

Pamic
100 Years
of Service
1907-2007

VOLUME 37 | ISSUE 9

January—February, 2007

PULSE

newsletter

Pennsylvania Association of Mutual Insurance Companies

From the President



I am writing this message on the day following Governor Rendell's second inaugural address. Soon the 2007 – 2008 session of the Pennsylvania General Assembly will be in full swing. A good time to look back at the last two-year session.

Last session 5,759 bills were introduced into either the state House or the Senate. Of that number, only 844 passed their house of origin, or about 15% of all bills introduced. Of these, only 398 passed both houses, or about 7%. Passage by both houses does not guarantee that a bill will land on Governor Rendell's desk however. Some bills pass the second house in significantly amended form and never secure concurrence from the house of origin. Last session, of the 398 bills passing both houses, only 379 were sent to the governor. Of these bills, 364 were actually enacted. Thus, of all the bills introduced in 2005 – 2006, only about 6.3% actually became law.

Obviously, I cannot read and keep abreast of all these bills. When a bill is first introduced it is assigned to an appropriate committee for consideration. Assuming these bills are referred to the proper committees, the job becomes more manageable. The primary committees to watch for the PAMIC membership are the House Insurance Committee and the Senate Banking and Insurance Committee. For the past several years most insurance bills actively considered by these committees have dealt with health insurance issues, further cutting down the number of bills that merit my active monitoring. Several PAMIC member companies also underwrite auto and workers compensation lines, so referral of bills to the House Labor Relations, Senate Labor and Industry, and House and Senate Transportation Committees must also be closely watched. Insurance matters may crop up as subsidiary issues in a host of other bills. For example, in the past session insurance issues emerged in bills initially referred to such committees as the Senate Consumer Protection and Professional Licensure, Urban Affairs and Housing, Veterans Affairs and Emergency Preparedness Committees and the House Consumer Affairs and Veterans and Emergency Preparedness Committees. And of course bills dealing with tort reform – always crucial to our industry - are commonly referred to the respective judiciary committees of either house.

All in all, it is necessary to perform at least a preliminary scan of every bill's contents as introduced to identify any bills with some insurance industry impact, in addition to the more detailed study of all the bills that go to the insurance committees.

(From the President continued on page 7)

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ID STATEMENT

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Chairman's Comments



PAMIC History

A few years before I began to think of PAMIC having a centennial birthday coming up, I was doing a little historical mining to satisfy my curiosity. I came across the membership list for the convention in Erie, Pennsylvania. I was dismayed to

find that there were only two individuals from that list that had attended the most recent PAMIC convention and I was one of them. If I needed something to awake me to the term senior citizen, that was it.

In preparation for this article I went back over some of my old issues of the Pulse. Actually, I was trying to find an article that I could copy that would not be recognized. I was considering broken resolutions. I almost used Mr. Lyon's article from last January-February. It would be hard to beat. I decided to do some more research and found some interesting articles from the past.

INSURANCE EXECUTIVE INVOLVED IN PURCHASE OF STOLEN GUNS

I found one from 1979 that, at first, cast a dim view of one of our member companies. It appears that Harold Detwiler, then President of Everett Cash Mutual, was funneling money to a state wide organization so they could purchase stolen guns. At first I pondered, and there I always thought they gained all that surplus through good underwriting and investing. My excitement dimmed as I read the entire article and found that he was supplying the State Police with money to help them expose and break a large burglary ring. Their efforts were successful. It was just another case of a PAMIC member cooperating to solve a public problem.

PAMIC RENTS OFFICE FROM MUTUAL INSPECTION BUREAU

Also in 1979, PAMIC was moving into a room they were renting from the Mutual Inspection Bureau to be used by PAMIC staff when they were working at the capital or in the Harrisburg area. At that time, the PAMIC office was in Lititz. I did not remember that office.

INSURANCE TO VALUE ESTIMATOR DEVELOPED

In another 1979 breakthrough, William Hapke, then Secretary of Manor Mutual worked in conjunction with AAIS to develop an Insurance-to-Value

estimator. It allowed an individual to determine the replacement cost of a one-family dwelling by completing six easy steps taking only five minutes to complete. My, how far we have come. It now takes longer than that with a computer.

