

SWISS RE AMERICAS DIVISION

Professor Daniel Denison prepared this case as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

As Andreas Beerli paged through the thick briefing books that had been prepared for him by his management team, he began to think about the video conference review meeting scheduled for the next morning with his management board in Zurich. Results for the Americas Division were not very good and home office confidence in the Division was already low. Beerli had taken the job as Division CEO in the Armonk, NY headquarters only four months earlier with the goal of getting the business back on track.

But as he looked through the books more carefully, he saw a more basic problem: His briefing materials were not the product of a team. Individual sections had been prepared by specific functions or business unit managers. The overall strategy and focus of the management team was unclear and the priorities for action were often in conflict.

The management board expected an overview of the strategy and the business situation and needed to know what steps were going to be taken to transform the Americas Division. How should Beerli present the business situation? What should he ask for from the board? How should he begin the transformation process? Was it possible for him to revitalize the business and restore the prestige of the Swiss Re brand in the North American market?

Background

Swiss Re is the world's second-largest reinsurance company, headquartered in Zurich, Switzerland. Swiss Re was formed in 1863 to reinsure the risks from fires and floods that were being taken by the primary insurers in Switzerland's growing insurance industry. Swiss Re entered the American market in the late 19th century, and paid out most of its capital to cover claims associated with the San Francisco earthquake in 1906.

Today, Swiss Re competes globally in three business areas, Property & Casualty, Life & Health, and Financial Services, reinsuring risks that are too large for primary insurers and applying its expertise in managing capital and risk. The combination of analytic skills and a strong balance sheet has allowed the company to grow steadily and profitably over the past decade (*refer to **Exhibit 1***). But the claims associated with September 11, 2001 led Swiss Re to report a loss in 2001 and to pay its 2002 dividend out of capital for the first time since 1906.

Throughout most of the 1990s, Swiss Re competed in a "soft" market with low prices and readily available capital. Insurers were often pressured to make deals and to keep volume up, even if profitability was lagging. A strong stock market meant that the re-investment of premium revenues could generate a strong overall return even if the initial investment had small margins. By 2001, however, the business cycle had shifted to a "hard" market, in which capital was more limited and prices were rising, but the stock market was weak.

Today, the Property & Casualty business makes up just over half of Swiss Re's total business, and the Americas Division contributes about 40% of global revenues in the Property & Casualty Business Group (P&CBG). The New York-based Americas Division of P&C currently has approximately 900 employees. (*Refer to **Exhibit 2** for the management structure of the Division.*)

Assessing the Situation

Beerli took his position as CEO of the Americas Division after three years as head of Swiss Re's office in Rome. He had been sent to Rome to integrate the latest acquisition and improve profitability. But his appointment as CEO of the Americas Division was a big step. The Division was performing poorly in a highly competitive market. This tested the patience of the Zurich head office as they tried to understand the complex US market and decide how to best compete. Beerli replaced Heidi Hutter, a well-known figure in the insurance industry, who had served as the Division CEO since 1996, and had been the first woman to serve on Swiss Re's Executive Board.

When Beerli arrived at the beginning of 2000 he faced a challenge. The business was losing money and the management team's lack of big picture vision and decentralized style made it difficult for the organization to react. The key leaders were bright, charismatic, and well liked, but they had not built a reputation for establishing a clear direction and getting things done.

The business cycle had also changed the dynamics of the marketplace. The top-line growth strategy may have been appropriate during the rapid economic expansion of the 1990s, but by 2000 it became clear in the Americas Division that

this strategy had led to a large book of business with poor profit margins. This result has been triggered by the strategic decision to grow while the industry was facing a “soft market,” in which reinsurance prices were going down and margins shrinking to a level that no longer compensated for the risks taken and the operational structure required.

Swiss Re had prospered during a period of industry consolidation but often found itself stuck between the small primary insurers who wanted simple solutions, but were not always willing to pay for Swiss Re’s level of expertise, and the large global primary insurers who had strong balance sheets and could meet most of their own reinsurance needs.

