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# PEMCO: Corporate Social Responsibility

Frank Estevao Maia  
*Georgetown University*

Molham Krayem  
*Georgetown University*

Ha Young Shin  
*Georgetown University*

Erica Tsai  
*Georgetown University*

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# PEMCO: CORPORATE SOCIAL RESPONSIBILITY

*"We're a lot like you. A little different."*

Presented by Erica Tsai, Frank Maia, Molham Krayem,  
and Ha Young Shin



# The PEMCO Story

Founded in 1949 by  
Handy, Robert John  
(1901-1984)



PEMCO was simply a  
company that offered  
home fire and burglary  
insurance as well as  
comprehensive  
automobile collision,  
fire, and theft  
insurance.

But through consistent  
brand values, it  
transformed into one  
that embodies  
**responsibility, courage,  
and integrity.**

*Objective: "To create a comprehensive and creative corporate social responsibility plan that leverages the core brand values of PEMCO and builds on John Handy's legacy of "being a lot like everyone one of us."*

Overview

Current Situation

CSR Infrastructure

Summary



# Industry Overview

## PEMCO



## Customer



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# CSR traditionally in the service industry

- **Balancing act:** improving brand & satisfying stakeholders
  - Traditionally, managers select CSR initiatives
  - CSR initiatives do not align with PEMCO employee interests
  - Similar to throwing money at the problem - random & uncoordinated
- The industry has shifted, its not the same game
  - CSR, when well defined, flows throughout the firm and a community to:



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# Key stakeholders - Risk, Reward, and Implications

- Employees/management (520)
- Customers
- Community members
- Investors/shareholders
- Government
- Independent agencies (114)

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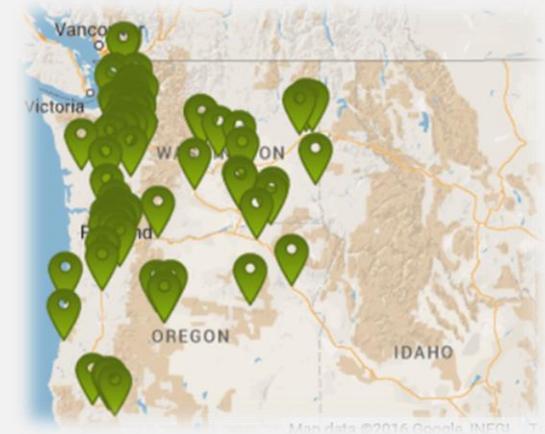
# Other Considerations

## Brand Equity

- Are CSR activities a form of corporate charity with no expectations of positive returns?
- Will CSR initiatives even increase brand equity and perception?

## Market Share Implications

- Given the 0.14% national market share, what kind of impact can we make?



## Budget/Financial Constraints

- Since charity has traditionally been pegged as a percentage of surplus revenues, how can we keep efforts consistent despite earnings?

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# Current Situation

- **“Your 8”:** PEMCO currently gives employees 8 hours of paid time per year to go volunteer for a nonprofit
- **Monthly Employee Activities:** PEMCO currently does monthly employee collectible drives (food, clothing, blood), bake sales, fun runs, etc.
- **Corporate Giving:** PEMCO currently donates 5% of surplus to local causes

# Structural Problems

## No PEMCO CSR map/infrastructure:

- No hyper-defined mission
- No stable budget - the CSR budget fluctuates from year to year (5% of their surplus)
- No external communication of CSR efforts



## No emphasis on sustainability in PEMCO's culture:

- No emphasized employee-CSR integration
- No monitoring of CSR solutions alignment with PEMCO's brand due to untargeted volunteering
- Lack of harmony between everyday business practices and sustainability



## No strategic sustainable initiatives:

- No institutional memory
- No defined initiatives program
- No measurement of CSR efforts



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# PEMCO CARES



# Solutions: How PEMCO Should Move Forward

## Giving structure to PEMCO's CSR arm/division

- Creating a CSR brand: *PEMCO Cares* - an umbrella that caters to the societal issues of all of PEMCO's stakeholders
- Developing a strongly defined mission statement
- Devising a CSR guide map



## Creating a culture of deep sustainability at PEMCO

- Integrating *PEMCO Cares* into employee life by:
  - Encouraging employees to shed light on hyper-local problems
  - Implementing employee volunteering workshops based on PEMCO's personality traits
  - Infusing *PEMCO Cares* into employee recruitment process
- Integrating sustainability practices at PEMCO's offices



## Creating a sustainable Initiatives program

- Creating a framework to source hyper-local problems, and determine which initiatives to pursue, where to pursue them, how to pursue them, and how to measure and improve upon our impact
- Building official partnerships with nonprofits to show support and for funding fluctuation



