

# YOU AIN'T SEEN NOTHIN' YET

An exclusive interview with HUB head **Martin Hughes**, who's not only sharing his thoughts about the company's future but also the future of independents.

**All eyes were on HUB International this summer**, as the hunter became the hunted, and U.S. private equity firm Hellman & Friedman snatched up that insurance giant. But, eyes were also trained – and still are – on the head of HUB, Martin Hughes, in an attempt to track his plans for the company, and by extension, the industry. Insurance Business magazine sat down for an extended conversation with that leading player. And it's clear he isn't slowing down and has more plans for HUB, including expansion.



**IB: Forgive us for starting with a biggie, but what big changes do you see on the horizon for insurers, specifically?**

**MH:** There continues to be broker consolidation. We're not the only company out there doing acquisitions. There is and will continue to be consolidation. The carriers have to recognize that their world is shrinking; they will be dealing with fewer but larger brokers, and it will cause them to shift their strategy a little bit.

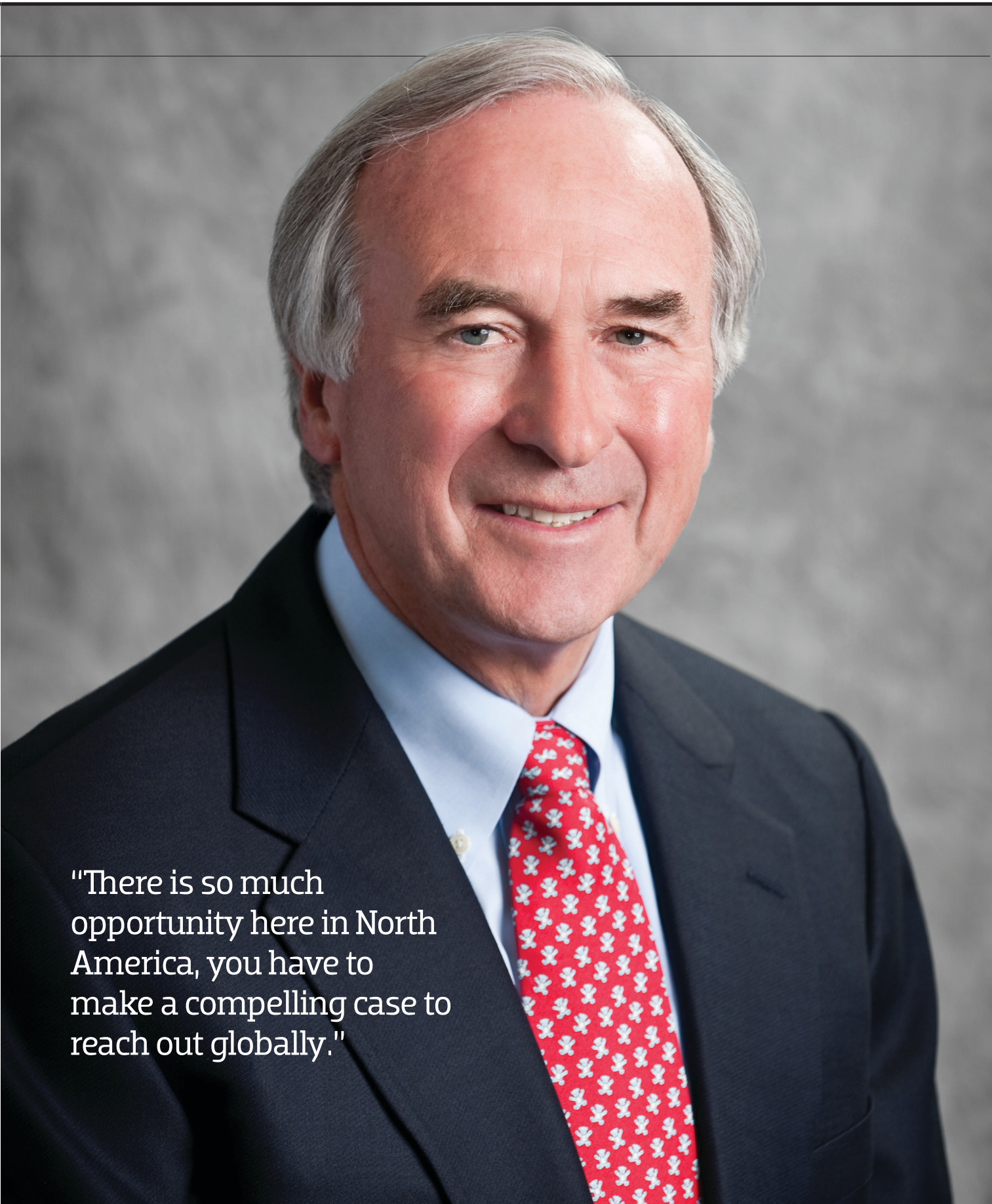
I think one of the things insurance companies have missed is a seamless technology play. I know that it is coming. Some have made the investment but the ones that haven't are still clinging to the investment they made in proprietary systems a few years ago. But insurers need to just get on with it to improve their modeling capabilities and how they do their PMLs.

