



# PULSE

March - April 2005 Vol. 35, Issue 5

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## From the President

As you have so frequently read on these pages, grassroots contact is the key to PAMIC's government affairs operations. And, judging from the recent attendance figures for PAMIC PAC's reception and the PAMIC Legislative Breakfast, member company executives believe that and are willing to put forth just a little extra effort maintain our forward roll. As many of you will recall, I instituted the PAMIC Harrisburg Legislative Day on an annual basis when I came to town six years ago. I am happy to report that attendance has grown at each and every one of these annual events. We now have the final numbers for this year's effort and they are impressive.

Our Harrisburg event kicked off with a legislative briefing the afternoon of February 7. Forty-two of you turned out to hear me get you up to the minute on Pennsylvania legislative developments. The briefing was lengthy but, judging from feedback received, the session was informative and supplied attendees with just what they needed to speak knowledgeably with their state senator and representative.

Immediately following the briefing, the PAMIC PAC reception was held. Over forty PAMIC people registered for this event, our best attendance ever. And more importantly, fifty senators and representatives told us they would attend. Legislative attendance eroded somewhat due to the Governor's change of date for the budget address, but it was still significantly higher than last year's legislative turnout. And last year was the first year we invited legislators (rather than single featured individuals) to attend.

The next morning, the largest turnout yet of PAMIC member company personnel met with almost one hundred state senators, legislators, and staffers to discuss key issues and industry concerns. Individual meetings with

legislators, something we initiated three years ago, followed.

By your turnout, you demonstrated that you



understand the important legislative issues that confront our industry. But more importantly, you showed in a very concrete and effective way that you are willing to do what it takes to make your presence and PAMIC's presence felt in the legislature.

Now after the kudos, let me challenge you again. This year our Washington Congressional Contact Program, co-sponsored with NAMIC, is scheduled for April 19-20. In the past, this activity has not generated the turnout we enjoy at the Harrisburg event. And that's partly understandable. After all, our industry is regulated at the state, not the federal, level. But federal interest in insurance regulation is growing all the time, and many recent proposed state regulatory burdens had their origin in Congress. We need only think of Gramm-Leach-Bliley privacy notice requirements in the past to be reminded of that. Harrisburg seems to be stalled when it comes to meaningful tort reform; but Washington, with Congress's recent passage of class action reform, is moving ahead in a direction the industry can endorse. If you have not attended one of the PAMIC/NAMIC Congressional Contact events, I strongly encourage you to do so. Grassroots is effective in Harrisburg and it works in Washington as well.

Sincerely,



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



**“If we are sincere in our desire to develop greatness, then we must face our fear. Whatever we fear ultimately controls our actions, either consciously or unconsciously.”**

**Randy F. Shaw  
President and CEO  
Everett Cash Mutual Insurance  
Company  
2004-05 PAMIC Chairman**

I cannot understand it! PAMIC has a strategic, proactive, forward-thinking discussion about the future of the association and what gets the attention in our industry? Hank Greenberg stepping down as CEO of AIG. And I thought the pinnacle was PAMIC. Give me a few moments to digest this epiphany...

On March 9th, PAMIC's Strategic Planning Committee presented its final summary of the past two years efforts in assessing PAMIC business model from a SWOT (Strength, Weakness, Opportunity, Threat) perspective. The presentation and the ensuing dialog touched on the pertinent issues that your association is grappling with from an internal/external view, as well as a positive/negative perspective. It is an incredible person/organization that can realistically confirm its faults while focusing most of its resources on capitalizing on its strengths. In my simple mind, that is wisdom.

The crossroad at hand for PAMIC, or as my respected peer Jay Chadwick, President of Tuscarora Wayne Mutual would say, “the stinking moose in the middle of the boardroom table”, is the significant decline of mutual members. With virtually no new mutual companies being created due to the capital constraints that currently exist, the dynamics of a healthy community are not present. Much like a pond without new water flowing in, we stagnate.