Overview

Current Situation

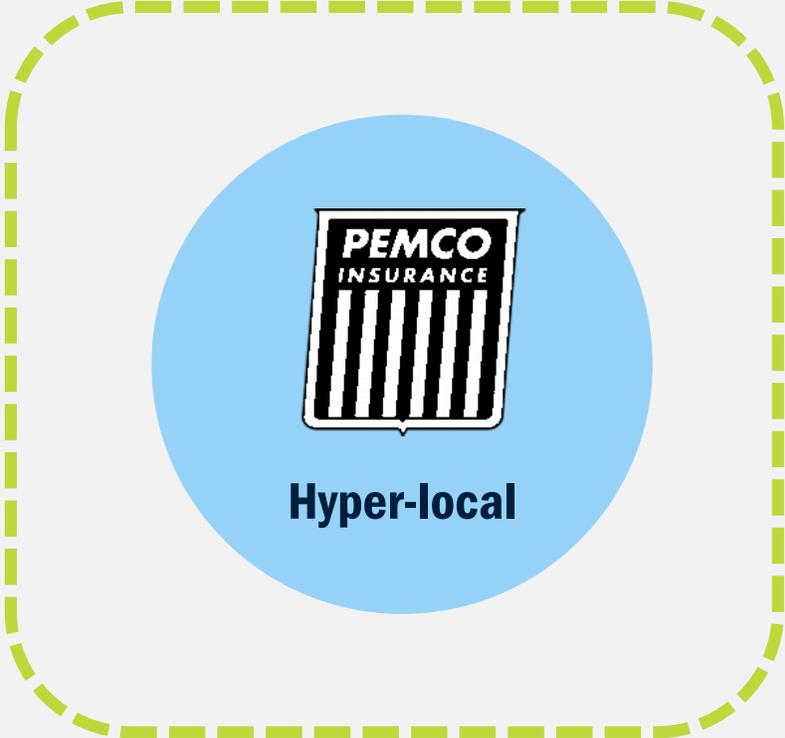
CSR Infrastructure

Summary



# PEMCO Cares' Focus

## Maximizing our Impact:



# Mission Statement

**PEMCO Cares is the corporate citizenship arm of PEMCO Insurance.** PEMCO Cares understands that it has a *responsibility* towards its neighboring communities. We strive to **improve the quality of life in the communities we serve** with *integrity*. We *courageously* pursue societal initiatives by:

- I. Strategically identifying hyperlocal community issues
- II. Leveraging PEMCO resources to alleviate the identified issues
- III. Continually evaluating and improving upon our impact

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# PEMCO CSR Guide Map



# Specific Initiatives Framework: Identify, Implement, Evaluate

## I. Identify

- i. What is a potential hyper-local problem?
- ii. Is it a real problem and what are its causes?
- iii. Do we have the resources to alleviate this problem?
- iv. In solving this problem, what is our measurable goal?

## II. Implement

- i. Which available resources do we want to direct towards this problem?
- ii. How much of our available resources do we want to direct towards this problem?

## III. Evaluate

- i. Based on our metrics, have we succeeded?
- ii. If not, how can we improve our impact?

*"Does this initiative align with our brand of responsibility, courage, and integrity?"*

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# PEMCO CARES: Pilot Initiative



# Applying the Framework to Absenteeism

## Identify

- Use employee surveys and news sources to identify hyper-local problems that matter to PEMCO employees
- High rates of Absenteeism

## Implement

- Determine appropriate PEMCO resources to utilize
- Create a mentorship program and establish official partnerships

## Evaluate

- Determine the metrics to measure PEMCO's impact on absenteeism rate
- Are results sustainable?

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# Step 1: Identify

- **Potential hyper-local problem: “Washington students missing too many school days” --Feb. 18, 2016 (King5News)**
- **Is it a real problem?**
  - Empirical research shows chronic absenteeism is a key indicator that students won't graduate high school and/or not attend college
  - One out of six Washington students (16.7%) were chronically absent last year (2014-2015) for 18 days or more which is 10% of entire school year.
  - The total amounts to 174,000 students  
(source: OSPI, published Feb. 16, 2016)

## Scope of problem: Who does it affect?

Student Group	Percent Chronically Absent
American Indian/Alaskan Native	31%
Native Hawaiian/Other Pacific Islander	25%
Special Education	22%
Low Income	21%

# Step 2: Implement Solution

*Implement and design solutions that foster PEMCO's brand and values of responsibility, courage, and integrity.*

- **Some causes of chronic absenteeism:**

- **Barriers:** unmet basic needs, caring for family members
- **Disengagement:** students having no meaningful relationship with school adults
- **Aversion:** academic struggles due to bullying

- **“Success Mentors”:** Mentorship program pairing PEMCO employee with a student facing chronic absenteeism

- Survey/Matching system to pair employees and students in regards to interests, similar backgrounds, etc.
- Having a mentor would be beneficial because many students may come from low income backgrounds and may have parents who may not have had higher levels of education.

- **Partner** with specific schools in alignment with Washington State’s School Attendance Initiative to build a stronger community and bolster efforts.