Building the Leadership Team

During Beerli’s first years as CEO, many changes were made in the management team. Mark Lescault returned to the US from Zurich to head the Underwriting function. Patrick Mailloux moved from his job as CEO of Canada to head US Direct, which handled all of the non-brokered P&C business in the US. Russ John, CEO of Underwriters Re, joined the management team in May 2000 when Swiss Re acquired this brokered reinsurance business. Fernando Gentil and later Luc Albert took over the Latin American business unit, moved its headquarters to New York, and consolidated management functions from Zurich and Mexico City to Division Headquarters in New York. Mitch Blaser was appointed CFO to develop a financial system to match the new strategy. Several of the members of the original management team left voluntarily after Beerli’s arrival, and others were replaced during the first 12 to 18 months.

The new members of the management team were relatively young, very experienced and had a reputation for success. With the exception of John and Blaser, all came from within Swiss Re. Few had a prior working relationship with Beerli. In most cases, a few days of working closely together during the first few months of Beerli’s tenure as CEO formed the basis for his decision. As one observer commented, “In a short period of time, Andreas started making decisions about who he would trust. He is a good judge of character and can make decisions very quickly.”

Since this was the first executive assignment that Beerli had taken in an English-speaking country, it was difficult--particularly at the beginning--to communicate the changes, the urgency and the new direction to the American organization. This required Beerli to rely heavily on the members of his management team to establish credibility and momentum. This moved slowly at first, but over time a strong sense of trust and accountability was created as people saw that the management team was “walking the talk” and doing what they said they would. Beerli established a structure for management meetings that included monthly meetings of the management board, an annual strategy week for the extended management board, and an annual offsite for all senior management. In addition, monthly “table talks” brought together senior managers with all interested employees, and a regular executive workshop was developed for selected employees.

Centralization & De-Centralization

One major change in the management team was to move all their offices closer together. With this simple change, they naturally talked with each other throughout the day, creating an informal team atmosphere. Beerli bought the best espresso machine in the building and placed it next to his office to encourage everyone to interact more frequently. Through this regular cross-functional interaction, a common understanding of the problems and opportunities began to emerge.

The highly decentralized structure that existed in the Division prior to Beerli's arrival also made it difficult to uncover problems. Project Maranello, which began in 1999, had reorganized the Americas Division by merging the Latin American and North American Divisions to form the Americas Division, and integrating the recent acquisition, Underwriters Re. But Project Maranello had also decentralized the Regional & Specialty business, creating separate underwriting and marketing units in five separate offices: New York, Dallas, Atlanta, Phoenix and San Francisco.

Problems in the Phoenix office were emblematic of the problems that faced the entire Division. The Phoenix office had written lots of new business and grown the top line dramatically. But its financial system could not translate that growth into bottom-line performance numbers for the office. Oversight in the Division HQ in New York was limited, allowing the losses to grow quite large before being discovered. In the end, five claims people were fired by the Head Office in New York without the knowledge of the Phoenix office manager, the office closed and the book of business moved to the San Francisco office.

Reorganizing US Direct

In early 2001 Mailloux was appointed CEO of US Direct, replacing Swiss expatriate Willi Herzberger. Swiss Re's US Direct business unit sells reinsurance products directly to primary insurers. Prior to the 2000 acquisition of Underwriters Re, which sold reinsurance and related financial services through a network of brokers, nearly all of the Division's business was direct.

Mailloux was faced with a number of problems, ranging from the top-line focus, the lack of bottom-line performance, limited client focus, unclear market segmentation, and a lack of alignment in the organization's strategy, systems and behavior. People had accepted the fact that things weren't working very well and there were already several initiatives underway to improve the organization's performance.

