

# Interview

## Balancing Profitability and Growth

An Interview with Dieter Wemmer, Chief Financial Officer,  
and Patrick O'Sullivan, Chief Growth Officer, Zurich Financial Services Group



Dieter Wemmer

**EDITORS' NOTE** Dieter Wemmer, who assumed his current post in March 2007, is also a member of the Group Executive Committee at Zurich Financial Services (Zurich). He served as Chief Executive Officer of the Europe General Insurance business division and a member of the Group Executive Committee beginning in November 2004. In May 2003, he became Chief Operating Officer of the Europe General Insurance business division. From 1999 until May 2003, Wemmer was Head of Mergers and Acquisitions, with additional responsibility for Capital Management and General and Life Actuarial from 2002. In 1997, he became Head of Financial Controlling, and one year prior, he was seconded to the Corporate Center in Zurich as Project Manager with responsibility for the implementation of IAS/US GAAP. From 1992 until 1996, Wemmer held various positions with Agrippina, joining the management board in 1995, responsible for real estate, controlling, planning, and communication. Before this, in 1991, he became Head of Life Reinsurance and Chief Actuary at Zurich Re (Cologne), at that time a German reinsurance subsidiary of Zurich's German operation Agrippina. He began his career there in 1986 pricing actuary life reinsurance. From 1983 until 1986, Wemmer worked in pure mathematics at the universities of Cologne and Oxford. Wemmer holds a PhD and a master's degree in mathematics from the University of Cologne.

**COMPANY BRIEF** Zurich Financial Services Group ([www.zurich.com](http://www.zurich.com)) is an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe, as well as in Asia Pacific, Latin America, and other markets. Founded in 1872, the group is headquartered in Zurich, Switzerland. It employs approximately 60,000 people serving customers in more than 170 countries.

### INTRODUCTION

IN MAY 2008, ZURICH FINANCIAL SERVICES announced its 21st consecutive quarter of profitability. Zurich's results, in an increasingly competitive insurance market and an economy plagued by the subprime credit crunch, rising oil prices, and a host of other challenges, reaffirm the strength of its financial position and demonstrate the power of the operational changes the Swiss giant has made over the past five years.

In 2002, Zurich was in a very different position. Under the leadership of CEO James J. Schiro, the organization has refocused itself on its core businesses of general and life insurance; transformed itself into an aligned set of efficient global operating platforms; and instilled a disciplined approach to all key functions. The result is that the company has reestablished itself as a leading global insurance brand, and now, instead of being mentioned as a takeover target, it is consistently rumored to be on the buying end of industry transactions.

While Zurich has proven to the markets that it is a profitable, well-managed company, its challenge today is to demonstrate that it can continue to maintain its level of profitability while also generating sustainable growth. No small feat, but one that leading companies need to achieve to retain their most-favored status.

To ensure his organization delivers on both these priorities, Schiro has tapped Dieter Wemmer, Chief Financial Officer, and Patrick O'Sullivan, Chief Growth Officer, to align the group's resources behind the key drivers of operational transformation and growth.

LEADERS magazine sat down recently with the men Schiro calls his "two pedals" of success, to discuss Zurich's approach to finding that delicate balance between top-line growth and bottom-line profitability.



Patrick O'Sullivan

**EDITORS' NOTE** Having assumed his current post in March 2007, Patrick O'Sullivan is additionally a member of the Group Executive Committee, as well as Vice Chairman of the Group Management Board, and is also responsible for International and Centrally Managed Businesses and Banking for Zurich. Prior to this, in December 2002, O'Sullivan served as Group Finance Director and became a member of the Group Executive Committee. He joined the company in conjunction with the merger of the financial services arm of B.A.T. Industries and the Zurich Group in 1998 as CEO, General Insurance and Banking. In 1997, O'Sullivan joined Eagle Star Insurance Company as Chief Executive. In 1996, he became Barclays/BZW's Chief Operating Officer, after joining the company as head of International Banking & Structured Finance. Before this, in 1990, he moved to Financial Guaranty Insurance Company (FGIC), a wholly owned subsidiary of GE Capital, and was then appointed to the FGIC board. O'Sullivan joined Goldman Sachs in 1988 as Financial Controller for Europe, after working for Bank of America in London, Miami, Los Angeles, and Frankfurt. O'Sullivan graduated from Trinity College, Dublin, with a degree in business studies and is a fellow of the Institute of Chartered Accountants in Ireland. He holds a master of science degree in accounting and finance from the London School of Economics.

