

DOUBLING DOWN ON AGENTS

Q&A with The Hanover Insurance Group Leadership—Jack Roche, President and CEO; Dick Lavey, EVP and President, Hanover Agency Markets; and Bryan Salvatore, EVP and President, Specialty

Successful strategic acquisitions can be short- or long-term propositions. The key to maximizing the value is knowing when to buy and when to sell. *Leader's Edge* sat down with The Hanover's leadership to understand their strategic decision to sell a profitable Lloyd's business and double down on what they do best.

When The Hanover bought Lloyd's international specialty business Chaucer in 2011, a lot of people questioned the company becoming a Lloyd's underwriter. But, it turned out to be a very successful acquisition. Tell us about your recent decision to sell it.

Roche: In 2011, we were actively considering strategic alternatives to grow our business, including the possibility of making an acquisition that would complement our U.S. franchise. With Chaucer, we saw an opportunity to acquire one of the premier Lloyd's syndicates, improve our geographic and earnings diversification, and strengthen our balance sheet. While there were more than a few skeptics early on, we believed Chaucer would provide additional financial flexibility so we could grow our domestic business, at the right pace, through acquisitions, organic buildouts and geographic expansion.

Fast forward to 2018. While Chaucer had consistently exceeded our expectations and been a strong contributor to our success, it had become clear there were not as many meaningful business synergies as we had expected. Over time, Chaucer became, like many syndicates, more of a reinsurer than a specialty insurer. We came to the conclusion that Chaucer is a portfolio underwriter in classes and lines of business that are best handled in a Lloyd's environment, and we're an account-driven, retail agent distribution company here in the U.S.

Ultimately, the decision to sell Chaucer and focus on the expansion of our proven, agent-centric strategy was a relatively easy and rewarding one.

How did the sale of Chaucer either accelerate or change your overall strategy?

Roche: It has enabled us to double down on our agency-centered strategy, further investing in specialized products and services that are relevant to our partners—helping them address even more of their customers' needs and achieve their agencies' most critical goals. Instantaneously, we were able to show our investors we could generate higher returns without Chaucer. Moving forward, we can offer a compelling investment proposition as a pure play, U.S. domestic business, focused on our unique distribution approach and specialized capabilities.

Salvatore: This transaction really helps us further invest in our domestic specialty capabilities. And with our agent model, we see value in the very close proximity between our core lines and our specialty lines, working with our agents to provide a broader set of solutions.

You've said you strive to be the premier carrier for independent agents. What do you mean by that?

Roche: While it sounds simple, I think the essence of our strategy is increasingly unique and distinctive. We have built our company exclusively around the needs of our agent partners. We limit our distribution to a select group of 2,500 of the best agents in our business, and develop mutually beneficial partnerships. Over time, we have developed, acquired and built a set of relatively distinctive and more-specialized capabilities that allow retail agents to benefit from real franchise value and differentiate themselves in the marketplace.



We are very open-minded about how the business is going to change and at what pace. But, we're also very discriminating about the adaptation of change and how things will get commercialized in a relatively short period of time.

Jack Roche, President and CEO

Lavey: Any great strategy is made up of the components underneath it that are aligned. We have several pieces to our distribution strategy that make it unique, but it's the combination of all these components that makes us different and, frankly, hard to beat from our partners' perspective.

You have this select distribution that provides franchise value, first-rate product and service capabilities, and local franchise connectivity with authority. Then, you layer on top an incredible transparency that we have with our agents. The depth of the relationships we have with our partners, along with our experience and insight, gives us unique knowledge of our agents' operations, and allows us to build a really specific and thoughtful roadmap for our future together.

Today's independent agents are competing in a highly competitive market. What can insurance companies do to help them?

Salvatore: Quite a bit, actually. Our ability to help our partners is an important competitive advantage. We build capabilities with the understanding of what is important to our agents, based on our data and conversations we have with them about their needs. Our data shows that, frankly, the world has become more fragmented in the insurance community, which means our agents and many others often have to seek

out multiple carriers to place different lines of business. To the best of our ability, we're helping our agents solve for that fragmentation by taking a highly coordinated approach.

