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CFO McGuire: Endurance's Ballast Amidst Change

May 31, 2016 by Susanne Sclafane

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Stacks of research put forth by consulting firms about the necessary qualities of a chief financial officer typically miss one that has been essential for CFOs like Endurance Specialty's Michael McGuire in the property/casualty insurance industry.

Whether McGuire was born with his "openness to change" or simply learned by adapting to his earliest jobs doing bookkeeping for small businesses as diverse as Burger King franchises and alarm companies, it's a temperament that has served him well over his career at Endurance, where transformative changes have been accelerating since 2013.

"How you deal with change, how you manage your teams and your people through substantial change is important. Our industry is moving extremely quickly, in a variety of different ways, and making sure that we can maintain financial strength and continuity while still responding to change is, I'd say, a unique skill set," McGuire said.

"Fortunately, we have been proactive within finance and have been able to stay on top of the changes and maintain relevance with our C-suite," he told *Carrier*

Executive Summary

While the top ranks of Endurance Specialty Holdings is filled with veterans of the industry, many are actually newcomers to the Bermuda company. In a recent interview, CFO Michael McGuire responds to questions about enduring the changes at the company and in the industry in recent years.

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Management.

Like other CFOs, McGuire has been dealing with external change in regulations and in the insurance market and investment landscape. In addition, inside the walls of Endurance change has been swift since late 2012. Among the changes:

- A new team of leaders coming on board—most notably, John Charman, the former chief executive officer of AXIS Capital, who took the reins as Endurance CEO in mid-2013 and moved ahead with an overhaul of the operational structure and book of business.
- An operational restructuring, with streamlined leadership and better alignment of resources with underwriting businesses. Nearly one-third of senior leadership positions on the corporate management team were eliminated as a result of the restructuring in 2013, with savings earmarked for expanding global and specialty underwriting operations.
- A transformation of the book of business with strategic growth of the specialty insurance operations accomplished by hiring new teams of high-quality underwriters, as well as geographic expansion in London, Zurich and Singapore.
- The addition of a Lloyd's franchise in 2015.
- The \$1.8 billion acquisition of Montpelier Re, including Blue Capital Management Ltd. (adding third-party capital management expertise), which closed in July last year.

Putting the moves together, gross insurance premiums have grown 46 percent since the transformation began, and total capital is nearly \$6.0 billion (\$5.6 billion at year-end 2015 compared to just over \$3.0 billion at the start of these activities).

In the middle of all that, Endurance was involved in a prolonged battle for rival specialty insurer and reinsurer Aspen, which would have brought together two members of the Bermuda Class of 2001. McGuire, who was continuously called upon to respond to investors and governance watchdogs during the failed acquisition attempt, is one of the few enduring members of the executive team who can trace his affiliation with the company back to the days when Endurance, Aspen, Montpelier and AXIS Capital—then headed by Charman—were all being formed.

“As I look across the C-suite executives, although there has been a lot of change, there is continuity—not only within finance but also within several of our other functions. Our general counsel has been around longer than I have by a few months,” reported McGuire, who officially joined Endurance in 2003, when asked about his tenure. He also noted Stephen Young, who was appointed as the CEO of Endurance’s reinsurance business on Jan. 1, has been with Endurance since 2002. “So, even though there has been substantial change, we’ve also maintained



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continuity where that continuity has been important.”

“Having stability in the financial infrastructure of the company has been a great ballast for the substantial changes that we have implemented throughout our company over the last three to four years,” he said.

He added: “Being able to successfully navigate through substantial change at the top as we have I think requires a level of openness to change and collaboration that not everybody has in their skill set.

“Change is hard, and I’d say the only thing constant in our industry, certainly at Endurance, has been change,” he said.

McGuire came to Endurance first as a consultant helping the company through its initial public offering and to set up a financial infrastructure, after working in public accounting for Deloitte in San Francisco and in Bermuda. While at Deloitte, he worked in the firm’s merger and acquisition consulting practice. “I spent a lot of time working on due diligence, transaction structuring and merger accounting for a broad set of financial investors and strategic company buyers in the M&A world,” he said, explaining that the opportunity to consult for Endurance came as an outgrowth of those relationships.

