The issue: premium efforts needed at hanover
Nanette Byrnes

When Fred Eppinger joined Hanover Insurance Group (THG) as CEO back in 2003, the company was close to bankruptcy. A disastrous stock market plunge had badly hurt Hanover's life insurance business. To compensate, the healthier property and casualty business was sending over huge dividends, hurting its own financial strength.

In a matter of months, Hanover saw its A.M. Best financial strength rating (a critical metric of health in the insurance field) drop four notches, from A (excellent) to C++ (marginal). The stock, once a highflier at more than $70 a share, was trading at less than $7. Massachusetts state insurance regulators had met with the board and sat in on board meetings. The Securities & Exchange Commission had even done an investigation into company disclosures and the steep stock drop, though no charges were brought. "They were close to going out of business," says Cliff Gallant, an analyst with Keefe, Bruyette & Woods (KBW). "I don't think that's an exaggeration."

Nearly all the news accounts from the time said the company would have to be broken up and the pieces sold off. But Eppinger, a 15-year veteran of the financial-services practice at McKinsey, had a different plan. He agreed that the life insurance business would probably have to go. It had written loads of variable annuities, and Eppinger viewed the promise to pay as a "ticking time bomb." But he saw promise in Hanover's property and casualty side, the business that writes homeowners insurance for individuals and commercial policies for business owners.

Eppinger saw a gap in the market. He figured there was room for a company like Hanover—which boasted strong local roots in the Northeast—to branch out nationally. The strategy was to focus on the fastest-growing insurance agencies and give them great service and products.

Turnaround Hope
Hanover had once been among the best insurers in the business. In the late 1990s, Eppinger was one of a team at McKinsey that put together a report highlighting the 10 most successful companies in the industry, with Hanover named as one of the most successful underwriters. But by the time Eppinger came in as CEO, employee pride had been hammered amid Hanover's downturn. When he met with staffers the word "embarrassed" would often come up. Of his top 300 jobs, 150 were unfilled, and the company hadn't had a chief actuary in two years. "No one would take the job," says Eppinger.

Eppinger had to give employees a feeling that there was hope for a turnaround. So instead of doing a 100-day listening tour at the kickoff of his CEO role, he sold his vision from Day One. Hanover would need to align with winning agents, give them something really good to sell, and be an easy company to do business with. "I needed to give people confidence and direction," he says.

For Eppinger, Hanover was a personal challenge as much as a professional one. Beyond knowing the company from his McKinsey days, Eppinger had long-standing personal ties to the 157-year-old company. He'd grown up on a chicken farm not far from Hanover's headquarters in Worcester, Mass., and he attended the College of the Holy Cross in Worcester. At employee gatherings Eppinger took to reading a letter from his 80-year-old aunt who had worked in the accounting department at Hanover for nearly 30 years. "I'm really, really proud of you, Fred, but don't screw up because I have a pension," the retiree wrote.

Over time Eppinger orchestrated Hanover's departure from the life insurance business, selling off most of its operations to Goldman Sachs (GS), and Hanover's staff shrunk from 6,700 to 4,000. But Eppinger's P&C strategy clicked. Gradually he was able to attract high-level talent into key roles, including Marita Zuraitis, an industry veteran who joined in April 2004 as president of property and casualty operations. Though she had good career prospects at bigger firms, she thought Eppinger's strategy was right. "We're not playing the commodity game and appointing thousands of agents," says Zuraitis. "We are playing more of a quality game by selectively appointing agents and going deep with a few."

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Rating Rebound

It seems to be working. Hanover's rating has climbed back to A, and earnings next year are expected to rise 21%, to $201 million on $2.8 billion in revenue. At a time when many rivals are contracting due to the bad economy, Tom Brown, CEO of Richmond (Va.)-based Rutherford Insurance, appreciates the focus Hanover has put on agencies like his. "The big boys are regionalizing," says Brown. "It's just like anything else—the bigger they get, the more complex and harder it is for them to turn."

By contrast, Brown has close ties to Hanover's staff in Richmond and has met with Zuraitis twice in the last two months. Being close to agents gives Hanover "the ability to move and adjust according to the circumstances," says Brown. "I like the way they do business." And he's a good fan to have. Rutherford's business has been growing 17% to 18% a year for the past decade.

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