■

**Our challenge is to give people the confidence  
to think in terms of growth, but to do so  
within the boundaries of profitability.**

■

**What is the greatest challenge facing Zurich in delivering profitable growth?**

*O'Sullivan:* Zurich has proven to the market that it has the strategy to deliver profitability in a range of market conditions. Over the past five years, we have revolutionized the way we do business, and that has paid off in spades. Now, we need to prove to the market that Zurich can add growth to the equation, which will have a beneficial impact on profitability in due course.

To do that, we have to change gears and think in terms of profitable growth, and that takes an organizational shift in mindset. We have made significant progress, but we have a way to go.

*Wemmer:* The culture change needed to focus on profitability while delivering growth is a significant challenge, but we are making inroads. Given the industry's past – and Zurich is no exception – of thinking about growth in the short term, without considering the long-term consequences of dropping prices to increase market share, people were initially a little wary of growing again. Our challenge is to give people the confidence to think in terms of growth, but to do so within the boundaries of profitability.

**What is your approach to getting 60,000 employees to change their mindset and behavior to deliver profitable growth?**

*O'Sullivan:* There is no question that this is a change-management challenge. Changes like these will not happen overnight and they require organizational support. We have developed a strong performance-management culture at Zurich, and we need to ensure we continue to reward employees for the right kind of behavior and that we measure performance against the right levers. Growth-related behavior and results have been integrated into many of our employees' goals, and we will expand this to a broader group of employees next year and in the years to come.

Employee engagement is also important. Gone are the days when management would tell people what they needed to do differently in order to produce needed results. Zurich is a team of 60,000 insurance professionals, all of

whom have valuable contributions to offer. We are committed to engaging everyone in profitable growth. We have teams from all lines of business around the globe developing ways to work better, and we are listening to the front-lines – both about profitable growth ideas and obstacles to growth.

*Wemmer:* It is amazing for me to see how much Zurich has evolved over the past few years. Today, we form cross-functional and global teams to tackle opportunities and challenges. Bringing people from different parts of the business together to improve operations has resulted in effective solutions for Zurich and has built ownership in the field, which is where we need it most.

Growth and profitability are no different. We have formed internal councils with members from across Zurich, with responsibilities to work with their businesses on growth and profitability and come together to share best practices and find common ground.

To be more customer-centric and outpace the competition in terms of profitable growth, employees need to be willing to think outside the box, and we, as an organization, need to be willing to listen and consider new approaches to working. We are committed to creating an environment where employees feel safe putting

their suggestions forward and leaders feel supported in trying new things.

**The Zurich Way played a significant role in Zurich's recovery. Does it have a role to play in the drive for profitable growth?**

*Wemmer:* The Zurich Way [TZW] aspires to create common language, methodologies, metrics, and tool boxes for Zurich. It transformed the way Zurich does business, and has helped us to provide better services to customers in a consistent and recognizably “one Zurich” way. In fact, since instituting the program in 2005, Zurich has generated over \$1.7 billion of value, and we anticipate achieving another \$2.4 billion under the program through 2010.

Just as TZW has transformed our core processes of underwriting and claims, so too is it being applied to profitable growth. I am confident that this approach, combined with developing solutions that deliver to our customers when it really matters, is a winning recipe for Zurich.

Further, the discipline and consistency created through TZW is powering our operational transformation effort, which is a global campaign to develop processes and platforms that are more customer-focused, effective, and efficient. Like TZW, operational transformation is an effort that fuels both profitability and growth.

