Can Reputations be “Managed”?

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In this article, the author suggests that reputation results from actions taken over time. He consequently views an organization's own behavior as the most serious threat to its reputation, rather than the media or business adversaries. The author is wary of the notion of “reputation management” as this could lead organization leaders to believe that the effects of their actions on their reputations can be manipulated. Ultimately, this approach could dangerously widen the gap between appearance and reality. Based on data describing the public perception of the U.S. insurance industry, he advocates reputable behavior supported by credible and energetic communications as the main determinants of reputation.

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Introductory remarks

Some will find little to like in this essay. Others will quarrel with less and discover more of interest. None should hold the Insurance Information Institute (I.I.I.) liable for these remarks on the fortunately popular concept of “reputation risk” and its more problematic consort, “reputation management.”

As befits such a serious journal as *The Geneva Papers*, facts and charts will appear later on. It is most useful to regard such material not as phantoms of a *faux* scientific analysis but as free-standing cenotaphs more valuable for the surprises they may emit than as the marshaled pawns of forgone conclusions.

Consider the following old-style syllogism:

We live today in an ether of omni-media, a kind of floating world stocked with images, quotes, brands, clips, bytes, bites, songs, slogans, and all manner of sporadic and un-integrated stimuli. Our external context is not coherent narration but continual montage. Consistency and *non-sequitur* are equally likely.

In such a world of twinkling quanta, impressions can harden into reputation gravestones over a few days instead of a lifetime.

Therefore, it behooves most organizations, institutions, states, systems, faiths, and individuals to care deeply for their reputations whether they really want to or not.

It can be further argued without grandiosity that insurance companies individually, and the insurance industry generally, are to a higher degree hostages to reputation than are most other businesses. Trust in the promise to pay a claim someday in return

for real cash now underlies every insurance purchase. That so many millions of people seem to trust the insurance industry would be more flattering, even touching, were it not for the reality that most of them have no choice but to trust some insurance entity somewhere, somehow.

Even so, it would be terminally unwise to rely on the often mandatory nature of insurance – used by many insurance people to support their belief in a supposedly universal but factually elusive public antipathy towards them – to such an extent that a requirement to buy coverage becomes a substitute for the reserves of good will necessary to withstand the inevitable unexpected shocks, or even in some circumstances enable taking on higher levels of reputation risk.

It is well known that the non-life or property/casualty side of insurance in particular depends almost uniquely on approvals and processes conducted by regulators, elected officials, and various official entities. These in turn can be heavily influenced by the industry's state of public approval, since all officials face the public sooner or later in some form or another. So even if the purchase of many products is virtually mandatory, the importance of reputation simply cannot be avoided.

Less well known, perhaps, are the enormous stakes of public reputation for the future of the life and annuities industry. Of course, all leaders should guard their own companies' reputations. But the facts show that no matter how high the reputation of a particular company, it will not by itself raise the reputation of the industry as a whole. The U.S. Congress has approval ratings below 30 per cent, but over 90 per cent of U.S. Representatives are re-elected.

Reputation matters so much to the life and annuities industry today that its very future may depend upon the quality of that reputation and how it is built and earned. Consider that virtually every modern State in the world finds itself having to revise, if not rewrite, social contracts that have been operative since von Bismark, FDR, or World War II.

It can be argued, especially because it happens to be true, that insurance products and services offer perhaps the best, even the essential, way to steer a course between full state paternalism and total individual responsibility – between Marx and Darwin, if you will. This historic and irreplaceable moment of opportunity will be lost to the industry without the most vigilant and comprehensive attention to the state of its public reputation.

Reputational risks facing the insurance industry

For all the powerpoint, strategic plans and tradecraft jargon flowing from vendors and other wizards, slight mystery shrouds many of the reputational risks that potentially confront the insurance industry. The following lists are not intended to imply what real firms should do or not do to advance their interests, but to illustrate some of the possible areas of reputational risk facing insurance today.

On the life side they include:

- Sales practices:
Discriminatory sales practices: for example, selling high-priced policies to minorities, lower-priced ones to others.

Inappropriate sales: for example, selling junior U.S. military personnel products that were banned elsewhere or selling people in their 70s and 80s policies with long periods during which high surrender charges apply.

Misleading sales practices: for example, illustrating policies using assumptions that are unlikely to be sustained; conducting “informational seminars” in ways that are deceptive.

Investor-owned life insurance: sometimes called stranger-owned life insurance. Is it a vehicle for more efficient markets or a way to exploit actuarial assumptions that may make markets less efficient?

- Underwriting practices: for example, declining applications based on planned or past travel to places deemed to be more dangerous than others.
- Claims practices: for example, cutting off disability benefits to people who have been receiving them, even though the recipient’s physical status has not changed. Another example might be health insurers denying payment for what doctors and patients view as needed medical care.
- Pricing practices: for example, raising premiums substantially for a block of long-term care policies, when many policyholders have been given the impression premiums would not rise much, if at all; charging high fees for monthly or frequent premium payments.
- Enterprise management practices: for example, running companies into insolvency.
- Product feature practices: for example, long periods of high surrender charges; designing products with complicated features that customers cannot understand.

