

Brand, Talent, and Growth

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



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 served as President and CEO since 2000. Prior to joining Argonaut, he was one of two founding partners of Aquila Capital Partners, a Texas-based venture capital firm focused on technology and life science-related companies. Before founding Aquila, Watson was an Executive Vice President and member of the Board of Directors of Titan Holding Inc., a NYSE-listed property and casualty insurance group, from 1992 until its acquisition in 1997 by USF&G Corporation. From 1989 to 1991, he was an Associate Attorney with Kroll & Tract, a New York law firm focusing on international financial services clientele. In 1989, Watson was a Legislative Aide to*

Texas State Senator Donald Henderson, where he helped draft legislation creating the first college savings bond program in the state, as well as the first mandatory alternative fuels bill, both of which were enacted into law. Watson graduated with a B.B.A. from Southern Methodist University and a J.D. from the University of Texas School of Law. Watson is an avid climber and yachtsman who has climbed in several continents and won several major regattas in the United States.

How do you define Argo's brand?

In my opinion, our brand is really the net impression Argo leaves on any one of our particular audiences. That impression can change day to day, depending on the quality of our interactions with prospects, customers, investors, employees, partners, and communities. All of us at Argo take that very seriously, and we have since we were founded in 1948. All those interactions add up to relationships, so I really do define our brand as the combined strength of the relationships we enjoy.

Has your business changed over time?

In some ways, completely, but then we've been underwriting risk since 1948. Headquartered in San Francisco, our original focus was workers' compensation. In our first year, we distinguished ourselves by promoting workers' safety as central to our offering. Most of our clients were in construction, while some were in date farming, so we became experts in safety for both of those disciplines. In the past 70 years, our products, services, and markets have changed radically many times, but I'm proud to say that our habit of knowing our clients' businesses inside out has not.

What is your strategy for growth?

We have a vision of becoming and remaining a leading global specialty underwriter. Ten years ago, that goal was aspirational. Right now, it's happening. The key here is specialty. This is an area where the risks vary widely from region to region, discipline to discipline, client to client. It takes a huge investment of time and energy to be able to understand the peculiarities of any specialty business – whether it is running a city, making wine, moving cargo by sea, or digging coal out of the ground. That need for specific expertise sets us apart and allows us to create value for our clients and get paid for it. And we happen to be really good at selecting specialty-insurance risk.

What's affecting your strategy most?

Digitization is the one environmental factor now affecting every aspect of our business. The transformative, disruptive force of the convergence of the computing and communications industries in the past 30 years has changed everything. For over a decade, I've been warning that our industry has lagged behind the rest of the business community in the process of digitization, but all that is changing now. Our competitors are pressing ahead with online offerings, non-traditional players are now eyeing the insurance market as a great place to invest capital in new ways,

and the entire insurance value chain is being reshuffled as digital capability makes disintermediation – the movement of players in the value chain – possible and, to some, attractive. The rate of acceleration in digital business has been surprising. In 2014, ten start-ups using nothing but software to interact with their customers entered the financial-services sector. Valued at over \$1 billion each, these so-called fintech unicorns moved in with the sole purpose of disrupting legacy financial services such as insurance, mortgages, mobile payments, and investments. The following year, the number of start-ups shot from 10 to 83 (of which 46 were unicorns), all of them dedicated to business that is 100 percent digital. That's why I insist that all of us at Argo think of the next phase in our development as one big software upgrade.

Does the strength of the Argo brand change the way you recruit?

As a specialty insurer with an entrepreneurial spirit, flat communication, and an eye on growth, we know we can outperform our competitors, but only if we stay on our toes. To do that, we have to exhibit four competitive attitudes. We try to find people with those attitudes.

They have to be smart. We intend to win in the marketplace through superior customer service in selected specialty markets. We're smart enough to know our size makes it impossible for us to compete on price, as some others do; we just don't have the scale. So we intend to beat our competitors by out-servicing niche markets in which we have a specialist's edge – that deep domain expertise we pride ourselves on.

They have to be fast. We get things done quickly, and we're getting faster all the time. With company-wide improvements we're making to processes, we'll be even faster, because eliminating waste by cutting unnecessary steps out of any process saves time. And we're also getting much faster at innovation.

They have to be eager. Staying eager is part of our culture. It's amazing to think that in a company as small as ours we have such diversity of nationality, language, and roles. With so much cultural diversity, it's outstanding that we can and do rally under one banner, that we uphold the same core values, and that we exhibit a common eagerness to excel at our work.