So how do we inject new life into a mutual insurance association that has tremendous potential along with a rich history? I for one embrace the mutual concept and desire to always have a mutual insurance company leading the ECM Insurance Group. Developing greatness, especially in an environment where there are no new entrants requires looking at

what is working, becoming educated in that approach, and then applying that knowledge to your own performance. The time has come for PAMIC to open the membership to stock companies that embrace a similar desire to be great. What defines a society, association, or congregation is not the color of the members or the type of capital formation. It is simply a sharing of the ideals, the common bond that describes the group to nonmembers. What I see in PAMIC is a snapshot of America at its best: a collection of insurance professionals dedicated to improving their organizations by adhering to integrity in their decision making.

If we are sincere in our desire to develop greatness, then we must face our fear. Whatever we fear ultimately controls our actions, either consciously or unconsciously. I believe in the mutual concept and desire for all members to excel. By broadening the opportunity for new members, we will broaden our opportunity to become great. A proactive approach to problem solving, while contrary to normal behavior, is the most effective because it involves planning as opposed to reacting. Planning for PAMIC's future means that we expect it to be here in the future. With its excellent educational offerings and grassroots lobbying efforts, I for one have that expectation.

Sincerely,

Randy F. Shaw  
PAMIC Chairman

# 2005 PAMIC Convention



June 19 - 22, 2005 • Omni William Penn Hotel • Pittsburgh

Save the date! The 98th Annual PAMIC Convention is fast approaching. The Convention Committee is working hard to plan this year's event! The theme will be *"Developing Greatness - The Mutual Way"*

Reserve your room now by calling the Omni William Penn at 1-800-THE-OMNI (843-6664). Request the Pennsylvania Association of Mutual Insurance Companies group rate of \$129 per night! Room availability at this great rate is guaranteed through May 26, 2005.

More details and registration information will be released in April!

## Claims Summit Sponsors

PAMIC would like to thank the following sponsors of the 2005 Claims Summit:

- **Continental Breakfast**  
Ciprioni & Werner  
Margolis Edelstein  
McShea Associates, Inc.  
Millers Mutual Group  
Stackhouse Adjustment
- **Refreshment Breaks**  
Castle Claims Service, Inc.  
Fineman Krekstein & Harris  
Meyer Darragh Buckler Bebenek & Eck, P.L.L.C.  
Zimmer Kunz, P.L.L.C.
- **Luncheon**  
Andracki Law Offices, P.L.L.C.  
DiBella Geer McAllister Best  
Johns Eastern Company

## PAMIC to Offer INS21

Join us for PAMIC's first ever Mid-Atlantic Underwriting School! On May 11 - 13, 2005, PAMIC will offer the IIA Property and Liability Insurance Principles course, INS21.

PAMIC has partnered with the Insurance Institute of America to bring you this first course in a series of four that comprise the IIA Associate in Personal Insurance designation. (IIA Exams must be taken separately in order to earn the IIA designation.) PAMIC will offer these four courses within the next 2 years!

Property and Liability Insurance Principles will be offered in 3 days of intensive classroom-style instruction May 11—13. This course has been submitted for 24 CE Credit hours.

## Calendar of Events

**April 5 & 6, 2005**

**Claims Summit**

**Harrisburg, PA**

*Register by March 30!*

**April 14, 2005**

**Confronting Industry Challenges**

**Grantville, PA**

*Register by April 7!*

**May 11 – 13, 2005**

**Underwriting School - INS 21**

**Wormleysburg, PA**

**June 19 - 22, 2005**

**2005 PAMIC Convention**

**Pittsburgh, PA**

*For more information about these events, log onto [www.pamic.org](http://www.pamic.org)*

## ATTENTION INSURANCE EXECUTIVES – SARBANES-OXLEY IS COMING

By David B. Blain, CPA, CVA. McKonly & Asbury, LLP

Insurance Executives need to understand and prepare for significant changes in their financial reporting model. The changes could result from the National Association of Insurance Commissioners', NAIC, proposed amendments to the Model Regulation Requiring Annual Audited Financial Reports, better known as the "Model Audit Rule."

The proposed amendments to the Model Audit Rule, are a response to the passage of the Sarbanes-Oxley Act and addresses supposed accounting problems with the insurance industry. Implementation of the proposals would mandate significant changes from previous regulatory reporting requirements.

