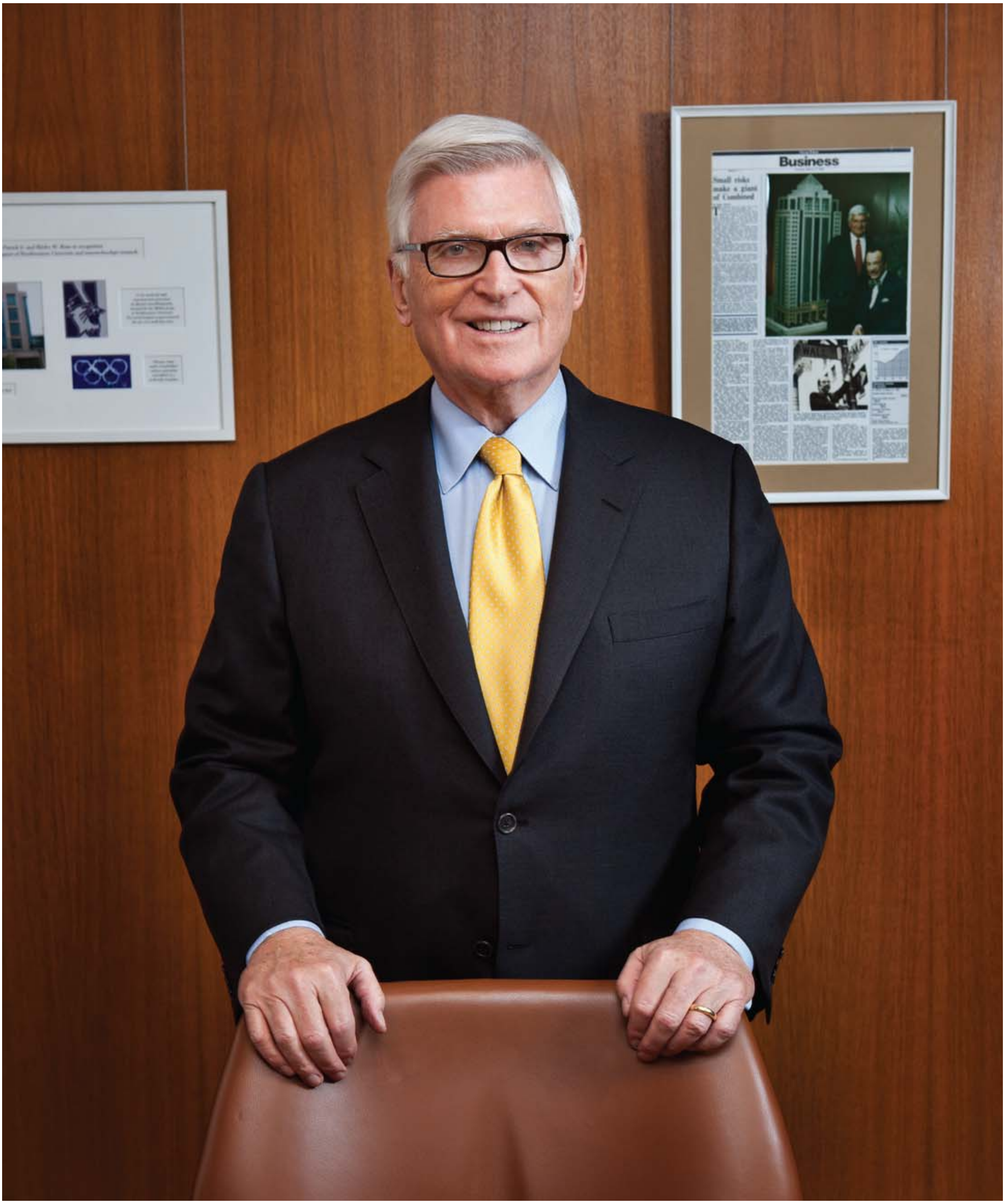
Business
Small risks make a giant of Combined

BORN WITH IT

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He has nothing to prove and enough money, reputation and goodwill to enjoy a very happy retirement. Yet at the age of 74, former Aon chairman Pat Ryan is doing it all again with his new company, Ryan Speciality Group. He tells Intelligent Insurer *about his plans, his principles and how he remains motivated.*

To industry outsiders, or those who don't know Pat Ryan, it might seem madness. He is a self-made billionaire, worth an estimated $1.4 billion according to the *Forbes* 2010 list, with a reputation both in the insurance industry and outside it that is beyond reproach. Unlike some of his peers, he has maintained dignity and respect throughout the various scandals that have engulfed the industry in recent years.