They have to be bold. We're ready to innovate in ways that lead our whole industry forward. We have impressive, creative talent in every corner of the company, and we listen when people tell us they've found a way to do things better. But we all have to be bold to make that happen.

What are the keys to being an effective leader today?

Leadership is nothing more than the art of directing attention. Great leaders don't just see and hear, they watch and listen. Attentive to the changing conditions around them, they use their experience to home in on the areas in which they can make an immediate difference. Then they sort out problems so the team can get on with its job.

There isn't a single management role at Argo that doesn't require some sort of leadership. Every manager at Argo is a leader, and every leader has full responsibility for making sure everybody understands what we're trying to accomplish and, most important, why. Leaders must set out the goals and objectives necessary to accomplish Argo's strategy, and then make those goals and objectives clear to everyone. All leaders in the company have a duty to communicate our strategy widely among the teams that report to them.

After communicating vision, leaders must make sure their teams have all of the strategic resources in place to make our people successful as they work to accomplish what we need them to do. That's why I refer to my CEO role at Argo as the purveyor of strategic resources. It's ultimately my responsibility to make sure all the people at Argo are in all the right roles, and that people are adequately trained and developed to succeed in those roles. As long as that happens, our brand will stay strong. ●

The Virtuous Cycle

An Interview with Jay S. Bullock,
Executive Vice President and Chief Financial Officer, Argo Group



Jay S. Bullock

EDITORS' NOTE Jay Bullock joined Argo Group in 2008 from Bear, Stearns & Co. Inc., where he was Senior Managing Director and Head of Insurance Investment Banking Group. While at Bear Stearns, Bullock was an advisor to Argonaut Group, Argo Group's predecessor company, on a number of transactions. Prior to joining Bear Stearns in 2000, he was a managing director at First Union Securities. Bullock is an honors graduate of Southern Methodist University and received his M.B.A. from the McColl School of Business, Queen's College, Charlotte, N.C. Bullock also holds the designation of Certified Public Accountant.

How has Argo's brand been developed?

Over the years, I have seen Argo's reputation broaden steadily with the improving performance of the company. I think of it as a virtuous cycle in which brand awareness adds credibility to the platform which, as I see in our interactions with investors, analysts, regulators, and rating agencies, creates credibility for the company. Credibility for the company helps reinforce the brand. Because of it, a growing number of constituents now see us not just as an interesting stand-alone company or even a solid investment, but also as a legitimate industry player.

Has that attracted different talent?

Yes, in that it's all part of the same virtuous cycle. In large part, the credibility of the organization is a reflection of the talent on the team. The credibility they help us build in turn allows us to attract better talent. This is certainly true at the senior levels of leadership. As we've added to the bench in the last five years, our management team has become far more visible in the industry as a whole. At any given insurance conference or event, attendees will see the Argo team. Mark Watson is not on his own anymore. And that team presence is a non-marketing reinforcement of the brand. People looking in see a coherent group of known players, all sharing a single vision of where Argo is headed and how we're going to get there. That's attractive for people considering a career move. We find that people are more eager to leave large, bureaucratic, challenged platforms to join a smaller, more nimble entity where they can have an impact. They're thoughtful about the future in this changing environment, and they know they need to evolve and adapt. Argo now strikes them as a place they can do that.

How has your own work changed?

My work has changed considerably in the past two or three years, and that too is related to the quality of the talent we've attracted. When our overall management team was less experienced, a small handful of us were responsible for everything. As such, any outcome that was less than stellar was a direct result of something we had done or had failed to do well enough. Frankly, we were spread too thin. While we all still feel ownership for all elements of the business, each of us is now fundamentally responsible for executing most effectively on those things under our direct responsibility. In the past three years, thanks to the support of a strong team, I've been able to stay focused on things directly related to the consistent improvement of our financial results. I feel empowered to be a fully engaged CFO right now. Credit for that goes to the management team Mark has assembled. As an executive, I have a lot more confidence now that the things we decide to do as a company will be taken away and executed on. ●

Adaptation & Culture

An Interview with
Kevin Rehnberg, President, U.S. Operations, Argo Group



Kevin Rehnberg

EDITORS' NOTE Kevin Rehnberg oversees all activities of Argo Group's U.S.-based business segments. Before joining the company in 2013, he served as Executive Vice President for specialty lines at OneBeacon Insurance, where he oversaw specialty underwriting operations and acquired and built new lines of specialty business. Rehnberg held similar senior executive positions at The St. Paul Travelers Companies, Liberty International, and Chubb Corporation. More recently, he served as CEO of Consultants in Laboratory Medicine of Greater Toledo Inc. He has a bachelor's degree in history from Princeton University.