### What does this mean to insurers?

Fairly simple! Every insurer, with direct and assumed premiums of \$25 million or greater, will be subject to these proposed Model Audit Rule amendments. Each will be required to:

- Provide a report prepared by management, focused on the internal controls over financial reporting.
- An annual audit by an independent certified public accountant.
- Establish an audit committee

### What is the most significant change proposed by the Model Audit Rule?

Without a doubt, the most significant change proposed is Management's Report on Internal Controls over Financial Reporting. More specifically, CEOs and CFOs would be required to provide a report that includes:

- A statement of management's responsibility for establishing and maintaining adequate control over financial reporting
- A statement identifying the framework used by management to evaluate the effectiveness of the insurer's internal control over financial reporting
- Management's assessment of the effectiveness of the insurer's

internal control over financial reporting, including a statement as to whether or not internal control over financial reporting is effective

- A statement indicating that the independent certified public accountant has issued an attestation report on management's assessment of the insurer's internal control over financial reporting
- Disclosure of all changes having a material affect in the internal control over financial reporting

### What do they mean by "Internal Controls"?

"Internal Controls" over financial reporting is *a process designed by, or under the supervision of the insurer's principal executive and principal financial officer*, and affected by the board of directors, management, and other personnel. The process is to provide reasonable assurance regarding the reliability of external financial reporting. Internal controls specifically relate to:

- Record maintenance
- The recording of transactions in the preparation of the financial statements in accordance with statutory accounting principles
- Reasonable assurance regarding the prevention and timely detection of unauthorized acquisition or disposal of assets

In plain language, the key is *"a process designed by, or under the supervision of the insurer's principal executive and principal financial officer."* This change requires the CEO and CFO to assume **personal responsibility** over the internal control structure of the enterprise and the development and implementation of the "process." It also requires the CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and financial statements.

### What is the current status of the proposed model?

In July 2004, the NAIC and the American Institute of Certified Public Accountants established two committees to discuss the Sarbanes-Oxley federal legislation and its relationship to the Model Audit Rule. Since then the committees have worked with the interested parties to discuss and refine the Model. The most significant modifications include a recommendation to increase the small company exemption to \$100 million in direct and assumed premiums.

### Implementation Assistance – What To Look For!

Implementation of the Model will require professionals with substantial knowledge and experience within the insurance industry, including experience with documentation and testing of internal controls and accounting systems. Professionals must also have a solid knowledge to remediate control deficiencies identified during the documentation and testing process. This is viewed by many to be good corporate governance. It demonstrates that the directors, CEO and CFO are exercising due care in the management of the internal control structure.

David B. Blain, CPA, CVA, is associated with PAMIC Associate member McKonly & Asbury, LLP. He can be reached at [dblain@macpas.com](mailto:dblain@macpas.com) or at 717-761-7910.

## WHAT CONTROLS YOUR EXPENSE RATIO?

By Peter Kraynak, Info724, Ltd.

Many property and casualty insurers have a certain impression of what their bottom line should look like, but don't have a clear map of how to get there. As a result, executives have resorted to making decisions about reducing costs without the proper insight required to make fact-based decisions. It should be no surprise then to learn that the amount of savings anticipated turns out to be short of expectations. This has also caused adverse and unnecessary consequences in the carrier operations. Here are some reasons for the disconnect:

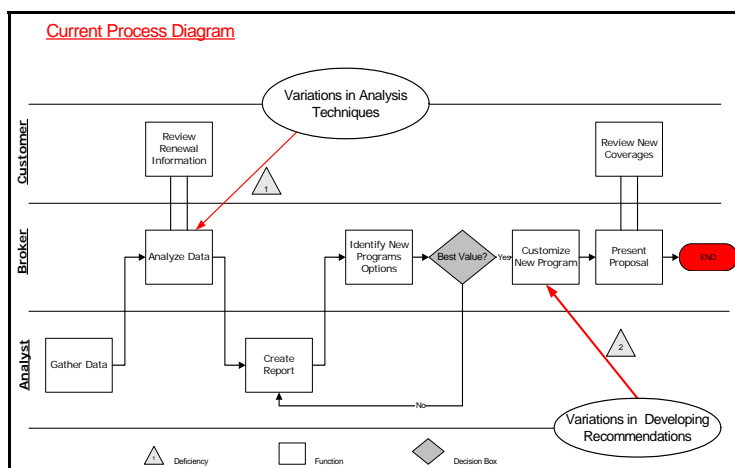
- Managers lack the ability to distinguish between factors they can directly influence versus those they cannot.
- Insurers don't spend time analyzing operations to find deficiencies that affect specific business drivers. A prime example is the expense ratio.
- Organizations lack the discipline to properly implement the changes necessary to gain cost-efficiencies.
- Many insurance companies talk about IT only in general terms without understanding or fully grasping the benefits it can provide.
- Some managers are short-sighted and think of IT money only as expense, rather than understanding exactly how the investment can bring a return.
- It takes guts to make changes, but unfortunately fear often dominates a company's culture to maintain the "status quo".

