

Verwaltungsrat Forum (Board of Directors Forum), ZDC

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November 8, 2012

The Board of Directors in the media: We succeed together – or not at all

Good afternoon, ladies and gentlemen,

I am pleased to welcome you to the Zurich Development Center to talk about “the Board of Directors in the media”.

We cannot complain of any lack of media attention right now. In my view, the media has seldom reported as much about economic topics and about representatives of the economy as they do today. I know it is not news to you that many of these recent reports have been less than flattering.

There are, of course, reasons for this. The financial crisis has expanded to become the largest global economic crisis in generations. It is shaking up the financial foundations of companies and nations. In recent years, there have been too many headlines about bankruptcies and management mistakes, both at home and abroad. These have rocked confidence in the economic agents.

You can add to this the bad news, speculation and fears that are feeding uncertainty, like: concern that the euro could break apart, or the fear that once-stable countries could go bankrupt, or the tragic reality that in Spain and Greece, for instance, over half of young people are unemployed.

These factors impact all of us and are a cause of great concern for all levels of society.

You are all familiar with the British magazine, *The Economist*. You know that the magazine does not tend toward exaggeration. “Be afraid” was one of its cover headlines on the condition of the global economy. And the picture on the cover was a black hole that was swallowing up everything.

In times of uncertainty, it’s understandable that people will seek out those responsible, the guilty parties. Some media commentators appear to have already found them. For instance, a German news magazine ran an article entitled “Markets out of control” in which it claimed, “The finance industry has become a threat to global society.”

This is of course utterly ludicrous. The insurance industry, for one, poses no risk to the economic system. On the contrary; at the height of the financial crisis insurance was actually a source of stability – precisely because it enters into long-term obligations and bases its business on fixed premiums.

But I don’t want to make things sound better than they are. We find ourselves in a difficult situation.

The financial and economic crisis has ruthlessly revealed mistakes, errors of judgment, exaggerations and excesses made by companies and by managers in recent years. I believe that we have turned the corner and are on the road to recovery. Nonetheless, we still have a long way to go to survive the crisis – above all in Europe.

The challenges facing boards of directors and management are so demanding, so complex and so full of risks, unlike anything we have seen in many years. The function and responsibility of boards of directors and management are being discussed with an intensity rarely seen before, including among the public and in the media.

This is an important discussion that needs to be conducted both widely and in public – after all, we can and we must learn from it.

When, for instance, a majority of those asked in Switzerland in a representative survey call for government intervention on managerial salaries, then that should give us food for thought. This attitude reveals one thing above all: a blatant lack of trust. Apparently, we – business, companies, investors – are no longer trusted to be able to solve problems ourselves. Apparently, the integrity and the competence of economic leaders are in doubt.

I see this as the largest burden of the economic crisis: It is also a crisis of trust. We have to win back this trust – trust in the economic institutions, trust in the processes and trust in the representatives. In the end, it’s even about trust in the advantages of a social order based on a liberal and market economy. I’ll come back to this.

Now I would like to develop three propositions as to how we can win and preserve trust as directors and managers even in economically difficult times.

Since we are talking about the media and the public, these three propositions are also all about communication – internally and externally. And with how a company sees itself and how it would like to be perceived.

Proposition 1: It's all about principles

Trust has a lot to do with credibility. Credibility is saying what you're doing and doing what you're saying. That's being predictable in the best sense of the word.

For a company, it means consciously representing certain principles and retaining them in the long term. An example from my company, Zurich: If something does not meet the highest standards of integrity and quality, then we don't do it. Period. This comes first and foremost in everything we do.

We also do not use unprofitable pricing to beat our competitors; profitability has a higher priority than growth; we are disciplined and focused in our work with a long-term view. These are our principles. With or without a crisis.

If a corporation is unprofitable once in a single quarter, it's not the end of the world. However it would be bad if we were to harm our good reputation. For this reason, my highest priority is that we do not lose this reputation.

The traditional economic virtues that made Switzerland successful in the first place are our guiding principle here: diligence, competence, reliability, integrity, responsibility.

When there are a lot of things in motion, solid ground under our feet helps. For a company this means being guided by principles and clear rules. Rules provide orientation both internally and externally. Rules make workflows more efficient – above all in globally active companies such as Zurich, where some 60,000 people from many different cultures work together to serve customers in more than 170 countries. And rules provide stability, particularly in crisis situations.

These rules have to be communicated clearly and be binding at all levels of the hierarchy. They have to be transparent, consistent, fair and understandable. And they must guide people to say what they're doing and do what they're saying.