You see what is going on in Colorado. They had all these massive wildfires in the summer that destroyed so many homes a while back, and now they've had 20 inches of rain. It has devastated that state. These catastrophic losses are causing insurance companies to recalculate their PMLs as well as how they price their products.



**Now that's out of the way, can you tell us how you got your start in the industry?**

My background was in accounting. The accounting firm of Price Waterhouse had accepted my application and wanted to send me to Omaha. This was 1973; I had just gotten married and I told my wife "we're



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**DID YOU KNOW?**

HUB value: \$4.4 billion

Hellman & Friedman: raised & managed over \$25 billion of committed capital since its founding

HUB employs more than 6,500 people

HUB estimated revenue for 2013: approximately \$1.2 billion in 2013

not going to Omaha.”

So I got an interview with another company, Mack & Parker; but once I settled in for the interview, I realized that the ad was supposed to have said “account executive position” and not accountant. We immediately concluded that we were both there for the wrong reasons.

But the interviewer said to me, “We’ve got the hour set aside, do you want to go on with the interview?” I said sure. But I didn’t know anything about insurance.

I did the interview, and I was intrigued. They invited me back for a second interview, and I was eventually hired on as a sales trainee.

I went off to Hartford, Conn., to the Aetna Casualty & Surety home office for what they called the casualty and surety sales training program – but there was very little sales training. It was mostly technical training for two months: how to read rate, quote policies – I didn’t learn how to sell anything. But I did learn a lot of technical stuff.

Then I came back and started making a lot of cold calls.

I stayed with that company and I ended up buying Mack & Parker in 1984 along with one of the Mack family sons, Ed Mack, and he and I ran it and grew it – eventually merging that into HUB International in October of 1999.

**What changes have you seen over the years?**

Obviously there has been a tremendous amount of consolidation within brokerages and insurance companies. If you look back at who the Top 10 brokers were 15 years ago, you’ll see a lot of change in that list.

One thing that has changed is the dynamics around selling -- clients are becoming much more value-proposition oriented. When I started in the business, it was completely a relationship business. People didn’t need to have a lot of skills; they just had to be likeable.

Today, clients still want to do business with who they like, but you’d better have expertise. Selling insurance today is a proposition-driven strategy as opposed to just pure price or relationship.

Here in the U.S. where we have the health care debate going on, what I think one of the big changes is that the CEOs and CFOs have in the past tended to exclusively deal with the property and casualty lines. But today they want to understand the cost

drivers in employee benefits and they want to have a voice in how their program is put together, because it is a big line item.

**What is the greatest threat facing the industry today?**

The coming threat that I see for insurance is how insurance companies have been very aggressive in buying brokers – they have been cannibalizing their own broker relationships by buying these brokerages – and for me, it is an inherent conflict. I just wonder how that strategy is going to play out. It is one that they need to be thoughtful about, and I just don’t see that ending any other way than badly for insurers.