He would also appear to have no shortage of other vocations he could devote his time to: he is happily married to wife Shirley, with whom he has three children and many more grandchildren, and his expertise—and wealth—are in demand in many other areas. He is a shareholder in American football team, the Chicago Bears, a benefactor to arts organisations such as the Art Institute of Chicago, the famous Lyric Opera of Chicago, and to Northwestern University, one of the US's most prestigious universities, with two major athletics facilities there named after him.

In recent years, Ryan has also started to dabble in politics. He hosted fundraisers for US President George W Bush, was the only Republican among five co-chairs of President Barack Obama's inaugural committee, and, in 2009, served as the chief executive of Chicago's unsuccessful bid to host the 2016 Olympics (the games were eventually awarded to Rio de Janeiro).

Yet, almost 50 years since he started his first business—in 1964, an auto credit insurer called Pat Ryan & Associates which went on to become Aon Corporation—two years ago, aged 72, he started it all again. With nothing to prove and, arguably, a lot more to lose, the ink had barely dried on his farewell card from Aon when he was back behind a new desk, launching a new company in new offices in Chicago. Ryan Speciality Group (RSG) was born.

What is more, his vision the second time around is no less ambitious—and this time he has the benefit of a vast wealth of experience and an even bigger book of contacts to call upon. He has hit the ground running with no fewer than 11 acquisitions or start-ups in the first two years and has generated well over $1 billion worth of revenues already.

To those who know Ryan, what he has done and already achieved comes as no surprise. And he is equally nonchalant about it. "I think I was probably born with it," he jokes when asked where, after almost 45 years of building one business, he has found the drive to start another. "I have always enjoyed creating and building companies and so that is what I want to do now.

"I am an entrepreneur but not one who likes to start companies and then flip them quickly. I like to build and develop them. I am very proud of what I achieved with Aon but now I want to do it again. I am far more than just an investor in this business: I am in the office from 7:30am to 6:30pm every day and when I am not here I am travelling, or out meeting clients. I have a great team around me and I want to be involved in the building of a company that will add value and bring solutions to the insurance industry and fill a real need."

THE VISION

Ryan believes that at a time of rapid technological advancement and, as such, an ever faster change in the complexity of risks, there is a gap in the market for a provider of speciality broking services and solutions. Partly in response to the wider short-term economic downturn, many of the bigger players have stepped away from this fast-moving arena, leaving a gap and an opportunity. RSG will plug this through a highly specialist wholesale brokerage and an assortment of managing general agents (MGA) and managing general underwriters (MGU), most of which it will acquire and integrate into its own business.

As one would expect from someone with his vast experience and pedigree, Ryan is shrewd and considered when explaining why he sees this as an opportunity. "If you look at the specialty market, if you have the talent and expertise you can always bring value-added products and services to the market," he says. "That has been my experience over a long time and it can be achieved in two ways.

"On the wholesale brokerage side, I saw an opportunity in specialty areas such as complex construction and property risks and D&O liability risks. I also believed that the big global brokers would be pulling back from this area. They would be looking to cut costs and seeking better efficiencies, and aiming to have fewer broad relationships as opposed to many smaller or narrower ones. We have seen this happen and it is continuing.

"On the MGA and MGU side, we also saw a need for independent specialist players who are able to take on complex and speciality risks in areas such as transactional insurance, construction risks, healthcare products and a number of other fields. We felt with really strong underwriting expertise, we could provide a value-added service to the market."

