Corporate Governance and Resilience to Financial Crisis
Swiss Insurance Companies in the Interwar Period
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1 Introduction

Financial side of insurance business
Since the beginning of the 20th century, net income on capital assets of the major European insurance companies has exceeded business-operating profit. Therefore, managing the financial assets became one of the most important business activities. This required a fundamental transformation of corporate governance, corporate governance and models of how the business and the economic at large worked. Yet, academic research only recently started to focus on the financial side of insurance business and the role of insurance companies as institutional investors.

Resilience to financial crisis
The recent financial crisis (2007-09) sparked a renewed interest in the micro perspective of financial markets. This PhD-project analyzes how corporate governance, financial policy and resilience to financial crisis interacted with each other. Accordingly, the interwar period represents an ideal framework to examine insurance companies’ strategies, processes and techniques to reduce vulnerability to financial crisis.

2 Method and Data

Financial resilience
The database entails over 30,000 previously undisclosed records; the data contain every single financial asset of three major European non-life insurance companies of Swiss origin, annually from 1910-1940. Key data from annual reports, internal reviews, board minutes, further internal decision-making bodies, technical business, stock and bond markets, and regulation authorities, is being collected from various archives.

Corporate Governance
Qualitative evaluation of stakeholders: management, employees, shareholders, regulation authorities and the public. Network analysis of management and directorate inter-linkages shows inclusion in Swiss corporate governance system and respective recruitment and financial policy.

3 Results

First results are available for Zurich Insurance Company. Key features are:

1. Massive financial reserves
At the end of the 19th century, financial reserves did not reach the yearly gross premium income. In 1940 it accounted 240 % of net premium income. The company was famous for its inner financial strength. Augmented financial reserves became a significant part of their corporate strategy and identity. This narrative became the dominant self-explanatory model for the company’s success-story in the interwar period.

2. Hidden reserves
Financial transparency in accounting was low. As a key feature of the Swiss corporate governance system, enormous hidden reserves existed on financial assets. Although they were not publicly declared, the public knew about the widespread existence of hidden reserves in large Swiss companies. As a model for proto-anti-cyclical behavior they were promoted by state authorities. Furthermore they were used for stable dividend policy.

3. Conservative asset management
Management of financial assets was located in the highest body (the board of directors). Favorable assets were fixed interest securities (e.g. bonds), issued or guaranteed by the state. Besides state bonds, railway companies, public utilities provider, power plants and light and telephone companies were considered favorable

4. Insider-related corporate governance
System of selective protectionism (registered share, restricted transferability) gave control mechanism to management. Shareholders consisted mostly of founding families of the Swiss business elite. They abstained from full shareholder value, received a stable dividend, followed a long-term investment strategy, were profiting from various capital increases paid for by hidden reserves, had a close personal relation and shared the same mentality. Additionally to sustain the insider-related corporate governance system for more than 40 years, the insurance company had a very insider-related recruitment policy.

4 Next steps

- To compare results with other major Swiss insurance companies that took advantage of booming stock markets in the 1920s and nearly went bankrupt.
- To identify deeper reasons for differing financial policy across the companies.
- To include in the analysis of corporate governance culture, collective knowledge, biographies, implicit procedures and informal power relations.

5 References

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**Results**

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**Next steps**

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- **References**