

An Interview With Zurich's Don Hurzeler

By Dennis B. Sullivan

Editor's Note: Don Hurzeler, CPCU, CLU, is the president and CEO of Zurich North America Middle Markets in Schaumburg, Ill.

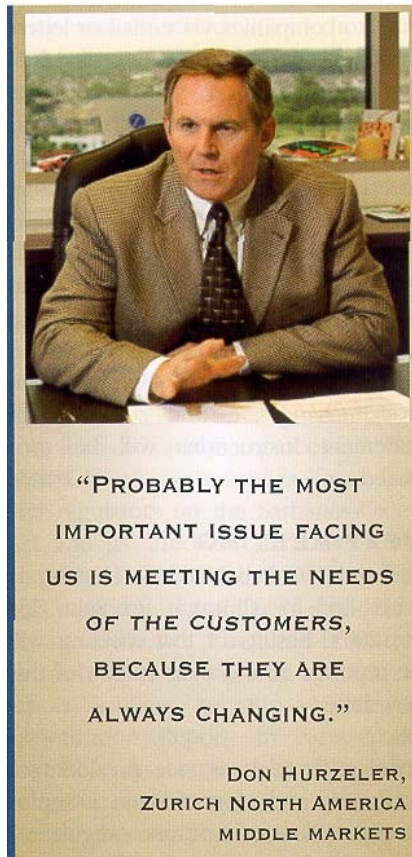
Before being promoted to his current position, Mr. Hurzeler was the chief underwriting officer of Zurich U.S. Prior to Zurich, he was first vice president for Reliance National Insurance in New York. For the first 27 years of his career, Mr. Hurzeler worked for Allstate Insurance and their commercial company, Northbrook Property and Casualty.

Mr. Hurzeler also has served as a sales and marketing officer, president of an insurance brokerage, a branch manager and a training manager. He holds a bachelor's degree in business administration-economics and an A.A. degree in property and casualty insurance.

He is a past member of the board of directors of The American Nuclear Insurers and for the past 25 years has been active in the National CPCU Society. He currently serves as vice president of that organization. In October 2003 he has become its president-elect and will move up to president in October 2004.

This is the 16th in a series of CEO interviews conducted by Interpreter committee member Dennis B. Sullivan, chief executive officer of the Robert E. Nolan Co., an operations improvement consulting firm serving the insurance industry with offices in Simsbury, Conn. and Dallas, Texas. Mr. Sullivan conducted this interview with Mr. Hurzeler in his Schaumburg, Ill. office.

DENNIS: Please tell us about your organization, its products and the markets it serves.



DON: Zurich is one of the largest insurance companies in the world. In the United States, we have just recently risen to the number two position in property casualty commercial insurance. The part of the company that I run is our Middle Markets organization, which are businesses that typically operate without a professional risk manager involved. The person buying the insurance is the president of the company, the CEO or the CFO. We team up with the independent agents and brokers that we do business with to fill in and handle those risk management needs for the insureds. We have a lot of different types of seg-

ments that we address – hotels, golf, gaming, manufacturing, churches, public entity business, municipalities and schools, and retail and wholesale. So, we pretty much cover the gambit of mid-size businesses.

DENNIS: Don, tell us a little bit about your background and career in the insurance industry, or was some of it outside of the industry?

DON: No, no it was definitely in the insurance industry. I started when I was going to college. I had not finished college. I started off as a rater, non-exempt. I did that for a while, got my college degree, and moved into underwriting. I visited every single step in the underwriting process – from desk underwriter to an area underwriter, to a regional, to a zone to half the country and to full country underwriting – all with Allstate. I had 27 years with Allstate in their commercial lines division. After probably 15 years or more of that, they decided they would make me the marketing officer of the commercial company. So, I went to that side of the business. I left Allstate and went to work in New York City for Reliance National. I worked for a couple of years in their excess and surplus lines division, and then in 1997 I moved over to Zurich. Eventually, I became the chief underwriting officer for Zurich U.S. About two and a half years ago I became CEO of this business.

DENNIS: In the past four or five years the insurance industry has really changed with some of the mergers that have taken place. There was talk that we'd be down to less than 100 insurance companies, but

that hasn't happened. There are a lot of niche players out in the market. What have been some of the issues you have faced at Zurich over the last three or four years. Can you project over the next couple of years in terms of the new challenges you expect to face?

