A Lifetime of Passion for the Insurance Industry — an Interview with GNY Executive Warren Heck

The Demotech Difference sat down with Warren Heck, former Chairman and CEO of Greater New York Mutual Insurance Companies (GNY), who shared his thoughts after almost 60 years in the Insurance Industry. He retired as CEO on December 31, 2014, and continues with the Company as Non-Executive Chairman of the Board.

The Demotech Difference: How did you get involved in the insurance industry? What attracted you to it?

Warren Heck: While in college, I wanted to find a part time job and happened to take an elective course in insurance, which included the preparation for the New York State insurance broker's license examination. It occurred to me that selling insurance would be a good part time job since I could work at it when I had time available.

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The course covered the fundamentals of insurance, among other things, and I found the concept of the insurance mechanism, that is, protecting an individual or business enterprise by spreading the risk among a large volume of similar exposures to be a thought-provoking concept. In taking the course, I learned that property and casualty insurance is an essential component of the U.S. economy, and that insurance was an integral factor supporting the industrial revolution. As a result, I was motivated to take the available insurance courses at my college. While most people say that they found themselves in insurance by accident, I intentionally planned a career in insurance after graduation.

I graduated from CCNY in 1958, when our economy was in the midst of a recession, and many of my classmates couldn't find jobs. I was fortunate to receive two employment offers the first week of my search. My first job was working as an underwriting trainee for another small New York mutual insurance company, which had a strong professional staff and was a great place to learn.

I had trained under someone who later left the company to work for Greater New York Mutual, and I was called by HR at GNY to see whether I had any interest in interviewing with the company. Since I found a job immediately after graduation, and had very little interviewing experience, I decided to take the interview for the experience but as it turned out I took the job offered.

The property and casualty insurance industry at that time largely operated on a mono-line basis under insurance laws in the various states that permitted

Warren W. Heck is Chairman of the Board of Greater New York Mutual Insurance Company and its wholly owned stock subsidiaries, Insurance Company of Greater New York, Strathmore Insurance Company and GNY Custom Insurance Company.

Heck joined GNY in January of 1962 as an Underwriter, and by 2001 had become the Chairman and Chief Executive Officer. For most of his 53-year career at GNY he managed the underwriting activities of the Company, and retired as CEO in 2014.

Heck earned his B.B.A. degree from the City College of New York in 1958, and his C.P.C.U Designation in 1975. Since 9/11 he has actively worked with The National Association of Mutual Insurance Companies (NAMIC) in lobbying Congress to make the case for the passage of the Terrorism Risk Insurance Act (TRIA).

He has been recognized by receiving the Israel Bond Neil D. Levin Memorial Award, the National Conference for Community and Justice (NCCJ) Humanitarian Award, and the Man of the Year Award from The Crohn's & Colitis Foundation in 2015.

Heck has also received numerous professional awards including the Chairman's Distinguished Service Award from the New York Insurance Association, the NAMIC Chairman's Award for leadership and outstanding service to NAMIC, and the 2008 Man of the Year award from the Council of Insurance Brokers of Greater New York.

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individual carriers to write either property or casualty business; "all risk" coverage was virtually unavailable in the U.S. standard markets. However, in the early 1960's the various states began amending their laws to permit single entity companies to write multi-line coverage.

GNY was a small New York City company that only wrote general liability and workers' compensation business. The people at the company were home grown, and not trained in the other lines of business that made up the multi-line category. Although I had no experience as a property underwriter, my strong insurance educational background enabled me get up to speed fairly quickly in understanding and learning property underwriting, and since property was a new line of business for GNY, the Company proceeded cautiously in writing new business. So I was perfectly positioned in the company to help with the transition to multi-line coverage. Alexander Rosenthal, the CEO at that time, took interest in me and in an interview with me indicated that there would be many opportunities for me to grow at the company under the company's plans for expanding into other states.

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TDD: Was there a defining moment when you might have exited the industry rather than stay?

WH: From the outset, I found the work in insurance interesting and satisfying, and never considered leaving it for a moment. Early on, I was very interested in a leadership role in the Company, so when the Company offered me a promotion to branch manager of its first New Jersey branch office, I eagerly accepted. The New Jersey branch was very successful, and after about five years, the CEO began to assign me some of his more challenging projects, and temporally assigned me to work at the New York City home office. Two years later, I was permanently transferred to the home office and promoted to Chief Underwriter. After that, I gradually began moving through the executive ranks: in 1983 I was promoted to President & COO, and in 2001 I was promoted to Chairman & CEO. Along the way, I became involved with all of the issues facing the Company including serious claims and lawsuits. I also became the liaison with the insurance regulators, and was one of the senior staff members who met regularly with rating agencies, among other administrative duties.