**What can be done about this?** As the saying proclaims "...accept the things you cannot change, have the courage to change the things you can, and the wisdom to know the difference!" By isolating the expense factors that you can influence through your operational process, it is possible to create a roadmap and systematically reduce your expense ratio. Management should adopt a holistic approach to understanding the operation, whereby they analyze the steps in each core area. They should then pursue the "lowest hanging fruit" problems and opportunities in areas such as underwriting, claims, and customer service. This will provide the proper business context for making hard choices and will enable you to apply information technology in a sensible manner. This approach also provides the backbone for creating a real IT strategic plan. Here's how it can be achieved:

- Analyze each core operational area for "hidden thieves" and prioritize them according to business impact.
- Look outside at other carrier best practices in insurance, so as to not "reinvent the wheel" which saves you time and money.
- Identify and document the top three most controllable cost components of the expense ratio and spell out concrete steps to make improvements.
- Identify opportunities to reduce your expense ratio through carefully selected IT projects, but only with clear performance measures at pre-defined milestones.
- Empower and focus your team to implement your roadmap to an improved expense ratio.

One of the keys to success is a good analysis of the "As-Is" process. This brings visibility to what is really going on in the operation and reveals bottlenecks, disconnects, and redundancies. A capable facilitator will help the management team highlight steps that do not contribute business value.

Here is a simplified representation of a process map that brings transparency to the operation. The triangles represent the problems and opportunities discovered, thus giving you a handle on what drives your expense ratio. At each identified point, your team can measure performance, make changes, and establish a sensible business case for new projects.



**What's the First Step?** Join us at PAMIC's seminar on April 14, 2005 "Confronting Industry Challenges: Marketing and Operational" at the Holiday Inn, Grantville for a workshop about Expense Ratio Reduction. You can also visit [www.insurance724.com](http://www.insurance724.com) or call us at 610-535-6300 to learn more.

*Peter Kraynak is the Managing Director of Info724, an insurance operations and IT consulting firm that provides objective expertise that is independent of all vendor packages. Mr. Kraynak has 17 years of combined process, technology, strategy, and operational experience primarily in the insurance industry including clients such as Harleysville Insurance, Penn National Insurance, and Mercer Insurance Group. Mr. Kraynak has his MBA in Finance and Strategy from the Wharton School at the University of Pennsylvania, and holds the Project Management Professional (PMP) designation. Peter Kraynak's e-mail address is [peter.kraynak@info724.com](mailto:peter.kraynak@info724.com)*

## TIME AND ENERGY MANAGEMENT TIPS FOR VERY BUSY PEOPLE—LIKE YOU!

By Mark Towers

*Today's fast-paced world requires that you manage both your time and energy extremely well. Here are seven very important tips for you:*

1. If it takes two minutes or less to complete a task, live the Nike slogan and "Just Do It." It's not worth taking the time to write it down or commit it to your memory.

2. Highly effective executives avoid multi-tasking. Instead, they "spotlight." They focus (spotlight) their attention, even if very briefly, on the task/encounter immediately at hand. It appears as if these executives are multi-tasking because a lot gets done in a very short period. It is their laser focus that gets results—not their ability to diffuse their attention.

3. An old boss once told me, "Finding your quiet time to handle paperwork and high priority tasks is a lot like slicing a ring of baloney. You can cut a chunk off either end or you can cut a chunk out of the middle. I don't care if you find your quiet time during the early morning, around noon or in the evening, but you must find it each day. It's what productive people do." Executing this daily philosophy pays huge dividends.