On the non-life side reputational risks can arise from:

- Disaster performance:
Responsiveness: Perceptions that claims are not being adjusted and settled expeditiously, even allowing for the vast scale and unprecedented nature of some events. These views can be influenced by vocal critics with economic and political agendas.
Inflated expectations: Perceptions of inadequate response can also be magnified when higher expectations of performance are encouraged by insurer advertising. Even ads that portray accurately company personnel extending themselves far beyond their normal duties to assist customers with serious personal needs may create inflated expectations at a moment when even the most basic claims functions are difficult to perform.
Fairness: The claims process is seen to be arbitrary and/or inconsistent, instead of appearing fair and objective.
Litigation: It is clear from many disasters that well publicized litigation will always happen. Its credibility, however, will be affected by the public’s perceptions of responsiveness and fairness as above. Problems – real, perceived, and both – with insurers’ disaster response, in addition to fomenting litigation, can encourage adverse regulatory action, extensions of statutes of repose and burdensome additional regulation. Conversely, successful performance, well communicated, has more upside for the reputation of insurance than any other single factor.

- **Appearances of profiteering:** U.S. p/c insurers earned approximately \$45B in net income (profit) in 2005 despite record CAT losses. At the same time, insurers are logically and necessarily raising rates in areas hit hard by disasters and some are non-renewing hundreds of thousands of policies. Yet insurers' 2005 annual reports are full of accounts about how, despite higher than expected CAT losses, they achieved record profits.
- **Appearance of contradictory messages:** At a time of the highest profitability in the industry in many years and record policyholder surplus (capital), there is interest in exploring or advocating government-backed reinsurance for natural disasters, as well as in further extension of federal terrorism reinsurance (TRIA). Regardless of the separate merits of these proposals, they can create the appearance of contradiction for an industry that as a whole at last achieved significant financial success in 2005.
- **Appearance of shifting positions:** Several years ago, the industry cautioned homeowners not to file claims for small losses, stressing that coverage was designed for major disasters, such as natural catastrophes. Today, the industry appears to be saying that it is mega catastrophes that may be uninsurable.
- **Lowering the industry's risk profile:** Insurers in the U.S. may be slowly gaining a reputation as an industry that is fearful of assuming risk. This idea has its roots in the actions of many insurers, however understandable, not only in historically CAT-prone states, but also in areas infrequently affected in recent times, such as the Northeast (hurricanes) and Alaska and the Midwest (earthquakes). Again, these may be perfectly sound business decisions, but they can send messages that are not easy to balance. The analogy on the life insurance side might be lack of interest in customers other than "high net worth individuals." This may make good business sense, but how does one argue in favour of special tax treatment if products benefit primarily a wealthy slice of citizens and are not viewed as a credible and essential part of the revisions to the social contract underway of necessity around the world?
- **Appearance of obliviousness:**

Climate change: The U.S. insurance industry has often seemed muted on many issues of global importance. Granted, climate study involves complex questions with too few certainties, let alone easy solutions. Nevertheless, "diplomatic silence" poses its own problems as the industry seems to offer little or no constructive input.

Flood insurance: In the first 6 months following Katrina, the industry appeared reluctant to engage in working to significantly reform troubled areas such as the National Flood Insurance Program.

General public policy: Because insurance involves so many aspects of economic life, its views are often sought but seldom found. Perhaps this is for the best, but the net impression can be one of an industry that generally wants little to do with government unless it needs help.

- **Race and underwriting:** The issue of insurers' use of underwriting criteria such as education, occupation, credit standing, and territory will always be controversial and will always require explanation. Industry critics will never stop alleging that insurers are engaged in a permanent search for criteria that allows them to "redline" through the back door. This means that the task of explaining and justifying the

basis for insurance pricing and practices is unending. It also means working actively and visibly on improvements and solutions.

Because such threats to the reputation of both the life and non-life insurance industries can be simply stated, does not mean they can be easily met. Like most real problems, they often arise from painful competition between short- and long-term goals, business and public needs, and the interests of various stakeholders.

Of the criticisms that could be levelled at this essay, the fairest and most poignant would be words to the effect that, “All this is easy enough to say if one doesn’t have to manage a risk-bearing enterprise in a risky world in such a way as to serve policy-holders, pay claims, motivate personnel, offer useful and profitable products, grow, prosper, reward shareholders, attract capital, and placate regulators and politicians.” That critique continues observations made and lessons learned by the great minds in the Athenian academies of ethics who attempted to teach leaders the balancing of building a reputation with the achievement of very material objectives – this art can only be learned through making real choices in real life, by simultaneously considering the implications of actual choices for one’s “fame” before and after they are made.

Reputation versus image

Fortunately, the latest thinking in business includes the rise of “reputational risk” to the forefront of institutional threats. It has even replaced “image,” and this represents progress. Why?

