term value:

- ✓ Close to 100% of assets under management consider Environmental, Social and Governance (ESG) criteria
- ✓ Comprehensive sustainability risk framework for underwriting
- ✓ Active in all renewable energy re/insurance and “lead market” for offshore wind risks
- ✓ 100% Greenhouse Gas neutral since 2003
- ✓ Innovative business solutions (e.g. first county-level earthquake parametric cover in China)

Group  
Sustainability  
Strategy “build  
phase” until  
2021



New thermal  
coal policy  
supports  
progressive and  
structured shift  
away from fossil  
fuels

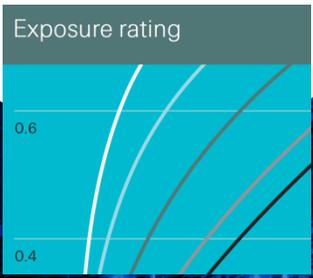
4<sup>th</sup> rank in the  
2019 DJSI  
rating (down  
from 3<sup>rd</sup> in  
2018)



“Because now we really do have ... ubiquitous data. So the complimentary scarce factor is the ability to understand that data and extract value from it.”  
Hal Varian, The McKinsey Quarterly, January 2009



Property /  
Casualty /  
Cyber



MSCI  
arabesque  
Credit / ESG

**Mining for Goals**  
How Behavioral Nudges Can Help  
Investors Discover  
More-Meaningful Goals



facebook Almost Everything  
amazon Google  
Booking.com

"The sexy job in the next ten years will be statistician."

Hal Varian, The McKinsey Quarterly, January 2009



"... Moore's law reached the second half of the chess board in 2013. The implications are profound and they are all around us."

<https://chasmtech.wordpress.com/2013/09/11/the-second-half-of-the-chess-board-intersects-with-moores-law-in-2013/>



"The greatest shortcoming of the human race is our inability to understand the exponential function."

A.A. Bartlett

“If you make customers unhappy in the physical world, they might each tell 6 friends. If you make customers unhappy on the Internet, they can each tell 6,000 friends.”

Jeff Bezos, Amazon

# 04

## outlook

heterogenous data, machine-learning,  
parametric insurances, ecosystems



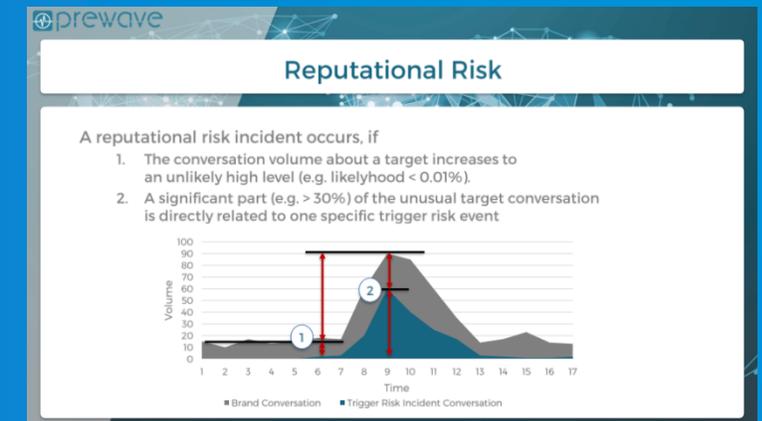
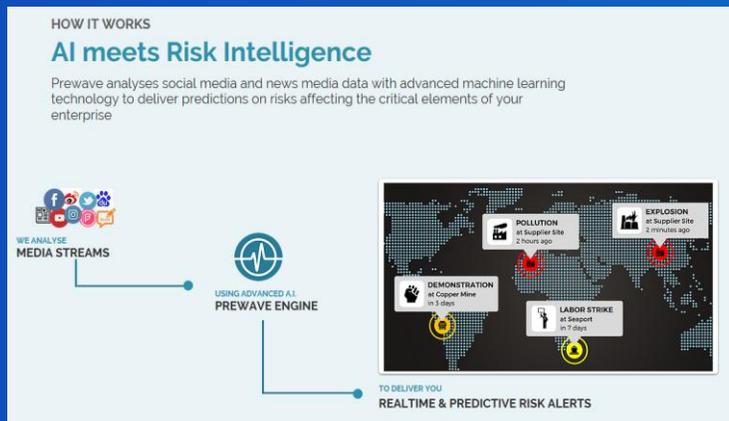
Data-driven insurance. Artificial-intelligence based signal detection and event prediction allows parametrization and indexation of reputational risk



# MINORITY REPORT



# Machine-learning based, parametric reputational risk insurance. Formulaic, pre-agreed indemnity as a function of the relative magnitude of reputational risk events



Monitoring and categorisation of media data with advanced machine learning technology

The machine measures the volume of adverse media, related to incidents, on a brand and category level

A “spike” triggers the policy if a substantial part of the brand conversation (1) can be attributed to an ESG category (2) (relative magnitude)



Scalable insurance solutions for corporate reputational risk offered within **customer centric ecosystems** combining data, technology, services and risk transfer

“Insurers must embrace the world as it is, not the world they would like to see.”

T. Buckle, former CEO Swiss Re Corporate Solutions EMEA

# 05

takeaways



- A good reputation is an economic asset with quantifiable financial value. Reputational risk consistently ranks as top ten business. Current insurance offering is still deeply rooted in traditional insurance thinking, though.
- Ubiquity of data, combined with advances in technology and a continued focus on ESG will further increase transparency and public accountability.
- Data-driven insurances based on artificial-intelligence based signal detection and event prediction allow for simple, scalable risk transfer of corporate reputational risk offered within customer centric ecosystems.

"Is ... growth over?"<sup>1</sup> ... "Not a chance. It's just being held back by our ability to process all the new ideas fast enough."<sup>2</sup>

<sup>1</sup>R. J. Gordon, "Is US economic growth over? Faltering innovation confronts the six headwinds." CEPR Policy Insight No. 63

<sup>2</sup>E. Brynjolfsson, A. MacAfee; The Second Machine Age

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Scott McNealy, Sun Microsystems

"CEOs are the top risk managers when it comes to reputation"

The Economist





# Thank you!

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## Follow us