*O'Sullivan:* From a profitable growth perspective, we are using TZW's common processes and one Zurich approach to deliver the “how to” of product, customer, and distributor excellence, which are our key drivers of profitable growth. Over the past year, we have introduced common – and better – ways to develop products that our customers want to buy and our distributors want to sell. We have focused our entire organization on a common goal around delivering all of Zurich to our customers as a means to increase our value and strengthen customer relationships, and we have improved the way we work with our brokers and agents, to the benefit of our distributors, Zurich, and our customers.

**What are some of Zurich's biggest successes so far?**

*O'Sullivan:* We have many examples of how Zurich is working differently, innovating, and taking a market leadership position. Zurich's Multinational Insurance Product [Zurich MIP] is

■

**We have been working very hard to develop propositions that are both customer-focused and efficient for us to deliver.**

■

■

**We are also leveraging**

**our global capabilities, brand, and distribution**

**force to grow in emerging markets.**

■

one such example. The market's first comprehensive solution for compliant global insurance coverage for companies operating in multiple countries, Zurich MIP is a powerful proposition that is playing a significant role in driving growth with some of the world's largest companies. Our introduction of micro-insurance and our carbon credit product are two other examples of leadership and innovation that are driving growth.

The Farmers Group has shown its profitable growth muscle. It has dramatically increased productivity among its agents, it is successfully targeting the fastest-growing ethnic population in America, and it is managing to outpace the market amidst very difficult times in U.S. personal lines.

From a more central perspective, we have established global industry practice groups in automotive, real estate, and construction. These centers of excellence offer specialized solutions and expertise to customers from around the world and enable us to deliver the best of Zurich to our customers.

We are also leveraging our global capabilities, brand, and distribution force to grow in emerging markets. China is ripe for growth and Zurich is there, leveraging our Taiwanese and Hong Kong distribution expertise to enter mainland China. We have also expanded into Eastern Europe, with integration efforts in Turkey and Russia, and we have realigned our operations in Latin America to better position ourselves to grow there.

*Wemmer:* We have been working very hard to develop propositions that are both customer-focused and efficient for us to deliver. In doing so, we've examined the entire value chain, from enquiry through to claims, where the focus really is on customer service, and then we have driven efficiency by using common platforms and automated processes.

**economy and the soft insurance market impact your drive for profitable growth?**

*Wemmer:* We have worked hard to prepare the organization for these times. Our disciplined pricing and improved core processes put us in a strong position to generate profitability through the insurance cycle. With a few years of TZW implementation behind us and many markets now softening, we are now in a position to demonstrate its value.

*O'Sullivan:* In Zurich's turnaround, we promised that we would grow in a very different way. We said we would put down our pens if pricing was not meeting our definition of technical price, and with the market the way it is, we have been forced to do this to some degree. Though the market is changing, we are sticking to our strategy of growing in targeted markets where we can meet our profitability targets.

Because our profitable growth strategies are not reliant on pricing, the soft market actually contributes to teams focusing on improving those areas in which we want to develop. Just to maintain our clients in some markets, we need to ensure our products are meeting customers' wants and needs better than the competition's, that we are getting the most out of our relationships with our distributors, and that we're delivering exceptional customer service, which includes offering all of Zurich to our customers. With our disciplined approach to underwriting, these are the areas we are being forced to focus on to win business in the soft market, and these are the areas that are going to pay off for us in the long run.

*Wemmer:* The discipline we have demonstrated in our processes extends beyond underwriting and claims; investment management is another area in which an improved discipline has benefited Zurich and its stakeholders. Zurich's lack of material subprime exposure is evidence of this. While we have not been substantially impacted by the subprime crisis, we are feeling the effects of the market downturn, and the reduction of investment income is putting increased pressure on us to find operational improvements in order to protect our bottom line.

■

**Clearly, we won't get the growth we are**

**looking for if we are not willing to expand**

**our risk appetite in a controlled manner.**

■

■

**Customer-centricity is a direct contributor to profitable growth; a company that delivers what matters to customers takes the focus off price in purchase decisions, and it drives retention, which is critical to profitable growth.**

■

**How is the state of the economy impacting profitable growth within your life insurance business?**

*O'Sullivan:* By really understanding customers and opportunities in the marketplace, Global Life has managed to deliver double-digit growth over the past few years and current market conditions are not slowing it down. This is exactly the kind of behavior and outlook that we are encouraging across the rest of Zurich.

