

## **Shareholder Value Creation: The Elusive Goal for Stock Companies in the Insurance Industry**

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On the face of it, managing shareholder value for stock company executives in the North American insurance industry would seem to be a fairly straightforward proposition: Pick the right value-creating strategy. Choose the most appropriate financial metric to measure and communicate value. Single-mindedly focus all members of the organization on executing that strategy. Then, clearly communicate to investors and investment analysts what you are doing. As the strategy succeeds and the market learns of your success, the share price will rise as surely as day follows night.

Yet actual market performance of insurance stock companies and the results of a recent Tillinghast-Towers Perrin study of shareholder value management in North America demonstrate how problematic effective shareholder management really is for many insurers on this continent. While our study focused on stock companies, we believe the underlying concepts are equally valid for mutual companies and other organizational entities. In our study, insurers and analysts alike pointed to the difficulties insurers experience at each point in the value-creating process: from developing strategy, to using the right financial metric to assess value, to aligning their organizations with the strategy, to communicating effectively with the market.

Those are very sobering findings for the economic health of the industry. But our findings from this study, as well as our consulting experience, also point to brighter prospects for the industry. Some companies and some executives are finding a way out of the difficulties many of their peers are experiencing. They are developing a clear line of sight

between shareholder value, strategy and organizational alignment with value creation. We believe the entire industry can improve shareholder value management if industry executives have a better understanding of both their common difficulties and the path out of those difficulties that some of their peers are following.