In order to get the organization back on its feet, the decentralization of the regional and specialty business initiated by Project Maranello was reversed. The US Direct business was restructured to centralize control in the hands of the management team in Armonk. In one four-day meeting the new management team designed a new organization that was aligned with the new bottom-line strategy. Mattias Weber, who had moved from New York to California to head underwriting in the San Francisco office only 13 months earlier, found himself on his way back to New York to direct the new centralized underwriting function for US Direct. The new structure eliminated the five separate underwriting units in

the regions, and centralized them back in Armonk. This also greatly reduced the size of the management board, since all of the regional underwriting heads had seats on the board. (*Refer to **Exhibit 3** for the structure of US Direct before and after the reorganization.*)

These changes were also supported by the changes at the Division level. Six months after Beerli arrived, Lescault had returned from Zurich and established a central underwriting function for the Americas Division in New York. A similar effort was also mounted in Marketing to create common guidelines and standards for client relationship management. When Blaser joined the Division management team as CFO, he redesigned the financial system and processes to fit the strategy. For the first time, the Division created a system that could give P&L responsibility directly to account executives.

Perhaps the most far-reaching change in US Direct was the change in the “operating model.” Making a decision about a reinsurance contract typically required the combination of three separate perspectives: the client representative, the actuary and the underwriter. The client representative typically interacts most closely with the client and understands their needs the best, and often initiates a proposal for a deal. The actuary assesses the risks and sets a price, and the underwriter creates the contract. During the years when top-line growth was the strategy, the client representative was king (or queen). Younger actuaries and underwriters learned to “never say no” to a client representative, who was always interested in closing the deal.

The shift to a bottom-line strategy required a change in this “operating model.” Instead of vesting the client representative with the greatest power, the new operating model created a balance of power in which any of the three could “say no.” This equal power helped ensure that new business contributed to bottom-line performance as well as top-line growth. This new operating model was also the one aspect of the US Direct transformation that spread rapidly throughout the Swiss Re global organization.

The implementation of these changes was driven through the annual renewal cycle. Each fall, reinsurance contracts were renewed for the following year. During this renewal period, Friday afternoon meetings were held each week in Armonk to track the progress and to ensure that the new methods and priorities were in place and that the new organization was operating in line with the new strategy.

Mailloux described the factors that he saw as being critical to the transformation of the Division:

We had the freedom to pick the team. We picked very good people, recognized their talents, moved them around, and let the cream rise to the top. We had to tell our message of bottom-line performance to people who had stopped caring. We had to convince them that we meant it and that you can’t survive here if you don’t care.

I love coming to work here because I get to work with the best. Beerli tells us where we need to go but not how to get there. If you are committed and you perform, then you have autonomy.

We are much more informal now, but much more direct. We have laughter, intellect, frustration. We think that simplicity is sexy. We created a totally different management board within two to three months. My conference table has name plaques for each of the members of the management team. It is a recognition of who is on the team and a reminder that we each need to earn the right to be at the next meeting. I don't expect them to be sitting there converting O² to CO².

Changes in the Culture, Changes in the Performance

Transforming the Americas Division also required significant changes to the organization's culture. For example, prior to 1999, the US Organization had always been led by an American. At the time of Beerli's arrival, most people in the Division expected that he would only stay a short period of time to facilitate the transition to a new American CEO. In addition to Beerli's longer tenure, Dutchman Luc Albert and French Canadian Patrick Mailloux also took key roles in the new organization.