DON: The challenges are multiple because there are so many things changing in the economy and the insurance marketplace right now. Terrorism is a new exposure that we never expected – I don't know if it's fair to say we never expected it, but it certainly arrived in large fashion and the whole industry has had to react to it. There are new exposures and old exposures that have come to visit or revisit the industry – mold being a new one, and asbestos being an old one – that have given a lot of people in the business some major challenges. Regulatory issues from the state and national level continue to be a challenge. Probably the most important issue facing us is meeting the needs of the customers, because they are always changing. As their needs change, we have to change. We have to be smart enough to utilize technology and our own brainpower to do that as well, to get things done to meet new expectations.

DENNIS: How has the shift in the stock market – especially over the past three years – influenced the decisions you've had to make, whether it be pricing or product related? How has the roller coaster ride of the stock market impacted sales and operations for Zurich?

DON: It's kind of hard to put it this way because it doesn't feel like this, but it may have had a positive impact on us in the long run. It underscored the need for insurance companies, and our insurance company in particular, to write business to an underwriting profit. And that means you have to return to the basics and make sure at the end of the day you don't pay out more than you take in. You can't rely on what has turned out to be a somewhat artifi-

cial means of gaining income from investments. It's changed the way that we do business, and I think it's going to serve us well in the future.

DENNIS: If you could characterize Zurich's philosophy in your markets, would you say there's more of a sales and marketing slant or an underwriting slant? Have you changed one way or the other in the last few years?

DON: I've personally been in this business a long time. What I've noticed over time, and this is a general statement about the industry, is that the industry seems to be able to market or they seem to be able to underwrite. They often fail, however, to do both at the same time, at least equally well. I think the decision we made at Zurich and the decision that we made in the business unit that I run is that in all phases of the market, forevermore, we're going to underwrite. We're going to make sure we have the kind of operating income that gives us the surplus we need to have the capacity to write business into the future. Yes, the slant is definitely to the side of underwriting.

DENNIS: You talked briefly earlier about the impact of technology. Could you talk a little more and maybe take it from a couple different perspectives – running the internal operations and how technology has helped you become more efficient? Also, externally, tell us how your agents and producers are able to deal with you through technology and how it's made life a little easier, if that is the case.

DON: Our industry has needed, over the last decade, to lower its expense ratio. At Zurich, we have been effective in doing that. Part of the answer has come through the efficient use of technology. Zurich Small Business has become one of the largest small-business units in the United States. They have become very effective users of technology. They use it to help underwrite and process their business, and

they do it very effectively. It allows them to grow and capture market share.

Agents, brokers and customers are looking for useful applications of technology. They appreciate our web-enabled ability to get them real-time information about billing, claims, policy language and the like. I predict continual improvement in user-friendly and user-useful technology. There is much more to come.

DENNIS: Define for our readers small business – is it main street commercial?

DON: Main street commercial business, yes, that is what I'm referring to. Technology is filtering into the rest of the business units, but Zurich Small Business was the first mover in Zurich.

DENNIS: Something we notice is that many insurance companies have developed great opportunities and great portals for customers to get inside the organization, to make life easier for them. But the user rate of their customers is lagging. So, while you make some significant investments in technology to make it easy for your agents or your customers to access your systems, they still call the toll-free number. They're comfortable in their own environment. How do you market your ability to be a high-tech and high-touch organization?

DON: Well, you get back to one of the things I mentioned much earlier – understanding the needs and wants and requirements of your customers. I would say that we're heavily in that phase. We have a wonderful Web site, for example, both internationally (zurich.com) and nationally (zurichna.com) that lead to our specific business-unit sites. As to how useful that is to the customer, that's the part where we're making adjustments one after another until we find the right combination that makes it work for them. That is our goal. Our Small Business marketing people have had hundreds of meet-

ings with thousands of agents and brokers to introduce their portal. However, word of mouth is what spreads the awareness, and going back to the small-business idea, their use of technology is so user friendly for the customer-service representatives who are in independent agents' offices and brokers' offices that word of mouth says, "You've got to give this a try." From one agency to another, they have tried it and found it's a great way to do business. We are growing our use acceptance percentage.

