

Institutional Reputation:

Thinking Beyond Rankings to Capital, Community, and Continuity



A Governance Institute Webinar
presented by

Dr. Nir Kossovsky
CEO, Steel City Re

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HEALTH

Today's Presenter



Dr. Nir Kossovsky is CEO of Steel City Re, the leading source of integrated reputation risk mitigation solutions and insurances. As an authority on business process risk and reputational value, he has written hundreds of articles and four books, and is often called upon by the media for expert analysis of reputational crises. He has been an industry-wide leader in the development of indexed measures of reputational value and actuarially sound underwriting methods that deter reputational attacks and protect companies and their leadership. He holds more than a dozen patents and has developed an algorithmic reputational value measurement system currently enabling insurance solutions, third-party investment strategies, and governance products. He has degrees in business, philosophy, and medicine, served as a Captain in the U.S. Navy Reserves and early in his career, was a tenured faculty member at UCLA.

Learning Objectives & Continuing Education

After viewing this Webinar, participants will be able to:

- Risk Principles: Describe the behavioral economic underpinnings of reputation and its risks.
- Pathway to Perils: Explain how and why regulations, compliance, and the arms race of marketing promises have left board members personally exposed to the consequences of cultural changes.
- Operational Takeaways: Create reputational value and resilience using the traditional tools of risk management, risk financing, and risk transfer; and the non-traditional resources comprising other siloed operations and atypical communications solutions.
- Governance Takeaways: Create a risk governance overlay to protect boards three ways.
- Metrics: List which measures should be tracked to manage reputational risk.

Continuing Education Credits Available:

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Continuing Education (continued)

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Program level: Overview

No advanced preparation required

Field of Study: Business Management and Organization

Delivery method: Group Internet based

Maximum potential CPE credits: 1.0

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This educational activity does not include any content that relates to the products and/or services of a commercial interest that would create a conflict of interest. There is no commercial support or sponsorship of this conference.

None of the presenters intend to discuss off-label uses of drugs, mechanical devices, biologics, or diagnostics not approved by the FDA for use in the United States.

Agenda

- Economic context
- About Steel City Re
- Reputation risk
- More economics
- Risk management
- Tactical checklist

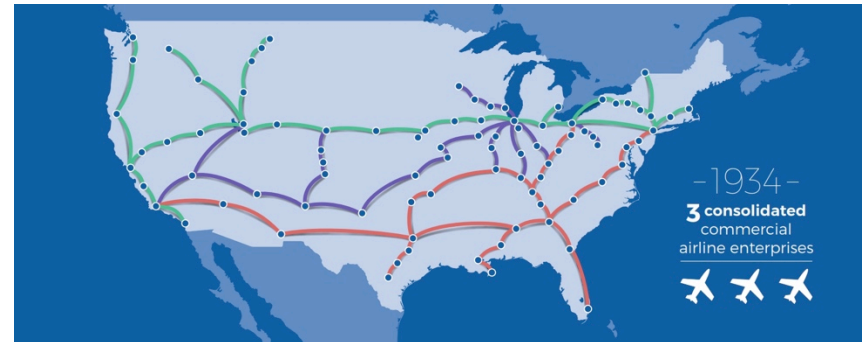


“Glass, China, and Reputation, are easily cracked, and never well mended.”
— *Benjamin Franklin*

