

Managing Business Risk

An Interview with **Geno Fernandez,**
Chief Underwriting Officer, Zurich North America

EDITORS' NOTE *Geno Fernandez joined Zurich in 2012 as the Head of Strategic Execution for North America. He joined Zurich from McKinsey & Company, where he was a senior partner and a leader in the Insurance Practice. He has served as a special attaché for economic affairs to the Secretary of State in the diplomatic staff at the Vatican; a lecturer at New College, Oxford; and a counselor at a women's shelter in Indiana. A Rhodes Scholar, Fernandez has a Doctorate in Philosophy from Oxford University and a bachelor's degree summa cum laude from the University of Notre Dame.*



Geno Fernandez

COMPANY BRIEF *Zurich Insurance Group (zurich.com) is a leading multi-line insurer that serves its customers in global and local markets. With more than 55,000 employees, it provides a wide range of general insurance and life insurance products and services. Zurich's customers include individuals, small businesses, and mid-sized and large companies, including multinational corporations, in more than 170 countries. The group is headquartered in Zurich, Switzerland, where it was founded in 1872. The holding company is Zurich Insurance Group Ltd.*

In North America, Zurich is a leading commercial property-casualty insurance provider serving the global corporate, large corporate, middle market, specialties, and programs sectors through the individual member companies of Zurich in North America, including Zurich American Insurance Company. Life insurance and disability coverage issued in the United States in all states except New York is issued by Zurich American Life Insurance Company, an Illinois domestic life insurance company. In New York, life insurance and disability coverage is issued by Zurich American Life Insurance Company of New York, a New York domestic life insurance company.

What brought you to Zurich and the insurance industry?

It's a path that had several zigs and zags. After graduating from Notre Dame, I studied philosophy at Oxford as a Rhodes Scholar – all while being trained to become a Roman Catholic priest.

Before I was to be ordained a priest, I took a big step back and said, "Maybe before I say 'forever,' I should think about what else is out there." That's when I had my first zag.

Immediately after leaving the seminary, I became an associate at McKinsey in Chicago. The first study I did was with an insurance client, and I never looked back. I was in the insurance practice the entire time I was with McKinsey, and when Mike Foley, CEO of Zurich North America, called and said he had something at Zurich, I was

delighted because Zurich had been my client for over 10 years, and I had come to really respect this global company, a giant in the industry, with a values-based culture that spoke strongly to me about ethical business practice. I worked for many other insurance companies, but there was no contest, so it was an easy choice.

After coming onboard, were there surprises or was it what you expected?

There were surprises. One that struck me was the enormity of change management from the inside versus what one can see from the outside. At McKinsey, I had the luxury of working hard on one problem at a time, and solving it very thoroughly, but in corporate cultures, and in a company as large and diversified as Zurich, this luxury doesn't exist. We sometimes think we are good at multitasking, but getting control over what is important versus what is urgent was the first critical lesson I learned.

Another surprise involved how to move the battleship. It turns out that finding a "perfect" solution is nowhere near as important as getting people to move in the same direction. Motivating more than 50,000 people across the globe to act in concert is a very different challenge than knowing the theoretically pure answer. It is the difference between theoretical success and practical delivery. For this, the collaborative work environment that Mike Foley has created at Zurich North America serves us well. We are a team and, as a team, we could stay focused on execution.

The third big surprise was how much fun it was when I actually was working together with others on the same ship. I tell my kids that "work" is "work," and the word doesn't share any letters with "play." At Zurich, however, there is a palpable sense of corporate pride in our strong brand and pride in delivering

our results that makes work, while challenging, very enjoyable.

Is it even possible to have a change culture when you're that large, and how do you maintain an entrepreneurial feel at that scale?

Scale makes things harder, but it makes it more important to employ the right levers of change. Scale doesn't mean that radical shifts can't happen. As a company that has been around for more than a century in the United States, we tend to think of change as evolutionary rather than revolutionary, but there are times where seizing the moment with entrepreneurial ideas is called for, and being first to the plate has its advantages.

The size and complexity of Zurich isn't in any way inimical to entrepreneurship; the key is how to identify and nurture the entrepreneurial instincts of our people without losing focus on our fundamental business activity: to select, price, and assume risk. Entrepreneurship begins not from the "home office" but from being out in the market, and feeling and touching risk as it comes. I've tried to do that since day one at Zurich.

Was it a natural progression to move from Head of Strategic Execution to Chief Underwriting Officer?

Two things helped, even though I'm not sure it was a natural progression.

At McKinsey, I launched and led the commercial underwriting service line. I focused almost all of my time on developing tools and techniques to change the loss ratio outcomes of commercial insurance companies. I had practical experience on how to help underwriters make consistent and deliberate decisions on risk selection and pricing. I had the real privilege of seeing a dozen companies implementing these new standards so completely that it has changed the way we think about underwriting in commercial lines.

