PivotPoint Analytics Launches Cyber Risk Assessment Product

October 26, 2015

PivotPoint Risk Analytics has launched a new company and its flagship product CyVaR, which quantifies cyber value-at-risk and gives chief information security officers (CISOs) and business leaders a common language in making cyber investment decisions and reducing cyber risk.

Spun out of CyberPoint International, the new company will be led by security industry veteran Julian Waits. It will work on addressing the critical data gap required to accurately gauge potential losses due to cyber attacks, a necessary step toward reducing risk and insuring against losses from a breach.

CyberPoint started the creation of CyVaR nearly two years ago by combining its analytical science capabilities with cyber threat analysis to place a monetary value on the cost of a cyber breach. PivotPoint was formed to commercialize CyVaR and other analytical technologies focused on cyber value-at-risk. CyVaR applies cyber threat models to statistical techniques for determining cyber value-at-risk.

“We believe the biggest threat to organizations today is the fuzzy picture of cyber risk that leads to misguided security investments. Throwing more money at security doesn’t make you more secure,” said Julian Waits, president and CEO, PivotPoint. “CISOs can’t protect everything – but they can protect the assets most important to the company and secure the value of the business. PivotPoint was founded to change the way we think about cyber and commercialize the first technology to make security a boardroom level discussion.”

The company helps organizations take a “cyber investment portfolio management” approach to identify return on investment. Insurers can use the product to determine financial exposure for more accurate cyber risk assessments, insurance policy coverage and premium decisions, according to the company.

CyVaR is an enterprise-scale product offered as SaaS starting at $50,000 annually depending on the size of the organization.

PivotPoint is a cyber risk analytics that measure cyber value-at-risk.

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The former chief executive officer of XL Group, Mike McGavick, admits that frequently during his career he has taken on leadership roles that some of his contemporaries considered too hot to handle—such as the turnarounds he led at XL Group and Safeco.

“I’ve consistently gotten jobs that no one else wanted. I’ve always walked into situations where there was a pretty dire need to rethink the business,” he recalled.

Indeed, after the successful turnarounds at Safeco and XL, he subsequently discovered that “much, much better names than me” had turned down offers to run the companies.

He feels lucky that these roles fell to him, even if by default.

> There is no cookie-cutter approach, no standard answer, no blueprint, to turning around a company.

So, how did McGavick develop the dogged determination—some would say courage—to run troubled companies and help return them to strong financial health?

McGavick sat down with *Carrier Management* to discuss his career and early life lessons that led him to help with insurer turnarounds and ultimately to his current role as special adviser to AXA Group CEO Thomas Buberl, to which he was appointed after AXA's purchase of XL Group in September 2018. (See related story: AXA XL's McGavick Looks Ahead to 'The Golden Age of Insurance (https://www.insurancejournal.com/news/international/2019/03/21/521268.htm)').

Secrets to Success

At the tender age of 20, McGavick took on a job where he was paid $100 per week to be a driver for Slade Gorton, who was running as a U.S. senator from Washington state. "It was the first job where I had to wear a tie, and all I did was drive him around the state. Back then you didn't fly to campaign events; you drove. And our state's a huge state, so I spent lots of hours in the car with this guy."

Gorton, who is now 91 and continues to work as an attorney in Washington state, was a U.S. senator from 1981 to 1987 and then again from 1989 to 2001.

Previously, he had been Washington state attorney general and had argued 14 cases before the U.S. Supreme Court, said McGavick. "He is a remarkably achieved human being, and I knew when driving around with him I was going to be able to ask for some advice."

McGavick recalled one night when he was driving Gorton, who had been napping in the back of the car. He suddenly woke up and wanted to talk.

"I thought, 'OK, this is my chance.' So, I asked him the question I'd been saving for a moment like this, which was: 'What do you think is the difference between the most successful people you've seen and super smart people that just don't create that kind of success?'"

McGavick said Gorton paused for a bit, thinking, and finally said: "No. 1, you have to be willing to think very deeply about any problem you are presented. Most people aren't able to do this or don't have the discipline to do this. What I mean is any time you see a new problem, the reason it's a problem is there's something that makes old solutions not work. What most people do when confronting a problem is they just try to pigeonhole it into some prior successful solution."