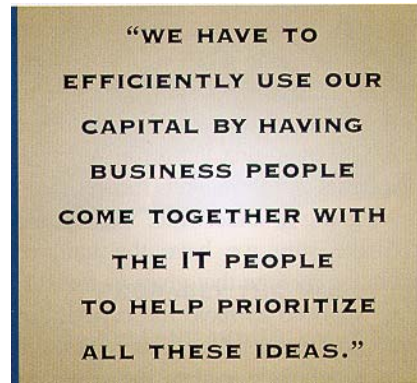
DENNIS: In some cases the IT group comes up with the latest bells and whistles and how best to use the technology without having a real good sense of customer and user needs. You really do need to understand your customer base and what they're comfortable with and what they want, and then really drive to meet those needs.

DON: One thing that we've done from the very beginning that's quite smart is that the builders of the requirements of the systems have been business people. They are embedded in the business units. That, in the long run, is going to serve us very well. They are not IT-delivered projects that we then try to fit our way into. They are projects and product-driven by our business requirements. One of the things I've learned as an individual over time is that guys like me, in the beginning anyway, are not very good at stating what our requirements are. So, we probably send our IT people down dead-ends from time to time. But people like me are getting better at stating what our requirements are, and we're getting better at listening to what the customer – the agent and the broker – wants. As we do that, we are zeroing in and we'll finally find the magic solutions here.

DENNIS: This is a hot topic right now – developing business requirements – having this reside more on the business side vs. being an intermediate step between the business

owner and the IT person. We're trying to eliminate that middle step to get the business owner to be part of the business requirement development.

DON: We still need that IT person to show us what's possible, though. Sometimes they'll show us



what's possible and we kind of step back and go, "My gosh, now that's amazing. Now what can we do with that?" But it's also a matter of showing agents, brokers and customers what's possible and getting them comfortable with it as well. So, it's quite a mix.

DENNIS: We have a very broad IT readership. Talk a little bit about your view of the IT community. Do you see them making strides in understanding the business? Ten years ago a number of the IT people didn't understand insurance. We're seeing more and more that there's a deeper understanding of the insurance process on the IT side, which has helped bridge this gap. Are you experiencing that?

DON: I think our IT folks have become pretty savvy over the years and, at Zurich, they've done two things that are important. One is that they have created a liaison for every business unit. So, for example, I have a person who is assigned either full time or very nearly full time to my business unit. That person comes to my staff meetings, goes to my strategy sessions and understands my business. Each of the businesses that Zurich runs has someone similar. They aren't starting from a cold start. They know what's going on.

They are as much a businessperson as an IT person.

On the other end, a big company like Zurich generates double handfuls of IT ideas that we want done. So, we have to efficiently use our capital by having business people come together with the IT people to help prioritize all these ideas. We don't send people down the path of low return-on-equity projects. We determine where we are going to get the best return for our IT spend, and we do that in collaboration with IT. Those are the only ones that get worked on.

DENNIS: Don, is it a formal process that you go through or do you have a project management office?

DON: We have an absolutely beautiful process that includes a cost benefit analysis. And we do it the same way every time so it's not as though you're making yours up and I'm making mine up – there's a routine to this.

DENNIS: This series of CEO interviews gives us an opportunity to find out what successful companies are doing. What makes Zurich successful? What is it about Zurich that separates you from the competition? We all have strengths and weaknesses, but if you had to put your finger on a couple of things that you think Zurich does better than others and could attribute those things to the success in the marketplace, what might those be?

DON: The very first one that comes to mind is we are willing to change. I don't treat that lightly because I think there are a lot of organizations that are slow to change, and we're not. We're willing to change to meet whatever's going on or what we anticipate will happen in the marketplace – the needs of our customers – and do things differently. We are much more willing than we have ever been in the past to look at ourselves critically and say, "You know, these ventures are not turning out as expected." We will move the assets from those activities

to the projects over here that have a much better proven rate of return.

We are absolutely open not only to new ideas but also new people. I have worked in organizations that if you haven't been at the company for 25 years you were really a rookie and were treated like a rookie. Here, the day after you show up for work, it's "Hey, we're glad to have you. What can you contribute?" New people do come with new ideas, and I think that serves us well. We are innovative. When I say that, I want to put a caveat on that and say that we would like to be more innovative. We're not satisfied with our rate of innovation. We have a mindset that says there are new things coming. There are things having to do with the Internet that will generate new exposures, so we'll need to develop new products to address them. There are things that will happen in the court system that will lead to changes and regulations that will cause us to generate new products. We are absolutely on the lookout for doing those kinds of things.