COST-BASED PRICING VS SOCIAL OR POLITICAL-BASED PRICING 1979 or 2007?

In the March 1979 issue Paul Wise, then President of Alliance, remarked on the various challenges facing the automobile risk classification system. He noted that attacks on the system are often based on misinformation and a lack of understanding about the insurance pricing mechanism and how it works to serve societal needs. He warned that if governmental forces negate economic pricing methods, government will have to mandate the rules of conduct on a legislative basis to put all insurers on an equal footing. He also warned that once government heads down this road there is no end to the process if it is to carry out its mandate for social rather than economic pricing. His advice is just as relevant today as it was in 1979. We have an obligation to defend cost-based pricing as being in the public interest and to see that the public, the regulators and the legislators understand what it is and how it works.

This article is just as relevant today as it was when it was printed. Now, our industry is utilizing credit scoring or insurance scoring as a proven component of the rating process. We are still faced with a public and political opposition by those who either do not understand the process or choose to ignore it for public favor. Many of the decisions on cancellations today are not as critical as those in the past but we now have market conduct examinations and efforts to create another consumer advocate. I remember reading when they were first considering a consumer advocate within the insurance department. That was supposed to cure all of the public's problems. I guess when it comes to government and regulation, there is never enough to satisfy some.

PRICE CONTROLS ON INSURANCE PRODUCTS

In that same March 1979 issue it was reported that Commissioner Harvey Bartle had rescinded the requirement that insurers indicate on their renewal premium notices that they were in compliance with COWPS (Council on Wage and Price Standards) standards. The same issue contained an article reporting that Government regulations had been cited as a major cause of inflation.

ACQUIRING A DOBERMAN BY HOMEOWNER IS REASONABLE PROTECTION FROM THEFT

In the January 1993 edition Karen Balaban, Esq. reported that

More PAMIC History

the insurance department had found that the theft of two bicycles and two chairs in separate thefts together with failure to comply with recommendations did not represent substantial increase in hazard for a company to cancel under Act 205.

The insured had installed a six foot fence and acquired a doberman to aid in the prevention of future thefts. The position of the department was that this was compliance with the recommendation.

In another issue a cancellation for a dog biting a neighbor was not sufficient reason for cancellation because the name of the dog and the date of the bite were not disclosed on the cancellation. If the name and date had been included, the cancellation would have been effective. The emphasis was on providing more information on cancellation notices.

Some of these issues from the past reveal to me that not much has changed and probably some of times of the past were worse than we are experiencing in the present.

CONTINUE TO WORK ON THE SOLUTIONS TO THE PROBLEMS WE FACE

PAMIC together with other industry organizations has succeeded in the past in either working for the defeat of harmful legislation or regulation or at least moderating it. We will be meeting in Harrisburg in early February to meet with legislators in an effort to educate and persuade them to see the logic in our views on various legislative fronts. At one time I made the comment that I would rather go to the dentist than make that trip and I was serious. I went because I thought it was my PAMIC duty to go. As the yearly visits went by, I began to become familiar with many of the legislators. When I finally had one say that my comments had made him see the subject in a different way, I began to see why these visits are important. I don't quite look forward to the visits, but now I would rather visit the capital than go to the dentist. If you have never done it, why not give it a try. It really is your PAMIC duty.

MORE TO COME?

The staff at PAMIC can tell you that I also would also rather go to the dentist than write these articles. Now that I have started reading the old issues, I may have solved my problem of coming up with a new topic. There are none. I can just repeat the old ones. Very relative to our legislative visit was an article by Larry Kauffman regarding a job that had to be done where everybody thought somebody was doing the task. Anybody could have done it and it turned out that nobody did it. Somebody was mad because it was Everybody's Job.

This can be the case with our legislative effort if we do not all pull together. I have murdered his story in my paraphrase. I will try to find it for a future article. It is worth repeating and it fits our legislative visit effort. If we all think that Everybody will do it, the job may not get done. Make sure it gets done by being there to help. It really is not as bad as going to the dentist and you get a free breakfast.

