
Event Report

MBA Global Odyssey: Adapting and Winning in Times of Economic Turbulence

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As part of the Odyssey symposium in New York, Mario Vitale of Zurich Financial Services addressed Columbia faculty, students and guests on the theme of adaptation to the global insurance industry. The symposium was assembled as part of the Odyssey Conference, in which Columbia Business School brings students from the world's top 16 business schools (the Odyssey 16) to New York City together to go head-to-head in a case competition and learn from distinguished speakers. The symposium featured business leaders who, despite a very volatile economic climate, have adapted their business models to weather the downturn. Mr. Vitale addressed the global insurance industry and its potential for the future.

Zurich is a leading global insurer with over 65,000 employees and operations on four continents. Mario Vitale, who has over 30 years of experience in the industry, joined Zurich in October 2006 and currently has responsibility for all Zurich Global Corporate business in North America, Latin America, Europe and Asia/Pacific.

The economic downturn hit financial firms particularly hard, including the insurance industry. Mr. Vitale likened the credit crisis to a black hole in the financial world: "It was a perfect storm." According to Zurich economists, the economic rollercoaster over the past few years is unlikely to repeat. Mr. Vitale pointed to data demonstrating that over the last 300 years, the two six-month periods with the biggest statistical outliers from an equity market return perspective, one on the downside and one on the upside, happened within the 12 months ending in December 2009. Given this statistical anomaly, Zurich feels the probability of this happening again is unlikely.

While the current financial correction appears to be occurring more quickly than it has in similar past situations, which leaves some risk of a "double dip," the market also seems to be

demonstrating that investors feel “that the worst is behind us.” Economic indicators are currently operating above levels consistent with recession in many countries.

In good news for Zurich Financial, the insurance industry has weathered the storm better than other financial industries. The industry’s resiliency is largely due to the limited risk profile of its constituents before the downturn. To wit, insurers absorbed \$271 billion in write-downs as a result of the credit crisis; banks, conversely, wrote off roughly \$1.7 trillion. Mr. Vitale called insurers “an anchor of stability.” He went on to say that “European insurers were the least affected of all industries; they turned out to be a stabilizing factor in turbulent times.”

In particular, Mr. Vitale stated, “Zurich hardly missed a beat.” With over \$200 billion in their investment portfolio, Vitale said there was no way completely to shield the firm’s assets from what was happening in the market. However, using conservative risk management, Zurich continued to produce profits. When things started to improve, Zurich bounced back, and the firm’s economic solvency is now stronger than ever.

Zurich was able to achieve strong results through disciplined risk management. The company has been moving capital away from risk intensive assets to those specifically backing up insurance portfolios since 2004. As a result, the company was well positioned to weather a downturn. Mr. Vitale summed up the company’s strategy as “putting capital behind the business we’re in—insurance.”

Looking ahead, Mr. Vitale predicts four main challenges for the insurance industry and the economy as a whole: a broadened perspective of risk, new market expansion, market consolidation and customer centricity.

In terms of a broader view of risk management, Zurich and Mr. Vitale see a disconnect in the C-suite. CEOs are focused on the “risk du jour”—pandemics, terrorism, climate change. These are not necessarily the risks most likely to affect the various industries in which many CEOs work. Mr. Vitale notes that CEOs often suffer from risk myopia caused by pressure to produce good quarterly earnings. This leads them to ignore risks that may occur beyond the short term, essentially saying, “If it’s not in my term of office, I’m going to ignore it.” Thus, many corporate managers fail to account properly for their business’ complexity.

The world is becoming riskier and risks are more interconnected. Yet, at the same time, there appears to be a shift in the geo-economic balance. For example, compared to the last 10 years, more of the world’s top 25 corporations, measured in terms of market capitalization, are domiciled in emerging markets. In the past, industrialized centers rescued emerging market

countries in times of economic distress, but this time, emerging market countries have led the way. Furthermore “decoupling looks real, and the action is in emerging market countries.” The insurance industry in the industrialized world looks saturated, but emerging markets are in the process of catching up.

Even as the market for advanced insurance products is increasing through emerging market growth, the insurance industry is consolidating through a wave of mergers and acquisitions. Capital demands for insurers are becoming more immense; thus, companies with better risk management and capital protection will be the acquirers. As evidence, Mr. Vitale pointed out that the market for general insurance is extremely fragmented, but the accumulated market share of the top 10 insurers in the world has been consolidating.

Mr. Vitale also thinks the industry must improve its customer service. The industry needs to improve its image and find better ways to reach and serve its customers’ changing needs (especially in light of the growing demand in new parts of the world).

From his various roles in North and South America, Asia, and Europe, Mr. Vitale sees customers’ needs changing. Customers will continue to want assurance that claims will be paid quickly and with minimal hassle. But the industry will also see an aggressive reduction of procurement spending and rising tension between customers’ for new products and their ability to buy them (especially in regions of the world with lower purchasing power). In addition, Mr. Vitale recognizes the industry must take action to increase transparency on how rates are determined and claims are paid.

Mr. Vitale’s characterization of the global insurance industry was one full of increasing risks. But for companies and leaders willing to confront the colliding forces of new market demand and industry consolidation with strategies aimed at customer service, while keeping a broader perspective of risk in mind, the industry will provide exciting new opportunities as the world economy begins its recovery.

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