

Insurance industry under reputational pressure. Can 'Purpose' be the remedy?

**Address to Worshipful Company of Insurers, 19th November 2020,
by Charles Wookey, CEO A Blueprint for Better Business**

Thank you for giving me this opportunity.

In the middle of a pandemic, when the whole world is struggling to cope with a massive and continuing economic shock, it is hardly surprising the insurance industry should be in the eye of the storm. There is only so much the private insurance industry can do, and it's a sitting duck for the media. Governments as the insurers of last resort are not having an easy time either, and for the private insurance industry its travails may be thought inevitable. Wise heads may counsel "its tin hat time", and that this too will pass.

This would be a mistake, for two reasons.

First, the symptoms of a societal dis-ease with the UK insurance industry predate Covid and go much wider than current court cases over Business Interruption (BI) claims. As you know much better than I do before the COVID pandemic the industry was seeking to address its own local epidemic of distrust with over half the UK population believing insurers may fail to pay out in the event of a claim. In its excellent report last year on Public Trust in Insurance the Chartered Insurance Institute (CII) listed several widespread practices including dual pricing and price walking, ineffective communications and a widespread lack of transparency. It painted a somewhat gloomy picture of systemic issues in an industry, which it seemed only to budge when forced by the regulator. These reputation issues haven't gone away.

Second, though there are clearly very difficult issues raised by the pandemic, how the insurance industry is seen to have handled itself during this extraordinary time - as with the banks, the health service and other critical sectors of the economy - will cast a long shadow into the future. Seeking to deduct government grants from BI claims payments doesn't seem a smart move. And although I recognise there are clearly technical arguments on the validity of some BI claims, there is still a simple test of whose side your customers believe you are on. And that is about not just what you did, but how you made them feel. People will remember the extent to which they *felt* their insurers were there for them, with their best interests at heart and within the limits of what is fair and reasonable strove to do what is right for them at a time of acute need.

And this is worth emphasising at the outset as the title of this talk, I confess, is a form of mis-selling. I don't believe the remedy lies in focussing on reputation. Thinking about "purpose" can be very fruitful as I hope to persuade you, but if the motive is only about reputation management it will prove spectacularly ineffective. As Abraham Lincoln said "reputation is the shadow and character is the tree. Reputation is what you think of it, but character is the real thing."

Blueprint for Better Business was formed in the aftermath of the great financial crisis. It was established as a charity in 2014 but its origins in fact go back to a seminar of City leaders held at Schroder's bank in 2009, reflecting on what had gone wrong. Their focus then was on reputation, and how to get it back. I recall The City values project in 2010 started with the aim "to ensure the city retains its premier status as a financial centre". But, as several of us pointed out at the time, this aim seemed transparently self-serving. The logic appeared to be - "We need you to trust us so we can make more money out of you in future." A better starting point, a few of us suggested, would be to ask a more fundamental question: What is the point of the financial services industry? Who in fact does it exist to serve? And what then needs to change if it is to do a better job of providing that service? My impression is that depth of self-questioning and better answers are now being sought and found within some areas of financial services, and both the FRC and the FCA are helping with recent regulatory changes. But the insurance industry may not be in the vanguard. If that is true, it needs to wake up fast.

The group of business leaders and others who got together to found Blueprint became convinced that asking what the point of a business is – that is, why does it exist at all, was a necessary and timely one. This is because the dominant answer provided by Milton Friedman 50 years ago – which had shaped much of business life and practice in the UK and US since then – was at the core of many of the problems. As you know his answer was that the purpose of business is to increase its profits within law and ethical custom. Now this is not a law of physics and is not what the civil law demands at least in the UK. It is, in fact, just an idea – and a very powerful one - especially when combined with the thought that people are best assumed to be atomised individuals motivated by money status and power. Put these together, align incentives well, the maths all works and people seeking no more than their own self-interest will behave in a way that enables a company to maximise its profits.

These two ideas have helped shape our world, and that world is still deeply scarred by a double disconnect. One is between business and society, and it arose when the narrow pursuit of profit maximisation allowed companies to think of themselves as apart from society. It legitimised, at its worst, their failure to respect the dignity of people, through unjust distribution of pay and benefits, exploiting communities, heedless damage to the environment, opposing necessary regulation and failing to pay tax.

This has become a familiar critique. But there is a second and deeper disconnect less often noticed. It is in the human heart. We are not merely individuals motivated by self-interest, as both the wisdom traditions and empirical disciplines such as neuroscience and positive psychology increasingly recognise. They point instead to three other aspects of what it means to be human. First, we are fundamentally relational as well as individual, with a desire to cooperate and belong, to care for others and be cared for. Second, we seek meaning and want to contribute to the world through our lives and our work. Third, we seek through work ideally to grow, gain autonomy and in some way to realise our potential. When work frustrates these impulses, people live divided lives. They leave part of themselves at the office door. The human costs are evident in low employee morale and mental health problems. The business costs include reduced commitment, productivity and innovation, and increased regulatory and reputational risk from breaches and scandals.