PHOTOS OR HISTORICAL ITEMS

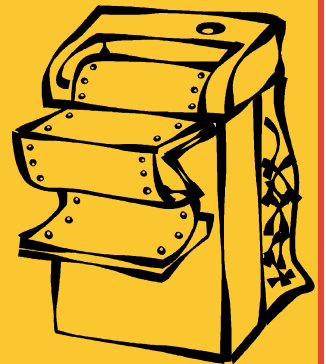
Please do not forget to look for any PAMIC related photographs or other historical items. Even historical items from your own company may be of interest. I need lots of help on this one.

Very truly yours,



Robert A. Fitzsimmons
President/CEO
Farmers Mutual Fire Insurance Company of Marble
2006—2007 PAMIC Chairman

FOR SALE: One Large Floor Model Used Gestetner DSC-38 Color Copier in Very Good Condition!
For more information, call 717-303-0197 or e-mail : pamic@pamic.org



PAMIC's 100th Annual Convention!



Save the Date

August 5 - 7, 2007

Rocky Gap Resort, Cumberland, MD

Education Update

Upcoming Seminars from PAMIC!

Mutual Insurance Day

February 5 & 6, 2007

Hilton Harrisburg and Towers

One North Second Street • Harrisburg, PA

PAMIC is hosting its 8th Annual Mutual Insurance Day on Monday and Tuesday, February 5 & 6, 2007.

PAMIC PAC will host a Legislative Reception with our Pennsylvania Legislators at the Harrisburg Hilton on Monday, February 5 from 5:00 to 7:00 pm

Each year PAMIC members gather in Harrisburg to meet with the Pennsylvania legislators. With dozens of new lawmakers this year, this event provides an exceptional opportunity to make new contacts, establish relationships, and educate incoming legislators on the issues of your mutual insurance business.

Please mark your calendars! Don't miss this important opportunity !

Annual Spring Conference

(formerly The Small Company Seminar)

March 14, 2007 • 5:30 - 6:30 pm

Conference Reception - *Sponsored by MSO, Inc.*

March 15, 2007 • 8:30 - 3:15

Continental Breakfast- *Sponsored by Town & Country Computer Services*

Luncheon - *Sponsored by Guy Carpenter & Company, Inc.*

Sessions include:

Regulatory Update, **Steven C. Elliott**, JD CPCU, PAMIC

Reinsurance Contracts, **Kathleen Carroll**, Guy Carpenter & Company, Inc.

Hiring, Firing and Everything In Between, **Anthony Visco**,

Ballard Spahr Andrews & Ingersoll, LLP

Marketing Panel, **Nathaniel Harris**, CIC, MMG Insurance

Sharyn Klimko, Lititz Mutual

Making the most of Your Website, **Peter Kraynak**, Info724, Ltd.

For registration information, please visit www.pamic.org
or call PAMIC at 717-303-0197

Using Consultants

2006-2007 PAMIC EVENTS

Mutual Insurance Day

February 5 & 6, 2007

Hilton Harrisburg and Towers
Harrisburg, PA

Annual Spring Conference

(Formerly Small Company Seminar)

March 15, 2007

The Atherton Hotel
State College, PA

Claims Summit

April 11 & 12, 2007

Eden Resort
Lancaster, PA

Congressional Contact Program

April 23 & 24, 2007

Washington, DC

Human Resources Symposium

May 3, 2007

Harrisburg/ Hershey Holiday Inn
Grantville, PA

NAMIC/PAMIC Ag Risk

Inspection School

May 22, 23 & 24, 2007

Eden Resort
Lancaster, PA

PAMIC Annual Convention

August 5, 6 & 7, 2007

Rocky Gap Resort
Cumberland, Maryland

Paul Balbresky, CLU Balbresky Consulting Services

Our theme today is using outside resources. Whether you are contracting for training, market research, process design -or whatever, how you approach the project can make a significant difference in its success and the efficiency of your process. Many of us use outside resources from time to time, and as there are often questions about getting the most from external suppliers, I thought some comment might be in order on how to make the best use of the relationship. As both a consultant and a company that uses outside support occasionally, I think about this a lot. So I put together some questions you may want to ask yourselves to make the process more effective. Hope this is of use to you.