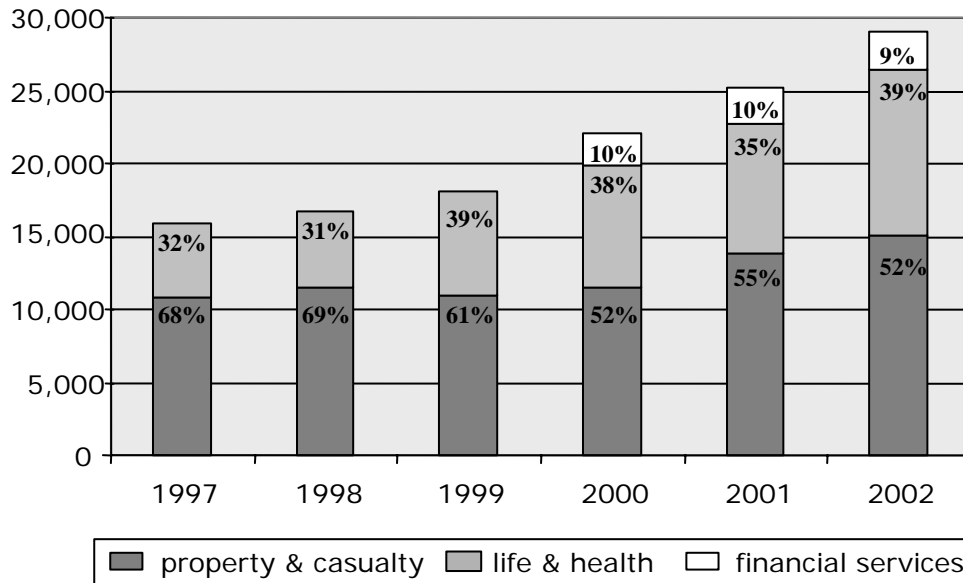
The leadership style also changed significantly, moving to an emphasis on productivity, "back-to-basics" and a "no surprises" form of consistency. This created much greater ownership and alignment and used a combination of top-down and bottom-up planning processes. This contrasted with a creative, independent, and top-down style prior to 2000 in which there was little discussion of problems until they started to get out of control. The acquisition of Underwriters Re also committed Swiss Re to a combination of brokered and direct business that added to the complexity of the Division.

Swiss Re conducted studies of the organization's culture in 2000 and 2002. These results capture the magnitude of the changes in the Division and show that the organization made substantial progress in terms of its sense of strategic mission, level of adaptability, the degree of involvement of its people, and its internal consistency. *Exhibit 4* shows the results for US Direct, where the greatest contrasts occurred.

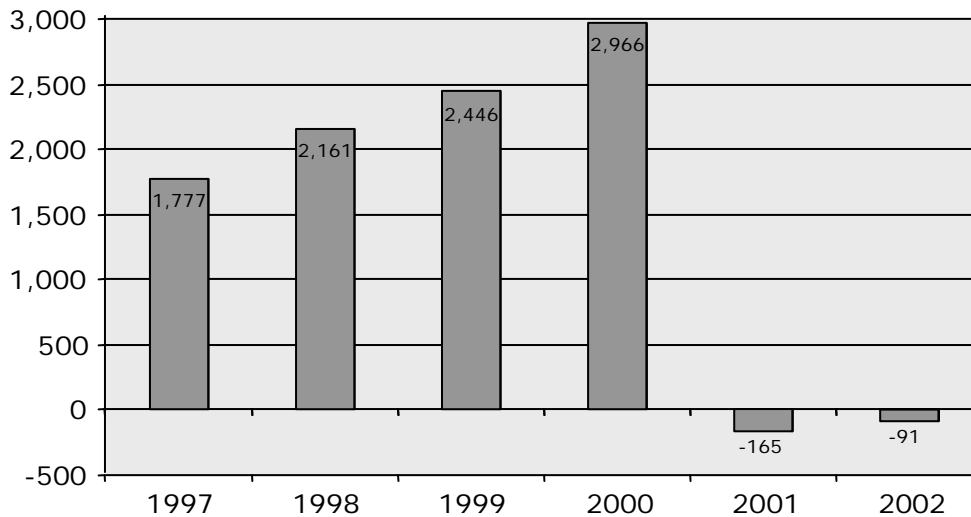
Exhibit 5 presents the operating performance of the Americas Division from 1997 to 2002. The results are presented in terms of the percentage change in performance year to year in revenue (premiums), profits, and the expense ratio, a measure of overhead as a percentage of revenue.

