Presence is the best insurance plan

For Eliot Spitzer, media presence is a fundamental part of his strategy

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The financial service industry has nothing to divert the "Hurricane Eliot".

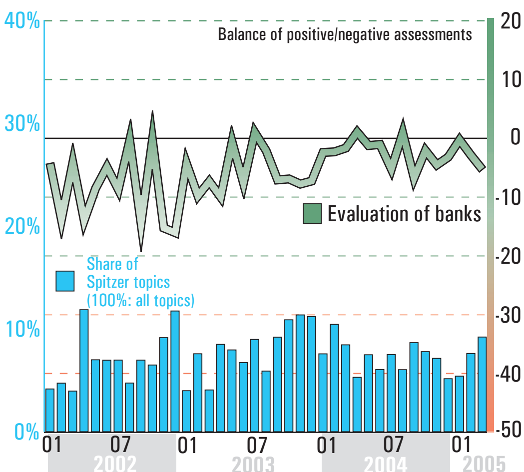
Since 2001, the New York State Attorney General Eliot Spitzer has been keeping companies on both sides of the Atlantic on their toes. He is systematically looking for conflicts of interest within companies and their customer relationships, which, from the public's point of view, appear like the cancerous ulcers of Capitalism. While simultaneously (or previously) informing the leading media, he initiates publicity rich investigations against the companies concerned. The strategy aims at building up a high reputational pressure against the companies, in order to bypass court cases and force expensive settlements. A side effect: Some chief executives turn into an image risk and are sacked increasingly swiftly. The most recent example is "Hank" Greenberg, ex-chief of the US insurance firm AIG. **Media Tenor** has analyzed the mechanisms of media effects in Germany and the US between January 2003 and March 2005. The only chance to make oneself heard in crisis situations and quickly normalize one's image in their aftermath seems to be an actively devised media presence.

Banks: Spitzer & Co. not all-powerful

After the bursting of the technology bubble on the stock markets, the search for the culprits got under way. Little has been written about the blind greed of investors, who, without having second thoughts, put their trust in promises of 20 percent risk-free profits and more. Most of them had to pay for their recklessness. Yet, investigators quickly found fault with the banks. The internal e-mails of former Merrill Lynch star analyst Henry Bloodget have become legendary, in which he described the IPO of an Internet company as a "piece of shit", while at the same time publicly recommending it. In the course of investigations, analyst departments primarily appeared as the long arm of marketing that was supposed to generate IPO assignments with the help of pleasant sounding research. The investigations naturally caused negative media coverage, and yet, at no point did the overhang of critical assessment in the leading US media exceed 16% (see **graph 1**). The main reason for this is the continuous media presence of banks as a source of expertise for the media and as an indispensable partner for most of the transactions in a modern economy (i.e. acquisition/sale of companies). The damage was mostly limited to the extent that, after the hearing of evidence, banks had to pay fines and restitution in some cases and some analysts lost their jobs. Institutional changes were made ("Chinese Walls", the hiving off of research departments). Banks tend to look at the expense for their big research departments, which deliver free information to the media every day, as an investment in their reputation. It is an investment that always pays off, but especially during a crisis.

Strong presence with research topics on the key business partly shields the banks' image from the worst

❶ Share of "Spitzer topics" and evaluations of the banks

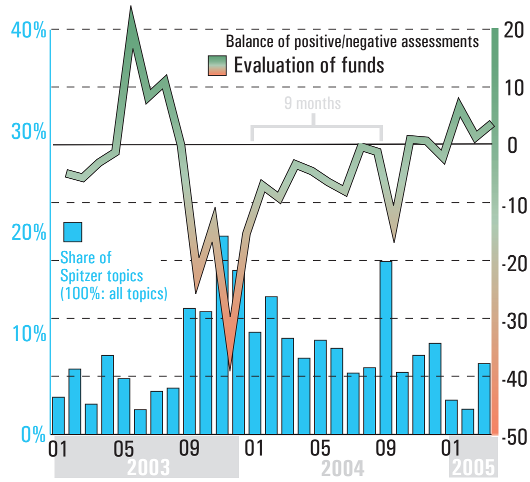


Balance of positive and negative assessments (%)