Our view then, was that achieving real change in the relationship between business and society required challenging how businesses think about both purpose and people. Part of the shift was for businesses to recognize that they mostly can and should have a reason for being that benefits society – reflected in what a business says, what it does and how it does it. Profit is vital, but as one outcome, not the purpose. The other is that a business needs to see itself as a human system, one that cares about people. There is a latent capacity for people to commit – providing discretionary effort - which comes from feeling they are ‘valued members of a winning team on a worthwhile mission.’ – to quote a former insurance company CEO. Its better for business, better for society and better for people. Its just not easy to achieve.

Why? Because it is always both an organisational and a personal challenge. It requires creating a compelling narrative and operating model which links the purpose to the strategy and the outcomes from the strategy back to the purpose. It also depends crucially on how people behave, and fostering a culture where each person is seen as a “someone not a something”. This is a personal challenge too because we all have choices in how we decide to show up at work, what commitment we are willing to make to others, and whether we are ourselves willing to challenge and change our own assumptions and behaviour, and especially the frame of mind we bring to work.

Now on the face of it, insurance companies should have far less difficulty than some other sectors in offering a good answer to the question “what is the point?”. As you all know better than me, the origins of the insurance industry lie in people coming together to solve a problem none could solve alone - to pool risk in order to enable people to protect themselves against some potential but uncertain future event or loss, and to have the peace of mind that this security brings. Of course, life is full of risks, and for many of them there can be no market solution, and we all rely on families, friends or depend on universal insurance through the state.

But there are a whole range of areas where the market can meet needs, and like the banks and building societies which often have their roots in 19th century civic development, the insurance industry at its core provides a noble and hugely important service to society without which individuals, families and businesses would struggle and founder. But in recent decades the profit maximising philosophy seems to have deeply shaped how people think and act in insurance too. I was very struck by the opening sentences of the CII's paper on Public Trust in Insurance: “Insurers need to turn the customer relationship into one of protection and meeting needs, rather than sales and product lines. That will take a change of mindset, bravery and concerted effort to engage with customers”.

This question of mindset is the fundamental one. In her excellent book “the future we choose” on negotiating the 2015 Paris Climate agreement, Christiana Figueres writes
“..if you do not control the complex landscape of a challenge (and you rarely do), the most powerful thing you can do is to change how you behave in that landscape, using yourself as a catalyst for overall change. All too often in the face of task, we move quickly to “doing “without first reflecting on “being” – what we personally bring to the task, as well as what others might. *And the most important thing we can bring is our state of mind.*”

What does it mean for leaders of insurance companies to change their mindset to one of 'protection and meeting needs, rather than sales and product lines'? When he was running M & S in its heyday Marcus Seiff apparently was forensic in his inspection of margins on individual product lines. He would as you would expect be very curious when margins were too low. But he was equally so when he thought margins were too high – are we charging our customers too much or paying our suppliers too little? He had an instinctive sense of fairness where customers and suppliers would feel they were being well served. He wanted relationships not transactions, and he also believed that doing so led to a successful long-term business even if it did not maximise short term profits.

The other day I found a helpful independent website on personal insurance – helping people think about what to buy. At the bottom it said this: *“An insurance company is a business, and they are there to make money not to make friends. So always be clear what your policy covers you for, because if there is a way the insurance company can avoid paying up, they will use it.”*

In one way you might think this is excellent and sound advice. Your business depends on legal certainty. People need to read the policy and understand what it does and does not cover (though I suspect few read all the small print). But it also reveals a presumed mindset of the insurance company as not being on the customers side. Is the mindset one of seeking to protect and meet customers' needs, or to deny those needs if possible? There is a world of difference between a default state of mind of seeking to do everything possible to avoid paying a claim, and one which thinks beyond a strict interpretation of the policy terms to consider carefully what is fair and reasonable in each case, taking account of all the circumstances. This is a choice reflected in the day to day thinking of your business. How do you assess the performance of claims managers? How quickly are valid claims paid? When there is a genuine grey area how do you approach it? What guides you? What explanation is given when a difficult judgement call is made, and a claim is denied? Do your customers feel they are treated fairly?

Taken together with the issues such as dual pricing and price walking these are core areas in which a shift to being purpose-led manifests itself in different behaviour. It seems bizarre to an outsider that some in the industry should ratchet up premiums for faithful customers and reward the fickle, and such practices surely fuel a race to the bottom. I know the regulator is acting on this and I understand there are clearly difficult systemic issues here in relation to the role of intermediaries and the need to remove perverse incentives. Collective action is clearly needed.