Originally joining Endurance as a senior vice president to lead external reporting, treasury and Sarbanes-Oxley compliance initiatives, he became CFO at the end of 2005. During a recent interview, he spoke about how the CFO role has changed over the past decade and the day-to-day responsibilities of a CFO in 2016.

Q: What is your typical day like, and how is it different than it was five years ago?

McGuire: There’s no such thing as a typical day is probably the first thing I would say. Certainly, in the last several years, I’ve been much more focused on the strategy of the company [and] corporate governance. Capital management, investor relations, our investment management activities and the strategic development of the company are other key areas where I spend a significant amount of my time.

Clearly, quarterly and annual reporting and regulatory compliance are areas of constant focus—and frankly, growing focus. But I’m actually very fortunate that I’ve got an excellent leadership team that reports to me, which enables me to spend significant time on the strategic development of Endurance and on the important corporate activities that, frankly, I need to stay



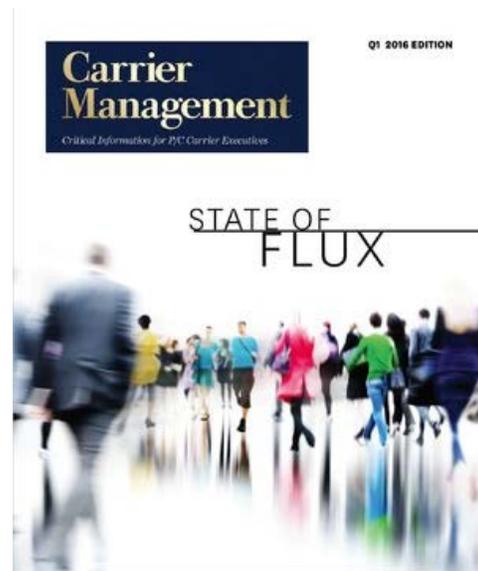
Who Leads the Finance Function?

CFO Michael J. McGuire

Company: *Endurance Specialty Holdings*

- *After college-2001: Deloitte, audit and advisory roles in San Francisco and Bermuda, including M&A.*
- *2002: Consulting for Endurance.*
- *2002-2005: SVP, Finance for Endurance, leading external*

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focused on.

Q: How are you involved in strategic development? How do you partner with the various CEO and other C-suiters to develop and implement the strategy?

McGuire: We have a very integrated leadership group at the company...On a weekly basis, and sometimes daily, we are working together to achieve our strategic plans as a company—whether that is in how we position the company's risk profile, what new lines of business we look to enter into, or what acquisitions we may consider or ultimately execute on. Those are critical C-suite responsibilities that I play an integral role in.

Most recently, I played a key role in bringing a number of capital and acquisition opportunities to successful conclusions...

At least for Endurance, gone are the days when the CFO is just an internal accountant. Because our industry is so highly regulated and is more linked to financial markets than other industries, the insurance industry CFO must be well connected to the strategy and operations of the business.

In our industry, if a CFO finds themselves focused on reporting and accounting but not connected with that strategy, that's a big risk. I'm fortunate that I am very well connected with my C-suite colleagues, and we are jointly managing our business. While I oversee accounting and reporting, I have a very competent team that manages the day-to-day operations.

Q: Has the finance department been a catalyst for any of the strategic changes that have gone on at Endurance, either building toward profitable growth opportunities or in

financial reporting, Sarbanes-Oxley compliance, treasury, chief accounting officer work.

- *2006-present: CFO, Endurance.*

What's happened at Endurance during his tenure?