What kind of authority do you give the members of your team?

It's no use giving people responsibility without the authority to exercise it. I hire people who are technically competent. At Argo, we also want people who have the courage to do the right thing. We give those people a lot of room. I say, "You're in this job, so go ahead and do it. Just tell me about problems before I hear about them elsewhere. Call me the moment you need help." That approach gives people the freedom to go out and apply their trade. They can learn from mistakes and know they'll get the support they need.

How does Argo's brand impact your ability to recruit?

Our brand has gotten stronger over time, so we now attract stronger players in the industry. Those people came in to make a difference. We're now on the next wave, where top industry performers are saying, "Argo is successful, well regarded, and something I want to be a part of." Through the strength of our brand, we've been able to increase the level and quality of the kind of people we attract. Our performance reflects that.

In an industry that competes so much on price, what difference can a brand really make?

People tend to do business with people they like. Our service is spectacular, better than most of the competition, so people feel taken care of by us. They like us because we value the relationships we have with them. We show our producers how they're growing, how profitable each product line with us is, where they are by region, where they stand versus their competitors and, most important, how they can grow fastest. That means a great deal to them. There's far more to business than just price.

Is that the reason for your growth?

It's one of many. We've been growing the core of our business at strong double-digit numbers for years. In the past, overall performance on paper may not have reflected that growth because we've been deliberately exiting unprofitable lines and partnerships over time. We're now much closer to running the lean, profitable business we want, so our growth is now more consistently visible. For Argo in the U.S., growth isn't a change. It's the track we've been on.

Which aspects of Argo's culture stand out to you?

Argo is really strong on personal and professional development. When you get used to assessing your own strengths honestly, you get much better at figuring out what has to be improved and how to do that. Also, you learn to look for people who are better than you in areas you find challenging. This focus on development has a pretty obvious logic. Today, innovation is the key to sustained growth and success. You can't innovate if you're not learning new things. We're all adapting, and that willingness to adapt is more and more at the very heart of our culture. ●

The Speed of Change

An Interview with Andy Breen,
Senior Vice President of Digital, Argo Group



Andy Breen

EDITORS' NOTE Andy Breen is leading Argo's transition to a digital business that is disrupting the insurance space from the inside. Over his career, Breen has more than 20 years of experience developing and growing products and services for companies of all sizes in the mobile, enterprise, e-commerce, media, and education sectors. Breen is an adjunct professor at NYU's Stern School of Business. He holds a bachelor's degree in information and decision systems, industrial management and computer science from Carnegie Mellon University.

Is the scope of the coming change in the insurance industry overstated?

Not in the least. The distribution of insurance has been pretty much unchanged for a hundred years or longer. There have been defined roles along the insurance value chain, with each of us playing one or more of those roles. Mark Watson has been saying for over a decade that this is about to change. First, digitization is altering customer expectation and behavior forever. Second, digital tools give existing players and new entrants opportunities to radically disrupt service and product delivery. Third, distribution has gotten expensive and, in some places, is overpriced. Those three factors make the industry ripe for a major overhaul.

How fast is this change coming?

Recent research proves that the change is already underway. How it's going to work and who the winners will be is still unclear. If we just wait to see what shakes out, we could find ourselves as a back-end commodity business. We're not going to let that happen. Our approach is to pursue what I call "wedge" opportunities. We're dipping our oars into a lot of different streams to see what works and what doesn't. That, coupled with our iterative development, gives us the advantage of being responsive to how the market shakes out. Try something, learn from it, improve it, try again.

How does that approach change what you need from your team?

Alongside the base modern skill set of comfort with data, analysis, and tech tools, everyone in my department has to embrace the philosophy of experimentation and risk taking. Many people are good at operating and optimizing a business, but when you're in R&D you have to be much more nimble. I remind the members of my team that they're risk managers, because all new ideas have some degree of uncertainty. We have to de-risk them and either get on with something or get out of it. Even when we decide to kill one product and move onto the next, we're thankful for what we've learned and relieved that we didn't waste a bunch of time, money, and effort.