**Are they eating their own?**

No doubt about it. It causes problems with the good brokers they are doing business with, and it will cause problems for them internally. The business planning model is suspect, I think, on this one.

**How about the mom and pops?**

(Mom-and-pop) Brokers will use that against them every day of the week. They will say to clients, “Wouldn’t you rather be with someone who owns, rather than being with a representative?”

**What opportunities for success are out there for the taking?**

Is there any low-hanging fruit for the taking? No. This is a fiercely competitive business. But I will say this: companies that I see doing well outperforming everyone else are the ones that specialize. If you specialize in a segment, and speak intelligently about it, know the plusses and minuses – you have an advantage over others who can’t.

Specialization for brokers is really important. In Canada, it is voluntary benefits. For our brokerages that is all we have. That is an area that is there for the taking right now. And in Canada, universal health care doesn’t cover everything – there are opportunities to specialize and succeed there.

**HUB has been known as the buyer of brokerages for many years. How did you come to the decision to sell to Hellman & Friedman?**

I spent quite a bit of time with them, they have a

sterling reputation – the highest reputation in the private equity world, I think. They have a track record of buying elite teams, and I felt that for us, it was a chance to be with a company that has really stood out. This gives us a chance to transform ourselves to go from being a really, really good company to a really, really great company.

### **What is the greatest challenge you've faced at HUB? What did you learn from it?**

In 1999 we started with \$36 million in revenue. Today, we do well over a billion dollars in revenue.

We've done that through growing the business and a lot of M&A (acquisitions). The thing that we've learned, the greatest challenge, is that if you do bad acquisitions, you put the whole culture of the company at risk. You can screw up the financials, you can screw up the company, the culture... you can do a lot of damage.

I've found we've made mistakes when we fell in love with geography instead of falling in love with people. If you decide "I have to be in this specific geographic area" you may end up with something that will become a liability.

You don't buy businesses that you don't understand. You don't buy businesses that you can't step in and run.

We don't make those mistakes any more. We've learned from them.

### **How is the relationship with H&F working out for you personally, and the employees at HUB?**

It has worked out great, absolutely. They are the kind of people who have lots of integrity. They have done what they said they would do. Everything they had done I have found to be constructive.

In some quarters, private equity has a bad reputation, but our experience with Apax Partners for the past six years and now Hellman & Friedman has been constructive. This is not a hard-assets business – this is a people business. I am delighted with the relationship and to be working with these guys.

### **Does the sale to Hellman & Friedman signal your stepping back from HUB?**

I'm not stepping back; in fact I've made a five-year commitment. Our whole team is on board and excited about it.

My commitment signals to the staff that it is business as usual, and it is a chance to take the company to a newer and higher level.

### **You mentioned mom-and-pop brokerages earlier. Is there still room for the mom and pops to succeed today?**

Yes, I think they can. They are going to have to deal with the smallest elements of the smaller lines of P&C, but if you are willing to specialize, in a particular niche, I think mom and pop businesses can do great.

It is a wonderful business, and it is one that not many people understand. We've not done a good job in attracting the best people to it – they all want to be investment bankers – but this is a wonderful business.

**"If you are willing to specialize, in a particular niche, I think mom-and-pop businesses can do great."**

*Martin Hughes*

I've personally gone to college campuses to recruit kids, and I've wanted to know what they think and what their observations were about the industry – and they don't have a clue. Their impression is that we are life insurance. They don't know any more than I knew back then.

It is important to introduce quality people to it. Once they understand that insurance is absolutely fundamental to the world, they get excited about it.

### **Where do you see Hub in the next 10 years? The next 20 years?**

We're going to continue to execute on our fundamental business plan. Grow the business organically and do acquisitions in geographic areas where we don't have a footprint and with brokerages who share our philosophy.

Yes, it may lead us to global expansion. But truthfully, there is so much opportunity here in North America, you have to make a compelling case to reach out globally. We did buy a brokerage in Brazil in 2011. We are very cautious of expansion in other areas.