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# Step 3: Evaluate Results

- **Metrics:**

- How does the number of absences of students PEMCO employees mentor compared to before the mentorship?
- How does it compare to the district average?
- Assuming that other organizations/firms follow PEMCO's model & start their own mentorship program, in 5 years, how would the percent chronic absenteeism in the Washington state change?

- **Are results sustainable, even with fluctuating revenues?**

- Build strong relationships not only between mentor and mentee, but with other organizations
- PEMCO can be a leader in this field: It can cause other companies to follow suit.
- Mentorship focus: does not have large amount of costs

- **Record results in institutional database.**

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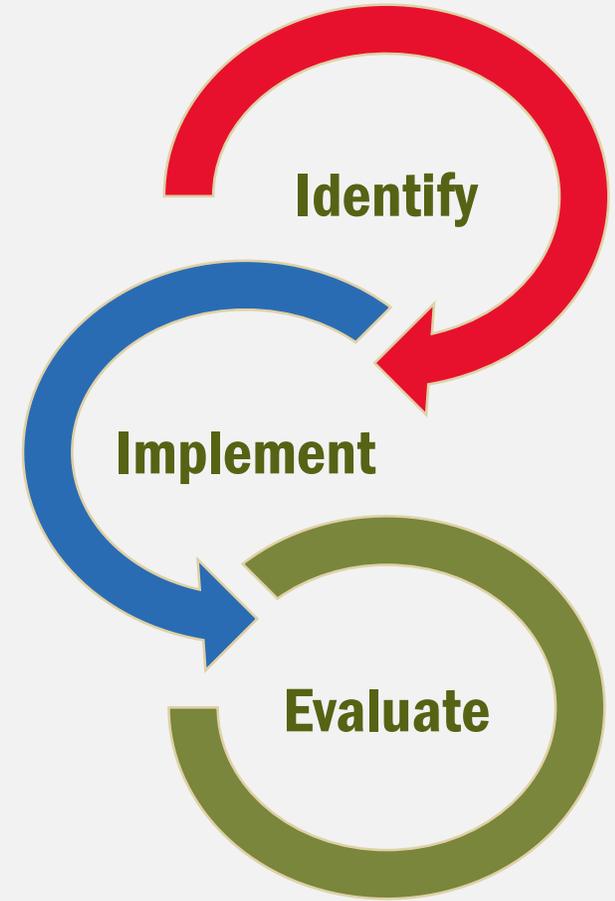
# Where do we go from here?

## How do we make a **REAL**, measurable impact?



### Other potential hyper-local problems:

- Grays Harbor, Washington
- Mason, Washington
- Hazelwood, Portland, Oregon
- Franklin, Washington
- Yakima, Washington



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# Other Considerations

## Brand Equity

- “Favorable CSR policies translate into increased commitment from customers and other stakeholders towards a firm.”

## Market Share Implications

- Customized plan to hyper-local communities.
- Institutional memory: Look to other markets for success.

## Budget/Financial Constraints

- In 2013, 5% of surplus revenue was around \$12 million.
- Creating sustainable, long term partnerships with existing organizations.

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# Key Takeaways

**Objective:** “To create a comprehensive and creative corporate social responsibility plan that leverages the core brand values of PEMCO and builds on John Handy’s legacy of “being a lot like everyone one of us.”

## PEMCO CSR Infrastructure

- Employee sub-committee
- Project memory preservation
- PEMCO Cares: General CSR project framework: Identify, Implement, Improve



## Sustainability of CSR

- Employee feedback & direct engagement with the community
- Form official partnerships
- Improving brand value externally



## Tangible Results

- Smart goal setting: setting intentional goals before the start the program
- What constitute success?
- Defined goals and mission of PEMCO’s CSR program



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*"We're a lot like you. A little different."*