When you're presented with a problem, Gorton emphasized, "It's an opportunity to think past the obvious, past the easy answers, and keep digging and digging and digging until you come to some bedrock answer that is deeply rooted in the fundamental ideas or strategy you're pursuing."

Mike McGavick

Sometimes the answer will be familiar, Gorton told McGavick, “but sometimes you’ll find something really different and be able to build from there something great. So, think very deeply; just be willing and good things will happen.”

“I was told that at the age of 20, and it remains the most important [advice] ever given to me,” said McGavick. Indeed, Slade’s Rule No. 1 has been put into action every time McGavick and his teams worked to develop unique solutions for each of the corporate turnarounds in which he was involved.

Some of his contemporaries may have viewed these distressed companies as lost causes, but McGavick viewed them as opportunities to make a difference. (Read further in this article for Slade’s Rule No. 2.)

No Cookie-Cutter Approaches Allowed

Gorton’s advice helped McGavick come to the conclusion that there is no cookie-cutter approach, no standard answer, no blueprint, to turning around a company. It’s a mistake that gets made all the time by people who believe that if you cut costs, get out of nonperforming lines, grow high-performing businesses, then the company will be saved, he emphasized. “But it’s not at all that simple.”

While those things also have to happen, each turnaround is individualized and “highly idiosyncratic.” You must take into account the company’s history, customer base, partner relationships and where the world is moving toward that will enable it to stand out amongst its competitors, he explained.

“I think a trap that people fall into is that there’s some kind of boilerplate solution, or a McKinsey study, or some damn thing that’ll just solve it all, which is a crock. You have to be much more creative, insightful and deep-thinking than that to make this work.”

XL Group’s Story

When asked to provide a real-life example of how Slade’s Rule works in the midst of a turnaround, McGavick pointed to XL Group, which he joined in 2008—at the onset of the Great Recession.

“XL Group had been a fair-haired child of the industry but had fallen precipitously in recent years” as a result of mortgage guaranty business, written by its one-time bond insurer subsidiary Syncora Capital Assurance (SCA), McGavick explained.

“The challenge there was to quickly grasp what was the best path to extinguishing those liabilities,” he said.

The solution was to create a multiparty negotiation, which included not only SCA, XL and its counterparties but also the office of the New York State insurance superintendent.

As a result of those negotiations, an agreement was reached that recapitalized SCA and ended litigation against the company, according to an article in *Insurance Journal* on July 29, 2008, titled “Merrill, XL to Bail Out Bond Insurer Security Capital.”

“The drag on our balance sheet was removed, and we thought everything was fine,” McGavick recalled. It was thought, at the time, that financial guaranty business was the only problem at XL, which when resolved would create “a really cool, high-performing, global company.”

But once the SCA dust settled, “we got a good look at the underlying business and said, ‘Oh, no! This business has been deteriorating for a long time, and we’re going to have to do some major reform here.’ And we did.”

He explained that the underperformance was masked by reserve releases still coming forward from the early 2000s.

“Repairing the business became the focal point. While it eventually worked, it took a long time and was very hard work.” Of course, McGavick and his team instituted all the traditional turnaround tools, such as pulling back on nonperforming lines, cutting costs, etc.

Adding insult to injury, the company was suffering from a deficit in underwriting talent. “We realized that the infighting that had gone on before I got there over whether to be a financial guaranty company or a pure-play insurance company had led a lot of the insurance talent to leave in a quiet exodus.”

Historically, XL had operated with a centralized structure, managed from the top down, composed of large units such as international, commercial and reinsurance, which his team realized needed restructuring to be able to attract new talent.

After a careful analysis of the underwriting teams’ financial performance, it was determined that some of the company’s most profitable, fastest growing, most insightful businesses were “the least respectful of corporate norms.”

What kind of structure could XL therefore create that would attract the best and brightest underwriters to work there, giving them free rein to do what they do best?

Slade’s Rule No. 1 in Action

Here comes the example of Slade’s Rule No. 1: A major rethinking of XL’s structure was required.

After digging and digging and digging for answers—as per Gorton’s suggestion—McGavick and his strategic implementation team came up with the idea that a more powerful way to structure the company was around individual, much smaller businesses that were close to customers.