The two are similar and related, but not identical or interchangeable. Fundamentally, reputation results from actions taken over time. Thus, reputation arises from, carries the force of, and embodies a thing itself. Image implies a disembodied, external projection, detached from the thing itself, in this case actions over time. Both are real phenomena, but the excessive, even obsessive, focus on one’s “image” (sometimes encouraged by “experts” advocating the life or death necessity for more PR services and programmes) tends to divert attention and resources away from a company’s or an industry’s own actions, which are the foundation of any reputation, and onto “others,” such as critics, business adversaries, predatory lawyers, the dreaded media – all of which exist and present threats but do not in the end create or destroy reputations. That has always been done best by individuals and organizations themselves. Do any famously wrecked reputations come to mind that remain that way solely, or even primarily, because of external attacks and slander – no matter how poisonous?

To the extent problems of perception or of malicious “framing” are created by the hostile and inaccurate negative projections of enemies, those must – and usually can – be corrected. Sometimes “image” problems can simply be the result of a situation, such as having been very profitable. Skilled, realistic professionals can be invaluable here. Just because the activity of “communications” uses – or should use – common speech instead of equations, legal Latin, or business-school code, does not mean that quality work can be done without expertise, experience, and judgement. Communicating may not be among the highest callings of humanity (how many jobs are?) but doing it well requires craft, intelligence, perspective, modesty, and some art.

Even advertising can help in specific situations, if it is focused and credible. However, there is little evidence that massive advertising and PR campaigns designed to make people feel warm and grateful towards companies or industries create such feelings in many others beyond the executives who pay for them.

An interesting example of a massive advertising and public relations campaign was launched in 2006 by the U.S. oil and gas industry. It was obvious that 2005 profits would be enormous. For example, ExxonMobil became the largest corporation in U.S. history with revenues of \$340 billion. This one company is 80 per cent the size of the entire U.S. property/casualty industry. ExxonMobil's profits were \$36 billion, compared to about \$43 billion for the entire U.S. p/c insurance industry. Even as results were announced, the industry ran extensive ads – "A big industry, a bigger responsibility" – which highlighted a trillion dollars spent on exploration and production, \$119 billion spent on the environment, and the \$1 billion plus cost of a single large offshore platform.

The American Petroleum Institute launched a \$30 million advertising campaign. The five largest oil companies alone spent over \$50 million in the first two months of 2006. Along with other factors, such as awareness of high crude oil prices and a grudging acknowledgement that consumption matters, the fact-based campaigns probably blunted the force of public wrath at their profitability through the first-quarter of 2006. Later in the spring of 2006 as retail gasoline and heating oil prices rose, environmental concerns grew, and politicians came under growing pressure, the oil industry's public standing fell. One U.S. Senator even remarked that it ranked "just above satanic cults!" As of mid-2006, it is impossible to know how the public and political forces will affect the oil industry's fortunes. Many would be pessimistic. However, if the industry continues to explain that oil prices are now set by world markets and that profit margins are not out of line with other large industries, there is a fair possibility that serious damage can be avoided – with one vital caveat. The oil industry has no room for reputation-killing actions such as excessive spending on itself, manipulation of tight supply for extra gain, and internal practices that no matter how arcane, will not stand the light of public exposure and scrutiny.

Some have argued that a similar massive ad campaign might have been effective for the property/casualty industry's announcement of record positive financial results for 2005. Perhaps it would, at least initially. More likely its principal effect would have been to make far more people aware of the industry's atypical profitability. Over time it is difficult to see how the issues raised by the coincidence of high prices and strong profits can be resolved by paid media as opposed to the hard work of daily explaining about insurance to the media, politicians, and the public.

Historically, general campaigns to promote one's own virtues have been least successful when the gap between the sponsors' self-image and how most people experience reality is very large. The often incorrectly referenced crisis effort Johnson & Johnson undertook to stop the damage from some contaminated Tylenol rested on two important factors, usually overlooked:

1. The event was genuinely beyond the company's control, not the result of its own actions; and
2. the company took specific and decisive action.

Ads were not used as cover-ups, nor as spin or substitutes for action. In contrast, attempts to counter more recent problems arising from pharmaceutical company research and its reporting by mounting campaigns about how drugs help humanity seem less persuasive. The lesson is to beware of PR campaigns purporting to sell damage control when the damage is self-inflicted. Particularly beware puffery, claims to other-worldly motives, seeking praise for doing one's job, and demonizations of forces like "the media" as being the real cause of the "... Loss of Eden and All Our Woe."

The questionable rise of "reputation management"

One term of art in recent ascendance must be regarded with special wariness, and that is "reputation management." Like most appealing movements, it grows from a useful idea – in this case that serious concern for one's reputation is really important. The fact that this has been a central concern of sentient human beings since at least the time of Homer's heroes makes it no less timely today. But quicksand surrounds the vague allure of the word "management." If leaders can be led to believe they may do as they wish to achieve their ends (however valid, even worthy) because the effects of their actions on their reputations can be "managed" – for these the consequences can be tragic.