KNOW THE TASK TO BE ACCOMPLISHED

This is one of the most common problem areas for a project. I have seen this result in excess charges, unmet expectations, and frustration with the process. Make sure you have total clarity and agreement on your end before you go too far down the line with a partner. Ask yourself these questions:

- What are you trying to change?
- Why are you going outside for help?
- How can they help you (additional resources and/or different skill sets)?
- When is it needed?
- How will you need it delivered?
- Who in your leadership has to sign off?
- Who will be the contact person on your team?

KNOW YOUR SELECTION PROCESS

Regardless of whether you are lucky enough to have a large pool of potential support partners or only a few, you will need to know how you can make an informed decision in selecting the ultimate winner. Some things for you to consider:

- Who is involved from your end in making the decisions?
- How many potential candidates do you want to interview?
- On what criteria will these people be evaluated and compared?
- What vetting will you do of their credentials?
- What sample work product do you want to see from them?
- What is your time frame for making decisions?

KNOW THE CAPABILITIES OF THE CONSULTANT

Supplementary assistance can be very effective if you are asking the person to do something within their range of expertise. A good consultant will know where they can help you and where they cannot. A great consultant will help you think through the process of whether you even need them or not.

- How did you hear about this person?
- What is their track record?
- How will you use them?
- What is their experience in this specific area?

(Using Consultants article continued on page 6)

KNOW YOUR CONTRACT

Every company has their own preferred process for contracting with outside folks. However, standard agreements may not be appropriate to your aims with this project. Knowing which clauses are pertinent can save you time and anguish. While it would be nice to just use a handshake, a brief and clear letter of agreement can avoid confusion down the line. Consider:

- What are they charging you for and what is free?
- What is the cancellation or change policy
- Are there retainers?
- Who owns the work product (training material specific to your company)?
- Is the work product customized to your needs or is it shelf material?
- What is your recourse for non delivery?
- How will you ensure satisfaction with deliverables?
- What is your recourse if they fail to meet your expectations?
- Who will be delivering work product – is it the senior person you expected?

BUILD IN MILESTONES TO KEEP YOU ON TRACK

Starting from the end date backwards is often a good way to lay out time lines. Be sure to consider critical paths and concurrent activities to get a good estimate of schedules. Build in metrics to ensure progress is on track.

- When do you need this completed?
- What preparation do you need within your company?
- What preparation does the consultant need?
- How much time will this take?
- What competing activities are going on which may distract from this task?
- What specific dates need to be met to ensure you reach your end point?
- What contingencies are appropriate?

KNOW YOUR PAYMENT PROCESS

The project is underway and you can move off to other concerns. But wait, the contractor is calling you all the time for payment. What happened? Knowing your process can help alleviate time and energy diverted to administrative tasks, and establish realistic expectations from the beginning.

- Do you need budget approval?
- Who has the authority to make payments and for what amounts
- What is the typical turn around time for checks to be cut
- Do you need to set up special vendor relationship processes in your company (POs, etc)?
- How will travel and other expenses be handled?

KNOW THE WORKING RELATIONSHIP NEEDS OF BOTH PARTIES

If you are expecting some degree of customization of work product (training class or other such project) how will your consultant get the information they need to do this? Understanding how you and this person will interact is often as important as the services they provide and the cost/benefit for the services. Consider the following:

- What background material does the consultant need about your company and the project?
- Other than written material, what other understanding (e.g. direct observation) is needed by the consultant to give them context?
- How does your project team need to be communicated with during development steps?
- What interim steps and approvals are needed and how will they be handled?

Working with outside resources can be a pleasurable as well as beneficial experience. Manage this as you would any project for which you have total responsibility, and you will have fewer surprises and better outcomes.

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Then, as session progresses the bills that appear to have momentum will emerge. In the case of the 2005 2006 legislative session I initially identified 235 bills that my preliminary research suggested might have some property-casualty insurance implications. As the session matured, it became clear which of these had any real prospects of passage.