Looking at the underwriting units, it was discovered that the fastest growing, most insightful businesses were also the ones who complained the most about time-consuming processes, bureaucratic box-ticking—and "clearly were the least respectful of corporate norms."

"It was our job to try and figure out why. How do these things coexist? And what's wrong with this picture? It took us a long time to figure it out. It now seems obvious, but it wasn't obvious at all at the time."

Was XL creating a situation where the "squeaky wheel gets greased," where the whining teams got what they wanted?

"That was exactly what people were afraid was going to happen," McGavick recalled. "We realized they weren't whining. They completely knew that they had to run a business that met its regulatory standards and had no question about its ethics. They knew all that. They couldn't imagine how that business would function without it."

But they also knew that most of what they were being asked to do was unnecessary, wasteful, and inhibited creativity and success. "They were hungry to be a part of a group that understood that. They didn't lead a revolution; they just bitched a lot," McGavick said with a laugh.

During this exhaustive restructuring, XL brought in futurists and all kinds of experts who spoke to XL's executives and the 50-member strategic implementation team who handled the restructuring work.

Ideas were discussed and thrown out. Ideas were discussed and considered. "It was that exercise that worked—beating it into submission until everything was actually in alignment around an idea that would further our success." Thank you, Slade's Rule No. 1.

The implementation team came up with a new structure for the business that would emphasize talent over bureaucracy, but the team had to find ways to free up underwriters' creativity by removing bureaucratic hindrances while still maintaining controls over an intensely regulated and complex business.

Upside-Down Pyramid Structure

XL decided to move to a new structure, similar to an upside-down pyramid, with the teams at the top and management at the bottom.

How could protections and controls be maintained while encouraging creativity? They realized the answer to that conundrum was technology. For example, underwriting behavior could be monitored in the background "so we could lessen disruptive audits and the like."

McGavick admitted there continued to be internal resistance to the restructuring. "I remember when I walked into the boardroom the day we made this decision. One of my board members derisively called it a glorified HR strategy. I said, 'Exactly. This is how you attract the best talent in a talent-driven business.'

During the restructuring, XL made sure that unified corporate culture was created to make everything work. In addition, the "pyramid would turn over five times a year, when we had to answer to our shareholders and our board about what our strategic plans were and how we did against our plans."

While an accountability exercise was created around results, for most of the year that was operating in the background, he said. "It was more about the creativity and the imagination of these people leading their businesses."

"The corporate center of the company had to take a more humble view of its job and spend its time thinking about how to enable those businesses to be as powerful and successful as possible, which brought the whole focus of the company closer and closer to the customer all the time."

That insight radically changed everything XL did—how the company thought about cost, where to make investments, what kinds of businesses to be in and why to be in them, he explained.

The two-part reorganization of XL was an obvious success. In 2008, XL was seemingly on its deathbed with the second worst-performing stock in the S&P 500. By 2009, it had the best-performing stock in the S&P 500, and by 2014, it reported some of its best financial results—strong enough to be able to purchase Catlin Group in 2015 for $4 billion, "which put us into a different league" through its leading market share at Lloyd's.

"Eventually we decided scale was the critical thing and decided to hook up with AXA." (XL was purchased by AXA for $15 billion in 2018.)

Safeco's Reversal of Fortunes

None of the solutions McGavick and his teams devised were the same—whether it was XL, Safeco or CNA.

By the time he was named CEO at Safeco Corp. in 2001, McGavick had already developed a reputation for reversing corporate fortunes—during his six years at CNA.

"[McGavick's] recent history at CNA shows that he knows how to engineer a successful turnaround," said William G. "Gary" Reed, chairman of Safeco's board of directors, who was quoted in *Insurance Journal* on Feb. 12, 2001 (https://www.insurancejournal.com/magazines/features/2001/02/12/17820.htm).

"Safeco had been a wonderful, successful company for many years, with a revered name," but it ran into difficulties when it expanded into businesses it didn't understand, he explained.

The key to the company's historical success was that it had created an extraordinarily disciplined culture in the personal lines (mainly auto) and in the small commercial space, McGavick continued. "They also had life businesses that were based on the same disciplined principles."

