Stepping Out

How Assurant's holistic view of business exposure keeps risks at bay.

by Robert B. Pollock

Who says actuaries are only trained to understand the world statistically?

This long-standing misconception not only shortchanges the value of the training; it also minimizes the diversified career paths that emerge from the structured and fact-based actuarial discipline, which serve as building blocks for analyzing and executing complex business scenarios.

Actuarial training is focused on modeling and the interpretation of numbers, but the reality is that actuaries must anticipate what might happen, and know how to identify risks that can lead to opportunities. The actuarial discipline behind how to think about risk, and the insight on how problems get solved, allows one to quickly focus on answers and deliverables that not only meet bottom-line expectations, but also offer multifaceted, problem-solving skills relevant to customer needs. With a modest amount of adaptation, from business to business, a median can be reached in a manner that protects the company and helps clients meet their goals—two key objectives for senior executives.

Contributor Robert B. Pollock is president and chief executive officer of Assurant Inc. He may be reached at Robert.Pollock@assurant.com.

Viewing the world of risk management from the office of the chief executive officer requires a holistic view of business, client and industry exposures. Beyond technical expertise is the need to deal with issues that are important to customers on a daily basis—each unique and deserving of a customized approach. The difficulty comes in the fact that there is never a singular, precise answer for those scenarios.

> ▶ **The Story:** Assurant has built its business by focusing on specialty markets.
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> ▶ **Behind the Story:** The strict risk guidelines promulgated by the Society of Actuaries form the bedrock of the insurer's principles.
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> ▶ **The Next Chapter:** The company continues to stress personal service and market expertise while seeking growth opportunities.

In the insurance industry, things are never black and white, but rather assorted shades of gray. Five customers will offer five different answers. The reality is that a suite of various answers could work. The executive that can craft the answer to best meet the needs of the customer—financially, culturally and pragmatically—will be the victor.

Achieving this high-touch level of exposure comes from venturing outside of the actuarial department to explore other parts of the business. Diverse business experiences, such as obtaining operational understanding of how to run a product line or learning to model cash flows that help the company improve investment returns, are often where the rubber meets the road from the totality of the company's offering.

While it can be challenging for individuals with a technical background, envisioning that bigger picture is essential. Having a broader perspective and the leadership skills to drive corporate direction enables one to translate and multiply that discipline through different businesses—each with the common goals of market strength, innovation and profitability.

Merging Risk into Strategy

That the actuarial profession's approach to shaping and building corporate strategy is valued in this business is not surprising. Fundamentally, insurance companies are in the business of taking risks. The question often becomes: How does one take risks in ways that don't bet the entire company? In other words, how does a company articulate its appetite for risk in a way that investors can understand and ultimately find appealing?

For Assurant, that has meant building

and growing a company focused on specialty businesses, which is not the norm. This strategy was driven with an understanding that the focus would be to serve markets that the company intimately understood—where Assurant already had a significant share of the business.

This was an operating principle inherited from the former parent company, Fortis. Developing that direction, and growing it into present-day Assurant, was very much a process led by a deep understanding of enterprise risk management and how it could be codified for stakeholders on every level.

The Society of Actuaries cites five guiding principles for building and implementing a solid ERM strategy. (See "Rules for Risk" below.) We see these sound guideposts reflected in each of our businesses as they relate to risk management. In fact, our corporate strategy embraces the SOA's ERM guiding principles, and they ring true for other companies and industries as well.

Here are some things to think about—especially in today's environment—when developing or updating a corporate strategy:

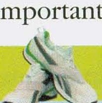
Establish a focused, specialized approach to specific markets and hold a position of leadership. A specialized market is more likely to be a smaller market with fewer competitors. Entering into businesses where one has a deep understanding of clients and customers creates a cycle of reliance and partnership, which can lead to long-term relationships that continue delivering unmatched value over time. Clients are eager to engage in dialogue about what is important to them when an open and honest mechanism for feedback is a cornerstone in that relationship. They can then experience the personal service and commitment to problem solving that is offered through very specialized expertise. Competitors with broader and more general offerings are simply not structured to operate in that same way and the advantage naturally goes to the specialist.

Build a corporation around core competencies and apply those skills in a differential and disciplined way. Applying core capabilities in this way will help identify segments in which to truly specialize and differentiate product offerings; this, in turn, can forge a market-leading business. A diverse portfolio of specialized businesses also helps from a corporate risk-management perspective by reducing the inherent volatility in any one business at any given time. As market conditions and business cycles change, each specialty business will have the opportunity to perform at its best. One business can go to the lead, the rest can follow, and then the next can go to the lead.

Understand clients' needs as well as they do. Most insurance companies are built on numerous and complex integrated systems. However, those systems must be understood and translated into actionable information to help a company connect with clients. Our structure as a cooperative collection of companies allows us to consider directions that are right for clients over the long term. Taking an insider's view of the business and the tools needed to be responsive will establish clear channels of communication, not only within the business but also with clients as partners.

Become a "listening partner." Demonstrating this type of insights arises from having exposure to a relevant array of experiences. Intuitively recognizing the balance between the technical understanding versus strategic goal-setting comes from knowing a client. Start with what the customers want and then work backward. By knowing what they want, and knowing what the limitations are, one cannot only work toward a solution but also cement a position as a "listening partner." When a decision is made, it is important to provide feedback on the rationale for why it was made. This practice tells the client, "I heard what you said, but we could not accomplish the end goal in that way. However, here is what we could do, and this is why we think it is the best alternative available."

As we recognize the fifth anniversary of the Assurant brand this month, our diverse group of businesses still holds true to a singular ERM strategy grounded in the long history of the businesses comprising that present-day brand. Through this strategy, and by bringing together both the qualitative and quantitative insights from actuarial training, we navigate our future. BR



Rules for Risk

The Society of Actuaries recently developed these five guiding principles for successful implementation of ERM:

1. Select a qualified leader
2. Establish clear communication
3. Combine qualitative and quantitative information
4. Establish a broader focus
5. Get an attitude adjustment

Keeping Pace

Assurant uses a cycling analogy to illustrate how a diverse business portfolio, coupled with effective risk management, reduces the inherent volatility in any one business at any given time.

When one business needs to pull back for any number of reasons, it can "draft" off the other businesses, while making changes that improve and strengthen its position. That structure allows for retooling or realigning particular elements of the business and is conducted with the anticipation that one day that business will eventually move to the head of the group at a different point of its life cycle.

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