You were involved in this work as well. Your participation in the Mutual Insurance Day programs helped lay the groundwork for effectively protecting the best interests of our industry. Your regular contacts with your State Senator and Representative were also essential. In particular, thanks to all of you who responded to our four action calls on tort reform issues and our two action calls on the terrorism exclusion for the standard fire insurance policy wording. Thanks in large part to your efforts, these two PAMIC legislative objectives for the session successfully navigated their way through both houses. Unfortunately, Governor Rendell vetoed the tort reform (Fair Shares Law reenactment), but we do now have a standard fire policy statute that adequately addresses contemporary terrorism issues. Thanks to all of you for a job well done.

In addition to advancing the industry's positive agenda, it is equally important to work at defeating measures that would inappropriately infringe on companies' underwriting freedom, such as several bills that would have absolutely abolished use of insurance scoring. None of these bills passed last session.

Sometimes bills that are potentially detrimental to our industry build such popular support that the best approach is to work to amend the proposals so that they can be accommodated to industry practices. Your Government Affairs Committee played a key role in making sure that Act 78, amending the Unfair Insurance Practices Act to protect victims of domestic abuse, was enacted in a way that protected the industry while helping these victims in their time of need.

A number of our companies also underwrite workers compensation insurance. This past session, I followed eighteen workers comp bills and submitted testimony at hearings on several of them dealing with the troubling issue of properly identifying independent contractors on jobsites. Those bills were not enacted last session, so they form part of the unfinished business for the new year.

Last year, the PAMIC Issues Papers, as shown to legislators on Mutual Insurance Day, identified key legislative issues for PAMIC. Together with the outcome achieved, they were:

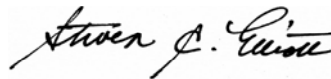
1. Standard Fire Policy and Terrorism: PAMIC was the first trade association to raise the issue with the legislature; reform was successful with passage of SB 1007.
2. Insurance Scoring: Twelve bills were introduced; none passed (including several which would have absolutely prohibited scoring).
3. Tort Reform: Fair Shares Act reenactment passed both houses, but was vetoed by the governor.

4. Independent Contractor Determination: Four bills were introduced; PAMIC testimony was supplied at hearings, but no passage.

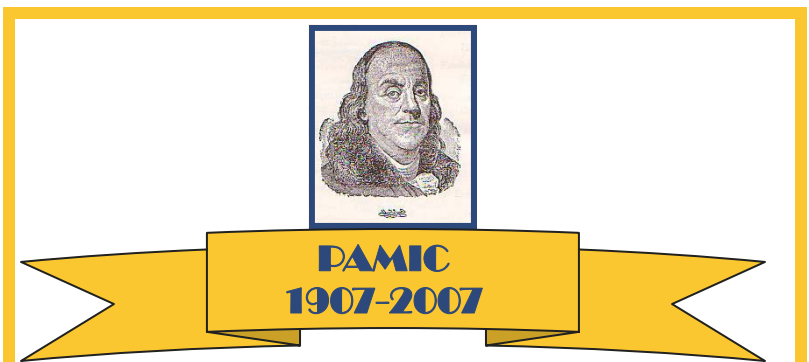
5. Medical Exams and Utilization Review: The supported bill did not pass, but significant workers comp reform was enacted.

This coming session promises to be even more interesting than the last. I encourage you to take an active role in assuring a favorable legislative environment for our heavily regulated industry.

Sincerely,



Steven C. Elliott, J.D., CPCU, CLU
President



As part of our 100 year celebration, PAMIC will highlight a different time period of our history in each PULSE issue of 2007.

As many of you know, statesman Benjamin Franklin created the idea of mutual insurance companies. Pennsylvania's first association of mutuals was started in 1907 under the leadership of B.K. Huntzinger and Secretary Arthur Drake. The association met in Harrisburg with 17 members. It was recorded in 1920, that the association asked its members to "bespeak your assistance and cooperation in certain matters". Twenty years later, the association had 171 members and met at the York YMCA.

Pouring through the archives of PAMIC has been fascinating. Interestingly, many of concerns of the mutuals remain today and others seem quite trivial when compared with today's catastrophic events.