The second preparation for this role is the work I did as Head of Strategic Execution. In that role, I was able to engage deeply with the other parts of the company in a way that I think is unique in an industry that typically likes to specialize by functions: underwriters, claims adjusters, risk engineers, actuaries, and finance and investment folks. I was privileged to see the whole operating model, intensely work with each function, and experience the whole business system. This was excellent preparation for

being the Chief Underwriting Officer, and helps me deliver the most technically excellent underwriting organization for our customers in North America.

Is differentiation challenging in this space and can you show what makes a specific company unique?

There are at least two ways that commercial insurance companies differentiate themselves: by the quality of their underwriting and their ability to provide value-added service to the customer. Of course, these are related. Customers actually want underwriters that can help them understand their own risk before they even think about protecting themselves and transferring that risk to our balance sheet.

They want insurers who know their business well. We're one of the largest providers of insurance to large contractors in the United States. We understand the construction business so well that we can help them manage and mitigate their risk across a wide range of products. The quality of our underwriting, risk engineering, and claims management really differentiate us from our peers.

The quality of the underwriting is one of the only ways that capacity, which is abundant now, can be differentiated from one insurer to another. In that regard, Zurich has a tremendous capacity.

How critical are predictive analytics when it comes to the way Zurich is helping customers?

About four years ago, we made a concerted effort to invest in predictive analytics. This required gathering together data scientists and technology people – and also those who are in the markets and are doing deals – to develop new risk insights on how to select and price risk, and then adjudicate claims when they come.

When we hired our head of predictive analytics, I gave him the mandate that I want people who are deeply committed to the experience of our customers and our transactors. There would be no “ivory towers” of data scientists unconnected from the realities of the marketplace.

Zurich and few others have invested in predictive analytics in a way that was market facing and market relevant. This means we don't just create the elegant models; we create elegant models in such a fashion that they actually get used by and for underwriters who are out transacting the business. That has been the hallmark of our investment in predictive analytics at Zurich.

In terms of where it's going in the future, I have heard many people in the industry say that the role of an underwriter in commercial insurance will disappear, as in personal lines. Frankly, I don't buy it. This is a people business, and it will remain a people business. The future is in augmenting the personal capabilities of our underwriting professionals with the tools they need to radically increase their ability to have an impact. What I think is changing is the scope and scale of a commercial underwriter: what could in the past be done for a dozen or 20 customers at a time can be multiplied by taking a lot of our legacy processing and modeling

out of the hands of people who should be in the market with our customers and brokers.

I believe this will remain a relationship industry where individual risk assessment on the part of human beings needs to be augmented with the kinds of resources that can be delivered by predictive analytics.

At Zurich, we've developed a collaboration between our data scientists, risk engineers, and underwriters doing deals to bring our risk insights to our customers and brokers. In this sense, the industry is experiencing rapid change and only those players, like Zurich, with scale to invest will remain relevant.

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For young people interested in a career in insurance, do they understand the critical role insurance plays and how little would get done without it?

I don't think the insurance industry has historically been known as the place to launch exciting careers for young people. The industry hasn't done a good job of describing the real excitement and potential for intellectually curious people to find a fulfilling career.

Zurich has one of the most extensive underwriting, claims and finance trainee programs for people right out of college. Every year, we bring on board about 100 trainees.

As I talk to our college graduates looking to explore a career in insurance, one of the things they often say to me is, “We felt this was just a way to hold down a job. After six months of doing the work, I had no idea it would be this much fun.”

Insurance really is the oxygen of the economy, and it's only because we can safely transfer risk that the world can fuel innovation, serve customers, and get more efficient. Our underwriters see these results firsthand because of how close we become to the companies we serve.

An underwriter quickly becomes an expert at a variety of industries and businesses, which is attractive to the intellectually curious professionals who want to be constantly learning.

With the time pressures around your role in management and strategy, how important is it to not lose the client touch?

Very important. There are two models of how chief underwriting officers of large companies have operated. One is to be entirely in the back room “technically governing,” and the other model is to be out in the market helping to close the deals and building a portfolio of profitable business. I have tried to take the best of both models.

I make a point of going to our field offices and talking with our customers, brokers, and underwriters. I ask them what they think our risk appetite is and how we can work better with them. I describe the uniqueness of Zurich's value proposition – our ability to deliver technical excellence, value-added service, predictive analytics, and risk engineering. I hear feedback from our customers and brokers firsthand so I can help lead the changes that make us one of the strongest and most preferred carriers in the marketplace.

Zurich has a long history of corporate responsibility, and you take time to invest within the community. Will you talk about why that's so critical to you personally and how important this is as a company?

All of us have an obligation to know and be part of our local communities and markets. It's a necessary component of doing business in a responsible way in the places where we live and work.

I'm glad that I belong to a company that takes corporate responsibility so seriously. I believe we have a responsibility to strengthen the communities in which we live and work.

In the Chicago area where I work, I am the vice chairman of the Archdiocesan School Board, which operates more than 150 elementary and high schools in Cook and Lake counties, many in the poorest neighborhoods. It turns out that risk management is as important to the charitable organizations I am part of as it is to the customers I serve. At the beginning of my career, I wanted to be completely at the service of God and his people – I find now in my career I can still do that, and in ways that are professionally and personally fulfilling. ●