In practice, the more typical fate of leaders seduced by the pitch that artful "reputation management" will smooth their path to fame is comedy and ridicule. Sooner or later those seemingly invisible and temptingly "manageable" gaps between appearance and reality become too wide to dazzle away. For the majority of leaders, firms, and industries that succumb to the lures of reputation manipulation (sorry, "management"), the usual outcome is less likely to be prison garb than a public parading in that traditional line of ceremonial clothing long favored by naked emperors.

It will have struck some readers by now that discussions of reputation management really reprise concerns that arose years ago around the now unfashionable concept of "public relations." At its literal core this term means simply, what is the state of my relationship with the public, why is it so, and how can it be improved? Perhaps the devolution of these mid-20th century concepts into today's mystique of "management" made the development of new phrases necessary for the profession's own reputation to be restored. But today's "public relations" often model themselves on contemporary political campaigns, which now seem to use the same combative, aggressive, winning-is-everything concepts and methods everywhere democracy is being spread around the world. If the first colonial conquerors carried along their missionaries, today's off-load their political consultants, media specialists, and of course "reputation managers." These have also become the model for many business efforts, which are now often situated around the notion of a "war room" – as a place, an idea, and a view of the world. Never mind that wars are supposed to name obtainable objectives with a decisive victor and loser. Often it remains unclear what a "reputation war" is about, with whom it should be fought, why, and for how long. Are one's own customers the enemy to be defeated and destroyed? The general public?

Another warning sign shows itself in the widening use of impressively vague buzz terms such as “pro-active.” If the opposite of “active” is “passive,” what is the antonym of “pro-active” – “cryogenic”?

So what use could it be to think of insurance in the now quaint and archaic context of its “public relations”? A lot, it turns out – if what we mean is the state of the “relationship” between the insurance industry and the public from which it can never be separated.

As argued above, the quality of the insurance industry’s relationship with the public may matter more to this industry’s health and even survival than to any other. How many industries can actually compel people to buy their products and services? It is even illegal not to buy insurance for many activities central to modern life and commerce. In some countries, insurance does what government does in others. In some areas, insurance exists *in loco governmentis* and in others may be put forward as a better alternative, or at least as an essential part of public policy solutions. Especially where insurance purchases are optional, such as life and annuity products, the quality of the industry’s public relationship is crucial to its long-term success.

The inseparable helix of insurance and citizen means government will always be part of our environment. This in turn means that what people think of us will always matter.

Thus, it is in the state of our relationship with the wider world that the subtle but clear distinction between image and reputation merges into an enduring and inescapable challenge for everyone who leads, or would lead, in the world of insurance. Today and everyday, central questions for insurance management will always be: What is the nature of our relationship with the public; how can it be improved? What are the threats to this vital relationship; what can we do to overcome them?

Obstacles to improving the relationship between insurance and the public continue to appear in the persistent misunderstanding of the real state of the relationship and the nature of such problems as may arise. Three of these enduring misperceptions present the most serious problems:

1. Many people involved in insurance deeply believe the industry is singled out for public disapproval far more than other businesses.
2. Many also believe that this has always been so because of what insurance is and the relentlessness of its enemies.
3. A corollary of this is the conviction that the industry’s supposedly low standing with the public is a kind of “state of nature.”

These views lead to periodic calls for massive reputation campaigns – even wars – to vanquish our detractors and induce others to view us with the esteem we have for ourselves. Unfortunately, while such strategic assessments offer simplicity, the emotional comfort of victimhood, and the illusion of total victory over the forces of ignorance and animosity, the facts support none of them.

Table 1 Industry ratings

<i>Industry</i>	<i>2005^a</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1998</i>	<i>1994</i>	<i>1991</i>	<i>1988</i>	<i>1978</i>	<i>1968</i>
<i>Percent very/mostly favorable</i>													
Banking	63%	60%	66%	62%	66%	65%	59%	61%	52%	45%	57%	66%	82%
Auto and home insurance	56	57	59	55	58	60	54	53	45	33	40	47	61
Life insurance	56	50	56	46	55	55	48	50	42	43	48	58	74
Mutual funds	54	42	44	39	48	51	51	53	43	41	37	27	37
The electric power company	52	56	55	48	56	50	57	61	62	60	51	38	80
Health insurance	47	53	50	46	50	55	51 ^b						
Financial services companies	35	31	36	28	34 ^c								
Consumer finance companies	21	17	23	16	20	19	17	19	20	22	19	17	16
<i>Percent very/mostly unfavorable</i>													
Banking	10%	11%	9%	9%	9%	9%	12%	14%	16%	26%	15%	10%	4%
Mutual funds	13	15	13	15	9	8	9	6	9	10	10	14	8
Life insurance	16	17	14	18	13	14	17	17	23	24	20	16	7
Auto and home insurance	19	18	17	17	16	14	17	21	29	40	30	25	15
The electric power company	20	15	17	18	19	22	12	16	8	11	23	34	6
Financial services companies	23	23	18	24	18 ^c								
Health insurance	32	25	26	28	28	21	24 ^b						
Consumer finance companies	35	34	31	33	29	27	34	31	33	34	38	46	51

^aDecember 2005, post-Katrina.