How does leadership affect Argo's speed of innovation?

In innovative companies, change must be both constant and fast. To keep it fast, you have to refine how decisions are made. Argo is doing this thoughtfully and well. There's great strength in the executive team here. One of the ways we maintain our speed is by keeping the decision-making process lean. People at all levels are trusted to push ahead with any decision that can be reversed later if required. If it makes sense, it should be tried. The only decisions that need to go up to the executive team are those that take the company in an irreversible direction. This works because Argo has solid bench strength at every level now. As a result, our executives can stay focused on the very small set of very big things in front of them. ●

The Independent Team

An Interview with Mark H. Rose,
Senior Vice President and Chief Investment Officer, Argo Group



Mark H. Rose

EDITORS' NOTE Mark Rose oversees the company's investment strategy. Prior to joining Argo Group in 2013, he was a Senior Credit Analyst at RBC Capital Markets and has held similar roles at Deephaven Capital Management, Goldman Sachs & Co., and Credit Suisse First Boston. Rose has a bachelor's degree in mathematics from the U.S. Military Academy at West Point and is a CFA® charter holder.

How would you characterize Argo's approach to managing its investment portfolio?

At Argo, we conduct our asset management much as we conduct our underwriting business. We're not the biggest player in the field, so we have to use our particular strengths. Many companies much larger than Argo have so much money they won't make investments in the five- to ten-million dollar range because it's just not worth their time. Our portfolio isn't as big, so we can invest the time to be nimble and specialized in our investments, just as we are in our underwriting.

Does Argo's overall culture influence your work?

Certainly. At Argo, everyone asks, "Where do we define the next opportunity? What's the right risk reward?" It's the same for investing. We look for the right risks, and we assess whether we're ready to just own that risk, or perhaps hedge that risk somehow. Both sides of our business (underwriting and investing) share that. We look for different angles. Today, for instance, we're being kind of defensive because the volatility index is low. The equity market is very high. The bond market seems fully priced. No one thinks there's a lot of risk out there. That could be an opportunity for us. We're trying to be thoughtful and manage the whole spectrum of risk more actively.

What qualities do you most rely on in the members of your team?

I gravitate toward people who tell me what they think and who don't care what I'm going to think of them in return. They just give me their opinion and tell me how they came to it. Where investments are concerned, each opinion may be right or wrong. If acted on, it could drive us up or down, so we need a stream of those independent opinions all day long. I also need people who are not looking for big organizations where they can sit in cubicles. I can't give them many afternoons off, but I can give them opportunity to use their intellects and build their skills. Here, managers get to manage bonds, stocks, currencies, rates, emerging-market debt, emerging-market equities, and distressed debt in every sector going. That's attractive to someone trying to get experience.

How has your role as a business leader changed, and how has that affected your team?

Two years ago, I worked almost exclusively with external investment managers. Today, I have a close-knit team of internal managers who really have their fingers on the pulse. We spend all day, every day, looking at opportunities and making sure we're making the right investment decisions. Our own Argo team is now deeply involved in every transaction. The performance of Argo's portfolio is our only obsession. That's how we can react quickly and drive value for Argo. That's changed in the last couple of years. It feels good now, and we'll be doing even more internally as we build the team with the right qualified people. ●

Brand & Performance

An Interview with Axel Schmidt,
Group Chief Underwriting Officer, Argo Group



Axel Schmidt

EDITORS' NOTE Axel Schmidt joined Argo from Aviva. Prior to joining Aviva, he spent 20 years at Zurich in its international business, where he held a number of senior underwriting and management positions. He also served as a member of Zurich's Group Underwriting and Group Reinsurance Board. Schmidt graduated from Westphalian Wilhelms University in Munster, Germany, with a degree in Law Studies. He also earned a J.D. from the State Supreme Court in Dusseldorf, Germany.

Can a brand actually generate business?

All companies change, but the staff we have now – including those on our functional teams – are all a part of a known direction the company has chosen. They deliver on Argo's well-understood strategy. They make individual contributions to our brand, which then stands as a prominent reminder to others of our combined value to them and, yes, that does generate business. Right now, the two largest reinsurers in the world say that Argo is "a very, very important partner to them." We're as important as the big guys because they can partner with us in a different way. They've selected Argo for strategic reasons even though we're not the largest. We're small, but because of our image, our education, and how we execute, execs at the very top level say Argo is one of the best partners they work with. What they see and experience is all part of our brand.