4. Motivation may get you started, but habit keeps you going. Ninety percent of our behavior is dictated by habit. Embrace your positive habits (rituals) like daily exercise, eating healthy food, etc. Enlist the help of a buddy to rid yourself of negative rituals like smoking, procrastination, and so on. Peer pressure is a very powerful thing.

5. Keep a master list. This is not a daily to-do list. It is a running list (warehouse) of everything you don't want to forget—books to read, gifts to buy, ideas, etc. The mind can be a leaky warehouse. As soon as you think it, ink it—either electronically or on paper. Don't let it escape—capture it! Then, you can scan it and prioritize it on a regular basis.

6. The mind needs a break every 90-120 minutes. Build "air pockets" into your day. Get up and walk around, do some brief exercises, etc. An office manager tells me that she goes on a "lion hunt" several times each day and catches some of her co-workers "leading the organization with the heart of a lion." She makes time to praise her colleagues, and then goes back to her office.

7. One of my favorite musicians, James Taylor, said, "The secret to life is to enjoy the passing of time." Time is not money. You can always enjoy time without money. Think of time as honey—not money. Learn to savor it and "drink it in" without regrets.

*We are living in a do-more-with-less-and-do-it-faster world. May you continue to enjoy your work as well as your time away from it.*



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[www.speakoutseminars.com](http://www.speakoutseminars.com)

## FREDERICK MUTUAL LAYS GROUNDWORK FOR GROWTH IN PENNSYLVANIA

by Kevin Filler, President & CEO, Frederick Mutual Insurance Company

At Frederick Mutual Insurance Company (FMIC), we have been focusing our efforts to expand our business in Pennsylvania. Our goal is to provide quality products at competitive rates with excellent customer service. Such market leadership can only be achieved by listening carefully to the customer, and by streamlining processes. These are exactly the steps we have taken so far, and we are already seeing success.

As leaders of insurance companies, we have all seen the benefits of deliberating for the sake of making the right decision. However, there is a balance between planning and action, and this is the key to effective leadership. Before going down a path, FMIC reached out to its agents to gain a detailed picture of the customer's mindset. In developing a path of least resistance to do business with FMIC, we will continue to empower the agents. To help us succeed, we leveraged the expertise of the management and IT consultancy "Info724" to perform its VOC (voice of the customer) initiative, which is based on the proven methods of Six Sigma.

The VOC revealed several opportunities for operational process improvements. This enabled FMIC to develop a roadmap which outlined how we plan to deliver more value for all stakeholders. One example of improved customer service is in the area of claims, which will result in cost savings through more efficient administration. Our management team also took a detailed look at how we operate through an 'Expense Ratio Reduction' initiative, with the help of Info724. This approach provided us with the transparency and tools we needed to streamline operations, which allows us to better serve the customer and at a lower level of expense.

We will be implementing IT initiatives according to cost-benefit priorities, and it makes sense to pursue the projects that have the highest positive impact on the agent's workflow. An insurer can't go wrong when it takes steps in support of its customer. This will provide increased customer satisfaction and positions FMIC to continue its success in Pennsylvania.

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## Swigart Earns Certification as a Senior Professional in Human Resources

Katherine W. Swigart, Human Resources Manager, Mutual Benefit Group, recently earned certification as a Senior Professional in Human Resources (SPHR). The certification, awarded by the Human Resource Certification Institute (HRCI), signifies that Swigart possess the theoretical knowledge and practical experiences in human resources management necessary to pass a rigorous examination demonstrating a mastery of the body of knowledge.

"Certification as a human resources professional clearly demonstrates and commitment to personal excellence and to the human resources profession," said Susan Meisinger, SPHR, President and CEO of the Society for Human Resource Management (SHRM). HRCI awards two levels of certification: Professional in Human Resources (PHR) and Senior Professional in Human Resources (SPHR).

To become certified, an applicant must pass a comprehensive examination and demonstrate a strong background of professional human resources experience.

HRCI is the credentialing body for human resource professionals and is affiliated with the Society for Human Resource Management (SHRM), the world's largest organization dedicated exclusively to the human resources profession. The Institute's purpose is to promote the establishment of professional standards and to recognize professionals who meet those standards.

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## Brown Schultz Sheridan Fritz

is proud to announce that **Scott A. Esworthy**, CPA has been admitted as a Principal in the Firm.

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