

McGavick at Safeco: A big turnaround, an issue of candor

by *The-Seattle-Times*

When Safeco named Mike McGavick as chief executive and president, Wall Street yawned.

McGavick, then 42 years old, had never run a company and didn't have much history as an insurance executive. The day of his hiring, Jan. 30, 2001, Safeco ended trading at \$24.56 a share, up only 13 cents on the news.

Five years later, when McGavick left Safeco to run as a Republican for the U.S. Senate, Safeco stock had more than doubled to around \$54, and McGavick is generally regarded as the company's savior.

It is difficult to find critics of McGavick's tenure as CEO, at least from the business world. But his time was not without controversy. He oversaw the layoffs of 10 percent of Safeco's work force, and, after he resigned, the company awarded him bonuses and stock worth \$28 million.

Some employees believed McGavick took drastic steps to improve profitability so he could run for public office on a winning record.

As a corporate leader, McGavick sought advice from those around him and expected employees to follow directions. McGavick said he was blunt, inspirational and decisive, the same approach he said he will bring to the nation's problems if he beats incumbent Democratic Sen. Maria Cantwell.

But during his tenure at Safeco, McGavick couched his warnings of layoffs, despite the fact that he knew the company's payroll was too fat.

On the campaign trail, McGavick calls the federal deficit a "terrible mistake," but is often circumspect about how he would administer the tough medicine most experts agree is needed to balance the federal government's books.

Speaking before a group of remodelers in March, McGavick blasted government spending. And, as he has done throughout the campaign, McGavick said he would address the deficit the same way he fixed Safeco: "You had to be willing to make difficult choices to right the ship."

He then promised not to raise taxes.

Safeco's many woes

Founded in 1923, Safeco had a long reputation as a quiet company with predictable dividends. Until 1996, employees were expected to wear white shirts, and many considered themselves in lifetime jobs.

By 1999, when its fortunes began to sour, it was the 12th-largest property and casualty insurer in the nation, with an abundance of woes. It paid about \$1 billion too much for an Indianapolis-based insurance holding company, its payroll had grown too large and it was slow to adopt new techniques of identifying risky customers.

Safeco board member Judy Runstad said she and others at the company were worried that its low stock price had made it vulnerable to a takeover.

There were plenty of candidates for CEO, Runstad said, but the job went to a relative unknown. "Mike being young and not having had as much experience as some, you could say we were taking a bit of a chance," she said.

Before joining Safeco, McGavick, an aide to former Sen. Slade Gorton, had been president and chief operating officer for Chicago-based CNA Commercial Insurance. Under his watch there, McGavick cut costs in his unit by \$100 million annually and oversaw the elimination of 1,100 jobs.

Runstad said McGavick wasn't hired to be what she called "Mac the Knife," slashing jobs and boosting profits. But McGavick said he knew early on that tough decisions had to be made.

"I had done research on the company before I got there, and it was apparent the expenses were too high," he said.

"From the very first time I talked to Safeco employees, I said the reality was expenses were too high and the reality is two-thirds of our expenses are people, so the reality is there will be effects on people."

A videotape of McGavick's first town hall-style meeting with employees on Feb. 8, 2001, billed as "A Conversation With Mike," shows he tread a little more lightly.

Asked about the possibility of layoffs, McGavick replied: "Today, I can't tell you whether I think there will be layoffs for sure because all I know is the expenses are too high ... but here is what I will commit to" I will let you know what I know when I know it."

A month later, in March, McGavick told an investors conference that expenses were "out of whack" but said that didn't mean the 12,400-employee company would have mass layoffs. That July, Safeco announced it was cutting 1,200 jobs, the hardest decision McGavick said he ever made.

Some employees said they heard McGavick reassure them that jobs weren't on the line, and were blindsided by the layoffs.

"He put everybody at ease, that it was going to be all right," said a Safeco employee who asked to remain anonymous for fear of losing her job. "And then there were these massive cuts. People were reeling."

While the company has not revealed precise numbers, some of the eliminated jobs later went to overseas contractors who performed the work for less.

"I wanted to do everything I could to avoid layoffs, but it turned out to be unavoidable," McGavick said during an interview Aug. 3.

"Having from the start said we were willing to make hard decisions and talked about expenses being out of control, and not being certain whether there'll be layoffs or not, is perfectly reasonable," he said. "I think that was handled the best way you could handle something that awful."

Three weeks after the interview, McGavick issued an open letter expressing regret for, among other things, telling his executive team at Safeco that layoffs would number in the hundreds when more than 1,000 people eventually lost their jobs.

"I was wrong to raise such hopes," he wrote.

"An inclusive guy"

Yomtov Senegor arrived at Safeco as a consultant about the same time as McGavick and soon joined the company full time, in charge of long-term strategy.

He said McGavick often delegated smaller problems, but delved deeply into strategic decisions, such as whether Safeco should continue to offer homeowners insurance.

The homeowners unit was hemorrhaging cash, Senegor said. In Kansas, claims from tornadoes meant that Safeco was rebuilding homes every 10 years. In Texas, mold was a big problem, and hurricanes trashed the Gulf states. What's more, deductibles were so low that customers were using their insurance to pay for home maintenance instead of major fixes.

McGavick asked Safeco employees for their input and presented a plan to the board for approval.

"Mike is an inclusive guy. I thought I had a voice counter to his," said Senegor, who no longer works at the company.

In the end, Safeco opted to stay in the homeowners market as McGavick suggested, and, with restructured policies and higher rates, it's now a profitable business.

Some customers weren't happy about the changes — complaints about Safeco rose from 143 in 2000 to 201 the following year, according to the Washington state Insurance Commissioner's Office.

The company had limited business in the Southeast and wasn't hurt by Hurricane Katrina.

As for weaknesses, McGavick said he sometimes moved on to other issues before problems had been totally fixed, and Senegor agreed. For example, Safeco had too many high-risk homeowners policies in California. If the state had been hit by an earthquake, Senegor said, the company would have suffered a big financial hit.

Andrea Murphy, who worked in human resources at Safeco before quitting last year, said some employees believed McGavick was trying to make the company profitable so he could run for office. And she complained that the bonus system gave much greater payouts to upper executives than to the rank-and-file.

"He can brag all he wants about turning around Safeco, but at what cost?" Murphy asked. "I think he is driven by the bottom line and how he can benefit from it."

Runstad said the entire board and two consultants carefully reviewed McGavick's compensation package, which awarded him \$28 million when he left in February.

To Runstad, the Safeco turnaround "should be a Harvard case study. He did a wonderful thing."

On Aug. 1, a shareholder recruited by a liberal blogger filed a lawsuit contending the board was too generous and asked for unspecified damages. McGavick said the suit was politically motivated and has no merit.

Financial analyst Paul Latta said McGavick deserves credit for bringing in new ways to price insurance and returning the company to profitability, but the overall market also improved, helping boost Safeco's shares.

"Clearly, the stock price went up when he was in the hot seat," Latta said. "To what extent it was Mike McGavick or the wind at his back — well, it was a little of both."

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