Economics: Market Consolidation



1929: 44 airlines



1934: 3 airlines

About Steel City Re



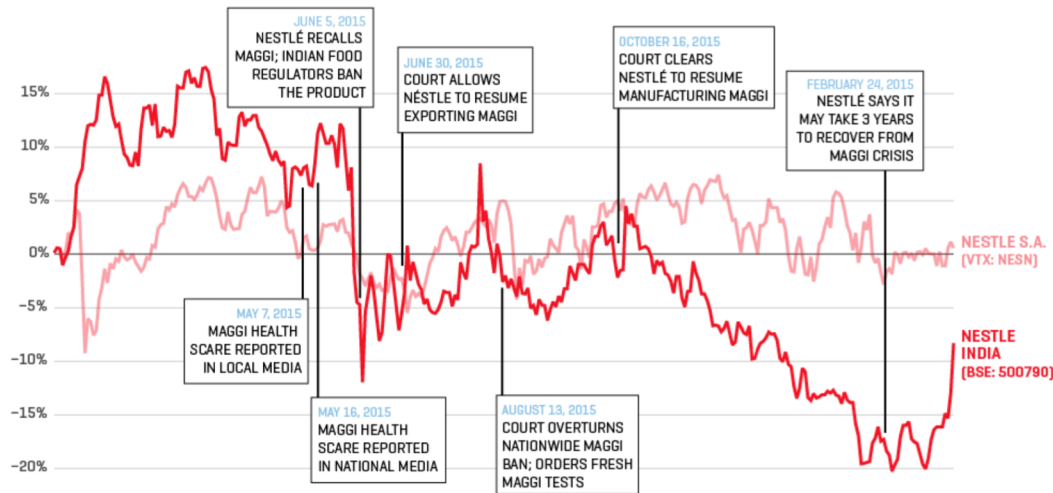
Forging reputation resilience

<https://steelcityre.com/category/publications/>

- Reputation risk management and insurance solutions since 2007
- Overseas advisor to the Lloyd's of London syndicate, Tokio Marine Kiln for parametric insurances since 2014
- Pioneered informational and behavioral economic paradigm of reputation value for equities, insurances and management since 2002
- Speaker: CEO; M.D. (U of Chicago), M.B.A. (USC); former trustee, Excelsa Health

Reputation risk is...

NESTLÉ AND NESTLÉ INDIA STOCK PERFORMANCE, JAN. 2015 - MARCH 2016



SOURCE: SBP CAPITAL IQ, FORTUNE

STACY JONES / FORTUNE

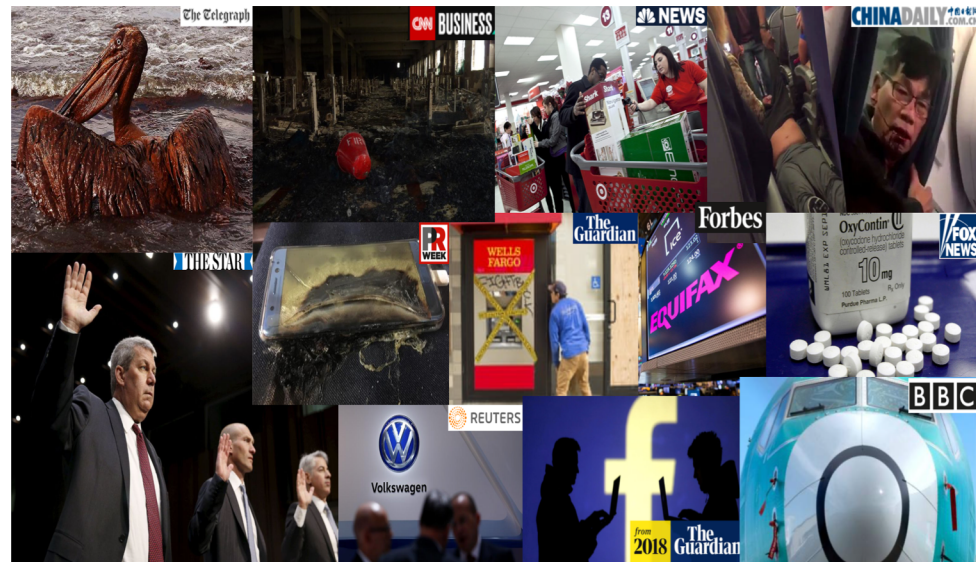
...the peril of economic harm from disappointed emotionally-charged stakeholders

Reputation Risk

Key Concepts

- Economic harm
 - *Go-forward* cash flows
- Cause of harm
 - Economically irrational stakeholder decision making
- Insurance mitigates harm
 - Compelling story preempts irrational decision making

Major Reputation Events of the Past



Polling Question 1

Features of a reputation risk crisis always include:

- A. Emotionally charged stakeholders
- B. Nominal equity value losses
- C. Social and/or mainstream media promotion
- D. A & C only
- E. A, B, & C

Economic Risk: Cash Flow

- Asset accounting fiction
 - Balance sheet
 - Goodwill
- Cash flow impact expectation
 - Less revenue *going forward*
 - Greater costs *going forward*



Polling Question 2

Reputation risk is best described as an economic risk comprising:

- A. Impaired cash flows
- B. Loss of goodwill
- C. Negative consumer sentiment
- D. A & C only
- E. A, B, & C

Behavioral and Informational Economics

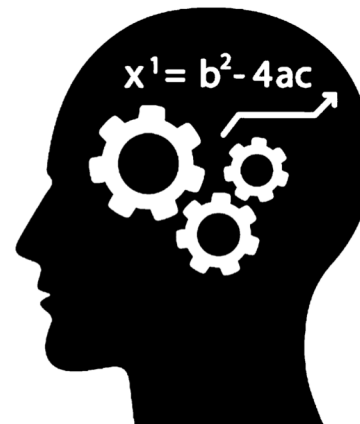


Framework for developing
reputation risk mitigation
strategies

Behavioral Economics: Angry, disappointed stakeholders can make irrational expensive decisions