Taken from the convention brochure with meeting minutes from 1918, an interesting quote from Pres. Lantz: "Many barns are fire traps. As my friend and I sought refuge in an empty barn the other day, my friend remarked 'I never saw such a place for spider webs: if a stroke of lightning would strike this barn, it would burn sure.' While passing by that same barn, 5 days later, I saw the barn was gone. It had been struck by lightning and I believe that if those spider webs had been removed, the stroke of lightning was not hot enough to have consumed the barn."

Member News

From L.R. Webber Associates

Hollidaysburg, PA-

L.R. Webber Associates, Inc., a leading Human Resources and Employee Consulting firm, recently announced the completion of the sale/ buy back of stock from company founders **Larry R. Webber** and **Sara C. Williams**. The corporate re-organization is intended to assure clients and current employees of the desire on the part of company executives to continue with the long term traditions of Webber Associates. The re-structuring will focus on LRW's employee benefits and retirement planning divisions while the human resource and executive compensation consulting services will be out-sourced to a newly formed company to be owned by Mr. Webber and Ms. Williams who will be leaving L.R. Webber Associates as of December 31st.

"I'm very excited about this new opportunity and structure of our company," said **Booker Moore**, President and COO. "Our main goal was to maintain our independence, our jobs for our employees and the ability to directly serve our clients. Larry Webber and Sally Williams took something that was only a dream in 1976 and worked to create a valuable team that could partner with those that have need of our services. We have completed our plan to pass the company into the next generation of ownership while continuing to offer the quality products and services that our clients have come to expect. We wish Larry and Sally all the best as they set up their new organization. We look forward to working with **Phil Miller, Beckie Beck, Brad Webber**, and the rest of the new management group to continue this legacy."

From Marshall, Dennehey, Warner, Coleman & Goggin

Scranton, PA-

James E. Pocius, has been asked by the Pennsylvania Chamber of Business & Industry to participate in the *Workers' Compensation Roundtable: Reducing the Costs— How New Litigation Changes Benefit Employers and Claimants* seminar being held in Grantville, PA on Thursday February 22, 2007.

Pocius will answer questions about workers' compensation law. In addition, Pocius will speak at the *Workers' Compensation top Ten 2007 Medical & Legal Issues* seminar in Las Vegas on February 19 and 20.

His presentation is on Medicare Set-Asides in Workers' Compensation and Unemployment Claims and Workers' Compensation: Coordinating Concurrent Claims.

Wendy Bracaglia, will become managing attorney for the King of Prussia office with assistant **John Gonzales**.

Preparing Your Witness to Testify: Tips and Techniques to Win Your Case seminar. .

Ms. Davis will be speaking at the January 31, 2007, session in Philadelphia, and Mr. McInroy will speak at the February 22nd presentation in Mechanicsburg, PA

Thomas A. Brophy, President and CEO of MDWC&G is pleased to announce that, at the Annual Shareholders' Meeting held on December 6, 2006, the following attorneys were elected as shareholders of the firm: **Tracy A. Burleigh, Patrick M. Carey, John F. Deasy, Edward M. Galang, Jessica L. Julian, Donna Modestine, Andrew M. Schwartz and Robert E. Smith**

Likewise, at the Annual Shareholders' Meeting held on December 6, 2006, **Thomas C. DeLorenzo** was elected as a member of the firm's nine-member Board of Directors. **Kathleen S. McGrath**, and **Scott G. Dunlop**, were also re-elected to the Board of Directors. The following were elected as Officers and directors: **Thomas A. Brophy**, President and CEO; **Peter S. Miller**, Chairman of the Board and COO; **Philip B. Toran**, Chairman of the Executive Committee and Treasurer; **Kathleen S. McGrath**, Senior Vice President and Secretary; **Thomas R. Bond**, Senior Vice President and Assistant Treasurer; **Butler Buchanan III**, Senior Vice President and Assistant Secretary; and **Candy Barr Heimbach, Scott G. Dunlop**, and **Thomas C. DeLorenzo** were also elected Senior Vice Presidents.

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We want to hear from you! The PAMIC Pulse is published to serve your needs. We publish the member news we receive from you. We use articles written by members or just news of your company's business. Send your information to us : pamic@pamic.org or fax us @ (717) 303-1501. Thank you!