Another thing is that we have a mindset that is shared across the company – and this is something that's emerged in the past few years – that says we're going to run a business to a profit and we're going to run it to a return on equity that we've told the investment community will average 12% over the business term. And we measure against that. People like me are held accountable for doing that. That's going to serve us well in the short and long run.

DENNIS: The equity markets gave a lot of people the opportunity to not worry about making underwriting profit. We were making 12% to 15% on our investments. Not to say that the industry got lazy, but there was an alternate way of generating income. There was a big push on sales. Profitability of business was important, but it was less important because of the growth in the equity markets. Once that got taken away, I think getting back to the basics has driven a lot of organizations to fundamentally look at how they write business.

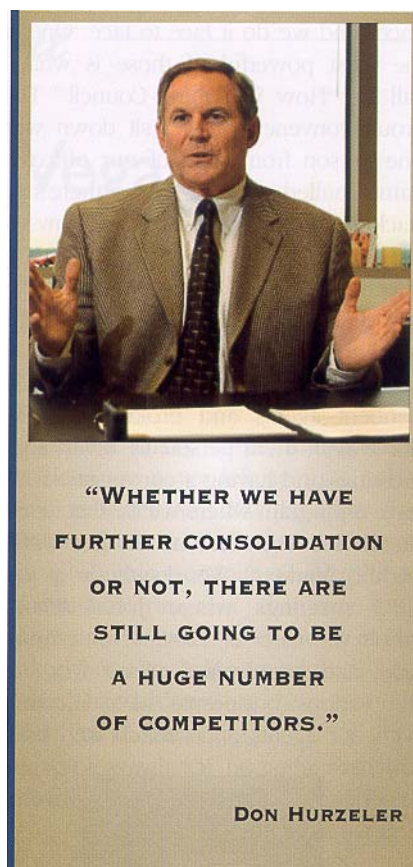
DON: In the old days, when we had that luxury in the industry, there was one little problem with that – business was not boring and business did have surprises. One of those surprises was the equity market and the investment earnings went flat. We have to make our plans to make money in all market conditions. That says to us that we need to be financially – from a standpoint of "no surprises" – a boring business. That's perhaps not the way it's been in the past, but that's the way we want it to be in the future. We have to look at all the things where there is a potential for surprises and put contingencies in place to deal with them should they occur. That's what we're doing.

DENNIS: In the mid-90s there was a plethora of mergers and acquisitions, especially in the financial service markets. Some of the big ones were Citicorp and Travelers. How do you see that convergence, and do you still see convergence in the financial service markets even now?

DON: Every twist and turn in that long road has been a bit of a surprise, so I'm not going to predict what the future holds on that. I do know this. We are a business that has a huge number of competitors. Whether we have further consolidation or not, there are still going to be a huge number of competitors. Those companies will fall into two categories – niche players who maybe go after one type of insurance and/or one type of customer base and those who go after a much broader base. We're going to be in the second category, not only across the country but also around the world. That's what we think is one of our major strengths.

DENNIS: We touched on the Internet a little before when discussing technology. From a marketing standpoint, have you made direct inroads through the Internet in your middle markets?

DON: We sell our products through independent agents and brokers, and that's how we do our marketing. Do we let ourselves be known to the world through the Internet site?



Yes we do. We try to let everybody know what Zurich's about and what Zurich Middle Markets is about, but when it comes to actually going out and finding customers, we leave that to our agents and brokers.

DENNIS: One key, I think, that makes for a successful organization is the vision of the CEO. They have ideas on how they want the organization to be run and how they want the organization to be viewed by their customers, in your case the independent agents. A lot of it takes on the personality of the senior executive. Could you talk a little bit about your management style – both with your employees that work in the home office and those in the field? How would they describe your management style? How do you convey your goals and objectives and your vision to the organization?