At the same time, the independent agent channel is having an awakening, if you will, and an understanding of the richness of the data they have. There's an increased effort to pierce into that data and turn it into something actionable. We're committed to helping our partners use data and real market insight to build their businesses.

Roche: Agents across the country are becoming more operational and more thoughtful about how they're going to serve their clients better, and in more cost-effective ways. And that's where all the hard work we've done is helpful. Our agents can capitalize on their data to become more efficient over the long term. Yes, we're a data aggregator because we've won the trust of our agents and they'll share very specific information with us. But, more importantly, we have critical insights that help our partners be more efficient, more cost-effective, more thoughtful in some of their go-forward strategies.

Let's jump to your innovation pilots. Dick, you just spent a year exploring innovation efforts for the company. What did you learn?

Lavey: There's so much happening in the industry and an important realization is that digital consumer acquisition is very hard. Initially, many people in and around the industry thought digitization could be highly disruptive to carriers, with talk of clients' desires to purchase their insurance online. Now, the discussion is much more focused on digitization as an enabling capability for agents and carriers. It's more about how these technologies are evolving and how agents and companies can work together to realize the benefits.

Our perspective from the beginning was to look for business problems we have internally, or problems our agents face, and seek out technology to help us solve those problems, as opposed to running toward the technology and then finding a business problem to apply it to.

Our model combines customer demand and agent insights, so you have digital engagement on the front end, which is where consumers have expectations. We have agents in the middle providing the valuable counsel their clients need, and then digital engagement on the back end for client service. So it's this kind of digital-assist-digital model. That's the framework we use.

In 2018, The Hanover became an early adopter of CoverWallet's B2B technology, which provides real-time quoting, underwriting, binding, billing and servicing capabilities. In April 2019, The Hanover launched Insurago, a customer-facing digital platform branded on behalf of its agents and powered by CoverWallet. Consumers can get a quote and download an insurance policy in about 15 minutes, as well as receive counsel from their agents at any step in the process. Insurago has launched in about 100 classes of business, mostly for freelancers, independent contractors and self-employed professionals who need professional liability insurance.

—Editor

And there are more pilots in the queue?

Lavey: Yes, and across our value chain. The Insurago pilot is at the front end of the consumer acquisition. But we have pilots in the claims space to improve digital engagement with our clients using videos, photos and AI to help us with fraud and even claims adjudication. And we have pilots in the middle of the value chain, the underwriting space, to help facilitate a more efficient underwriting process. That space is one I believe will have a fairly big impact on our industry.

How much emphasis are you placing on the end customer experience?

Roche: Everything we do has to start with what the customer is trying to accomplish. The difference for us is that we take that customer orientation and then we figure out how our agents are going to satisfy those jobs-to-be-done. At the end of the day, when we think about innovation, it starts with the consumer and then it works its way to the agent and to The Hanover.

Lavey: Some of the customer-oriented digital services are quickly becoming table stakes and we've invested rapidly to bring forward digital policies, digital bills and customer portals for customers to do their own self-servicing, such as with digital claims. We are aggressively working to continue to meet customer demands.

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Dick Lavey, EVP and President, Hanover Agency Markets



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Bryan Salvatore, EVP and President, Specialty



What's the balance between evolving your operation quickly enough versus potentially embracing technology in the wrong way?

Roche: The industry changes headed our way will require carriers and agencies to come together and transform the way we serve customers. We are very open-minded about how the business is going to change and at what pace. But, we're also very discriminating about the adaptation of change and how things will get commercialized in a relatively short period of time.

It's a balancing act between having financial rigor and business discipline, and complementing those with a culture of innovation and inclusiveness that really brings forward the right menu of opportunities.

Salvatore: We regularly test our ideas with our agents. We sit down with our key relationships, test the thinking with them, get their feedback. That further informs the decision making.

Lavey: There's not a lot of bureaucracy around the way we approach it. We move quickly, we talk, we're collaborative. I would say our company built for this rapidly changing environment.

Roche: We know we've struck the right balance when our partners are happy and successful, meeting their clients' needs, and achieving their objectives. It's a win for our partners and a win for us.

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