Source: Media Tenor 02/01/2002 – 03/31/2005

Basis: 23 US media, 36 German media

❷ Share of "Spitzer topics", evaluations of funds/financial service providers



Balance of positive and negative ratings

Source: Media Tenor 02/01/2002 – 03/31/2005

Basis: 23 US media, 36 German media

Funds: Investigations shape the image

Investment funds are known as an Anglo-Saxon invention and, for many, serve as private pension funds. They have made millions of small savers moderately wealthy over the years. Communication strategies of the industry primarily focus on marketing; regular, strategically planned media presence is rather the exception (i.e. Pimco) than the rule. This is where Eliot Spitzer was able to effectively use his strategy in the fall of 2003. Within six months, the overhang of 20% positive assessments on mutual funds tipped over to an overhang of 34% negative assessments – an image loss of 54 percentage points. At the heart of the accusations was that the funds had granted trading privileges to institutional investors that were unattainable for small investors. At the peak, one fifth of all news stories on mutual funds predominantly focussed on the accusations and investigations, and hardly any report went by without at least mentioning them. This overhang of negative assessments in combination with the topical dominance of one fifth of total coverage sufficed for Eliot Spitzer to succeed in chasing several CEOs out of office and forcing expensive settlements onto mutual fund companies such as Janus or Putnam. The direct financial damage was aggravated by the indirect one: The damage in reputation resulted in some investors selling their shares in funds managed by the companies concerned and investing in those of others, such as American Funds or Fidelity. Because of the overall low presence, Spitzer topics significantly shaped the media image. Firms like Janus Capital subsequently went searching for investors with the help of expensive advertising campaigns.

Sporadic presence makes insurance companies vulnerable

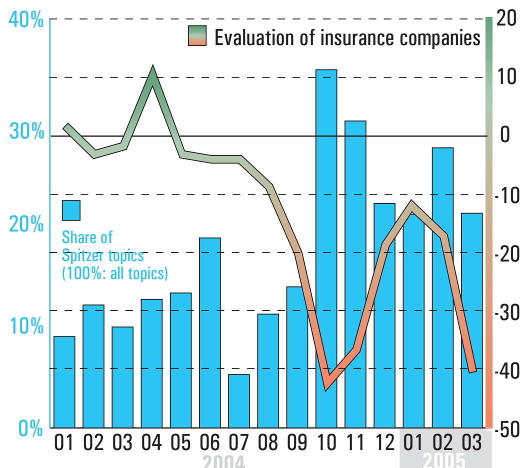
After banks and funds, Spitzer turned to insurance companies. In October 2004, he accused firms like AIG of having colluded with insurance brokers to rig bidding and to charge higher rates for coverage. The brokers received special commissions for this from the preferred companies. The insurance companies, who had barely recovered from the stock market crash and the meltdown of their reserves, were badly hit by the accusations. Their low and irregular presence made them vulnerable to the attacks. Within few weeks, the balance of assessments sank to under -42%. Spitzer topics made up one third of coverage with its main focus on the issue.

Under severe crisis pressure, the management of the AIG-controlled broker Marsh&McLennan did not stand up to the barrage of bad publicity. In February and March this year, Spitzer got ready for more attacks by extending the investigations to offers for individual insurance plans (car, house) as well as on insurance deals that had helped to exclude risks from corporate balance sheets. The balance dropped once again under -40%. The result: The members of the board of directors booted out Hank Greenberg, after he had contributed for four decades to making AIG the renowned and influential corporation which it had been until September last year. In dubio pro reputatio.

Today, members of the board and directors calculate reputation as a critical component of managerial success. Norbert Kuls of the German newspaper **Frankfurter Allgemeine Zeitung** sums up the tragedy around Mr. Greenberg's loss of his life-long achievement: "Greenberg did not understand that one has to react to such a crisis with public presence." vb

FAZ: "Greenberg did not understand that one has to react to such a crisis with public presence." (04/18/05)

3 Share of "Spitzer topics" and evaluation of insurance companies



Balance of positive and negative ratings

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Basis: 23 US media, 36 German media

Open question:

How can the media meet their reporting duties without becoming an active party in the proceedings?

Basis:

Media: 23 US dailies, weeklies, business media and TV news magazines; 36 German media

Time: 02/01/2002 – 03/31/2005

Analysis: all reports (at least 5 lines/seconds) on selected companies/industries