

Argo's Evolution



Mark E. Watson III

EDITORS' NOTE Mark Watson joined the board of directors of Argo Group's predecessor company, Argonaut Group, in 1999 and has overseen the organization's development as a leading specialty underwriter since becoming its Chief Executive Officer in 2000. Prior to joining Argonaut, Watson was one of two founding partners of Aquila Capital Partners. Before founding Aquila, Watson was an Executive Vice President and member of the board of directors of Titan Holdings, Inc. from 1992 until its acquisition in 1997 by USF&G Corporation. From 1989 to 1991 he was an Associate Attorney with Kroll & Tract. In 1989, Watson was a legislative aid to Texas State Senator Donald Henderson. He graduated with a B.B.A. from Southern Methodist University and a J.D. from The University of Texas School of Law.

COMPANY BRIEF Argo Group International Holdings, Ltd. (www.argolimited.com; Argo Group) is an international underwriter of specialty insurance and reinsurance products in the property and casualty market. Argo Group offers a full line of products and services designed to meet the unique coverage and claims handling needs of businesses in four primary segments: Excess & Surplus Lines, Commercial Specialty, International Specialty, and Syndicate 1200. Argo Group's insurance subsidiaries are A. M. Best-rated 'A' (Excellent) with a stable outlook, and Argo's U.S. insurance subsidiaries are Standard and Poor's-rated 'A-' (Strong) with a stable outlook.

Is there a broad market awareness of how large the business is for Argo Group?

We've been around for 60 years. The origin of Argo Group was Argonaut Insurance Company, which focused on providing risk management solutions to businesses in the construction industry.

I joined the board in the late '90s and our vision was to evolve towards being a specialty company, because at our size, if you can't carve out a niche in the industry, you end up in a losing proposition trying to compete on price with the larger companies.

An Interview with Mark E. Watson III, President and Chief Executive Officer, Argo Group International Holdings, Ltd.

Over the past five years, we have gone from being a U.S. specialty company to an international specialty company. In addition to having underwriting offices in the U.S., we have a large trading platform in London through our syndicate at Lloyd's, as well as in Bermuda. These mainly address Fortune 500 type risks. We also have operating platforms in Continental Europe and Dubai, and we're one of only a few international insurance groups to have a local license as an admitted insurance company in Brazil.

What are your areas of expertise today?

Differentiating ourselves from our competition means first understanding the markets where we operate. We organize our business subsidiaries by the type of industry that we insure; we then figure out if we'll be high on service or high on risk selection and what level of direct services the policyholder may require in terms of risk management and claims administration. Some of our accounts are big and the issue is not "if" they will have a claim, but rather "how many" they will have and how we can help them mitigate their loss through a better claims experience.

Depending upon the business, we may have a different value proposition, but we try hard to be a market leader in the industries we serve, particularly in the U.S. For example, we're the second-largest insurer of coal mines in the U.S.; we're one of the largest insurers of public entities in the U.S.; and we have a top-10 excess and surplus lines operation.

How challenging is it to show differentiation in this space?

There will always be other underwriters that have the expertise to do what we do, but it's still a small enough piece of the insurance industry that more than one of us can differentiate ourselves.

Depending on which subsidiary we're talking about, we have different performance metrics. In terms of our wholesale business, it's how quickly we can respond to the wholesaler because if they're coming to us, the chances are it's a last minute effort by the agent to get a policy bound for their customer.

For most of our retail business, where we're working with the policyholder as well as the agent, it is about how well we can help them manage their workplace or their risk environment to avoid losses in the first place.

Where do you see growth opportunities?

There are growth opportunities in all of our markets, but we have to put our company in context. From 2000 until 2009, our premium base went from \$200 million to \$2 billion – most

of that was organic growth, but a lot was from the acquisition of other businesses or teams of professionals. In addition to that, we went from being a regional company in the U.S. to an international company.

At the end of 2009, we thought about how much risk we had on the books and took a look at what made sense to keep writing given the new environment. We decided to trim our premium back from \$2 billion to \$1.5 billion accordingly.

Within our excess and surplus lines company, Colony, we insure a lot of new business formations. But there haven't been many new businesses in this economy because the banks aren't lending money. So not only has pricing been soft, but our target market has shrunk at the same time.

But though we have seen four years of year-over-year declines in our excess and surplus lines business, it's growing again this year. And because of the steps we took during the downturn, we now think we are in a better position to play to our strengths as the market comes back.

Going forward, I would expect as much growth in the U.S. as in our international businesses. While the global economy is challenging, we are still seeing pockets of opportunity in all of our markets.

Is evaluating and managing risk today more complex than it used to be?

We have more tools available to evaluate risk, but the businesses that we're insuring today are also more complex. So it requires more knowledge.

Does the industry do enough to explain that without insurance, little would happen?

The insurance industry really is the oil in the machinery that keeps the economy going.

So much of public perception is drawn around businesses and individuals that are required to buy insurance. You have to have it to drive a car and banks won't lend you money if you haven't insured your home or won't finance business if you haven't insured its property.

So whatever price you pay, the presumption is that it's too much because somebody else is saying you have to be insured.

The second challenge is that many insurance companies aren't that good at handling claims and/or they are slow to pay claims. It's only a few companies that act that way, but those stories get out to the public.

I think that we do a better job today as an industry, of explaining our value proposition to the businesses we insure. As we improve our ability to deliver this message, the fortunes of our business will also improve. ●