When we started Blueprint one of the steering group drew up a list of 10 toxic ills that needed addressing. One was “Taking advantage of weak regulation and weak consumer pressure to maximise profits at the expense of consumers.” It seems an excellent summary of what some in this industry are still up to. Attending to reputation cannot fix this. It's about core purpose. And taking a purpose led approach not only puts the needs of the customer first, but in the process also helps mitigate the regulatory risk you will otherwise face.

Clearly this is only partly a question of what happens at firm level. I know there are some excellent purpose-led insurance companies and we need more. But it may also be true that people are less likely to trust any insurance company if they think insurers as a breed are untrustworthy. To the extent that is the case, it will not be enough for individual companies to join the band of the purposeful, vital as that is. Ignoring predatory practices because they are “industry norms” will undermine any attempts to build a purposeful culture that is designed to serve a wider common good. What is also needed is for the default to shift, so people can see that the insurance industry as a whole has demonstrably taken a new path, with a shared commitment to purposes which better serve their customers and wider society, and thereby deliver for responsible investors.

I would like to mention briefly three other areas where the provocation of having a purpose to benefit society seems particularly relevant at the present time, and which might help advance this shared agenda within the industry.

One is risk prevention. When insurance policies encourage people to take care of their belongings, putting valuables in a safe, having window locks and fire alarms, there is a double win. When imaginative health insurers like Vitality incentivise lifestyle changes that promote better health, it is the same. So too with flood insurance for coastal towns and cities when better flood defences are incentivised because they lead to lower premiums and so lower local taxes. The same when better driving results in motor insurance discounts. These are all examples in which the pro-social character of the insurance industry comes to the fore through a mind-set of risk prevention and mutual benefit through carefully targeted behaviour changes which still respect human autonomy. What more opportunities are being created by greater knowledge and technology to prevent risks arising? How could risk prevention – which has such a clear social benefit – come more to the fore in how insurance companies think and act, and enable you to have a stronger more positive relationship as a continuing partner of your clients, focused on helping them every day rather than just being there for a rainy one?

A second is how technology is used. Advances in AI and machine learning are disrupting the insurance industry quickly as they are other sectors. Clearly there are new and emerging sets of risk which are raising huge and important social, ethical and legal questions as well as opportunities for the industry. I was struck that the 2019 house of lords select committee report on AI singled out insurance among other social contexts such as healthcare where the traceability of decisions made, and the importance of intelligibility matters hugely. Is the aim to improve the quality of human interaction with insights which help to support and help customers, or is the aim to squeeze out human interactions in service of higher margins? How can your purpose guide you to use technology better to protect people and meet their needs, instead of using technology to make more money from them?

A third area where the purpose of the insurance industry comes to the fore is on the investment side. As you know Insurance companies have massive agency in the economic system through their role as investors. How do you use that stewardship role? When I am asked for examples of excellent purpose led companies one of the examples, I sometimes give is in fact an insurance company - Legal & General. I point to the imaginative way in

which they use their balance sheet to make very long term investments in infrastructure and urban regeneration, seeing these investments not only as providing long term returns to shareholders and pension holder security, but at the same time investing in cities outside London that need investment. A societal win through core business success.

I also point to the strong lead which LGIM is giving, most recently on climate change but on other issues as well, using its agency in the system as a leading responsible investor. Insurance companies see both sides of this as both underwriters of risk and as long-term investors. Long term trends of rising temperature and rising social inequality are both a source of increased global risk. One insurer was describing how recent Californian fires have been four “one in a hundred-year events” in the last 6 years. It makes sense from both a risk mitigation perspective and a responsible investor one for insurers to be in the vanguard of purposeful investors, using their agency not only to secure long term financial returns but also a healthier and more sustainable ecosystem in which future generations can spend those returns. Are you playing that role now as effectively as you can?

In summary – and I know it is ‘tin hat’ time - I do think the question of purpose, honestly and openly addressed, is powerful and relevant to the insurance industry now- both at the firm and the system level. I have seen ExCos and Boards in other sectors debate robustly the question of what the point of the company is. Reaching a shared belief about that, and on what it means for the business to be successful is a crucial first step in becoming purpose-led. Coming to a shared belief that the point is to benefit society, and to see profit as just one outcome of that – if a vital one - has powerful implications for strategy, culture and governance, shaping how people think and everything a business does over time. This is not a project, but a way of thinking about people and what the point is which shows up in all the relationships the company has. Done well and seriously, and especially if there is a collective will within the industry to act together, it will deliver not “reputation” which is in any case conferred by others not controlled by you. Instead it will deliver something much more important: trustworthiness. And that, after all, is the only basis on which the promises you make - and others depend on - have any real value.

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