**It sounds like Zurich is expanding its risk appetite?**

*Wemmer:* Six years ago, Zurich needed to rein in its risk taking and get its house in order. To start acting like the global organization we are, we needed to create a Zurich way of operating. To do this successfully, discipline was essential, and we needed to get everyone around the Zurich world operating as one. We have made incredible progress in this regard, and we are benefiting from much improved core processes.

With this done, we are going through a shift. We focused on profit for years. Now we need to introduce growth, while maintaining that profitability that we have worked so hard to achieve. Clearly, we won't get the growth we are looking for if we are not willing to expand our risk appetite in a controlled manner. After years of being told how to do things, we are now challenging our underwriters to take a more entrepreneurial outlook. This is not to say business units are writing new lines without controls, but we want them to start thinking about where opportunities may exist and present their cases. This change of thinking takes time.

**The term "customer-centricity" has been used a few times. What does this mean for Zurich?**

*O'Sullivan:* Our customers have always been important, but somehow there has been a gap between how we view our customers and how insurance customers view us – and when I say "us," I mean all insurers. Research has revealed that customers, in general, do not trust insurance companies, nor do they feel that they are treated as individuals or valued by their insurers.

In the fall, we will be introducing a new brand program that is built on Zurich's commitment to delivering to our customers when

it matters, in a way that customers value. We'll have an advertising campaign around this positioning, but the real value will be in the operational changes we're making to be a customer-focused insurance company.

*Wemmer:* The link between this positioning and our drive for profitable growth is clearly not coincidental. Customer-centricity is a direct contributor to profitable growth; a company that delivers what matters to customers takes the focus off price in purchase decisions, and it drives retention, which is critical to profitable growth.

For many industries and even for many areas within the financial services sector, the idea of being truly customer-centric is not new, but insurance has managed to survive despite the fact that we have not always been as customer-focused as we could be. Perhaps because much of our business is sold through intermediaries, we have been satisfied with being at arm's length from the people who buy our products and services. Regardless of the reason for past actions, insurers are finally getting the message that no one is more important than customers. The beneficiary of this late insight is, of course, the customer. If we want people to have a better view of insurance companies, we need to start behaving differently, which is what customer-centricity is all about at Zurich.

**How would you rate Zurich today on customer-centricity?**

*O'Sullivan:* We have accomplished some great things over the past year. From a group-wide perspective, we have used The Zurich Way to find better ways to develop stronger, more relevant propositions. We're also working better with our distributors, tied agent numbers are increasing, and we're changing the way we work with our independent distributors to drive more profitable business with the brokers with whom we want to do business. We have global industry practice groups, which enable us to offer the specialized solutions and expertise customers are seeking, and to bring the best of Zurich to our customers. And we are offering some very progressive propositions in the marketplace.

*Wemmer:* There is plenty of room for improvement, but I echo the fact that we have come a long way in this regard. Over the past few years, we have made a number of operational changes that have enabled us to focus our efforts on our customers and better serve them in the areas that are most important to them. Outsourcing processes such as billing and the employee IT help desk have allowed us to better focus our resources on activities that are truly valued by our customers, and to enable Zurich to offer an enhanced customer experience across multiple touch points, which is essential in our goal to distinguish Zurich in the marketplace.

**Many companies have tried to balance profit and growth and failed. Is balancing profit and growth realistic for Zurich?**

*O'Sullivan:* Absolutely. I am confident that the same focus and discipline that helped us transform ourselves to profitability and renew our strength in the market will enable us to attain the coveted balance between sustainable top-line growth and bottom-line profitability.

We are already making progress, and our integrated framework for profitable growth will ensure we continue to grow while maintaining a strong level of profitability.

*Wemmer:* As the CFO, I'd suggest you just look at our first quarter figures. Despite a challenging rate environment and a distressed financial environment, we boosted growth and maintained profitability. ●

■

**The same focus and discipline that helped us transform ourselves to profitability and renew our strength in the market will enable us to attain the coveted balance between sustainable top-line growth and bottom-line profitability.**

■