^bIncluded beginning in 2000.

^cIncluded beginning in 2002.

The realities of insurance and public opinion

At this moment, some readers' objections may be rising to levels best met with a few of the specifics and examples promised at the outset. Consider the following favorability survey that has been taken in the United States continuously since 1968 by the I.I.I. (Table 1). Two special values of this survey are that it asks completely neutral questions and that the questions have remained exactly the same for the past 38 years.

1. Q. I'd like to get your impressions of a number of industries. As I read the name of each one, please tell me whether your overall opinion of it is very favorable, mostly favorable, half and half, mostly unfavorable or very unfavorable. (read in random order)

Fifty-six per cent of consumers have a favorable attitude toward auto and homeowners insurers.

The public's opinion of auto and home insurers dropped one point from May 2005, an insignificant amount, leaving the industry's favorability rating (Table 1) at basically the same level it was pre-Katrina.

The question summarized in this chart simply asks respondents to give their view, favorable or unfavorable, on a scale of one to five on various industries. No clue is given as to which industry might be the subject of the survey. There is no way in which people surveyed would have been alerted to a hidden motive.

These simple numbers tell several interesting stories. First, all of the industries in question showed substantial variation over time. In the case of auto and home insurance, for example, the ratings reached a low in 1991 and 1992 (about the time of Hurricane Andrew), began a slow climb throughout the 1990s and have remained reasonably stable to the present at somewhere between 55 and 60 per cent. A second interesting message from the numbers is that a stable approval rating of between 55 and 60 per cent, while obviously not indicative of universal adoration, is one most political leaders would do a lot to have, and is far higher than most insurance people intuitively believe.

Industry behavior and communication as key success factors

There are a number of reasons for this improvement, which in itself could be the subject for a separate paper. Two very important factors are:

1. Industry behavior changes in highly visible areas, and
2. sustained communications through the media that are both credible and aggressive.

The most effective single change involved a shift in communications around the most visible natural disasters from exclusively company-specific efforts to coordinated, ongoing media and public outreach on an industry-wide basis. As we have seen, public impressions are formed most indelibly following huge catastrophes. Public approval began rising most clearly following Hurricane Andrew, when the industry completely transformed its approach to one of active, collective, and sustained communications with victims, media, and the general public, and has remained at good levels since. Other factors involve such shifts as the industry's approach to

inner-city coverages, which have greatly lessened accusations of race-based unfairness. These and other behavior changes have been accompanied and reinforced by a continuous focus on media and public communications based on credibility, openness, accessibility, reliability, and initiative.

This effort has been carried on by insurance companies, their personnel, and their associations. It also has not hurt to have a unique organization such as the I.I.I. whose full-time job is to talk – truthfully and energetically – to every reporter, researcher, academic, public official, and individual citizen with any interest in any insurance topic. This means that last year alone the:

- I.I.I. handled more than 4,100 media inquiries from more than 1,700 media outlets.
- More than 3,300 newspapers and 500 magazines requested information from the I.I.I.
- Its web site¹ leads the search engines and its traffic has climbed steadily to about 300 million hits projected for 2006.

Even so, the single most important factor in the sustained improvement in industry approval has been the willingness of companies to consider how their own actions affect the way they are viewed and the esteem in which they are held. That is reputation risk management through mitigation – and it works.

Some have contended that higher insurance approval is mostly the result of a period of lower prices. This view does not survive in the face of the following facts from the I.I.I.'s 2004 Insurance Pulse survey:

- Fifty-nine per cent of consumers had a favorable attitude toward auto and home insurance companies.
- This was the second highest rating the industry has received since the I.I.I. began measuring public attitudes in 1968.
- The 59 per cent rating was also the highest recorded during a “hard” market period.
- Favorability ratings (Table 2) in years considered to be part of the “hard” market were 43 per cent in 1986 and 47 per cent in 1978.

This shows clearly that external factors have their effects, but not to the extent of insurers' own actions.

In this regard, and at the risk of incurring still more displeasure, it must be said that the post-Katrina evaluations in the U.S. insurance community seem as if they could be more comprehensive. The Department of Homeland Security (including the Federal Emergency Management Agency and the National Flood Insurance Programme), Red Cross, Salvation Army, and state and local governments have all identified shortcomings and issues in efforts to improve performance. The U.S. insurance industry's main collective action as of mid-2006 seems to have been an experimental PR effort/reputation management campaign. Possible approaches to mega-catastrophes when the basic civic infrastructure is destroyed and the civil authority is overwhelmed do not seem to have advanced very far.

