

## **Keynote Address at USA Risk Group Annual Captive Owners Conference**

**Delivered by:**

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I've spent the vast majority of my adult life, 30 years and counting, in the insurance and reinsurance businesses; starting with General Re in the late 70s, until the founding of Discover Re in 1990, and through the recent founding of SPARTA in 2007. This industry has been very good to me – wonderful and exciting challenges, and the opportunity to work with some fantastic and talented people. My work, my family and extracurricular interests have been the three-part harmony of my life.

As I was preparing this speech, and considering the things I wanted to share with you today, I kept coming back to our people at SPARTA and the organizational culture we are building. I think this is a key differentiator for us, and as I think back on my 30 or so years in this industry, I really believe we are putting in place a culture that is powerful and productive.

I'll try to offer some valuable things to think about, and that I think any one of you can take away and apply to your own situation.

SPARTA provides a dedicated long-term commitment to the specialty and alternative risk program marketplace. And we provide a single-source solution for program structures delivered by experts whose objective is sustained customer success. That's a good, succinct definition of what we do. I like that definition, which is good, since it comes straight off our company home page.

But let's move beyond the website taglines, and talk at a slightly deeper level. Here are a few things about us that I want you to know.

First, we believe we are the only unbundled single source of program business. Some of our competitors and some of the big players in our industry offer captive insurance over here and then in another part of their organization they offer program business. But nobody offers it in a customer-centric way. Our customers like this aspect of SPARTA. It helps them breathe easier about their risk because very often they are not exactly sure where they are on the risk

continuum. So the way we structure our business, risk by risk, really speaks to the needs of our customers. We are flexible and listen.

Second, we eat our own cooking, so to speak. We don't pass things on to reinsurers. If it is good enough for us to write, it is good enough for us to keep. That's an important aspect of what we do. It means we have to be careful in how we write business, but it also means we have skin in the game, and are sitting on the same side of the table as our customers.

Third, we put a premium on our technology, and since we are a totally new organization we didn't inherit any legacy systems that limited what we could do. This is one of the major advantages of building a company from the ground up. If you make good choices, you can create exactly what you need. We invested in a policy administration system from Insurity that includes real-time policy processing for new business, endorsements and renewals. It easily integrates with our other systems. From a technological stand point, we started with a blank sheet of paper.

Now when you start with that blank sheet, there is both opportunity and risk. You still need to execute and make good decisions. Starting from scratch can be an exciting place to be. But if you don't execute, it can also be a really scary place. The critical variable comes down to your people, which is a major theme of my comments for you today. If you have good people and good leadership, the blank sheet of paper can become a major strength. If you don't, the blank sheet of paper is a major risk.

Our organizational vision is to be "the premier provider of customized unbundled program solutions in the property and casualty marketplace." And we've known from the beginning that the way we will achieve our vision is by focusing on *both* process and people. We want world-class process and systems and technology, *and* world-class people who work within a structure that allows them to be creative and own their own work.

Now we are getting to the heart of the issue today, and the topics that I hope you will take away with you today. People are the key, and I believe the way we choose and manage our people is in contrast to others in our industry and is the real competitive differentiator for us.

But before we talk about management philosophies and our organizational culture, let's take a quick look at our industry.

Insurance is not an easy industry. And it's often not a fun industry. Making money in the insurance business can be difficult. It's heavily regulated, arguably the most regulated business in the entire world.

It's an odd industry in that we never know our cost of goods sold, and earnings surprises are almost always on the downside. We rarely have an upside earnings surprise. But for many insurers that doesn't matter all that much, since about a third of our industry, specifically our friends on the mutual side of the business, don't care much about profits. And when people don't care much about profits in the business world, it causes some odd realities.

It's also important to understand that the buyer's knowledge in the typical transaction is almost always greater than the seller's knowledge. And this inequity can lead to resentment and frustration later in the relationship.