- *Shareholders equity rose from \$1.2 billion at year-end 2002 to \$5.1 billion at year-end 2015.*
- *A book of business that started as mostly reinsurance (about 75 percent in 2003) has been transformed, shifting in recent years from just over half reinsurance (54 percent at year-end 2012) and mostly standard lines (67 percent) to nearly two-thirds specialty insurance (63 percent at year-end 2015).*
- *Leadership changes starting at the top, with three CEOs since the company started up in 2002.*
- *Global expansion with locations now in London, Zurich and Singapore.*
- *The \$1.8 billion acquisition of Montpelier, which closed in May 2015.*
- *An operational restructuring beginning in 2013 to better align resources with underwriting businesses.*

Functions he oversees: *Global finance and accounting, including internal and external reporting and accounts payable, receivable, treasury, statutory and regulatory reporting, tax compliance, investor relations, planning and corporate development. Also responsible for Endurance's investment portfolio management team and the alternative capital and collateralized reinsurance operation, Blue Capital Management Ltd.*

What he thinks: *"The chief financial officer, in many cases, is one of the chief communicators of the company's strategy, both internally and*

risk-reduction or cost-cutting initiatives?

externally. You need to be able to have very strong communication and collaboration skills.”

McGuire: The finance department has been critically involved in most of these activities. Several years ago, we went through a pretty substantial restructuring, and finance played a significant role in helping our C-suite executives to identify, monitor and execute on some of those cost-cutting initiatives. But I'd say, more importantly, where we provide value as a finance operation is in delivering business intelligence to our executives and business leaders across the company. That way, we're putting the information in the hands of the decision-makers so that they can make more effective decisions.

From an M&A perspective, I personally, as well as many on my team, have been intimately involved in not only the analysis of acquisitions but also in the integration planning. The execution of integration activities is a significant contribution on the part of finance to the strategic development of the company.

Q: What external changes impact your role as CFO at Endurance?

McGuire: Clearly, there has been a pronounced increase in global regulation over the last several years. We are a more complex company operating in more jurisdictions. Regulations in each of these jurisdictions have increased at the same time as our positions in diverse global markets have increased. So, that has put an enormous workload on our finance and regulatory teams [and] has been a key driver of resource requirements, system requirements and reporting capabilities...

In addition, as I think about the public company environment, another focus is the increase in the number of corporate governance-focused investors, whether you call them activist investors or various pension funds and other capital providers that are putting increased pressure on best practices and corporate governance. We need to make sure that, as a company, we are on the leading edge of best-in-class corporate governance and accountability. A key part of that falls into my world. I work in partnership with our board and with our legal and other departments to make sure that we're evolving at least as quickly as industry best practices. That's a constant area of change.

Q: You talked about providing business intelligence to the C-suite for strategic development. How have the tools changed that allow you to provide the business intelligence to the rest of the executives?

McGuire: The tools have changed pretty dramatically over the years. We went from a spreadsheet-dominated reporting infrastructure at our inception to a much more automated and real-time systems capability. We continue to evolve and develop and improve our systems. A key role that finance plays is to try to deliver that information as efficiently and as effectively as we can.

Where we've been able to, we've been automating report development and report production to reduce the kinds of manual errors that you may find in the spreadsheet environment. We've also improved the timeliness of that information when you're able to get those reports directly out of the systems or directly from outside information sources.

Q: In any insurance company, should the CFO and the finance area be responsible for technology across the business? Or is it just for the financial area?

McGuire: Clearly, the activities of finance and the activities of information technology departments need to be highly aligned. I don't think there is a hard and fast rule whether IT has to be reporting to finance or somewhere else in the organization. Frankly, either can work. IT could be embedded within finance, they could be in a separate, distinct operational area, or they could be reporting directly to a CEO. That's not important. What is important is that the leaders and managers within the functions, within the departments are aligned, they communicate effectively, and they work together.

Organizational structure can be helpful, but what is essential is that individual employees, leaders and managers within the groups work together and partner to get things done.

Q: What do you see as the most important qualities for CFOs to possess in 2016?

McGuire: CFOs clearly need to have a solid base in the technical nature of the role. They need to have very strong analytic skills. They need to understand the business operations, how the numbers come together, and to be able to identify trends and report on that information. Those are the bread-and-butter parts of the traditional accounting and reporting side of the role—how the numbers come together, how things work. That's critical.