Exhibit 1
Swiss Re Corporate Financial Performance

Premiums Earned
(SFr Millions)



Net Income & Loss
(SFr Millions)



Source: Company information

**Exhibit 2
Swiss Re Americas Division
2004 Management Board**

Division Management

Divisional Chief Executive

Andreas Beerli*
(Patrick Mailloux)

Division Functions

Division Executive Office & Communications

Esdras Martinez

Consultant: Brazilian Market

Fernando Gentil

Marketing and Underwriting Units

US Direct

Patrick Mailloux*

Canada

Brian Gray*

US Brokers

Russ John*
(Todd Hess)

Latin America

Luc Albert*
(Max Scagnetti)

Special Lines

Deirdre Littlefield*

Support Units

Divisional Underwriting Office

Mark Lescault*

Operations

Bob Solitro*

Finance

Mitchell Blaser*

Human Resources

John Barbieri*

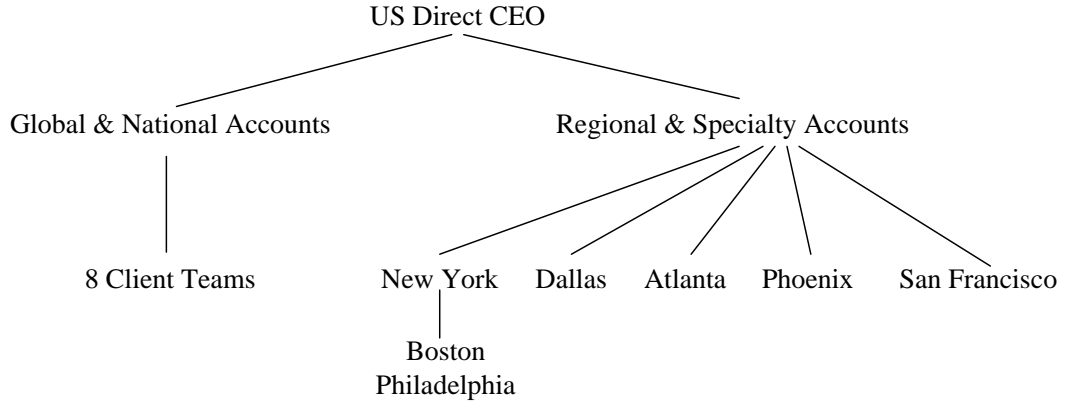
*Member of the Management Board

() Deputy

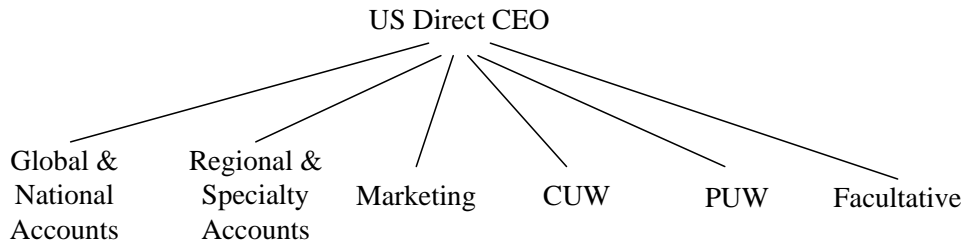