**NORTHWEST PROFILE #1**



**MOLHAM KRAYEM**

**NORTHWEST PROFIL**



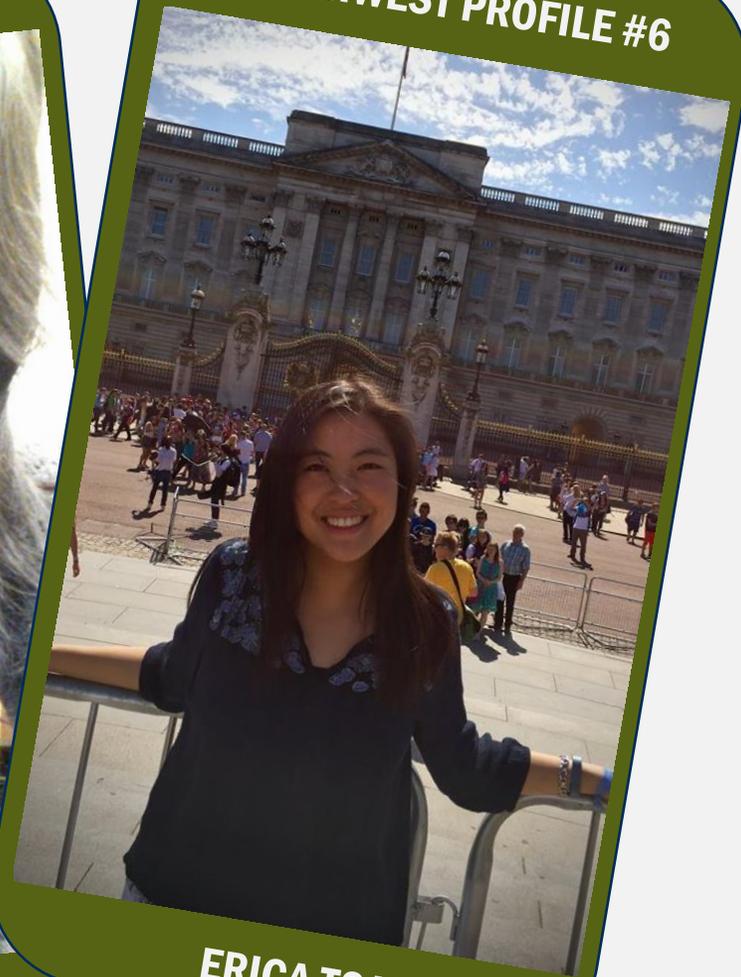
**FRANK MAIA**

**NORTHWEST PROFILE #8**



**HA YOUNG SHIN**

**NORTHWEST PROFILE #6**



**ERICA TSAI**

# Appendix

- [Washington State Demographics](#)
- [Washington State Poverty Data \(2010-2012\)](#)
- [PEMCO 2013 Financials](#)
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- [Employee Point System](#)

# Demographics - Washington State

source: <http://www.washington.edu/omad/files/2011/11/2013-10-30-Changing-Demographics-by-Ethnicity-Race-Socioeconomic-Status-2-Read-Only.pdf>

## Population by Race/Ethnicity and Gender Washington State vs. United States

GENDER	WASHINGTON STATE		UNITED STATES	
	#	%	#	%
Male	3,349,707	49.81%	151,781,326	49.16%
Female	3,374,833	50.19%	156,964,212	50.84%
<b>TOTAL</b>	<b>6,724,540</b>	<b>100.00%</b>	<b>308,745,538</b>	<b>100.00%</b>

RACE/ETHNICITY	WASHINGTON STATE		UNITED STATES	
	#	%	#	%
White	4,876,804	72.52%	196,817,552	63.75%
Latino	755,790	11.24%	50,477,594	16.35%
African American	229,603	3.41%	37,685,848	12.21%
Asian	475,634	7.07%	14,465,124	4.69%
American Indian/ Alaska Native	88,735	1.32%	2,247,098	0.73%
Native Hawaiian/Pacific Islander	38,783	0.58%	481,576	0.16%
Other	11,838	0.18%	604,265	0.20%
Two or more races	247,353	3.68%	5,966,481	1.93%
<b>TOTAL</b>	<b>6,724,540</b>	<b>100.00%</b>	<b>308,745,538</b>	<b>100.00%</b>

## Washington State Demographic Statistics: Age Group by Ethnicity

			UNDER 18	PERCENT	18-24	PERCENT	25-34	PERCENT
TOTAL POPULATION	6,724,540		1,581,354	23.5%	650,053	9.7%	933,781	13.9%
MALE	3,349,707	49.8%	810,202	51.2%	335,013	51.5%	474,877	50.9%
FEMALE	3,374,833	50.2%	771,152	48.8%	315,040	48.5%	458,904	49.1%
WHITE	4,876,804	72.5%	960,500	60.7%	429,162	66.0%	625,559	67.0%
LATINO	755,790	11.2%	299,435	18.9%	96,977	14.9%	135,293	14.5%
AFRICAN AMERICAN	229,603	3.4%	61,426	3.9%	26,217	4.0%	36,704	3.9%
ASIAN	475,634	7.1%	101,661	6.4%	49,861	7.7%	80,863	8.7%
AMERICAN INDIAN/ALASKAN NATIVE	88,735	1.3%	24,161	1.5%	10,375	1.6%	12,410	1.3%
NATIVE HAWAIIAN/PACIFIC ISLANDER	38,783	0.6%	12,141	0.8%	5,366	0.8%	6,933	0.7%
OTHER	11,838	0.2%	4,231	0.3%	1,244	0.2%	1,864	0.2%
TWO +	247,353	3.7%	117,799	7.4%	30,851	4.7%	34,155	3.7%