TDD: How did taking the broker's course as your first introduction shape your perspective?

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WH: As the Chief Underwriter, I met with the brokers every day, and developed strong relationships with them over time. The Company from its formation 103 years ago had a very ethical culture and focused on promoting prompt and efficient policyholder and claims service, which endeared the brokers to our Company. The service orientation and fair dealings along with a desire to help the brokers write business evolved into many loyal long term relationships with the brokerage community that continue to this day. So, I can't really say that it was so much the broker's course I took years before that shaped my perspective, it was rather the Company culture that was formulated by my predecessors and continued by their successors that did it. And I believe that's the reason GNY has been so successful.

TDD: What lessons have you learned along the way?

WH: While in college, I was interested in the history of insurance, and what happened to many different carriers over the past 60 to 70 years. There were many insolvencies, and a lot of failures and mergers. When you read the history, it's easy to understand why they failed and how to avoid the mistakes they made.

Key reasons companies fail are inadequate loss reserving as well as inadequate pricing of their insurance products. The industry went through that period in the 80's with super-inflation, which resulted in insufficient loss reserves for those companies that didn't do a good enough job monitoring their loss reserves. So, along the way I learned that conservative case reserving pays dividends and provides needed protection to fund unexpected contingencies.

TDD: The industry has a large number of small companies, and very few huge ones. Is GNY a big company?

WH: GNY is a mid-sized company. Our surplus is approaching $500 million. For the size of our writings, we're extremely well capitalized. Our loss reserves are moderately redundant, so we have a fair amount of equity in our loss reserves and our unearned premium reserve. We have a billion dollars in assets, and I believe that's one of the criteria that defines a larger company. However, to be considered large, I believe a company should have a minimum of $1 billion in direct written premium and surplus. Although we are a mid-sized company, we compete with the large companies. The reason is that we are a commercial writer focusing on larger accounts; our competitors are typically Travelers and Zurich, and not other mutual companies closer to our size that specialize in personal lines.

TDD: How do you compete with big companies?

WH: We have found that our smaller size is not a disadvantage in competing with larger companies. Early on from my time running the New Jersey branch I found that small commercial accounts were expensive to handle and harder to build premium volume. I built my book of premium in the New Jersey branch with larger commercial premium accounts with larger exposures carefully utilizing reinsurance. As our Company's surplus grew, the reinsurance involvement became smaller and it was easier to attract the larger accounts. I believe that smaller companies have an advantage over larger competitors because they can be more agile, and senior executives are more directly involved with the underwriting and the brokers with less bureaucracy which promotes prompt service.

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TDD: During your tenure at the helm of GNY family of companies, how did you define "success" for your team?

WH: My definition of success was made up of a number of components. It's essential to have enough control over the company's operations so that the senior staff including the CEO is aware, on a real-time basis, where the operational weaknesses of the Company exist, and whether the strategic and tactical business plans are on track. Basic to the definition of success is achieving the combined ratios, growth of direct written premium, loss reserve adequacy as outlined in our business plans. It's also important to provide the best service possible to the policyholders, brokers and claimants, and that all claims are paid fairly and promptly. We set high operational standards, particularly in underwriting the business.

TDD: What did you learn about having a succession plan?

WH: One of the most important things a CEO must do is prepare for succession and have a plan. Unfortunately, that didn't go smoothly for me because several of my successors didn't work out. I suggested to my board that they consider three of GNY's internal senior executives, one of which was my daughter who was our CFO at the time. She had been in our industry for over twenty years in the financial end of our business. The board employed the services of an executive recruiter to vet our three candidates for President and CEO, and the board selected my daughter. As it turned out the succession was seamless, and she turned out to be an excellent choice. Succession planning is one of the most important responsibilities of the CEO.

TDD: Did you have a mentor? What is your most important recollection of his or her advice?

WH: My mentor was my predecessor, Alexander Rosenthal, who was Chairman and CEO. His best advice to me was to be ethical, fair and honest, and hire only people that can be trusted, that have ethical values. In that regard, we were very much alike and I always followed that advice.

He also said don't be afraid to fail, and if you make a mistake, accept it and correct it as quickly as you can.