Is Argo's brand known even in new target markets?

Definitely. In smaller markets, it may be even easier to be noticed for doing something innovative. In Brazil, for example, we designed, prototyped, refined, and rolled out a digital distribution model called Protector. In that smaller, less saturated market, Argo's product took off. With significant uptake, we gained widespread brand recognition. It helps that we won awards there for our innovation. We also got quick and enthusiastic feedback, which we used to make substantial improvements to our first iteration. We've since taken that model to America, and again people are talking about us. Protector didn't exist four years ago, yet became a dominant player because our brand is strong. People talk about our new platform. That's brand recognition.

You had an impression of Argo when you joined. Was it accurate?

When Mark Watson, Jay Bullock, and others told me how entrepreneurial Argo is, it seemed too good to be true. Open to change, entrepreneurial, courageous, committed to each other's success, dedicated to professional and personal development. Really? But when I joined, I soon saw that it really is true. That was a fantastic experience. When we have our major conferences twice a year, I hardly ever hear anyone talking negatively. Most of our employees have huge enthusiasm and passion for what we've done and are doing. Even in challenging times, the glass at Argo is always half full, never half empty.

What special qualities do you look for and encourage in your underwriting team?

Technical skill in product development and pricing is the first. Second, I need people who are competitive and performance driven – the kind of people who like being successful at sports. Once you've learned how to compete successfully on the football field or whatever, you know how to bring those skills to your business as well. Third, I need people with an entrepreneurial mindset and the drive to step up to it. I need the right balance between commercial acumen and technical acumen – that's especially important for those in underwriting. ●

Going "Glocal"

An Interview with Jose A. Hernandez,
Head of International Business, Argo Group



Jose A. Hernandez

EDITORS' NOTE Jose Hernandez joined Argo Group in 2016 as Head of International Business. Prior to this, he served as President and Chief Executive Officer of AIG's Asia Pacific region. Hernandez spent more than 20 years with AIG in a number of senior leadership roles in both the consumer and commercial segments. He has expertise in field operations, distribution, underwriting, claims, strategic planning, and management. Hernandez has a B.S. degree in marketing and management from Bentley University and an M.B.A. from the College of Insurance in New York.

As Head of International, how do you intend to build Argo's brand globally?

I'm a firm believer that the best way to grow a brand – the most sustainable way and the least expensive way – is through the employees and representatives of the company. How they act, how they conduct themselves, and how successful they are in their endeavors will be the greatest influence on other people's perception of our strength and value. We could spend all the money in the world buying banner ads and doing cute commercials – you know, getting little animals to do funky stuff – and that might take us some distance. But to me, even though we're moving into the digital space, insurance is still a people business. The executive leadership team itself needs to take Argo's brand out into the market first. As we hire, train, and reallocate resources around the organization, we then need to spot and support Argo employees who are great brand ambassadors themselves. How they perform and interact with our customers will make the greatest difference to how our company is thought of. That's as true for a global company as it is for a regional player.

You've said one has to think globally, but act locally. What does that mean?

These days, you've got to be "glocal." It doesn't matter what size your company is or what sort of industry you're in. You have to have an ability to relate, to understand how macro and microeconomic factors affect new territories, to understand people's behaviors, and to appreciate the cultural contexts within which they do business. That's just as important as the technical aspects of what you're doing. Therefore, the ability to bring in global assets, resources, know-how, intellectual property – and deliver them all in a local market through local channels in local languages with local nuances – is the key to success. That's how you go "glocal." It seems so obvious and so simple, yet very few do it well.

How can you assure that kind of cultural awareness?

It depends on what you're trying to do and who your audience is. First, decide what kind of brand you want to build. A consumer brand? A commercial brand? A reputational brand in certain circles and for particular communities? Given the way Argo does business internationally, our brand building has to be done hand in hand with our producers – the brokers and agents who recommend us to their own clients. It is they who understand the full cultural context of any local community. We rely on them. Similarly, if we build a brand of collaboration and partnership, our brand building will have to be done in concert with other insurance companies who might turn to us for reinsurance, for example. With those partners, it is our clarity on risk appetite, the consistency with which we state what we're willing to do and not do, and treating them as true partners that will really build our brand. ●