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Ryan also sees this side of the business from an investor's perspective. He believes that many carriers will be more interested in partnering in such a vehicle with proven expertise in specialist risks rather than attempting to build their own—with all the additional costs and problems in terms of infrastructure and talent management that can bring.

"I thought the variable cost factor associated with only paying on the premium generated, instead of having to build your own platform, would be attractive as companies consider their capital investments at the moment," he says. "It allows them to broaden their portfolio with fewer costs and risks. So far, that has also proved true. We have 12 speciality areas so far; we are still expanding and I see more opportunities for us as a consolidator in this market."

Ryan is also very considered when it comes to the ways in which he believes the business can set itself apart from competitors in the market. He sees the issue of brokers also competing with their clients as a big taboo for RSG, and is determined to steer clear of that at all costs. He also believes this is the right direction for the industry generally.

"It is very important to us that we are totally independent and that we do not compete with our retail clients in any way. When I was at Aon, we saw some of the bigger players get out of this market for a number of reasons, but in fact they were competing in other areas of the business with the retail clients. That represented an inherent conflict."

In every interview or speech he has given since the launch of RSG, this is a recurrent theme that Ryan pushes constantly. To avoid this conflict, he is adamant that his business will not become a retail broker anywhere in the world; it will not act as a wholesale broker in the London market because its retail broker clients in the US often own wholesale operations in London; and it will not enter the reinsurance brokerage business anywhere in the world. Despite confessing a love for the reinsurance business, this too, he says, would mean competing with clients.

He accepts that this discipline is not agreed on by all in the industry—other brokerages continue to compete with clients. But he stands by his own beliefs. "There are different perspectives on this issue. Personally, I believe there is a growing trend away from it, where companies prefer to do business with companies which are not in competition in other areas. I guess history will record who is right. It has certainly worked for us so far."

Perhaps part of the reason he is so insistent on this point is that it also means no conflict with his former firm, Aon. When it is suggested that some competition with Aon may, eventually, be inevitable, he is quick to dismiss this. "We do not and will not compete with Aon. They are, however, a big client of ours," he says. "We will not compete with any of the top brokers; we bring them business and vice versa. We are trading partners only and that will not change."

LEARN FROM THE PAST; LOOK TO THE FUTURE

Nevertheless, with such a long time at the helm of a company that has, to a large extent, shaped the industry he remains in, Aon can never be far from Ryan's thoughts and it seems inevitable that his current direction is influenced by his experiences there. Aon once established a solid presence in the wholesale broker market but, through the sale of Swett & Crawford in the post-Eliot Spitzer reorganisation of the industry, it was decided to sell it in 2005. In some ways, Ryan's new business might take that strategy to its natural conclusion.

He is clear, however, that RSG is a different model in a different age for the insurance industry. "There is no natural conclusion to that," he says. "It is a different time and it is important to us we remain independent. We are very focused on growth in other ways through the MGA/MGU model and we also foresee lots of growth potential globally. But it is a different model and we will never compete with our clients."

Yet his current thinking and decision-making are informed by his accomplishments when building the world's biggest broker. He describes himself as a man who looks forward rather than in the rear-view mirror, but he is also clear that we must learn from past mistakes. "You must learn from the past, recognise human frailties and try and learn from mistakes, but not dwell on them and always try to look to the future," he says.

When pushed to detail some of the mistakes he has learned from, Ryan says his biggest failings have resulted from a lack of quality information. "It is a cliché, but I have learned that in order to expect, you must inspect," he says. "You have to know what is going on in your business. It is not about micromanaging, but I have found mistakes usually happen because of a lack of knowledge or information. I aim to rectify that. I always want to know what is going on."

Despite these admitted past shortcomings, however, Ryan is relatively unusual when compared with many of his insurance peers in that he has survived so many industry scandals and crises with his reputation intact. He is reluctant to comment on the fall from grace of others but believes a handful of key values that he has preserved throughout his career have stood him in good stead.

"I certainly don't see myself as some guy on a white horse but I would say I have always tried to instil a culture in my organisations where we put the client first and where staff are always encouraged and empowered to do the right thing.

