

# Doing the Right Thing

**An Interview with Edmund F. Kelly,  
Chairman and Chief Executive Officer, Liberty Mutual Insurance Company**

**EDITORS' NOTE** A native of Ireland, Edmund (Ted) Kelly came to the U.S. in 1965 to begin a career in academia. After receiving a bachelor of science degree from Queen's University Belfast, he attended the Massachusetts Institute of Technology, where he received a doctorate degree in mathematics. He then held assistant professorships in the mathematics departments at the University of New Brunswick and the University of Missouri at St. Louis. Kelly began his career in the insurance business with Aetna Life & Casualty in 1974. He was a Group Executive at Aetna at the time he joined Liberty Mutual Group in 1992 as President and Chief Operating Officer. Kelly assumed the role of Chief Executive Officer in 1998 and was elected Chairman of Liberty Mutual in April 2000. In 2007, Kelly was named to the Board of Directors of the Bank of New York Mellon Corp., following its acquisition of Mellon Financial Corp., where he was a member of the board since 2004. Kelly currently holds board positions with EMC Corp., where he was appointed to the board of directors in 2007; the Governors of the Property Casualty Insurers Association of America; Insurance Information Institute; The Financial Services Roundtable; and Boston College. He is Chairman-Elect of the Boston Symphony Orchestra Board of Trustees, after serving as Vice-Chairman since 2006.



Edmund F. Kelly

**COMPANY BRIEF** Boston-based Liberty Mutual ([www.libertymutual.com](http://www.libertymutual.com)) is a diversified global insurer and the fifth largest property and casualty insurer in the U.S. The company offers a wide range of insurance products and services, including personal automobile, homeowners, workers compensation, commercial multiple peril, commercial automobile, general liability, global specialty, group disability, assumed re-insurance, fire, and surety. Liberty Mutual employs over 45,000 people in more than 900 offices throughout the world.

**What impact did the past 24 months of the financial crisis have on Liberty Mutual and how is the company positioned for growth?**

We did remarkably well, thanks to our unique franchise.

We have a good mix of commercial and personal line insurance domestically and we

have a significant overseas operation where we're operating in 25 countries. So we were well buffered.

Where we saw a downturn was in the commercial end in the U.S.

The contraction in business activity and employment levels reduced sales and lowered premiums. With such an environment in the commercial space, there is no pricing power.

Internationally, however, we did very well and our personal lines grew well above industry rates, produced good returns, and continue to do so.

While it was not a dramatically great period, our well-balanced business model held up nicely during a difficult period for the economy.

**Are there more opportunities in the international arena and the emerging markets for growth or do you still see strong opportunities in the U.S.?**

They're very different opportunities, but opportunities nonetheless.

We sell a middle class product. Where there is an emerging middle class and emerging economies, one of the first things people do when they get a little money is buy a car. We insure over 14 million autos worldwide now and are growing rapidly overseas.

So if you look at growth opportunity and market potential, it has to be in emerging markets overseas.

But we have proven the ability to grow even in mature markets.

So while the trajectory of the curve might be better internationally, we are very optimistic about North American growth.

**Liberty Mutual has had a presence in China for some time. How strong has the business been there and what is your outlook for that market?**

We are very optimistic about China and have been there for awhile. We chose to open in Chongqing, as opposed to more coastal areas. It has been a great place for us. We are licensed in Beijing and Zhejiang, and consider ourselves privileged to be the first foreign insurer permitted to sell in Beijing and the only one in Zhejiang. Our existing businesses there are growing at a rate of 85 percent, and we're taking the money and reinvesting it in opening new offices as we get permission.

**How strong is your Liberty Seguros business in Brazil?**

We're big in Brazil and growing at double-digit rates. We also helped develop and finance one of the biggest wind farms in Northeastern Brazil. So we're heavily committed to the country in many different ways.

There are always challenges in new markets, but we are past our growing pains and now our insurance business is growing. In terms of units alone, our auto insurance business there is growing on the order of 15 percent year over year.

**What has your experience been in expanding in India?**

India is tough. My first visit to Mumbai was in the '90s, and at that time, the Minister of Finance said they were not going to open up the insurance market to more than 26 percent foreign ownership "until April." It's still restricted, but we have overcome that hurdle by working with a good partner in the electronics, retail, and manufacturing business. We are excited about the relationship.

We will also have an operating company there before the end of the year.

**Is it challenging to differentiate in your industry and how do you define what makes Liberty Mutual unique?**

It's simple. Our business model differentiates us, but in the end, service is the most important ingredient in the success of our business. It is what happens when one of our employees picks up the phone and says, "Liberty Mutual, Can I help you?" We strive to make a difference at that individual transaction level. So we work hard to make sure that everybody in the company is motivated, and understands our business model and the value system that drives it. We devote significant time and resources to ensuring everyone understands that our success begins at the point of contact with our customer. Our front line people are the most important people in the company. Right now, what that person picking up the phone is doing is far more important than what I'm doing.

**As technology plays a major role in the way you operate, how do you utilize it without losing the human contact?**

Twelve years ago, we committed ourselves to be a multichannel company. If a customer needs a product from Liberty, they can find it via their preferred channel. We have full-time employees; online access; call centers; and independent agents. Technology plays some role in each of those interactions.