What's all this add up to? Our industry is very bureaucratic, defensive, process driven, ponderous and overly scrutinized. It's not well understood. And the interests of the buyer are not always directly aligned with the seller's. It's simply not a place that the best and the brightest people *want* to work. Attracting top talent is a real struggle in our industry.

When we were building the strategy for SPARTA, we did more than think about the business niche we wanted to fill, or the part of the marketplace we wanted to serve. We also thought about the type of people we wanted to have with us, and the type of culture we wanted to build. We thought about how we could attract the best and brightest. And while we were thinking about people, we became very clear about the biggest problem in our industry today.

The insurance industry has lost sight of the proper balance between people and process. Process matters. Our industry and our products require structure and systems. There's no denying that. But we've gotten too focused on the process and have been ignoring the people aspect for far too long. When we began building the ideas for SPARTA, we were very focused on addressing this issue.

People are put inside boxes in our industry, small boxes frequently, and they are rarely allowed to venture outside that box. People are given strict limits on what they can do and how far they can stray from their responsibilities. Intellectually, I understand why this happens. There is merit in order and structure, and the larger your organization becomes, the cry for order and structure

gets louder and louder. But while this makes intellectual sense to me, emotionally it makes none. In my heart, I know that motivated people will almost always surprise you with what they are capable of achieving. Put a limit on a motivated, talented person and you will get limited ROI. Take the limits off, and you may get extraordinary returns.

From day one of our planning for SPARTA, my partners and I were very clear about this aspect of our industry and how much of a problem we believe it has become. It became a driving force in the way we created SPARTA.

So am I suggesting that boxes be eliminated and people be allowed to do whatever they want? No, I'm not. I'm not making an argument for anarchy. Rather my point is that we all need to think about how we structure our process so that the boxes that we put people in are not as small or constricting.

We believe that a clearly defined process is liberating. We believe discipline and structure are good. But we also believe that when you have clarity and focus in your process, and when people clearly understand their roles within the process, the box you put them in actually gets *bigger*. Their ability to move around and be creative is enhanced, without intruding on the work or the box or the part of the process owned by someone else in the organization. If everyone has the freedom to do whatever they want, they'll end up bumping into each other, stepping on toes, duplicating work, or even worse, contradicting work.

Once we gained clarity about this problem in our industry, our solution was perhaps not entirely intuitive. The problem is that the people in our industry are *too constrained*. And the solution we chose is not to have less process and discipline, but rather to have more. Or at least have it more clearly defined. Most of the people in our organization do spend almost all of their time inside their box. But as I look at SPARTA and compare to past experiences, I am absolutely confident that the boxes our people sit in are bigger, allowing the top talent we have with us to be creative and satisfied in their work. We have empowered our people.

Process and creativity do not have to be in constant conflict with each other. In fact, when the strategy is sound and you successfully attract the correct people, process and creativity can coexist in harmony.

Winston Churchill once said “attitude is a little thing that makes a big difference.” I agree, and it’s a big part of what we look for when we think about bringing someone in. We don’t just hire skill sets. Skill sets help you decide where in the organization someone might belong. But we also hire attitude, and attitude helps you decide if they belong in the organization at all.

When a client buys insurance from us, they don’t just buy a process or a product or a policy. Yes, they are buying those things. But they are also buying our people. They buy an entire organization. And we have focused on the *entire* organization when we built this thing. We have put just as much time thinking about and planning for our organizational culture as we have thinking about our process and our systems and our products.

There are a few fundamental philosophies we inject into our organization, and these philosophies allow us to attract good people and keep them motivated and productive.

First, we make sure we have a clear idea at the top of where the organization is going. There has to be a plan, a mission a destination of where the organization is heading and what the organization is trying to achieve.

Second, that vision and direction has to be articulated to the rest of the company. I firmly believe that motivating people to be productive often comes down their understanding of the big picture. We all want good people. We want talented people. We want success-oriented people. And your ability to attract them into your organization is directly tied to your ability to communicate with them where the organization is going *and* what role they will play in the overall outcome.