"By that I mean, and hopefully without sounding sanctimonious, people can do what they know is right rather than what offers the greatest financial reward, or what might be right because of corporate politics. If you do that, it is easier to avoid a lot of pitfalls. Everyone makes errors of judgement but if you are committed to a sense of fairness it certainly helps avoid many bigger problems."

Ryan naturally wants to ensure these qualities are equally apparent in his new organisation. He hopes to combine them with the culture of how he sees himself at heart: as an entrepreneur. His vision for RSG is one that combines the steady backdrop of corporate culture with the best creativity and ambition offered by the entrepreneurial spirit that he sees in himself and so admires in others. Yet perhaps they are not the stereotypical qualities many would associate with the word 'entrepreneur'.

"To me, much like ice cream, entrepreneurs come in different flavours," he says. "There are many different types. There are those who start, build and sell businesses before doing it again. They are not for us. We believe in building for the long term and we want to attract entrepreneurs who feel the same way.

"We have done that so far. We have bought some fantastic MGUs with owners who have built very nice businesses from scratch, but who now want to continue to build that platform into something bigger and with more impact with the back-up of a larger company. They want to take their businesses to the next level."

He believes such individuals will thrive within the culture of RSG. "Many are attracted to us because of our culture. We are about having high integrity, empowering people and ensuring people fulfil their potential and are rewarded for their creativity. That allows them to work on product development and deliver innovative solutions to clients. We want them to continue to be entrepreneurs in a culture that allows them to take risks. That is what entrepreneurs do. In turn, that mix of creativity and risk-taking will generate its own financial rewards."

RSG TIMELINE

DECEMBER 2009

RSG forms ThinkRisk Underwriting Agency, which offers underwriting and claims management services.

MARCH 2010

RSG acquires Sowers Baccala Insurance Brokerage based in La Jolla, California, through its wholesale brokerage business R-T Specialty.

JULY 2010

R-T Specialty buys Chartwell Independent Insurance Brokers, a national wholesale/intermediary organisation with expertise in tough-to-place property accounts.

OCTOBER 2010

R-T Specialty acquires McAuley Woods & Associates, a boutique wholesale insurance brokerage company based in Florida.

DECEMBER 2010

R-T Specialty acquires Oakbridge Insurance Services, a specialty insurance intermediary in Connecticut.

JANUARY 2011

RSG launches Technical Risk Underwriters, a specialty MGU focused on providing best in class underwriting for complex construction and property risks based in Texas.

FEBRUARY 2011

RSG launches CivicRisk (CRU), an MGU specialising in excess casualty coverage for public entities.

FEBRUARY 2011

R-T Specialty enters into an agreement to purchase the wholesale insurance business of American E&S Insurance Brokers (AES) from Wells Fargo Insurance Services.

FEBRUARY 2011

RSG buys Concord Specialty Risk, an MGU and consultant that provides transactional risk insurance and loss mitigation-evaluation services.

MAY 2011

RSG enters into an agreement to acquire 100 percent of the share capital of specialist Lloyd's insurer Jubilee Group Holdings.

MAY 2011

RSG agrees a trading partnership with Beazley Group, under which Beazley will continue to offer insurance products to targeted long-term care facilities in the US through a programme underwritten by RSG Underwriting Managers, and trading under the name Sapphire Blue.

MAY 2011

RSG launches LifeScienceRisk, an MGU specialising in generic pharmaceuticals, medical devices and nutritional supplements.

JULY 2011

RSG launches PER se (Power.Energy.Risk, 'securing the environment'), an MGU specialising in the energy and power sector, with a primary focus on renewable energy risks.

SEPTEMBER 2011

RSG completes the acquisition of specialist Lloyd's insurer Jubilee Group Holdings.

DECEMBER 2011

RSG subsidiary Concord Specialty Risk enters into new trading relationships with Arch Specialty Insurance Company, Freedom Specialty Insurance Company, and a US subsidiary of Zurich Insurance Company.

