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Who's Up Next?

Small and midsize P/C insurers should be careful and cautious when replacing a key executive.

by Paul Stulgaitis

In the offices of a local or regional property/casualty company, the president, CEO, chief underwriting officer or other key executive has just announced his or her intention to retire. Or, just as possible, this executive is reaching the company's mandatory retirement age.

Identifying and attracting the desired candidate will have significant repercussions for years into the future. The direct consequences of hiring the wrong person can include an impact on profit and growth, company morale, operational flow and staff stability.

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The normal process would be to examine potential internal candidates and external company contacts for possible replacements. But will that approach provide satisfactory results in 2013?

The board of directors and the executive committee recognize that conditions have changed since the last time such a search was undertaken and consider it prudent to clearly define the task that faces them. So a search committee is formed, with members from the board and the executive staff, to evaluate the current landscape and examine potential solutions.

Key Points

- **The Situation:** Finding key executives to fill vacancies has become challenging for local and regional P/C insurers.
- **The Background:** The baby boom and changing management structures have created a thinner pool of potential in-house successors.
- **The Way Out:** Firms must carefully plan and carry out a thorough executive search after deciding what is expected of the candidates they identify.

Depending upon the amount of time afforded by the projected retirement date, the intensity can be categorized as either theoretical or actionable with specific dates. The committee's analysis results in findings that are applicable to both

Actual and Projected Population of the United States by Age, 2010-2030

(population in millions)

Age	2010	2020	Change From 2010	% Change From 2010	2030	Change From 2010	% Change From 2010
45-64	81.02	83.65	2.64	103.2%	82.28	1.26	101.5%
65-84	34.12	47.36	13.24	138.8%	61.85	27.73	181.2%

Source: U.S. Census Bureau

their company and to the insurance industry as a whole.

The retirement age threshold being reached by the baby boomers will have a significant impact.

Current leaders are mostly members of the front edge of the post-World War II baby boom, resulting in a reduced number of potential candidates for any position relative to a decade ago.

U.S. Census data shows that in the next decade 13.2 million people will pass the 65-year-old threshold, while only 2.6 million will move into the 45-to-65-year-old category—the prime age group for executive replacements. The result is a net loss of more than 10.6 million people. That trend continues into the following decade.

Of specific impact in the property/casualty industry:

• Workers 45 and over currently account for 48% of the U.S. insurance industry's workforce, according to the Bureau of Labor Statistics.

• The number of employees age 55 and over is 30% higher than any other industry, according to data compiled by The Institutes.

• Nearly 500,000 insurance professionals will retire between 2008 and 2018, according to McKinsey and Co.

Top Jobs: More Complex

Top management jobs are more complex than they used to be. A comparison to the environment that existed when the current top management assumed its positions a decade or more ago, underscores the increased complexity of finding a candidate who can lead the company forward. Issues that contribute to this include:

• Increased competition on all levels, and from multiple channels.

• Increased oversight by rating agencies of geographic concentration of risk, variety of lines of business and enterprise risk management programs.

• Greater reliance on technology and computer modeling with attendant costs and complexity.

• The shifting sands of regulation, including Sarbanes-Oxley, federal versus state requirements, rates and financial requirements.

• Increasingly expensive catastrophes and their impact on claims, reinsurance and capital requirements.

• More accurate and timely measurement and metrics requiring more advanced techniques and more precise management.

Making Adjustments

The next generation of leaders will need the skills to cope with these issues, and more. Additionally, there will be cultural, operational and other adjustments that must be made by both the individual and the company.

Compounding the impact of the baby boom, two specific actions taken by the property/casualty industry have negatively impacted the quality of desirable candidates.

• In the late 1980s, most major companies dropped or severely reduced their training programs for entry-level professionals.

• In the early 1990s, most of the same companies essentially eliminated a level of middle management, which for years had functioned as a source of mentors for younger employees.

As a result, the professional development of the individuals hired from the late 1980s on was altered and significantly more siloed than for the individuals who preceded them.

Today's 20- or 25-year veteran of the industry often has little experience outside of his or her area of expertise, be it commercial casualty, personal lines, claims or others. As a result, when asked to fill a senior management position, their experience in handling difficult human resources issues, adjudicating disputes between departments, preparing a complex budget and other such staples of senior executive management is deficient, relative to their predecessors'.

Small- to medium-size companies usually have not had the extensive internal staff training and development programs of the larger companies. These companies have often relied on recruitment from larger companies to supplement executive leadership as the need arose. Based on what has already been learned, that talent pool is less populated and less experienced than in the past.

So, what should be done to obtain an optimal solution?

Doing It Right

Unless the company has a clear successor ready to take over, it must begin searching for a successor. The correctly executed search will provide:

• A high degree of planning and management to avoid mistakes.

• A dedicated effort to provide quicker and more precise results.

• High-level and sophisticated contacts.

• Concentration on currently employed, successful leaders.

• Focused activity that reinforces the position as a very desirable job opportunity.

• High assurance of candidate talent, fit, ethics and other important considerations.

1) Determine specific leadership needs. It is not enough to search for a great executive. The firm also needs to consider short- and long-range strategic objectives; talent elsewhere in the organization; and the unique cultural demands on a leader of the organization.

This step will define what "great" means to the firm. Without a full, well-developed analysis and determination of the skills that the next leader must bring to the firm, any recruitment effort will be little more than fumbling in the dark and hoping that "I'll know it when I see it."

2) Make a thorough examination. The talent pool in terms of the number of candidates and their experience level, compounded by increased requirements, will make finding a candidate who fits the desired profile much more difficult. As a result, prior methods, job boards and social media tools simply do not provide the precision needed.

A thorough search of successful organizations will be needed to identify the right candidates. Many executives are looking for a top job today. The next great leader, however, is probably not. He or she is busy running a division or a department—growing the business, developing talent and achieving outstanding results.

Once these highly talented individuals are identified, they need to be exhaustively measured against technical, leadership and cultural benchmarks to determine their true abilities, not simply their current resume position.

3) Put it all together. The right candidate needs three skill sets: "Complexities" require technical skill, such as in underwriting, finance, operations or others. "Culture" requires a candidate with the sensitivity to, and the right match with, the company. "Leadership" requires vision, communication skills and staff management skills.

Every company will require a different mix of the three skill sets. It is difficult, if not impossible, to find one person who scores an A-plus in all three areas. Therefore, every situation requires a custom approach.

This is the real world. Nothing is perfect; therefore it is necessary to understand the need for adjustments. This does not mean accepting or settling for a less-than-adequate end result. It does mean finding the blend of all factors producing the optimal solution—the best combination of leadership, insurance experience, and cultural fit for this organization.

Executives involved in searching for the next best executive, who "fits" the company and will make sure that it achieves its desired strategic goals, should take heart: He or she is out there and desires this opportunity. BR