Boots on the ground, leadership on the ground – people who have completely bought into our

## HUB'S 2013 HIGHLIGHTS:

strategy – those things have to be consistent, because they are the ones running our local offices. We are and we need to be very methodical and cautious expanding the business, just to ensure there is compatibility.



**The eternal golf question: Ever have a hole in one?**

Yes! I had my first hole in one on December 28 in 2010. I hit a four iron; it was about 180 yards and it was fabulous. I never thought I was going to have one. Before that, there was one weekend I played both days, and it was a par 3 and I hit a 2 iron on the same hole on the Saturday and Sunday (there were no hybrid clubs then). I hit my iron and the ball rolled up and hit the pin and never went in – both times! I thought I would never have one.



**If you could offer one piece of advice to a fresh face in the insurance game, what would it be?**

Funny you should ask that. We do a lot of recruiting of new people that we bring into the business, and it was while speaking to the latest group just a few weeks ago that I was asked that question by one young person.

I'll tell you what I told him. I'll give you two pieces of advice:

One – get comfortable talking in front of large groups, and learn to be articulate. If you can speak well, and you are comfortable in front of groups, you are more than halfway there.

It is amazing to me the people out there who have no grasp of the English language and are not articulate enough to present their thoughts and express them to people in a coherent fashion. Not everybody is going to be a great speaker; I get that. And not everybody is comfortable speaking in front of a large group – I know I wasn't.

But you make yourself get good at it.

Two – you need to specialize. Learn how to present your value proposition and the solutions you can provide. But again, that is part of being articulate.



**Everyone knows the corporate side of Martin Hughes – what might people not know about the personal side – the man himself?**

Well, I like to practice what I preach. I exercise regularly, I diet and eat well; I like to play golf when

**January**

Hub announces five U.S. acquisitions: Intercare Insurance Solutions Inc., a San Diego-based insurance brokerage; Benefit Concepts Inc., a Shreveport, Louisiana-based employee benefits brokerage; Maritime Insurance Group Inc., an insurance agency based in Sheboygan, Wisconsin; the assets of Premier Insurance, an Idaho-based insurance brokerage; and CFR Inc., an insurance brokerage based in Tulsa, Okla.

**March**

Hub announces a Canadian acquisition: Complete Brokerage Services (CBC) a Richmond, British Columbia-based life insurance managing general agency.

**May**

The company announces the acquisition of the property and casualty book of business of Advantage Insurance Services, Inc. (AIS), a Kirkland, Washington-based insurance brokerage.

**June**

Hub acquires the assets of Beartooth Insurance Inc., an insurance brokerage with offices in Red Lodge and Absarokee, Montana.

**August**

Hub announces two acquisitions: the assets of Vicencia and Buckley Insurance Services, Inc. (V&B), a La Palma, California-based insurance brokerage; and the assets of The Unity Group Inc., a Bellingham, Washington-based insurance brokerage. Hub also announces that it is the successful target of an acquisition attempt by funds advised by Hellman & Friedman. This is the largest takeover of a U.S. Insurance Broker on record.

Hub announces that it has entered into an agreement to be acquired by funds advised by Hellman & Friedman. The transaction values Hub at approximately US\$4.4 billion. Investment funds managed by Hellman & Friedman will hold a majority interest in the company, while members of Hub's senior management team will retain a significant equity position.

**September**

Hub acquires Manuel Lujan Insurance, an insurance brokerage based in Albuquerque, N.M.

**October**

Hub acquires the assets of Connelly, Carlisle, Fields & Nichols, a Clearwater, Florida-based insurance brokerage.

I can. I don't get out that often, but when I can, I get in about 12 rounds.

I've been married to the same girl for 43 years – got married when I was 22 years old. I've got three kids (well, they aren't kids anymore) and 10 grandkids, and the oldest is six. It can be a real handful when we get everyone together!

My son is in the business; he is the president of our Midwest operations. One daughter is a Chicago public school teacher and the other is a stay-at-home mom. 