Source: Company information

**Exhibit 3
Organization Chart
US Direct**

Before 2001



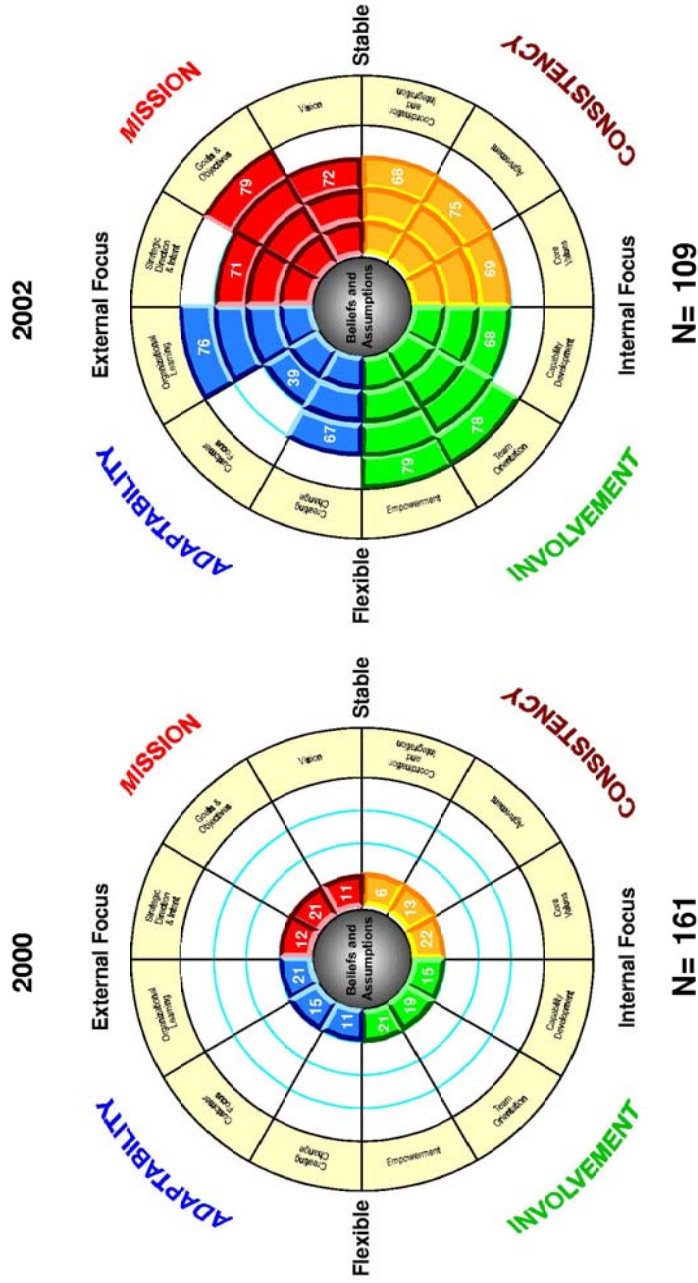
After 2001



Source: Company information

**Exhibit 4
US Direct
Culture Survey Results**

U.S. Division of a Global Reinsurance Company



SB 1999

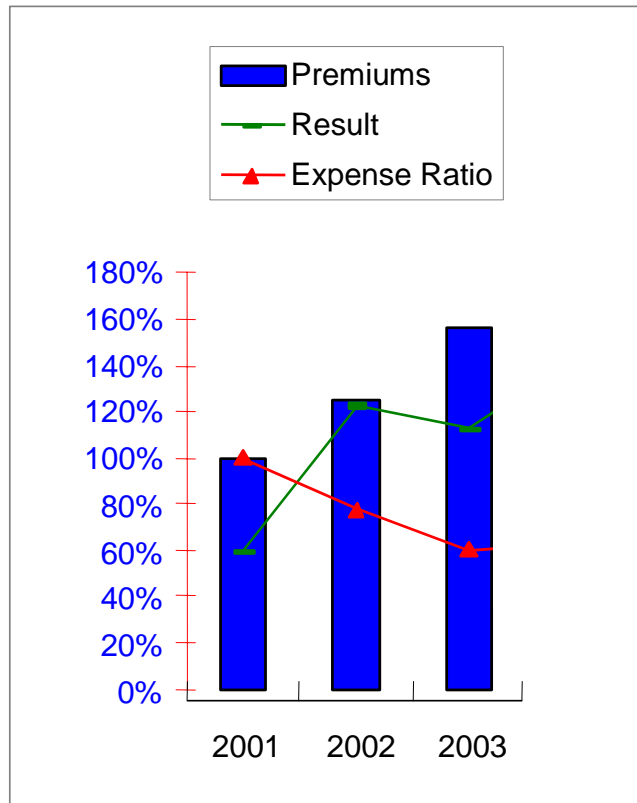
SB 1999

02-Jul-2002



Each of the 12 percentile scores reported in these diagrams compares the survey scores for the management team at Swiss Re US Direct on each index to a benchmark database of 557 organizations. For example, the percentile scores for the Goals & Objective Index means that only 21 percent of the benchmark database scored *lower* than US Direct in 2000. But in 2002 79% of the benchmark database scored lower. More information on the survey items and methodology is available at www.denisonculture.com.

Exhibit 5
Operating Performance (2001-2003)



Source: Company information