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Dean's Executive Leadership Series - 2010-2011

Transcript of Interview with Paul Hopkins, Chairman of the Board, Farmers Group, Inc. Chairman of the Americas, Zurich Financial Services

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Start

Dean Linda Livingstone: We're going to take just a few minutes to do a little Q&A and then I think I'm going to turn it directly over to the audience in just a minute, but we're going to have to get some of those university ads at Pepperdine.

Paul Hopkins: Okay.

Dean Linda Livingstone: We have to think about that.

Paul Hopkins: Yeah, we should have clipped out the UCLA piece, shouldn't we?

Dean Linda Livingstone: That's okay.

Paul Hopkins: No, John Tyler Drive at UCLA? No.

Dean Linda Livingstone: No. I will also brag a little bit because I believe that one of your board members for Farmers University is one of our faculty members.

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Paul Hopkins: Mark Allen.

Dean Linda Livingstone: Mark Allen. So, we're really pleased to have that connection as well.

Paul Hopkins: Yeah, Mark's on our board of regents, which we established with the University of Farmers to get real life educators to come in and discuss the professionalism of the curriculum as well as bring in people who are on the front lines, etc. Mark's been a tremendous asset to us and probably the biggest cheerleader in the crowd when we got, did I mention, number one in the world? Wanted to make sure you didn't miss that part.

Dean Linda Livingstone: Well, I want to go straight to the audience for questions, but what would you like to hear from Paul or follow up on any of the things that he talked about? Yes, over here.

Audience Member: Hi. Nice to meet you, my name is Ruby. Actually, I just started as an intern last month at Farmers. I work at the Westlake Village finance. I'm happy to be here and I know our company goal is to double the business by 2020. So I wanted to ask, what are the key factors you think we will work on to double our business in eight years?

Paul Hopkins: Anybody want to take that? It's a piece of cake. Personally, I'm going to retire and let the real pros take over. No, and first of all, congratulations on joining Farmers and very pleased to have you on board. Yes, we do have a strategic objective by 2020 to double the size of our growth and to move from the number three position to pass Allstate and number two. And a lot of people would say, "Well, I can't believe you're that bold about it." Well, of course, we're going to be that bold about it. It's back to that team confidence thing. Sometimes we have to believe in ourselves or ask people. We need to believe in people more than they believe in themselves. So what we're going to do to get there is really focus on our core. We will not get there through future acquisitions. Our acquisition was very successful with 21st Century from AIG, giving us a direct arm into the segment of the population that wants to buy direct. But that also gave us a tremendous mechanism because our direct operation's a little different. If you buy direct from Geico or Progressive, that's kind of the end of the play, but Farmers has a direct auto wing with 21st Century. But for those customers that don't buy from us that only buy auto, then the Farmers agent steps in and does the rest of the cross sell. So we will be able to double the size with a few key things. Number one, we'll do it through the Farmers agents because the Farmers agents are the core of our future, and of all the growth that we've enjoyed thus far, to be perfectly honest. Some of the agents in the world would tell you this: the growth hasn't come from the core Farmers agents as much as it has from the acquisitions. We needed that additional revenue to be able to go from a \$15 million

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advertising budget to a \$350 million advertising budget, and strategically be ready for the changing buying habits of the consumers going forward. So by expanding our Farmers agents to the 50% of the population that can't access a Farmers agent today, that alone will bring forth a lot of the growth. The other thing that we'll do better than we've done before is to serve our customers better. To be perfectly honest, one of the things we are not pleased with is where we sit in the ranking with JD Powers and the other consumer magazines or researchers regarding the quality of our service. We think the quality of our service is much better than shows on a lot of the reports. Most of the reports – I don't want to sound like a professional loser and make excuses – but most of them are dated about three years etc. I could go another whole list of other things. Before we had a solution, I had to come up with all these excuses with no answers. We have invested heavily, very heavily, in new billing systems, in new technology systems, so our agent who's in front of the customer can have the same conversation with someone in our customer service efforts as well. So building off the Farmers agents in our core territory, expanding the Farmers agents into the eastern coast, and tremendously improving the service, so that our retention improves and we lose less customers. Just those things alone will accomplish our objective. Not that they're easy, but we will do them.

Dean Linda Livingstone: Yes.

Audience Member: Hi, my name is Scott Hoffman. My question for you is: you had a unique definition of practice of leadership, so how have you disseminated this concept, this way of leadership across a lot of organizations like Farmers?