Proposition 2: It's all about corporate culture

With time these attitudes have to more or less flow into the DNA of a company to become a part of the corporate culture. In this way, formal rules turn into principles that are practiced; principles that persist in the long term independently of any management figures, because trust has a great deal to do with continuity.

What is the big advantage of management based on principles? It even works in cases where there is no rulebook, in crises and conflicts, for example. In such situations you can't simply turn on auto-pilot or put an X in the multiple-choice box.

No, in such moments you have to have principles on which you can act with discipline. You have to remain true to yourself. And you need employees in top management and across the company on whom you can rely and with whom you share a philosophy – or in other words, the corporate culture. We are all still confronted by developments that are pushing us in a different direction. The financial and economic crisis is not only having a financial impact on companies. A political reaction to it can be seen in the reinforcement of regulations. Even in Switzerland we are noticing a tendency toward excessive regulation that may come at a high price for companies and consumers.

For me this development is the antithesis, so to speak, of the development of a corporate culture. We don't always need more and more laws and rules that are merely suffocating a sense of personal responsibility. Even the best law, or the strictest control, cannot prevent every crisis or every fraud. In other words, it's not enough to check off our checklists. Laws and regulations only provide the framework – even if they are detailed to the nth degree.

Formalism alone is not sufficient. People are crucial to the sensible integration of these rules into business practice. The values and principles they are guided by are crucial. A company is as good or as bad as its management and its employees. Or, in essence, a company is as good or as bad as its culture. A good corporate culture that is modeled by the board of directors and by the management has an impact both internally and externally. It creates trust and support among the public. And thus it, too, is crucial to business success.

Proposition 3: It's about creatively getting the most out of areas of tension

Trust, above all, also has to do with openness. The various levels – employees, managers, directors – share a common goal within the company: sustainable, lasting success. But they have different roles. By its very nature this leads to differing viewpoints. Such areas of tension are positive.

It would not be good if everybody thought the same way. You have to exploit areas of creative tension to find the best solution. An example from my business: The assessment of risks is absolutely essential for insurance companies. No spirals of silence or suppression of thought can be permitted. On the contrary, you have to trigger debates, you have to demand opposition and you have to seek out dissent.

A good attitude towards asking critical questions must be promoted. That places high demands on managers as well as on all employees. They have to be able to view a situation from the other's perspective in a debate. For that to work, open communication is necessary along with a clear division of roles and respect for each other's tasks and functions.

At Zurich, for instance, the areas of responsibility are clearly separated. The Board of Directors has overall control over the company and is responsible for strategy. It delegates business management and operational responsibility to the CEO and to the Group Executive Committee. In this way, all levels of management can work from a clearly defined strategy, a strategy that – as I just outlined – is based on predictability, continuity and openness, something that has proven itself.

We must stand for these values together. They are also a promise to our employees, after all. Everyone should be able to develop their personal potential. We want to achieve success together and learn from our mistakes together.

Ladies and Gentlemen,

...at the beginning I said that I see the loss of trust in institutions, in their representatives and in the processes of the economy as the greatest burden of the current crisis. We have to win back this trust. It must be a warning to us that excessive interventions by the state into the economy are increasingly being seen as positive.

I am firmly convinced that the success of Switzerland is based on a liberal and market economy-based consensus of values that upholds a sense of personal responsibility. Switzerland is successful when it acts cautiously with regard to state intervention. That is, and always has been, one of its greatest advantages in competing with other nations.

The market economy has helped hundreds of millions of people around the world escape poverty. It has blessed us in the industrialized world with historically unique wealth. As representatives of business we have to secure social consensus today that entrepreneurial actions are positive for humankind and an open society.

Once again, we have to convince people that the finance industry in particular is not a threat, but rather an opportunity for society. Insurance companies and banks make it possible for people and companies to enter into entrepreneurial risks. Thanks to policies and loans, they make innovations possible.

That's why, as directors and as managers, we have to be open to public discussion. Even if media criticism of the economic players sometimes appears exaggerated: We have to take seriously the fear and anger that is being ignited here and there. We have to listen.

As companies, we can only be successful if we are accepted in society and if we are trusted. We have to understand ourselves as a part of the communities in which we live and in which we work. This may apply particularly to insurance companies, but it also applies to all other industries.

Only when a company enjoys trust can it experience success. And only if it is successful can it provide a benefit to its customers, its employees, its shareholders and to society in general.

Put simply, success – both politically and in business – is achieved either together, or not at all.