Unfortunately, the company "became impatient with their part of the insurance world," he said. "They bought a syndicate at Lloyd's, got into large commercial business and did a very large acquisition to break out of their West Coast roots."

The net effect of this expansion was to create a balance sheet under severe pressure and large losses.

Safeco discovered it was unable to transfer its culture to the new businesses it had purchased and its historically profitable personal lines business received less attention as the company struggled to recover its equilibrium, he said.

When McGavick became president and CEO of Safeco in 2001, the Seattle-based company had been teetering on the brink.

McGavick and his "super talented" turnaround team quickly realized that the company needed to get back to its core business that fit the corporate culture. "We had to find a way out of all the other things that were distracting us—and we did."

Another big move involved bolstering the company's commitment to its distribution partners, although the fad at the time was to get rid of agents, he indicated.

McGavick and his team decided to create a platform that would help Safeco's agents become more efficient and effective, thereby lowering their cost base in auto, homeowners and small commercial.

"If we were able to lower their cost of doing business, they would make more money if they chose Safeco over other competitors, and we could reduce our expenses at the same time," he said.

"We put that strategy in place, got out of the other businesses and reduced costs," McGavick continued. Of course, some of those cost reductions involved staff cuts, which he described as a "horrible process."

"In the end, we were successful in making Safeco one of the fastest growing and most profitable insurers of its kind. So, we took a dire situation and it came out very well."

He stayed at Safeco until the end of 2005, when he decided to run as a Republican candidate for the U.S. Senate in 2006, although he didn't win. He joined XL in 2008—for the "extremely appealing opportunity" to help turn around a complex, global commercial insurance and reinsurance business, although, as he described above, it turned out to be a bit more complicated than anticipated.

At the Beginning

Before Safeco, McGavick had already showed he was adept at helping to reverse fortunes—both politically (for Slade Gorton) and in the corporate sphere at CNA.

On the political side, in the years after McGavick was Gorton's driver, he also worked on Gorton's first successful senatorial campaign and ultimately became a member of his staff in Washington, D.C., specializing in foreign policy and defense issues.

He returned home to Seattle to finish his degree in political science from the University of Washington while continuing to work in Gorton's state office.

When Gorton ran for re-election in 1986, he lost, but he decided to run again for the other U.S. Senate seat in Washington state in 1988. Gorton asked McGavick to join his re-election team as campaign manager. When Gorton won the election, McGavick became his chief of staff in Washington, D.C., when he was only about 29 years old.

McGavick eventually moved on from the political fray, taking a series of public affairs positions. In 1992, he was recruited by the American Insurance Association as director of its Superfund Improvement Project in Washington, D.C., where he served as lead negotiator for the insurance industry with Congress, federal agencies and various interest groups involved in the reform of the nation's Superfund laws for the cleanup of hazardous waste sites.

McGavick's career in the insurance industry had begun. He said he quickly found it to be "absolutely, mind-blowingly interesting."

Through his role at AIA he met Dennis Chookaszian, who was CEO of CNA Financial Corp. at that time. Chookaszian was trying to turn that company around after a few years of poor performance, said McGavick. "Chookaszian was really open to having somebody around who did not have a traditional industry background."

In 1995 when he joined the company, Chookaszian gave McGavick a couple of assignments so he could prove himself, saying if he passed those tests, he could take on a leadership role. One such test was leading a strategic project that helped develop an understanding of healthcare reform and its impact across the company.

When these projects went well, McGavick was asked to be the CFO of CNA's business that focused on small and medium commercial businesses.

Although he had little financial experience, Chookaszian had come through the CFO ranks, and so had several of the leaders of the company, McGavick said. "Their view was they didn't have to worry that I would somehow goof things up because there was so much technical expertise around me. But they wanted to see if I understood the numbers and if I could make good decisions based on the numbers and help the business turn itself around."

Within a year or so, McGavick asked to run that business, and a couple years after that he was made president of the whole division, which included both small and large commercial operations.

His CNA successes were perhaps best described by Safeco Chairman William G. Reed, quoted by *Insurance Journal*, when McGavick became the company's CEO.

Reed said: “Basically, Mike made the tough decisions that are providing bottom-line results. Over an 18-month period, his unit improved its combined ratio by seven points. That’s a positive swing of over $200 million.”