Be that as it may, the important point here is that insurance is not universally disliked, the public's view of it has improved over time, and there is nothing inherent in

¹ <http://www.iii.org>; <http://www.insurance.info>

Table 2 Percent very/mostly favorable

the nature of the business that condemns it to perpetual unpopularity. But the misperceptions that persist within the insurance industry about the insurance industry carry more serious consequences than simply being wrong.

Ironically, the most detrimental of these consequences are opposites. One is that if things are inherently always going to be bad, then nothing useful can be done. This provides the obvious excuse for inertia and inaction. The other misperception – that insurance is much more unpopular than other businesses – seems to demand urgent, large-scale measures to correct the situation. Both extremes – doing nothing or waging broad, expensive, PR campaigns – do little good, although the first at least does not waste money or risk embarrassment. But both miscalculations deflect the industry from becoming better aware of what is usually the biggest single determinant of the quality of any relationship – actions under one’s own control.

Like veterans of most institutions, many who have spent their lives in insurance tend to feel that such problems as may exist with the outside world are the fault of the outside world or result from being “misunderstood.” This leads to the oft heard plaint that “no one understands us, if they only realized how much we do for everyone they would feel differently about us”. Again, this can lead to ineffective and even amusing (from the public’s perspective) attempts to extol and ingratiate.

In practice, the best route to a constructive relationship between insurance and the public is probably not much different than it would be in any relationship. This generally means performing simple acts of substitution, that is, asking oneself, “how would I feel if this behavior were directed towards me?” It is difficult to imagine improvement in any relationship or the enhancement of any reputation that does not

begin with a sincere attempt to understand the present reality and those specific things that may be troubling the other party. Reputation is often correctly associated with character, and as long ago as *The Poetics*, character was defined as the results of actions one takes: “Action is character”. It does not seem complicated to conclude that a strong reputation follows from performing reputable acts, explaining them forcefully, and listening carefully.

To be sure, all industries have determined, implacable adversaries and insurance is no exception. Unsurprisingly, those that attack insurance are often those with a strong economic stake, such as some members of the plaintiffs’ bar. Such opponents may use every form of slander, mischaracterization, and distortion to taint insurance, perhaps to sway a particular jury or to damage future ones. These opponents must of course be countered forcefully and convincingly. Still it continues to surprise many in insurance that no matter how aggressive and vivid some of these adversaries may be, there is no evidence they have persuaded the public at large that insurers, or insurance, are somehow inherently hostile to the public interest.

In fact, the greater damage may be done if the ferocity and offensiveness of attacks on insurance so inflames the industry that it focuses all its energy and resources on countering strategies instead of examining the true status of the industry’s reputation and the industry’s own role in it.

There can also be, it must be said, internal constituencies and eager service providers who may have an interest in persuading top managers that their organizations are under siege. Perhaps they are, and part of the job of good communication advisors is to provide realistic assessments of external threats to reputation and suggest measures to be taken. But some will inevitably acquire out of their Darwinian struggle for survival such adaptive traits as the artful use of flattering propositions that their leaders are really right and just and only need to be heard for people to see the light of their virtue. That least sentimental of advisors to princes, Machiavelli, explicitly warned that “this plague of flattery is hard to escape...for there is no way to protect yourself from flattery except by letting men know that you will not be offended at being told the truth.” When a combination of misjudged threats, generalized anxiety, and subtle flattery is leveraged into unproductive and even counterproductive campaigns, then our public standing may actually be more harmed than helped.

So in practice “reputation management” can devolve into “propaganda” (old speak) or “spinning” (new speak). Remarkably, it does not seem to have occurred to some cadres of reputation managers, or to those who engage them, that both may be promoting at least a partial oxymoron. Why does behaving reputably require management in the first place? If mitigation is what is meant by the term, fine, although that course often entails the dangerous business of testing who is really willing to hear truth without being offended.

For those in power, “reputation management” too easily becomes just another wile in the kit of the eternally seductive notion that behaviour can somehow be detached from its consequences. Set down by men and women who have lived them, words of high principle can summon the better angels of our nature. In the hands of others, lofty phrases are the lingerie of literature.

But is not communication more important than ever today? Of course it is. As just referenced, credible, energetic communications are essential to the industry's improved public standing. And there are many instances in which such effective communications have brought perspective and understanding to distorted representations. But, also as asserted above, when leaders, their organizations, and their vendors start claiming they are never wrong, only misunderstood, look out – worms are about to turn, reputations about to burn.

Turning again to examples, if the public's perception of the industry is significantly shaped by how well it perceives insurance works in the handling of major catastrophes – the time when insurance is most in the media, and generally when it does its best – what has been the impact of Hurricane Katrina and the 2005 hurricane season on our standing with the public?

The impact of Hurricane Katrina

The I.I.I. conducts its annual Insurance Pulse survey of public attitudes cited above every spring. Because of the unprecedented nature of the 2005 hurricane season – probably the greatest humanitarian disaster in the U.S. since the Great Depression – the I.I.I. decided to take an earlier look, in December of 2005.

