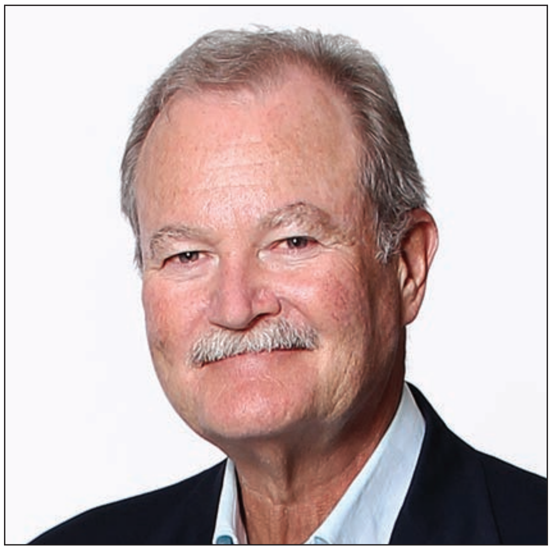
Analyzing Risk



Brian Duperreault

An Interview with Brian Duperreault, Chief Executive Officer, Hamilton Insurance Group

EDITORS' NOTE *Brian Duperreault was President and Chief Executive Officer of Marsh & McLennan Companies until December 2012. Previously, he served as non-Executive Chairman of ACE Limited and as its CEO from October 1994 through May 2004, and its President from October 1994 through November 1999. Prior to ACE, Duperreault served in various senior executive positions with American Insurance Group (AIG) and its affiliates from 1978 to 1994. He is a member of the boards of the International Insurance Society, the IESE Business School, the Insurance Information Institute, and the Bermuda Institute of Ocean Studies (BIOS), and is a Member of the Association of The Metropolitan Opera, New York. He serves as the Lead Director of Tyco's Board of Directors and as a member of the Board of Directors of Blue Marble Microinsurance. Duperreault has a Bachelor's degree in mathematics from Saint Joseph's University.*

COMPANY BRIEF *Hamilton Insurance Group (hamiltongroup.com) is a Bermuda-based holding company for insurance and reinsurance operations that underwrites property and casualty risks in Bermuda, the U.S., and at Lloyd's. The company leverages analytics and research to create underwriting and investment value for its clients and shareholders.*

What are the origins of Hamilton Insurance Group?

We were formed at the end of 2013, but the origins of the plan pre-date that. I had been speaking to the principals at a company called Two Sigma, which is an investment group based in New York City. They were looking at the insurance business because they liked the sharp ratio improvements in the portfolio it brings.

I liked the fact that they wanted to get into the business of insurance and take real risk. They're a very good investor but this wasn't an investment play. We're not an asset gathering company; we're a company that takes real risk. We have great liquidity. The question was, can we take the algorithmic approach that Two Sigma has perfected in investment management – where no hands touch the trade – and apply it to insurance?

In the insurance business, we analyze data to make a decision about risk. They were doing the exact same thing – their risk was whether to buy or sell a particular stock; ours is to take on someone else's risk.

That data piece, the analytics around it as well as the automation and the efficiency that Two Sigma are able to deploy in the investment world, were very attractive to me to deploy to the insurance world. The original idea was not just to build a conventional insurance company but to make it something different. The goal was to have unconventional returns on the investment side as well as the underwriting side.

I suggested we form a company in Bermuda that would be the reinsurance arm. However, we were able to acquire a reinsurance company that had been operational for 18 months, which accelerated our plans. This allowed us to start with a core group of really good people in Bermuda.

We also needed a balance of insurance and reinsurance, so we set up an operation in the U.S. and acquired a managing agency with a syndicate at Lloyd's.

What are the advantages you've found in starting something new and building a new brand?

My single biggest asset is that I have nothing. This means no legacy, and usually that legacy applies to the systems that one has acquired that have been pieced together and that have aged.

But legacy is more deep-seated than that. There are legacy people with a mindset that affects the way one does things. Processes and culture evolve over a long time; people devote decades to the company and its imperfections. So an acquiring company determines how they're going to change all that legacy. But it's not easy. A lot of things come into play.

The best chance we have is to start from a position where we don't have to deal with all the components of a legacy. So we decided to start from scratch.

This is the advantage I see in this company. It's the fun of it too.

Where will the growth for Hamilton come from and how far out can you look?

In the short term, our growth will come in the U.S. It's why we set up our operations in Princeton, New Jersey where we're applying a cutting-edge, data-driven strategy. There are a lot of companies out there trying to make that difference, but it's the one and only thing we're doing.

The U.S. is still the largest insurance market in the world and it has the best data, but it also has lots of inefficiencies. Our plan is to change that dynamic and, if we can get it to a position where it makes sense, then take it globally. This will be an insurance play, not a reinsurance play.

What are your challenges moving forward and how will you capitalize on the differentiation in the technology and the analytics?

We know our industry is ripe for disruption. One third of each premium dollar goes to business acquisition costs. Selecting, analyzing, and pricing risk is cumbersome and expensive in the U.S. We have to solve this issue or someone will solve it for us.

We have a great opportunity to leverage technology to analyze risk better and to improve our decision-making.

The ability to truly analyze risk creates a better price – it creates a closer-to-the-truth scenario. In our business, the truth is harder to define than other businesses as we don't fully know the cost of goods sold and there is a certain randomness to activity. This means our pricing could be absolutely right in a year and still lose money. Data analytics can alter that dynamic.

We also need to attract the next generation to the industry – the millennials. Right now, not enough of them are interested in a career in insurance. We need to change that and do a better job of educating young people about the value of our industry, and the positive difference it makes. ●