TDD: Would you share some thoughts on why young professionals should consider the insurance industry for their careers?

WH: I believe that the property and casualty insurance industry has excellent potential for an exciting and rewarding career for the following reasons:

It is estimated that within the next six years, 25 percent of the industry's workforce will retire. To fill this gap, there is a need to recruit young professionals who are interested in leadership positions.

The industry offers strong earnings potential for young college grads who are willing to study insurance and are motivated to work hard to get ahead. There is also job stability, a challenging career, and ample leadership positions that will be available. You need to keep in mind that during the worst part of the economic downturn in 2008 when many commercial enterprises were undergoing mass layoffs, insurance companies were adding to staff.

Insurance is important to the economy and the creation of small businesses, and that's reason enough to want to work in our industry.

TDD: Would you share two thoughts on overcoming challenges that other CEO's and leaders might use?

WH: Decision-making is a challenge for many CEO's because often there is a lack of sufficient information or conditions of ambiguity that are present when issues arise. It's important not to allow decision making to back up. So, you need to move the work and make the decisions. If some decisions turn out to be wrong, correct them at the earliest time, and keep the work flowing.

Another point — the CEO should not be making decisions that could be passed down the chain because subordinates will never gain enough experience to develop decision-making ability, which will require added supervision by the CEO. So, pass down the chain those decisions that subordinates can make.

Also, managers and staff perform better if you regularly reinforce the importance of implementing the Company's business plans and achieving its goals. Meetings help communicate the importance of the mission to the staff. When they get on board, they can contribute to achieving milestones and are engaged for the long run.

TDD: What other topics create a lot of passion for you?

WH: I think we all know that terrorism exposure is not diminishing or going away anytime soon. In fact, it's worse today than it was immediately after 9/11. I have been deeply involved with promoting Terrorism Risk Insurance Act (TRIA), the government backstop, to support the business community from acts of terrorism. My involvement began shortly after the 9/11 World Trade Center attacks.

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I feel strongly that there is a need for a long-term private/public terrorism risk insurance program to protect our country from acts of terrorism. While it's true that the insurance industry did not invoke the war exclusion after the 9/11 attack, there is little doubt that the event fell within the spirit of the war exclusion, and is not an exposure that the private insurance industry can handle on its own.

The inescapable fact is that terrorism is a classic uninsurable risk. The vast majority of insurance companies would not continue to be solvent if they covered the terrorism exposure and our country sustained another significant terrorism event. It's been sixteen years since 9/11 and there still isn't a viable terrorism reinsurance market that will fully reinsure that peril. There is some reinsurance coverage in perceived low risk regions of the country, but in places like New York City and Washington, DC there is minimal reinsurance capacity for terrorism available. What is available is extremely expensive. Furthermore, the regulators in many states will not permit even a pass-through of the terrorism reinsurance cost to policyholders. The fact is that most developed countries have a permanent government sponsored program funded by the insurance industry to protect its citizens such as the UK's terrorism model of Pool Re.

After 9/11 the New York Department of Financial Services would not approve an exclusionary endorsement for terrorism. As a result, many insurers withdrew from the commercial market, which had a negative impact on the New York economy resulting in the postponement of many construction projects, lack of or inadequate property coverage for many sky scrapers, and significant increases in commercial property pricing. TRIA was subsequently passed in 2002, and played a major role in preventing an economic catastrophe that helped to get New York City and the country back on its feet economically after 9/11.

It is hard to understand the reluctance by Congress to support a permanent government backstop to protect our country from another devastating terrorism attack similar to the 9/11 event, particularly since the exposure today is even more threatening than it was 16 years ago. That program can take the form of the current TRIA legislation or a separate pool that is prefunded by the industry. I support the pool idea because it would enable smaller companies to write commercial business in urban centers and enable the industry to build sufficient terrorism capacity.

We should keep in mind that TRIA is not a program that is prefunded by the government, and is one of the most successful private/public government programs because of its design which minimizes government expenses as indicated by the current TRIA program with event triggers, insurer co-payments and industry deductibles built into the legislation as the means of maximizing private sector participation.

Also, should there be a large enough event to require a government payout, the current legislation requires that the industry repay the government over time. Yet, the legislation is not long term, and must be reauthorized by Congress typically every five to seven years. The current TRIA legislation runs out in 2020, and there is no guarantee that it will be reauthorized. Should that happen, I believe it would have a significant negative impact on the U.S. economy.