Why would Chookaszian take a chance on a relative industry novice? “Dennis, to his credit, always challenged himself to avoid doing things the way they had always been done, even though by then he had been in the industry a fair amount of time.”

McGavick explained that his hiring at CNA wasn’t so much about bringing in an industry newcomer. “The deeper idea was to find people who don’t get caught up in the idea that things should always be done the same way or that business models should never change.”

The idea is to observe the external world and apply it to where the business is going, rather than looking back over history and repeating that history, McGavick affirmed.

To have such an insightful CEO supporting him was perhaps the best training for what was ahead because the turnaround story was about “doing it differently, rethinking what was going on, and challenging ourselves to bring the business to a new place.”

He has avoided hand-me-down knowledge, “which by definition gets you looking backward with your head down and not viewing the business in a fresh way.”

If the reason for a company process is because it’s always been done that way, McGavick would say, “That’s just dumb, and we’re not gonna do it that way anymore.”

While hand-me-down knowledge can work for chunks of time, “the world doesn’t stand still, and particularly in today’s world, change accelerates in a way that no longer allows that to be a successful strategy for very long,” he stressed. “Today, leaders have to come from a place where they challenge suppositions, and have to be of a mindset that this business is going to be repeatedly reinvented, and what are we doing to lead the way rather than be victims of that pattern.”

High Points and Low Points

When asked about what he is proudest of in his career, McGavick returned to the theme of turnarounds. “Whether it was helping to bring Slade Gorton back to the senate, or the turnaround at CNA or Safeco or XL, none of the solutions for any of those four problems were the same.”

In addition, he proved the impossible was often possible. No one thought Gorton could be re-elected, but he was. “No one thought we could make profits in the commercial operations at CNA, but we did. People thought Safeco was dead, but it returned to health. They also thought XL was dead, but we turned it around,” McGavick said, describing these successes, against all odds, as very gratifying.

However, it hasn’t all been smooth sailing, and McGavick does have regrets about some business decisions involving people that had to be made. “I’ll go to my grave feeling horrible about some of the layoffs we had to make because it’s such disgusting work.”

When he has such dark recollections, McGavick tries to remember that in the grand scheme of things, the restructurings ultimately saved thousands of jobs and people were able to keep their careers going within these companies.

What's next for McGavick? After the purchase of XL by AXA, he agreed to be special adviser for AXA Group's CEO Buberl for the next few years.

"It doesn't require a huge amount of my time, and I'm free to do other things as well. Beyond that, I have absolutely no clue what I'll do," he said with a chuckle. "My wife has encouraged me to take a meaningful period of reflection and get daily management completely out of my system before I decide."

McGavick said he has come to realize that will take a fair amount of time. "Meanwhile, I'm enjoying the exercise."

Slade's Rule No. 2

So, this brings us back full-circle to the young McGavick, who asked Slade Gorton for his advice when they drove together through the night.

If you'll recall, Slade's Rule No. 1 was about digging past easy answers.

Slade's Rule No. 2 was: "Only work on things that bring you joy because you'll only be willing to work hard and have the energy to work hard if you find joy in what you do."

So, has an insurance career brought him joy? "Yes, absolutely," he quickly answered. "I found that I got joy from the complexity of it, from the sense that it was very important for society to get right and that helping a company perform well was important for every stakeholder—colleagues, investors and customers."

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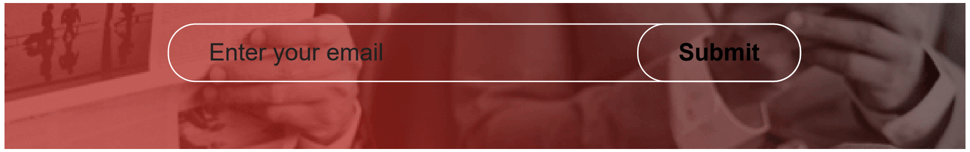

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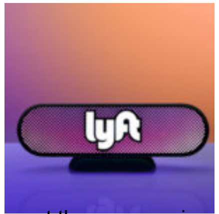

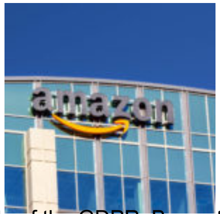

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