DON: I think all work occurs in conversation. I think people who send out bulletins and letters and say, "here's our vision" are missing the most powerful part of communica-

tion, which is one-on-one, two-way discussion among people who are stakeholders in this whole thing. We've tried to create that environment. We have meetings with our whole employee group. We do it through webcasts, we do it through teleconferences, and we do it face to face. One of the most powerful of those is what I call the "How Are We Doing Council." This group convenes when I sit down with one person from each of our offices – names pulled out of a hat, so there's no stacking the deck – and just ask how are we doing. And, they tell me very directly. We get good two-way conversation and unfiltered conversation in this manner.

We do the same thing with our independent agents and brokers – sitting down with them personally or in larger meetings and having a conversation. We have a program where we do that across the Zurich organization, not just within Middle Markets. We do these at our CEO meetings where John Amore, who's the CEO of Zurich North American, and people like myself who run the various businesses have meetings with our agents and brokers and listen to what's going on. It's always a learning experience. I think the more conversation we have, the better.

DENNIS: When you look back at your long career in the insurance industry, what have you enjoyed most?

DON: I have never had a boring day in the 34 years I've been in this business, starting in 1969 and up to this moment. I've never had a boring day. I've personally done business in all 50 states and a lot of foreign countries. I've met thousands of people. I've been put in spots that I didn't know if I was up to it and found out in some cases I was and some cases I wasn't. I've been challenged physically, mentally, stamina wise. I've learned to persevere and be realistic and to be tough when necessary. I've loved every damn second of it! I get to do a lot of public speaking, and one of the things that I almost always

start with is saying I thank God that I've had an opportunity to be in the insurance business all of my adult life. It has been one of the greatest things, outside of my family, that has ever happened to me. I'd say going through a lifetime without being bored is on the good side of things.

On the flip side are all the tough decisions you have to make that involve people. I view that as almost the highest order of things that I do in my life. If I have to make a tough decision about a person – as in terminating them or not giving a promotion – I put a tremendous amount of time and effort into that decision. I think every person deserves respect and understanding of their own personal situation. These are not cold business decisions that you make.

DENNIS: Don, the last question – and I know earlier you said you didn't have a crystal ball – is to pull out your crystal ball for the industry, and if you have to look out the next three to five years, what do you see in the insurance industry? What changes may be coming?

DON: I see three things right off the bat. One is a bigger investment in human capital. There's been a period of time in our industry when perhaps more money went to IT than it did to training people. I do know what's going to happen to the spending on training of front-line employees and managers. It's going to increase. It needs to increase. That investment has gone down over the years. Even if you look at the number of exams that have been given in the CPCU organization, it's gone down steadily. That trend, I think, is going to reverse and I'm going to make sure that we make the best of our investment in people.

The next thing that's going to happen – I'm seeing it all around and we talked about it today – is a return to the basics, the basics being making an underwriting profit. I know at Zurich that change has occurred, and will continue on for the rest of my career. We're expected to make an

underwriting profit, and an adequate underwriting profit at that. That may not have always been the case in the industry, and that may not be the case elsewhere, but I'm sure that's going to be the case at Zurich.

The third thing is that we're going to have to be in a position to move quickly on events. We found this out on 9/11. I have never been so proud of my company as I was in the days after 9/11 and our ability to a) quickly get our effected operations back in business and b) respond to this new exposure that no one had ever really fully estimated. As an industry and as a company we have reacted to that. There will be new things that emerge – whether it's mold, some new aspect of asbestos or silica, as I see in the press these days. We're always going to have to react.

DENNIS: Are there any other topics or issues that we haven't touched on that you'd like to bring up?

DON: One last one I think is important. This industry has a wonderful opportunity to adhere to a code of ethics, if you will, to a code of conduct that will distinguish us among all the other industry segments out there. The headlines are full of people who are having financial and other kinds of problems related to financial service companies. I mentioned that I'm going to have the honor of going through the chairs of the CPCU organization. One of the code of ethics tenants that we have in the CPCU is that we will put our clients' interests above our own. That is a powerful, powerful statement. We have a code of conduct at Zurich that's similar. We expect that every single employee worldwide will adhere to the Zurich Basics. So, I think that this is a great opportunity for us to run a business where people can trust us. Because, if you think about it, all we sell is a promise. If you're selling a promise, you'd better be trustworthy. I welcome the responsibility for following through on this commitment to our customers and employees.