We found that the public's opinion of auto and home insurers basically remained at the same level it was prior to Katrina, dropping one point – from 57 per cent favourable in May 2005 to 56 per cent in December 2005, still well above the norm.

What was behind this slight drop? More interestingly, why did our rating not decline more precipitously given the slow and difficult claims handling process and the well-publicized disputes over flood and wind damage? A closer look at the data may give us a hint.

Most institutions associated with the hurricane have been viewed negatively – from government at all levels to the Red Cross. We asked the public to rank several government entities and the insurance industry on their performance. The result was that fewer people thought that the insurance industry did the worst possible job (17 per cent) than various government institutions. The Bush administration (37 per cent) received the worst marks.

The stable overall approval rating of insurance also may be linked to another finding: very few people (only 4 per cent) thought that insurance companies were the entity principally responsible for dealing with Katrina. State and local government (33 per cent) and FEMA (26 per cent) were viewed by the public as most responsible.

Incidentally, our survey taken after the investigations last year by New York State Attorney General Eliott Spitzer also showed our overall rating was largely unaffected – again counter to popular belief in the industry. Relatively few members of the public were even aware of investigations. Logically enough, people in the Northeast, where most media coverage of the investigations appeared, held the most negative views of the industry last June. Fifty-two per cent nationwide said the insurance investigations were of the same importance as Enron and WorldCom, while 63 per cent of people in the Northeast felt that way. Forty-one per cent of the general public believed that investigators found wrongdoing throughout the insurance industry, while 55 per cent

of the people in the Northeast said wrongdoing was pervasive. Six months later, as coverage subsided, our rankings in this region were near the top.

Surely, some say, the terrible events of Katrina and Rita and their unprecedented human, financial, and functional consequences must have seeded a cyclone of hostility to insurance in Mississippi and Louisiana. Actually, not – in spite of horrible conditions and high-profile critics – though there are some intense local “hotspots” and problems in the South as a whole, which includes the much larger states of Florida and Texas.

Late in January 2006, the I.I.I. followed up with a new survey focused exclusively on the opinions of people in Louisiana and Mississippi. It asked three questions, each of them identical to those asked in the annual national survey taken earlier.

There are several noteworthy findings contained in Tables 3–6:

- The industry’s overall approval ratings in Louisiana and Mississippi are nearly identical to the results of our national survey (57 to 56 per cent). However, the survey revealed some interesting specifics about those states. There are clear distinctions between the views of people in Louisiana and those in Mississippi on how various government entities and insurance companies handled Hurricane Katrina. In Louisiana, respondents gave the federal government, and FEMA in particular, very low marks for their performance after Hurricane Katrina, much lower than those received by state and local government and insurance companies. By contrast, the poor rating Mississippians gave to insurance were comparable to those they gave to FEMA and the Bush administration. Here the high profile of highly publicized flood/wind claims disputes involving insurers, more prominent in Mississippi than in Louisiana, likely played a role. While in Louisiana criticism of government at all levels for their response remains most prominent.
- The approval ratings in Louisiana and Mississippi are actually four points higher than in the South as a whole. Concern about the price and availability of homeowners insurance coverage in Florida following the four hurricanes of 2004, and special issues in Texas, may have impacted the regional result. The extent of media attention on the issue may bear this out. An I.I.I. analysis found that during the last 12 months, 1,745 stories focused on homeowners insurance appeared in Florida media, compared with 603 in California, 420 in Louisiana, 281 in Texas, and 242 in Mississippi.
- People in both Louisiana and Mississippi ranked insurance companies least responsible for dealing with Hurricane Katrina as compared with federal, state, and local governments. This is basically consistent with the results of the national survey, although the public in the affected states saw insurance companies as more responsible than did the public countrywide.

These findings lead us to conclude that the issues rising from the storm increasingly are state specific, and very local within the states, calling for communications that recognize not only the different issues in the two states, but also distinctions within different regions of those states, and which focus on refuting the most vocal and aggressive attackers.

However, perhaps the most disturbing implication of the annual and special surveys (although not a formal conclusion) is that our overall public approval may have

Table 3 Favorability by industry, national vs local

	<i>United States^a</i>	<i>Mississippi^b</i>	<i>Louisiana^b</i>
<i>Percent very/mostly favorable</i>			
<i>Industry</i>			
Banking	63%	73%	69%
Auto and home insurance	56	57	57
Life insurance	56	60	65
Mutual funds	54	47	56
The electric power company	52	66	52
Health insurance	47	55	46
Financial services companies	35	35	39
Consumer finance companies	21	23	24
<i>Percent very/mostly unfavorable</i>			
<i>Industry</i>			
Banking	10%	7%	11%
Auto and home insurance	13	17	21
Life insurance	16	12	9
Mutual funds	19	8	6
The electric power company	20	18	27
Health insurance	23	25	25
Financial services companies	32	23	15
Consumer finance companies	35	28	36

Favorability toward the auto and home insurance industry in both Louisiana and Mississippi was 57 per cent. Favorability in Louisiana and Mississippi was almost identical to the countrywide approval rating of 56 per cent found in the national Pulse survey conducted in December 2005.