Third, you have to do more than just tell people where the organization is going. You have to find a way to help them own the outcome. Warren Buffet once said that “no one washes a rental car, and no one paints a rented house.” We want our people to *own their own work and their own success*. How do we achieve that? We don’t micro-manage. We attract top people into the organization, we give them some direction, and then let them do their work. We remain engaged in the process and we are not afraid to step in when necessary. But we trust our people to get the job done. Trust is the critical piece here. There is a very big difference between management and micro-management. As a side note, we also give most of our people an ownership share.

Fourth, we’re accessible and we share credit when it is due. I love to walk around the office, know and understand what is going on in people’s lives and let them know when they are doing a

great job. My office door is always open. Our leadership does not sequester itself. We're out there, and involved and communicating with our people. There's this story about Andy Grove back when he was running Intel. And the story is that Andy, CEO of one of the most important and profitable companies in the world, sat in a cubicle out in the middle of one of the floors in their office building. Great leadership story. The clear message was that we're in this together, and I'm part of the team too. Another decision we made is that when we have company gatherings, spouses are often included. We think this is important. It helps build connections and it helps everyone feel like they are part of the team.

Fifth, we challenge our people. We give them room to work and room to grow, but our expectations of them are high. We push them. We expect results. We expect them to be best-in-class.

Sixth, we don't expect people to fit into a mold. We give everyone some direction. But we allow them to move beyond their role and be creative in their thinking. We allow people to solve problems in their own way. As long as the job gets done, and we execute for the client, we're satisfied. This goes back to trust.

So these are our basic management principles:

We have a clear organizational direction.

We articulate that direction to everyone in the company so they know where we are trying to go.

We allow everyone to own their own work and we don't micromanage them.

We are accessible, acknowledge good work and share credit.

We challenge them to be their best.

And we allow people to be creative and move around within, and when necessary beyond, their assigned role.

We believe these kinds of principles help us create a culture where the best people want to work with us, and once they are here we get the best they have. Yes, we are about people *and* process. But we believe you need good people to execute on a good process. And we believe you need good process to allow your people to maximize their productivity.

The net result of these principles can best be described in two ways, two things that our people have commented on several times.

First, because everyone knows where we are trying to go, and how they contribute to the outcome, we don't spend a lot of time in meetings. In fact, several of our people have commented to me that the amount of time we waste in meetings is dramatically different than anywhere else they have worked. We think this is a sign of a healthy and productive organization.

And second, our people tell us that our organizational culture is so empowering to them that they spend very little time focused on internal problems, concerns or things that will sap their energy and motivation. They tell us that their competitive and productive energy is focused where it belongs – on solving problems and creating value for our clients. If we use a sports analogy, no one on the team is focusing their competitive energy on anything or anyone internally. All of their competitive energy is focused outwardly on the marketplace and on producing value for our clients.

In his book “Good to Great” Jim Collins wrote that “building greatness is not a subject of circumstances. It is a conscious choice.” My partners and I agree. Sure, there are always examples of someone having the right idea at the right moment and in the right place. But there are far more examples of people who looked at a problem, acknowledged it, fixed it, and ended up in a much better place.

I've made a career in this industry and I've enjoyed almost all of it. As I have traveled on this journey, I like to think that I've picked up a few things along the way and become better at what I do. Understanding the intersection of people and process, and how each supports and empowers the other, is perhaps the most important idea I have gathered and taken with me. And I hope you will take this idea with you as you leave here today.

Every organization and every situation is different. So what has worked at SPARTA may not work exactly within your organization. But I do believe that the essence of this idea is transferable to any organization in any industry. Success in our industry can be boiled down to people *and* process. And you need both in good working order if your organization is going to be best-of-breed.

Thanks for your time and attention today.