But being able to strongly communicate around the needs and expectations of the group is equally if not more important. The chief financial officer, in many cases, is one of the chief communicators of the company's strategy, both internally and externally. You need to be able to have very strong communication and collaboration skills...

Whether you're a finance professional or in underwriting or operations, most problems in large, complicated organizations have their root in a communication challenge—an issue or a concern wasn't communicated or wasn't communicated effectively. Having very strong communication skills can provide a great accelerant to a finance professional's career to get to that next level.

Q: How would you describe your leadership style? Who or what have been the biggest influences in developing your style?

McGuire: I see myself as a collaborator and a team builder. I tend to delegate a significant amount of day-to-day responsibility, which is only possible because I surround myself with highly capable, extremely reliable direct reports who can manage with some autonomy. [The activities] I am involved in pull me all around the world, and I need to make sure as I'm out of pocket and externally focused that the team back in the office that is handling the day-to-day activities has the autonomy, responsibility and authority to get things done.

Another skill I think is critical for finance professionals in general is to create an environment of openness and communication. Problems don't get better with age. The good or the bad needs to be communicated early and often.

That's been a core part of how I've built the culture and the team at Endurance.

We're all in this together. We all have shared responsibility and a common objective. Having a strong, well-connected team has been a very important part of how I've tried to influence the operations of the company.

Q: Can you share the biggest problems that come to mind in your experience at Endurance? You said they don't get better with age. Which ones are you most proud of having tackled?

McGuire: I've been at the helm of the finance group of Endurance for over 10 years now. There have been a number of things that we've done to develop the company that we're quite proud of. But it hasn't been easy sailing.

I'd say the most important thing that we have done is adjusted elements of the company to improve the teamwork and collaboration—and this would be all the way to the top of the company, all the way to the C-suite of the company, making sure that we have a well-connected, collaborative group that works together as a team.

Creating a supportive and accountable work environment has been the key driver of success for Endurance and for finance. The one thing that I'm quite proud of is that the tone from the top matters enormously, and leaders must do as they wish others to do. If you work hard, if you treat others fairly and you communicate often and effectively, your teams will follow that lead. We have seen that play out at Endurance. The opposite of that is true. If you have a team at the top that isn't particularly well connected, there's no way you can expect your teams to be well connected.

Over the last 10 years, I've seen both experiences at Endurance. There have been times in our history when the senior group of leaders in the company wasn't particularly well connected, wasn't communicating very well, and that behavior pushed down into the organization.

Fortunately, as I look at our company and our leadership team today, we're very well connected. That tone from the top and that sense of collaboration and partnership is now infused in the company, and that really matters.

Q: What are the key ways in which the tone at the top filters down to the rest of the company? How do you connect?

McGuire: Connecting starts with your messaging, but more importantly it's conveyed by your actions. You need to communicate your strategy and your objectives, but you also need to act in a way that's consistent with those objectives. Then you need to surround the leadership team with senior leaders and managers that have bought into the message, that also act in accordance with that message. You begin to develop a rhythm where it's not just talk from the top: It's talk, it's action, and it's reinforced by that alignment all the way through the company.

Q: What are the biggest challenges in 2016?

McGuire: For Endurance, and for the P/C insurance and reinsurance industry as well, achieving appropriate returns for the risks that we take is one of our biggest challenges. The global suppression of interest rates and investment opportunity, more broadly combined with the highly competitive, cyclical nature of our

industry, is making it tougher and tougher.

At Endurance, we're fortunate that we have identified these trends earlier than many others, and we've been positioning our company to have the best likelihood to prosper during some pretty difficult times in the market.

The repositioning of our underwriting, the significant investments that we have made in underwriting leadership, in product development and geographic expansion and underwriting quality will be key differentiators for Endurance.

We've increased the size and strength of our balance sheet and improved our financial flexibility. Those are all things that will give us a better-than-average chance of excelling during some pretty challenging times.

Our key challenge is making sure that we continue delivering on the progress and improvements that we've implemented thus far...

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