^aDecember 2005.

^bJanuary 2006.

Table 4 Katrina performance ranking

Louisiana

Public opinion of Government and Insurance response to Hurricane Katrina (per cent)

On a scale of 1 to 5, with 5 being the best possible job, and 1 being the worst possible job, how would you rate the job each of the following did regarding their response to Hurricane Katrina?

	<i>Best possible job</i>	<i>Worst possible job</i>
Bush administration	10%	34%
State and local government	10	25
Federal government	9	27
FEMA	6	35
Insurance companies	11	25

survived Katrina not for fundamentally positive reasons, but because relatively few people live in the two affected states and, worse, because people believe that other institutions such as the federal government performed much more poorly.

Overall these numbers tell us clearly what many regard as counterintuitive and some simply do not wish to hear. Insurance is not uniquely and universally loathed. Its ratings rise and fall but have generally stabilized, even in the face of such dramatic events as the Spitzer investigations and Katrina. External critics have not destroyed the reputation of insurance. Where and when insurance does its job very well, listens to its customers, corrects its own shortcomings (we all have them), and communicates honestly and well, its reputation is generally good. On the life side, the key is to identify and expel bad actors (i.e., bad characters) and not let them wreck our overall reputation.

Table 5 Katrina performance ranking

	Mississippi	
	Best possible job	Worst possible job
Bush administration	24%	28%
State and local government	30	14
Federal government	18	22
FEMA	19	29
Insurance companies	12	28

Are insurance companies venerated; do its leaders appear on postage stamps? Not likely. But the absence of the reverse is no small blessing, and the facts show insurance far surpasses that low bar. A public climate of “benign neutrality” is not a terrible environment in which to operate, and offers politicians little incentive to single out the insurance industry.

Concluding comments

Inhabitants of a world enveloped in quanta phantoms of fleeting impressions will over time value a real reputation over an illusory image, no matter how ingeniously projected. Because insurance is so embedded in so many mandatory and voluntary dimensions of life, reputation matters greatly to this industry – not just to firms but as

Table 6 Who should be responsible for dealing with Katrina

Note: United State results as of December 2005. Louisiana and Mississippi results as of January 2006.

Respondents in both Louisiana (6 per cent) and Mississippi (13 per cent) ranked insurance companies in responsibility for dealing with Hurricane Katrina.

Twenty-eight per cent of Louisiana respondents thought that the federal government should be most responsible for dealing with Katrina. Twenty-seven per cent of Mississippi respondents thought FEMA should be most responsible.

a whole. In reality, our future will depend as much upon our reputation as on any other single factor.

In spite of a commonly cherished, somewhat self-centred, and occasionally self-serving insistence on our exaggerated unpopularity, the current state of the industry's public standing can be fairly described as no worse than "benign neutrality" and probably better.

Real and dangerous threats to the reputation of companies and the industry clearly exist. Some come from self-interested critics who prey on ignorance and anxiety. These must and can be countered. Unfortunately, the most damaging threats over time come not so much in the form of demonic critics, legal parasites, and prize-hungry journalists, as they do from the emergence of complex problems, inherent tensions between public good and private reward, and inevitable conflicts among the diverse stakeholders in contemporary corporations, particularly global ones. In confronting these reputational challenges, the concept of "reputation management" should not become a seductive substitute for facing tough choices and the consequences of roads taken. However in vogue, the belief that the effects of one's actions can be "managed"

over time may be quicksand on the way to a tarpit from which a reputation rarely returns.

Although vulnerable to rejection as possibly unrealistic and certainly annoying, the fact remains that over time few reputations stray very far from the path of actions that people and their organizations have chosen to take.

It should not, therefore, be wholly unworldly and irritating to suggest that if one truly cares about reputation, it is far more dangerous to follow paths that will only leave a tangled trail of tracks to be covered, than to choose an open road clearly marked for all who follow with the footprints of one's fame.

About the author

Gordon Stewart is president of the Insurance Information Institute, which he joined in July 1989. Mr. Stewart came to the I.I.I. after a career in politics, business, theatre, music, and teaching. Since becoming president of the Insurance Information Institute, Gordon Stewart has focused its work on improving public understanding of insurance, primarily through the global media. The I.I.I. now provides assistance on an average of 14 stories per working day and covers all aspects of print, magazines, television, radio and new electronic media.

A Phi Beta Kappa graduate of Oberlin College, Mr. Stewart also holds a master's degree in European History from the University of Chicago; certificates in theatre and music from the University of Vienna; and a master of fine arts in directing from the Yale University Drama School. Mr. Stewart is a member of the Council on Foreign Relations and the Century Association. He is secretary of the Judson Welliver Society of former principal presidential speechwriters.