Paul Hopkins: By spending an inordinate amount of time working on the right people in the right jobs. Everyone brings a different leadership style to bear. You should never try to be a leader you're not. It should start with who you are. I have never been one who felt that I was the smartest in the room. I have never been one that felt that I could do it alone. I have always felt that the most effective teams are the teams where the leader really supports a distributed leadership. But distributed leadership is more than just saying, "You're in charge and you're accountable." People really have to be in charge and accountable but also know the person at the top has their tail, if you will, if they try and fail. I think part of the challenge of leaders I've seen in the past, and to be perfectly honest, it was that way at Farmers for decades because autocratic leadership styles were so prevalent especially in the post World War II era, that they were leaders of one or decision makers of one. I worked for people where I had very fancy titles, but I never really felt I had the accountability, and I was always fearful of failing. We've tried to create an environment of distributed leadership where we celebrate successes, but we don't kill people for failures, so that they feel supported to get up and try and try again. So I guess those key words of

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distributed leadership and distributed accountability and compassion is as close as I can get to that answer.

Dean Linda Livingstone: Have you done most of your work on leadership development by bringing people up through the organization versus bringing people from outside? You obviously came up through the organization and spent your entire career there, but what's the philosophy at Farmers and Zurich in that regard?

Paul Hopkins: I've done a little bit of both. Growing up at Farmers, we always prided ourselves that we always promoted from within. I will be honest with you that's extremely good for the culture, but it's like anything else: too much of a good thing can be bad. We sometimes found ourselves without the level of competency in some of the roles that we needed to have, so we try to strike a balance between finding the very, very best people in the industry, and the very, very best people in our company, and try to create a mix of whom we bring in. I'm always extremely, extremely conscious of that blend, so that it doesn't appear that the company's being overtaken by people from the outside, or that if you come in from the outside, you can't get ahead because you're not a 25 or a 30 year person with Farmers. But our philosophy is at Zurich and at Farmers that we always look for the best-qualified candidate internally first. And then we objectively with that honest side up there, we take the decision how this person really stacks up to the best of the brands in the marketplace. If there's a gap, we go outside. If there's not a gap, we stay with the person inside. Fortunately, we're a large organization and we have an opportunity to kind of know where the market's going, so we can anticipate pretty heavily what the needs are going to be going forward, and we can backfill those accordingly. To close with this, I guess if someone were to say, "What's the thing I'm most proud of through all this?" It's the fact that the leadership team that we assembled back in 2004 and 2005 – let me just put it this way, everyone who we still want to be with the organization in that leadership team are still here. They haven't left. I think that really speaks about the culture. And if people want to be here because they can win and prosper, they can bring in like kind and quality. I do believe water seeks its own level. And then finally, it's really important that when you're in the workplace, you make sure you only hire nines, not sevens and eights. What does that mean? Well, if you looked at someone's overall quality from a zero being low and a 10 being high, it's really important that you hire nines because nines have the courage to hire nines and tens; eights won't. Eights won't. Eights don't want to have to compete with whom they're hiring. Nines and tens are confident enough in themselves and they're enough team players. They want to win. They'll bring you more nines and 10s. So when I'm looking for people, no eights on my team, all nines and 10s.

Dean Linda Livingstone: Good. Yes.

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Audience Member: You said your present company was very autocratic. When they made you the head of the company, and you knew the culture of your company had to change, did you have a bunch of people you conferred with, or did you have ideas yourself predetermined, because you'd worked at Farmers so long?

Paul Hopkins: That's a great question, Mr. West, and I think the answer is a little bit of both, like so many things. What I really had to do was to divorce myself from most of the things I already knew at Farmers because I was, in essence, self-admittedly, part of the problem. I put the charts up there saying that we hadn't grown in 10 years. Well, guess who was in charge of growth those 10 years? Me. So I recognized that the organization wouldn't continue to run well if it all ran through a single person or a single office. I had to go out and redefine my relationship with most of the key people and let them know that it's going to be very, very different. That it is going to be distributed leadership. It will not be a leadership of one. And while you might think you like that, don't think for a second you're really not accountable now because someone else is taking all your decisions for you anyway. When we go to distributed leadership, you'll have the power, you'll have the authority, but you also have the accountability that goes with that. So this was really a learning process for me, and I had to really reinvent myself. And as you know, after having led so many great organizations, when you're at the top, there are not a lot of people to talk to. So I took on board a couple of very special people, who had "been there, done that," into confidence, and they actually helped me create my first leadership team and set forth what my first 90 days in office would be like, and then what our strategic goals should be.