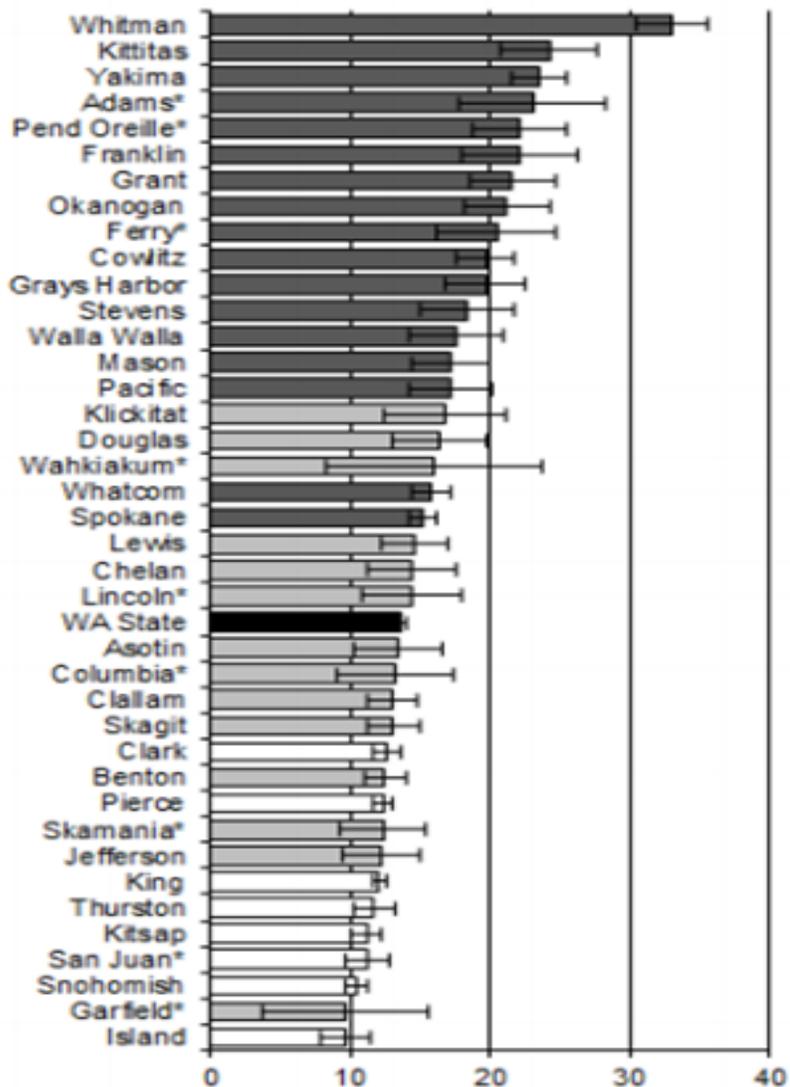
## Projected Population Changes in Washington by Race/Ethnicity

### Projected Changes in Washington Population by Race/Ethnicity - 2005 to 2025

AGE 18-24	RACE/ETHNICITY	Change	Percentage
	WHITE	-14,131	-3%
	BLACK	+2,165	+10%
	HISPANIC	+32,173	+61%
	ASIAN/PACIFIC ISLANDER	+23,355	+53%
	AMERICAN INDIAN/ALASKA NATIVE	+2,572	+20%

