

## Drivers of Change – How and why reputational risks can lead to regulatory changes in insurance

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# 1. Case study: MEG scandal

## 1.1. MEG: “The Wolf of Kassel”



(source: sternfilm.de; “Der Versicherungsvertreter” and “Der Versicherungsvertreter 2”)

# 1. Case study: MEG scandal

## 1.1. MEG: “The Wolf of Kassel”

2003

- Founding of MEG
- Selling private health insurance
- Average commission: 9 MP
- Liability period: 12 months

2006

- Going public
- 150 employees
- Revenues: 11.1 Million €
- Loss: 2.2 Million €
- Change of commissions system: up-front payment, 21 MP

2008

- Revenues 53.7 Million €
- Profit of 3.1 Million €

2005

- 40 employees
- Total commissions: 2.6 Million €

2007

- Authorities investigate
- Social security contribution fraud
- MEG sentenced to 720,000 €  
(SPIEGEL Online, 20 July 2015)
- Revenues: 33.3 Million €
- Profit: 280,000 €

(for all numbers see Handelsblatt, 13 February 2013)

# 1. Case study: MEG scandal

## 1.1. MEG: “The Wolf of Kassel”

2011

- Authorities investigate for delayed filing of insolvency
- Insurers sue for return of advance payments and restitution for annulled contracts (e.g., Allianz 3.4 Million €, AXA 2.6 Million €)  
(DAS INVESTMENT, 24 February 2015)
- Göker flees to Turkey (prohibition of extradition)

2009

- Revenues (08/08): 48.5 Million €
- Second largest health insurance sales agency in Germany  
(FOCUS Online, 08 April 2015)
- Göker stepping down as CEO, MEG files for insolvency
- Large private spendings: 1.3 Million € private tax debts, 1.3 Million € for private gated community in Turkey
- Annulments increased from 20–30% to 90%  
(Frankfurter Allgemeine Zeitung, 09 March 2012)
- No reserves for annulments

(for all numbers see Handelsblatt, 13 February 2013)

## 1.2. Long-term consequences: changes in the regulatory framework

- MEG scandal led to new regulation limiting commissions and prolonging liability limit to 5 years (“Gesetz zur Novellierung des Finanzanlagenvermittler- und Vermögensanlagenrechts”) **(C1)**
- German insurance industry anticipated significant reputational damage from MEG scandal and proactively pushed for new regulations to protect German health insurance industry from further collateral damage **(C2)**
- Scandals around sales practices highly influenced further regulation (e.g., the Insurance Distribution Directive (IDD) of 2018)

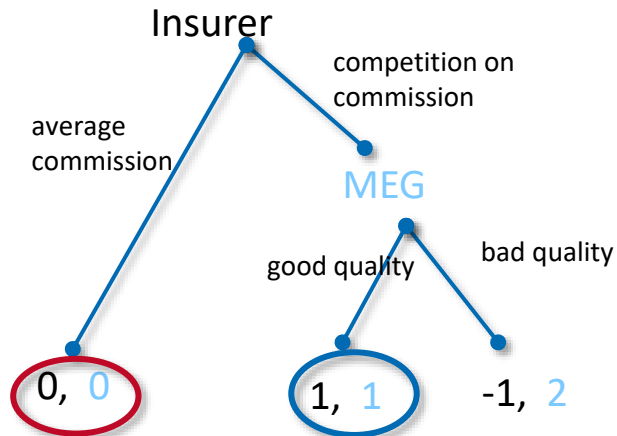
***Conjecture 1: Reputational damages in the German insurance industry can drive regulatory changes***

***Conjecture 2: Regulatory changes are implemented if the reputational damage is grave enough and the organizational reaction is not considered adequate***

## 2. Theoretical Discussion

### 2.1. Economic Theories: Prisoner's Dilemma

#### One-sided PD



- Rational choice theory
- **Result** suboptimal
- **Pareto-superior**
- Corrective action of MEG possible solution
- Collective interest in institutional reforms

#### Many-sided PD

		Insurer B	
		competition on commission	average commission
Insurer A	average commission	1, 4	3, 3
	competition on commission	2, 2	4, 1

- Rational choice theory
- **Nash equilibrium**
- Collective self-damage
- Individual action not enough
- **Solution only through collective action**

## 2. Theoretical Discussion

### 2.2. Sociological Theories: Organizational Learning

(Argyris and Schön 1999; Parker, 2002; Braithwaite et al., 2005; Pfarrer et al., 2008; Grebe, 2013)

		Theory	Practice	MEG Case
Organizational Level	single loop learning	Change of practices	Apology + discontinuation of practice	✗
	double loop learning	Change of values	Internal review and reforms	✗
Industrial Level	third loop learning	Change of regulation	Intervention of regulatory authorities	✓

### 3. Conclusions

- Reputational scandals can lead to regulatory changes
- Limitations:
  - Case study: generalizability is limited
  - Practical importance of theoretical mechanisms
- Managerial implications:
  - Importance of strong reputational risk management and need for swift and appropriate measures
  - Importance of cooperation mechanisms
- Reputational risks have potential to result in regulatory changes that effect the overall insurance industry

CoVid-19 und die  
Regulierungspflicht in  
der Betriebsschließ-  
ungsversicherung – ein  
Fallbeispiel

16.09.2020

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Betriebsschließungsversicherungen

Geschlossen wegen Corona:  
Viele Versicherungen zahlen  
nur wenig

10.09.2020

DHZ Deutsche  
Handwerks  
Zeitung

Betriebsschließungs-  
versicherungen

„Faires Verhalten  
haben wir in vielen  
Fällen vermisst“

25.09.2020

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con|rolling  
accoun|ing

Thank you for your attention!

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