Dean Linda Livingstone: One of the things as I listen to you talk, and as you share your story, even shared what you just did, one of the qualities that you didn't talk about on your list of leadership skills, but I think that you clearly have exhibited, is a sense of humility, and knowing what you can do and what you can't do, and being willing to admit when you've made mistakes. So how do you see that in others that work with you because clearly it appears to be one of the things for you that's important in your leadership profile?

Paul Hopkins: It's very important. It's very important because, again, our organization had gotten to a point that you couldn't be critical of the organization. It was just terrible. We were losing business. We had huge issues and we'd sit around a table and you would have to spend five minutes before you made a critical comment by starting with this prelude of, "I don't mean to be critical, and you know I love this company more than anybody else." And then after about five minutes of syrup, you finally got to this one little watered down nugget that says, "Oh, by the way, our rates stink!" or something of that nature. So we tried to create an environment. A lot of my colleagues are sitting in the audience saying, "Boy, I didn't realize things improved this much!" Maybe I'm shining this story a little too much, but we certainly did,

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right from the get-go. We used to have, watch my language, “bitch” sessions, where I would invite people in to tell me what the heck was wrong with the company and to do it with some passion, so that we could get used to saying, “We’re not very good at this.” Now we still don’t have an appetite for skepticism, but we have a very strong appetite, and a culture that invites challenge and constructive criticism. So that was something that I tried to bring in because I knew just how subdued it was, and it was such a necessary part of this whole notion of distributed leadership.

Dean Linda Livingstone: We probably have time for one more question from the audience back here.

Audience Member: With all these natural disasters that are going on in the world, what keeps you up at night?

Dean Linda Livingstone: Those teenagers at home.

Paul Hopkins: You know what, you stole my line. You did hear me say I have a 19-year-old and an 18-year-old. It’s really that. The natural disasters don’t keep me up because of concerns financially. Trust me, if a disaster of the proportion that would take out an organization our size and some of our competitors, it would become a societal issue, very similar to what you’re seeing in Japan, rather than the solvency of any individual company. You know, this answer isn’t going to seem very satisfying to you, but it is really what keeps me up at night as it relates to the insurance business. It’s the increased regulation that we’re seeing. Gosh, I have a tremendous amount of respect for public servants, even when I don’t agree with them because they’re out there doing work that I feel like I ought to be doing too, but I just have never gone that direction in my life. But insurance customers pay a lot more for insurance than they need to pay today because we have such a cumbersome system of over 50 regulators and every time we want to introduce a new product, it has to be introduced and approved by 50 different state insurance departments across the land. So we have supported for years, just like the banks have, a choice between an optional federal charter or continue to be governed by the state system. Because of the crises that erupted, and because it was triggered by AIG, the then largest insurance company in the world, no one wants to look at the fact it wasn’t an insurance product. They just know it was a major insurance company. So the ability for the insurance industry to escape the systemic risk designation is pretty low. We will probably most assuredly—ask any other top 10 insurers in the country—will be sucked into this with the banks as well. It’s meant to be bank regulation, so you’re going to take regulation that spreads over the insurance industry with people that there’s never been a federal regulator, so they really don’t understand the market. We’ll now have three federal regulators; one with voting power that will sit on the financial stability oversight committee. There is no doubt it’s going to be a real struggle over the

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next four or five years as there's a turf war between who's really going to regulate the insurance companies. Will it be the feds? Will it be the state level? And unfortunately, I think the reality is, it will be both. So the bureaucracy, I think will only increase, which will drive more costs ultimately through to the consumer, but will also hamper our ability to really nail the real customer experience we think we're capable of delivering. So that bothers me a lot. That's a big part of what I do today is spend time in Washington to try to educate the right people on those topics. But it is very political, and the chances of a major insurance company escaping a systemic risk designation after AIG allegedly caused all this—not allegedly, they did trigger a big part of it. I think is very unlikely. And that is what bothers me because I think we have an incredible industry made up of bright, caring professional people like the ones you saw on that screen. And unfortunately, by the time the regulations are done, and the premiums go up, and the bureaucracy gets deeper, it will only diminish or hurt the reputation of the people that work in the insurance industry, rather than help it. That really bothers me.