JANUARY 2012

RSG acquires Global Special Risks, LLC (GSR), a specialty underwriting manager from Willis North America.

FUTURE OPPORTUNITIES

So far, this formula seems to be working well. But as the portfolio grows and Ryan is less able to remain hands-on with each acquisition, it will probably be tested more and more. It will also be interesting to see how Ryan shapes the business's newly acquired Lloyd's operation, with all the possibilities that brings.

In September 2011, RSG became the first broker to be allowed to own a Lloyd's underwriter in 30 years when it acquired Jubilee Group Holdings, which operates two active syndicates at Lloyd's, a managing agency and specialist underwriting services. A ban on brokers owning syndicates imposed in 1982 was lifted in 2008.

Ryan sees this as offering enormous opportunities and growth potential. He anticipates third party capital providers getting involved in the new platform, RSG combining its expertise with the global reach of Lloyd's to take advantage of opportunities in many specialty niche areas, in terms of both risk and geography. Ryan also feels some personal pride in the milestone the acquisition represents.

"It certainly feels good to be the first broker in 30 years to be allowed back in," he says. "We are very excited by the opportunities offered by the global reach, with its 200 licences and strong financial strength rating. We plan to be a modest risk-bearer ourselves but we plan to grow Jubilee and add third party capital consistent with our strategy."

The expansion of the rest of the business also grows apace. Most recently, RSG bought Global Special Risks, a specialty underwriting manager from Willis North America, which specialises in providing solutions for energy, marine and specialty product offerings with the London and North American markets. The deal represents its ninth start-up or acquisition in two years.

"Now is a good time to buy, especially if you are buying quality companies at the right price," Ryan says. "We think that is what we have done so far. We have managed to find good businesses with owners who want to be part of a larger platform but stay with their business. It was very much a model we used at Aon—many of the people who came on board in that way are still there."

He characterises the global insurance markets as being in an unusual place at the moment—despite very big catastrophic losses, there remains a glut of capital in the industry. Companies are torn between attempting to secure better rates while also being forced to put their capital to use by chasing market share.

"The market is somewhat schizophrenic right now and they are trying to work through this," he says. "There have been big losses yet the large amount of capital means they are still under-pricing products. But the risks are getting bigger and more complex. You only have to look at some of the business interruption claims coming out as a result of the Japanese earthquake to see that. The world is interconnected now, with new risks. But for a broker that also means opportunities."

SO FAR SO GOOD

It is so far so good for Ryan as, approaching his mid-70s, he attempts to build a global insurance broker for the second time. He has experience and expertise on his side and also, it seems, a lot of goodwill from the global industry which is so familiar with his achievements.

He says RSG is ahead of where he expected it to be at this stage when he did the business plan, yet he has a long way to go before he could count RSG as a second career success. But he is also philosophical. He is doing what he is doing not because he seeks any more plaudits but because he enjoys that day-to-day challenge. In addition, a recent experience in another sector has put the relative success or failure in business into perspective for him.

When the Chicago bid to host the 2016 Olympics was unsuccessful, it was a rare failure for Ryan, the bid's chief executive. He says he found the experience frustrating compared with business but it also helped him better understand that business is rarely as black and white, and that success is relative.

"In business, you try and control things as much as you can. With something like the Olympics bid, there are so many elements you cannot control and that is frustrating. Perhaps you would like to have had the opportunity to do things you could not in a bid like that. But the unique thing with that is that no matter how fantastic the other bids might be, there can only be one winner. In contrast, you can be very successful in business and still not be number one, although there can be many winners in many different ways in business, depending on how you measure success."

After achieving so much, Ryan has perhaps earned the right to be philosophical about the nature of success. He says his career high is, naturally, his success at building Aon; his low point was the 176 staff Aon lost in the 9/11 terrorist attacks on the Twin Towers in 2001. "That was certainly a low point and a very difficult year," he says.

But the bottom line for Ryan is that he gets up in the morning and wants to go to work building an insurance broker. He is well on his way to doing it a second time and it would be a brave man who would bet against him remaining motivated and energised to do just that, right into his 80s. □