But when someone goes online for insurance, if it is just about price, they're probably not the kind of customer we want. Instead our advertising program, which is very indirect, tries to position Liberty in the consumer's mind as the responsible choice to do business with, because no one likes to think of themselves as irresponsible. It's an indirect way of trying to create an image of Liberty as a responsible choice even before any technological interaction has taken place.

We also spend a lot of time working with IBM and MIT to create a Web site that offers a different level of experience, but it's a work in progress.

**Does the next generation understand the opportunities in this industry, and have you been happy with the talent you're finding?**

Yes, we are a growth story. Fifteen years ago, we were a \$6 billion company; now we're a \$33 billion company.

We have done a good job of attracting a lot of bright young people and they, in turn, are a magnet for other talented people. While we're fortunate to be in an academic hub like Boston, we aggressively recruit internationally as well. We sponsor an annual competition that brings in 10 to 15 new MBAs a year from the better schools abroad and I interview every finalist. We recently hired people from Vietnam, Cambodia, and China, and we train them here to be ready for service in our overseas growth markets.

Talent development is a fundamental part of the business process and we have had no trouble attracting top talent.

**How critical is an investment in the communities in which you work to the culture of Liberty Mutual and is that a responsibility of business leaders?**

There are two levels of responsibility. At a very fundamental level, a company cannot succeed if all around it is crumbling. So it is in our self-interest corporately to help the community.

Second, I believe strongly that as individuals, we should leave a penny in the collection plate of life; if we do well, we have that obligation.

At Liberty, we have remarkably generous people. They can contribute to our Give with Liberty program, which allows them to contribute to the charity of their choice, and we match their contributions 50 cents on the dollar. Despite the recession, our employees have increased their giving by over 40 percent in the past two years.

Doing the right thing is part of our culture. We encourage it and are committed to it. We avoid terms like corporate social responsibility, because they're defined by external trends and may reflect one person's view but not another's. We try hard to be good corporate citizens and have good individual citizens as employees.

**Is it important that the areas you support align with your business strategy?**

We don't use our corporate philanthropy program to support our business – it's totally separate. That said, it does have to be consistent with our core mission, which, fundamentally, is helping people. So health and human services, education, and children are where we focus most of our efforts.

We don't use our name on big donations – our approach is to do the right thing and motivate our people to do the right thing, which we believe will end up making us a better company. In a long view, there is benefit to doing the right thing, but we don't do it for any short-term commercial advantage.

**Are you able to put metrics in place to track your philanthropic impact?**

We invest in nonprofit agencies with leadership that is responsible, with strong boards and staff, solid financials, and thoughtful strategic plans and budgets. We hold them accountable for delivering on their promises and we get out of their way.

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We also commit a lot of resources to our Give with Liberty campaign that is led every year by one of my direct reports, and it's probably the best single barometer we have to gauge employee morale.

We all have different commitments and family obligations, so we don't measure things like, how many days a person spends working on a local nonprofit.

But every year, we do recognize two or three people with a special Chairman's award for significant contributions to the community, based on their time commitments, not their financial contributions.

**In your role as Chairman, what are the key ingredients to success today?**

While I can control the capital allocation and the strategy, I realized many years ago that speeches evaporate very quickly and leave little impression. So the most important thing an executive can do is make sure he or she has the right people reporting to him or her.

The way to influence our 46,000 employees is to directly influence 10 or 15 of the right people and have them carry that influence through the organization.

The single most important role of the leadership of big organizations is to define what we believe in and build it into everything we do.

If you walk into our office in Beijing or Buenos Aires or Boston, you will hear pretty much the same thing about Liberty – what we are trying to accomplish as an organization both commercially and in terms of how we treat our people.

**Public perception of the insurance industry is not always favorable. Is it frustrating that the message about the fundamental impact this industry makes does not get out?**

I've come to accept that as the hand we've been dealt and our job as insurers is to deal with the reality, which is that we are a cost to most people and many of them don't appreciate what we're doing. We settle 99 percent of all claims without much debate, but you only hear about the 1 or 2 percent of cases when there is a disagreement between us and our insured. But that is the business we're in. As long as we know we're doing the right things, it will work out.

**With the type of growth you've had, how have you been successful in maintaining a consistent culture?**

Prior to 1997, we had a corporate creed about helping people live a more secure life, but it was more ethereal than actionable. So we set down three core values that reflected who we are: integrity; treating people with dignity and respect; and providing quality products at a competitive price. And then we made sure these values were reflected in everything we do.

One example is, we built a management education program at our home office that begins with our front-line supervisors in the U.S. They drive our day-to-day business and are in the best position to ensure our corporate culture reflects Liberty's values. We translated the training programs into all languages, so that same consistent message is driven through our education programs around the world. The training covers the technical aspects of our business, as well as how we carry those three core values through everything we do.

We also have an Operational Chairman's Award that identifies 15 to 20 people at various levels who have done something exceptional and give them an opportunity to share their achievements with the home office.

We celebrate long service. Every year, we bring in anyone who has been with us 25 years or more and give them a big party.

So we work hard at building esprit de corps and making sure we observe shared standards of behavior that reflect our values. ●