Dean Linda Livingstone: And so that's what keeps you up at night. What gets you up in the morning and gets you excited about going to work? I want to end on a positive note here.

Paul Hopkins: You know, insurance business, this time of year going into hurricane season and you're asking for a positive. That's almost like really thinking I would do a 15-minute presentation.

Dean Linda Livingstone: It's always wishful thinking.

Paul Hopkins: What really excites me every day is the people that I work with and especially the newer people that I work with. Look, I'm the luckiest guy on the planet. I'm healthy. I've got a healthy family. I've got a gold plated career, and I work for a company that I absolutely love, and the people in it. So time is coming soon for me to retire, and I can look back on this and know in the future that the leadership of the company is great and that the future is very bright because we've been able to attract some of the best people in the industry to our organization, and we've been able to create an environment for them to be just as successful as they can be. So what do I get excited about? I get excited about going in seeing Mark Toohey, who I office with, or Vicky Gaither, who I work with, and a lot of the people in this room who I've had the opportunity to work with for nearly 30 years.

Dean Linda Livingstone: Thank you so much.

Paul Hopkins: Was that positive enough?

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Dean Linda Livingstone: It was great. Thank you so much.

Paul Hopkins: Thank you.

Dean Linda Livingstone: Thank you so much. So we've got to sit for just one second. We've got a couple of things we need to do here quickly. Before I do this, I do also want to introduce Rich Goudis who was with us in the audience, and Rich is with Herbalife. He's the chief marketing officer and he's going to actually be one of our speakers for DELS next year. So we have one of our speakers for next year, so thank you so much for being here.

Dean Linda Livingstone: We have a special gift for you.

Paul Hopkins: Oh, that's beautiful.

Dean Linda Livingstone: That you can put on your wall and remind you of your time with us here tonight, so we appreciate that.

Paul Hopkins: Thank you very much. That's very kind of you. Thank you very much.

Dean Linda Livingstone: And I'm going to ask Mr. West to come forward. He has actually a special presentation he would like to make as well. He has Pepperdine connections. His wife is a Pepperdine alum and he has a son that has two degrees from Pepperdine, including an MBA, correct?

Mr. West: Yes, yes.

Paul Hopkins: Fabulous.

Mr. West: You know, if you don't mind, I don't want to rain on his parade, but I've had an opportunity in my life to listen to a lot of talks like this. Here's a man, first time I've met you, Paul, one of the most impressive presentations I've ever heard in my life. The most difficult thing in the world is to find people who want to lead. Some people lead so easily, how would you like to work for someone like him? Life is lonely at the top, very lonely, and the things that I hear you talk about tonight are so many of the things I

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really believe in. I believe in people a lot. In professional basketball, you can get people who have genius IQs that cannot remember an out of bounds play. You can get someone who can't write his name; he remembers everything. But I think there's one common thread that goes between all people who like to compete. There's a fierce desire to compete and excel, and that's why I think goals are so important. They create energy and enthusiasm and you have done that for your company. I've been out four nights in a row and this is kind of a surprise for me to come out here tonight, but I'm so happy I came because I know why your company's successful. It's because of people like you and your lieutenants who echo the very same things that you do. But as I say, I've heard a lot of people speak, but my goodness. When you come from big communities, you have a simplistic approach to life. I came from one of 500 people, so you grew up in a metropolis compared to me.

Paul Hopkins: Absolutely.

Mr. West: But this truly was an inspiring evening for me, and for the people who work for this man. You've got to go home and thank your lucky stars that you work for someone who's as capable, but more importantly, who is so giving. Thank you, and I do have something for you here. I had no idea. I don't think this will fit.

Paul Hopkins: Oh, my gosh.

Paul Hopkins: Oh, that's fantastic. Thank you very much. You are taller in real life. Oh my gosh.

Mr. West: Here's another. You say you're going to retire, right? Well, you can go out and do this for a living.

Paul Hopkins: Okay! I heard Phil might retire. I'd love to coach the Lakers. Thank you very much.

Paul Hopkins: Thank you. Appreciate it.

Dean Linda Livingstone: Thank you so much. We appreciate it. Paul, thank you so much.

Paul Hopkins: Thank you very much.

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Dean Linda Livingstone: Thank you all so much for being here. What a special evening it was, and I'm so glad that you were able to be a part of it. We hope you'll join us again for our last event of the year at Sony Pictures, but have a wonderful and safe drive home. Thank you.