Percent in Poverty  
Washington Counties

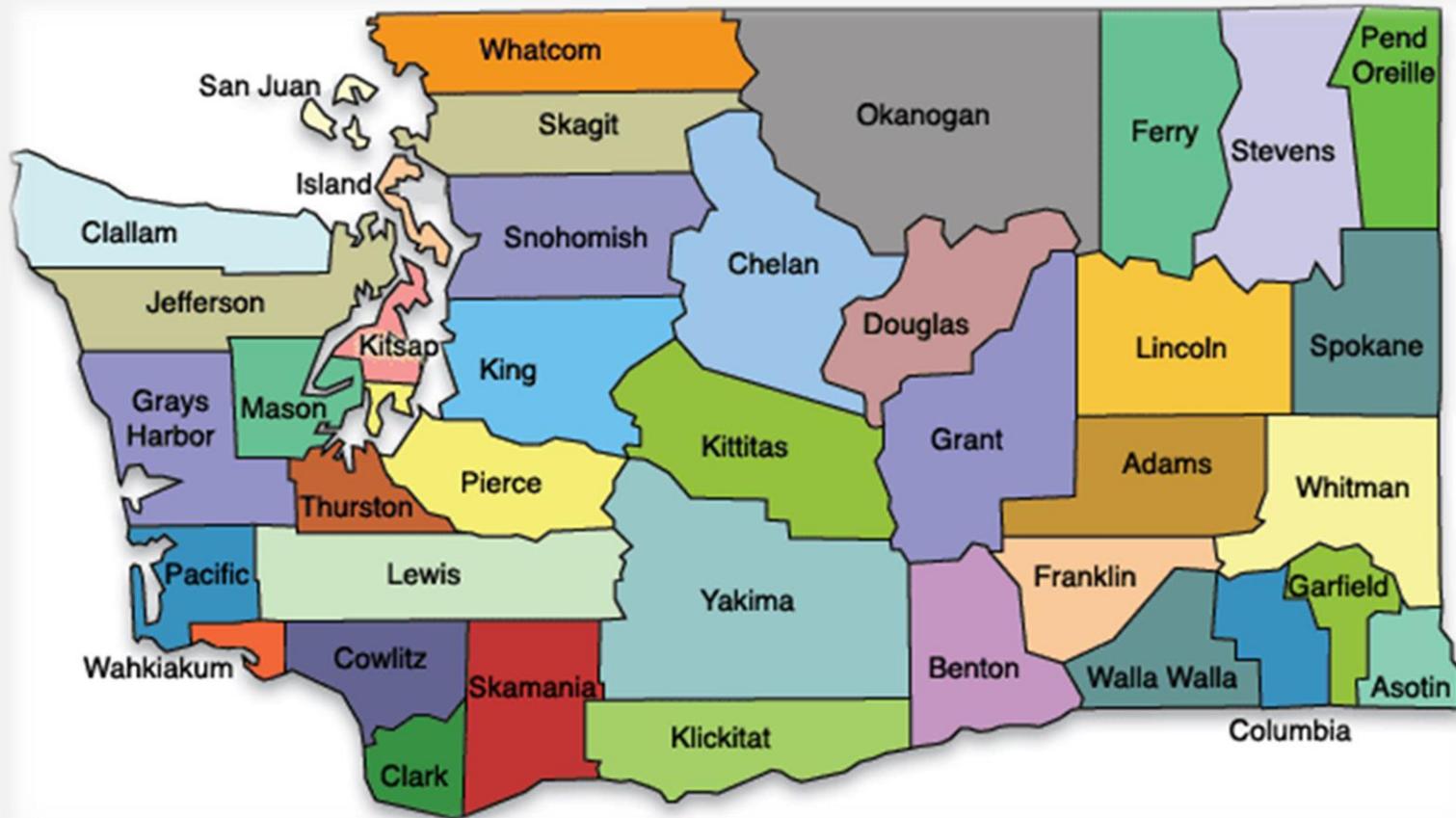
American Community Survey 2010-2012\*



- Washington State
- Value lower than WA State
- ▒ Value same as WA State
- Value higher than WA State

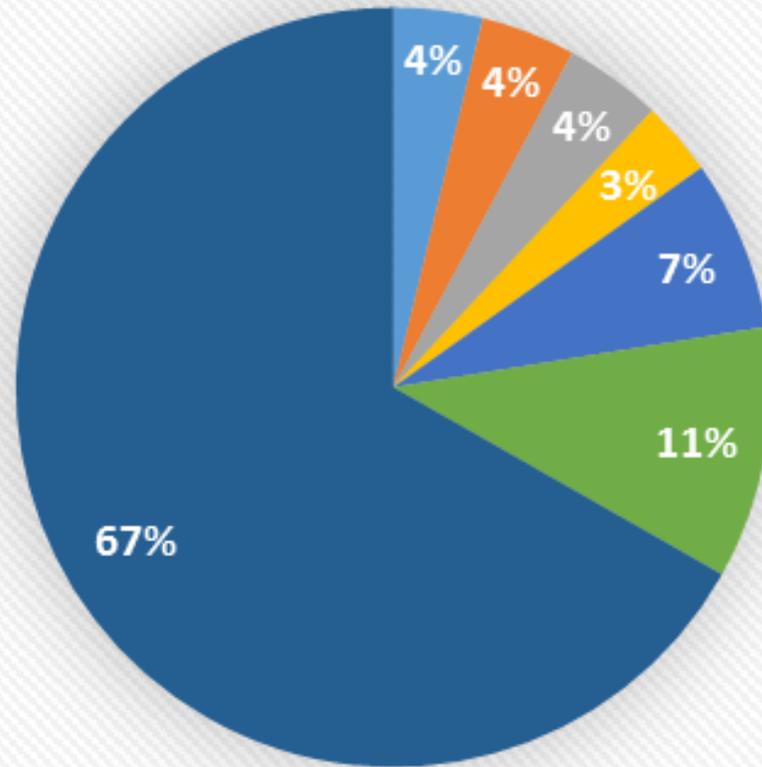
\* Below federal poverty threshold; data from American FactFinder; data for 2008-2012 for counties with populations <20,000

# Washington State Poverty Data (2010-2012)



# Washington P&C Insurance Market Share

## Washington Property & Casualty Insurance Market Share



■ Pemco ■ SAFECO ■ Progressive ■ GEICO ■ Farmer's Insurance ■ State Farm ■ Others