Cash Flow Losses

- Lost revenue [*]
- Talent costs [**]
- Vendor costs
- Credit costs [**]
- Equity costs
- Regulator costs [**]
- NGO costs



Authority: Nobel Prize Winners

- 2002. Kahneman
 - "for having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty"
- 2017. Thaler
 - "for his contributions to behavioral economics"

Informational Economics: Insurance tells a persuasive story to emotional stakeholders

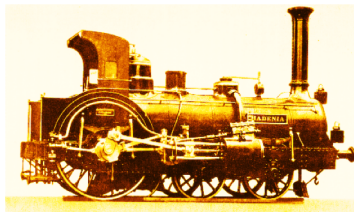


Authority: Nobel Prize Winners

- 2001. Akerlof, Spence, Stiglitz
 - "for their analyses of markets with asymmetric information"

Reputation Event Loss Protection

- Telling stakeholders a story that protects economic value



21st Century Reputation Risk

- Culpability
 - Trial in the court of public opinion
-
- Enterprise reputation risk management
 - Pre-emptive storytelling

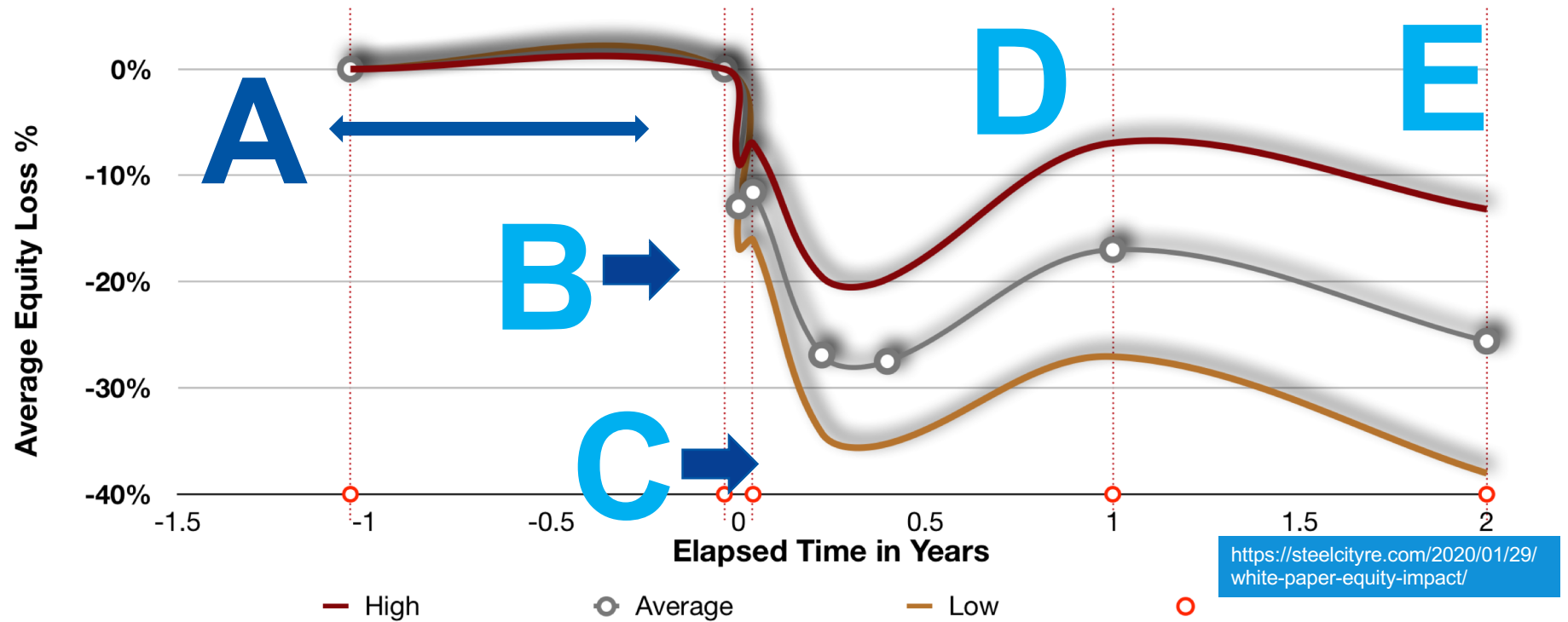


Polling Question 3

Which of the following are true:

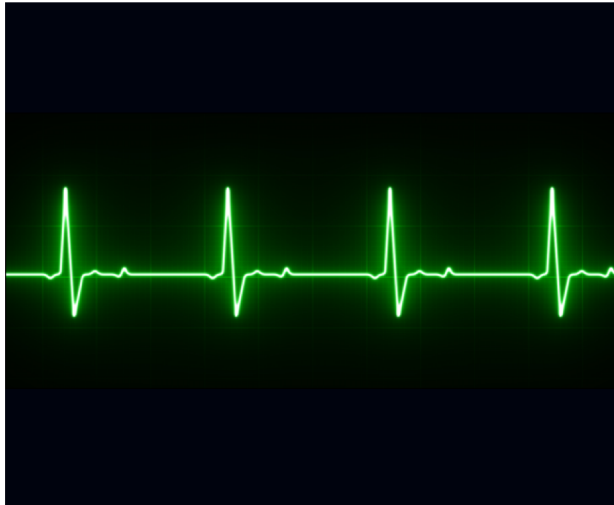
- A. Emotionally charged stakeholders may make decisions that adversely impact their well-being.
- B. The expressive power of insurances can create significant personal, institutional, and societal value.
- C. Reputation risks may arise from concerns about personal safety, quality, ethics, innovation, sustainability, and security.
- D. A & C only
- E. A, B, & C

Better story telling at A reduces equity losses at B, C, D and E

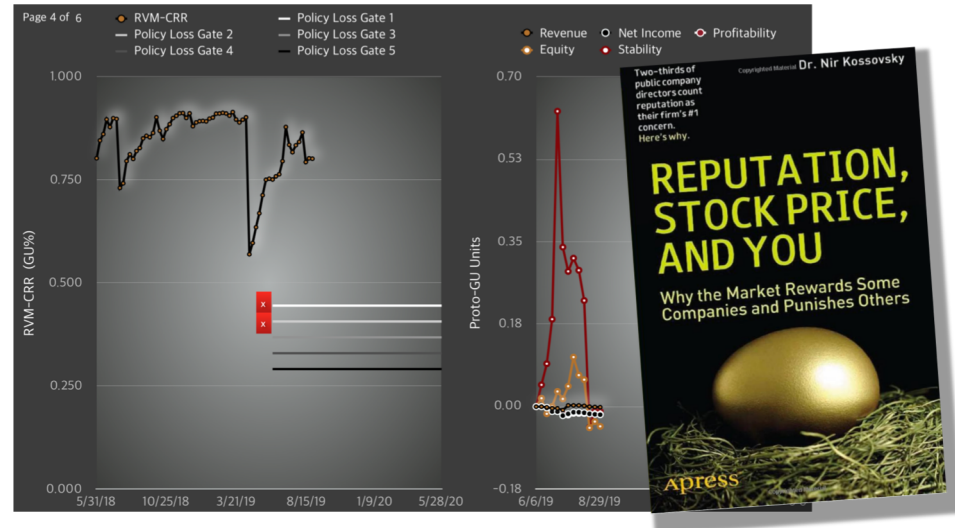


Story of Operational and Governance Control

Measures of Reputational Value



Synthetic Measures (RVM%)





Reputation Resilience Solution Elements

- Communicate commitment to protect reputation; ESG to max shareholder returns.**
- Implement stakeholder-centric enterprise-wide reputation risk management.
- Don't set expectations beyond that which the firm and its leadership can meet.



Seven Element Checklist

- The board of trustees comprehends...
- A board committee oversees...
- Senior leadership sets appropriate stakeholder expectations ...
- Treasury understands the peril is to cash flows ...
- **Enterprise** risk management continually assesses stakeholder expectation...
- The company deploys preemptive, simple, easy to understand expressive risk management strategies such as warranties and insurances
- Key stakeholders appreciate and value the company's enterprise-wide mitigation and governance efforts.

Polling Question 4

Which of the following is **NOT** a feature of a reputation risk management strategy?

- A. Gaining an understanding of stakeholders, their expectations, and costs of disappointment
- B. Telling bondholders and credit analysts an easy-to-understand story of preparedness for cash flow shortfalls in a reputation crisis
- C. Having to choose between risk financing in a captive or transferring risk into the conventional and parametric-driven insurance markets
- D. Telling regulators and employees a simple credible story of reputationally-aware woke and/or compliant governance



Questions & Discussion

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