PEMCO Mutual Insurance Company

Five Year Reconciliation of Surplus

For the Years Ended December 31,

	2013	2012	2011	2010	2009
<b>Capital Surplus Carried Over</b>	\$232,710,862	\$241,646,587	\$238,918,549	\$246,246,580	\$212,486,522
Net Income or (loss)	(3,301,372)	(16,310,870)	8,190,284	(6,004,662)	22,721,123
Change in net unrealized capital gains or (losses)	3,517,788	2,400,786	(7,597,793)	(8,508,957)	4,880,405
Changes in net deferred income tax	3,942,899	1,366,030	1,004,283	5,707,925	(2,912,390)
Change in nonadmitted assets	2,906,354	1,469,520	3,143,177	1,278,987	11,914,798
Change in provision for reinsurance	-	203,360	-	129,574	(332,934)
Cumulative effect of changes in accounting principles	-	1,623,539	-	-	-
Aggregate write-ins for gains and losses in surplus	(2,371,181)	311,910	(3,347)	69,102	(2,510,944)
Change in surplus as regards policyholders for the year	4,694,488	(8,935,725)	2,718,038	(7,328,031)	33,760,058
<b>Capital and Surplus, December 31</b>	<b>\$ 237,405,350</b>	<b>\$ 232,710,862</b>	<b>\$ 241,646,587</b>	<b>\$ 238,918,549</b>	<b>\$ 246,246,580</b>

# Financials

source: FINANCIAL EXAMINATION OF PEMCO MUTUAL INSURANCE COMPANY. (2013) (1st ed.). SEATTLE. Retrieved from <http://insurance.wa.gov/for-insurers/financials/financial-exam-reports/2014-reports/documents/pemco-financial-exam-report.pdf>

## Statement of Income and Capital and Surplus Account

### For the Year Ended December 31, 2013

	Balance Per Company
<b>Underwriting Income</b>	
Premiums earned	333,363,214
Deductions	
Losses incurred	201,964,101
Loss adjustment expenses incurred	38,725,933
Other underwriting expenses incurred	105,428,516
<b>Total underwriting deductions</b>	<b>\$ 346,118,550</b>
<b>Net underwriting gain or (loss)</b>	<b>(12,755,336)</b>

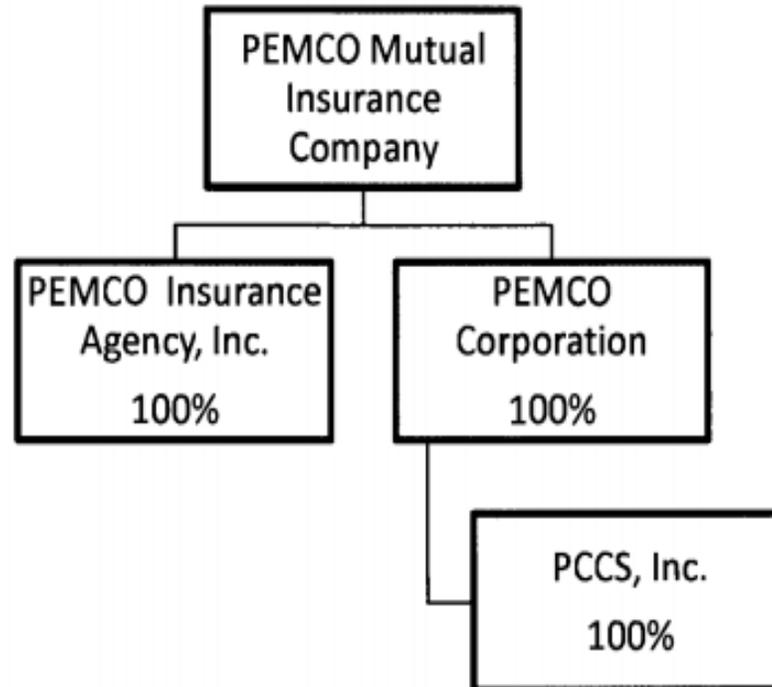
Year	Capital & Surplus
2013	\$ 237,405,350
2012	\$ 232,710,862
2011	\$ 241,646,587
2010	\$ 238,918,549
2009	\$ 246,246,580
<b>Average</b>	<b>\$ 239,385,586</b>
<b>5% of Average Surplus</b>	<b>\$ 11,969,279</b>



# PEMCO Structure

## Affiliated Companies

The following organization chart is taken from PMIC's filed 2013 NAIC Annual Statement:



# Top Advertising Expenses

## Top US property & casualty insurance advertisers in 2013

Rank	Insurer	Advertising expense (\$M)			YOY advertising growth (%)		Personal lines direct premium written (\$M)	Ratio of advertising to premium (%)
		2013	2012	2011	2012-2013	2011-2012		
1	GEICO Corp.	1,175.3	1,117.5	993.8	5.18	12.45	18,564.6	6.33
2	Allstate Insurance Group	886.5	828.8	722.2	6.96	14.75	25,509.4	3.48
3	State Farm Mutual Automobile Insurance Co.	802.8	777.9	813.5	3.21	-4.38	50,917.1	1.58
4	Progressive Insurance Group	595.4	526.0	536.1	13.19	-1.89	15,407.4	3.86
5	Liberty Mutual Insurance Co.	423.2*	394.2	332.5	7.37	18.57	14,369.7*	2.95
6	Nationwide Mutual Insurance Co.	352.2	309.6	276.9	13.76	11.80	10,731.7	3.28
7	Farmers Insurance Group of Cos.	304.3	386.3	464.2	-21.23	-16.77	14,917.1	2.04
8	American Family Mutual Insurance Co.	144.2	153.3	167.3	-5.93	-8.35	4,912.0	2.94
9	Travelers Cos. Inc.	120.4	161.9	166.5	-25.62	-2.72	6,714.8	1.79
10	American International Group	120.3	151.3	124.7	-20.52	21.31	(221.4)**	NM **
11	United Services Automobile Association	117.0	103.8	91.6	12.74	13.27	13,495.2	0.87
	<b>Total</b>	<b>5,041.6</b>	<b>4,910.4</b>	<b>4,689.2</b>	<b>2.67</b>	<b>4.72</b>	<b>175,317.7</b>	<b>2.88</b>
	<b>Industry</b>	<b>6,044.8*</b>	<b>5,869.8</b>	<b>5,650.4</b>	<b>2.98</b>	<b>3.88</b>	<b>266,066.6*</b>	<b>2.27</b>

Data compiled June 26, 2014.

Rank based on advertising for all P&C lines of business. Includes all companies reporting over \$100 million in advertising in 2013.

Based on NAIC statutory P&C statement filings. U.S. filers only. May include business written outside the U.S. if reported in NAIC statements.

Data listed is as-reported at the end of each period. Figures are not restated for M&A activity.

Advertising data is obtained from the Underwriting & Investment Exhibit. Premium data is obtained from the Insurance Expense Exhibit.

Data shown is generally a consolidation of data of the statutory filers as reported in the NAIC P&C combined statements. However, GEICO Corp. is used in place of the combined filing for National Indemnity and its affiliates.

Personal lines premiums are defined as NAIC as-reported lines of business private passenger auto physical damage, private passenger auto liability, homeowners multiple peril and farmowners multiple peril.

Information applies to only P&C operations of listed insurers. Does not include operations of other sectors.

\* Includes 2013 data for Liberty Mutual Insurance Co. This data was filed late and is currently not available in SNL's product.

\*\* The negative premium for American International Group Inc. includes a large segment of business that AIU Insurance Co. transferred to an affiliate that is not included in the NAIC combined statement. The ratio of advertising to premium is designated "NM" or not meaningful as a result.

Source: SNL Financial



# "Success Mentors" Program Details

- **PEMCO currently gives employees 8 hrs of paid time per year to go volunteer for a nonprofit**
  - Those 8 hrs can be used to take a student out for lunch once a month (because school season is around 9 months with breaks in between)
- **PEMCO currently does monthly employee activities (collectible drives such as food, clothing, blood), bake sales, fun runs**
  - This could be integrated with another aspect of PEMCO's CSR plan. For example, if PEMCO also wants to do something CSR related for climate change, they can do fun runs to fundraise (& invite their mentees)--educates Washington's youth and future leaders to be socially conscious, solidifies bonds between mentee and mentor, etc.
- **Corporate Giving (donates 5% surplus to local causes)**
  - If students from low-income backgrounds can't make it to school because they lack basic necessities, I don't think it's necessarily bad to donate money for food & clothes to the students in need...they're not just throwing money at them and calling it quits. It fits into the bigger picture, and helps the overarching goal
- **Once a month mentor-mentee lunch for the year:**
  - \$20 per meal x 2 people =\$40 per meal
  - End of the year mentorship luncheon/dinner



# *Benefits to specific stakeholders*

- **Employees/management:** Feel fulfilled and gain leadership experience.
- **Customers:** Associated with a courageous company. Better experience with a more productive PEMCO workforce.
- **Community members:** Problems are alleviated.
- **Investors:** Financial ROI through increased in brand value, sales, and employee retention.
- **Government:** Supporting government in alleviating the people's issues.
- **Independent agencies that sell PEMCO product:** Positive brand equity of PEMCO acts as a free marketing tool.



# The ROI of CSR

“For each employee that is retained, companies can save up to 90 to 200 percent of that employee’s salary.”

On the HR front, the numbers are impressive: CSR programs can increase productivity up to 13 percent and reduce the employee turnover rate by up to 50 percent for large, publicly traded companies. For each employee that is retained, companies can save up to 90 to 200 percent of that employee’s salary.

Prospective employees also view firms with high corporate social performance as more attractive; workers are willing to take up to a 5 percent pay cut to work at these firms.

Further, workers that are well informed about the company’s CSR efforts are more likely to go "above and beyond" by doing extra work not required for payment, particularly high performing workers. -

# *Employee Points System - Rewarding Courage*

**Award points to employees based on participation in “PEMCO Cares.” Perks can include:**

- Winning various vacations
  - Monetary Prizes
- Prizes for Family/household/individual enjoyment
  - Recognition at PEMCO functions
- A week to visit Georgetown in Washington, D.C.
  - PEMCO’s Courage Prize
    - Courage Chair
    - Courage Parking Spot

