2-26-2016

PEMCO: Corporate Social Responsibility

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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
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."
Industry Overview

Overview

Current Situation

CSR Infrastructure

Summary

PEMCO

Heavy Regulations

Treated as a commodity

Not sought after

Customer

Not Trustworthy

Not Valued

Forced on by the law

Forced on by the law
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, it's not the same game

- CSR, when well defined, flows throughout the firm and a community to:

Overview
Current Situation
CSR Infrastructure
Summary
Key stakeholders – Risk, Reward, and Implications

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

Market share from: http://car-insurance.credio.com/l/151/PEMCO
• “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
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
Maximizing our Impact:

PEMCO Cares' Focus

- PEMCO Cares' Focus
- Maximizing our Impact:
- PEMCO Insurance
- Hyper-local
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
Employee raises hyper-local issue.

Resources:
$12,000,000 and 4,160 hours

Employee raises hyper-local issue.
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?"
PEMCO CARES: Pilot Initiative
• 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?
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?

<table>
<thead>
<tr>
<th>Student Group</th>
<th>Percent Chronically Absent</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Indian/Alaskan Native</td>
<td>31%</td>
</tr>
<tr>
<td>Native Hawaiian/Other Pacific Islander</td>
<td>25%</td>
</tr>
<tr>
<td>Special Education</td>
<td>22%</td>
</tr>
<tr>
<td>Low Income</td>
<td>21%</td>
</tr>
</tbody>
</table>

Overview

Current Situation

CSR Infrastructure

Summary
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.
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.**
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

Where do we go from here?

Overview
Current Situation
CSR Infrastructure
Summary
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.
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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**Overview** | **Current Situation** | **CSR Infrastructure** | **Summary**
"We're a lot like you. A little different."
Appendix

Washington State Demographics
Washington State Poverty Data (2010-2012)
PEMCO 2013 Financials
PEMCO Structure
Top Insurance Advertising
Success Mentors Program Details
Benefits to Specific Stakeholders
ROI of CSR
Employee Point System
## Demographics - Washington State


### Population by Race/Ethnicity and Gender

<table>
<thead>
<tr>
<th>Gender</th>
<th>Washington State</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
<td>%</td>
</tr>
<tr>
<td>Male</td>
<td>3,349,707</td>
<td>49.81%</td>
</tr>
<tr>
<td>Female</td>
<td>3,374,833</td>
<td>50.19%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6,724,540</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

### Washington State Demographic Statistics: Age Group by Ethnicity

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Total Population</th>
<th>Under 18</th>
<th>18-24</th>
<th>25-34</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>6,724,540</td>
<td>3,349,707</td>
<td>151,781,326</td>
<td>3,374,833</td>
</tr>
<tr>
<td>Female</td>
<td>4,722,833</td>
<td>2,374,833</td>
<td>125,980,122</td>
<td>2,347,900</td>
</tr>
<tr>
<td>TOTAL</td>
<td>11,447,373</td>
<td>5,724,540</td>
<td>277,761,448</td>
<td>5,721,733</td>
</tr>
</tbody>
</table>

### Projected Population Changes in Washington by Race/Ethnicity

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>Change 2005 to 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>-14,131</td>
</tr>
<tr>
<td>Black</td>
<td>+2,165</td>
</tr>
<tr>
<td>Hispanic</td>
<td>+32,173</td>
</tr>
<tr>
<td>Asian</td>
<td>+23,355</td>
</tr>
<tr>
<td>American Indian/Alaskan Native</td>
<td>+2,572</td>
</tr>
</tbody>
</table>

### Population by Age and Race/Ethnicity

<table>
<thead>
<tr>
<th>Age Group</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>Asian</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-24</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25-34</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Population by Two or More Races

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>Change 2005 to 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two or more races</td>
<td>+2,572</td>
</tr>
</tbody>
</table>

### Notes

1. The data includes projections for the year 2025.
2. The population changes reflect estimated growth and decline for each race/ethnicity group.
3. The changes are based on historical trends and are subject to future revisions.
Washington State Poverty Data (2010-2012)
Washington P&C Insurance Market Share

Washington Property & Casualty Insurance Market Share

- Pemco: 67%
- SAFECO: 4%
- Progressive: 4%
- GEICO: 4%
- Farmer’s Insurance: 7%
- State Farm: 11%
- Others: 3%
PEMCO Mutual Insurance Company

Five Year Reconciliation of Surplus
For the Years Ended December 31,

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Surplus Carried Over</td>
<td>$233,710,852</td>
<td>$241,645,567</td>
<td>$238,318,549</td>
<td>$246,246,560</td>
<td>$212,496,522</td>
</tr>
<tr>
<td>Net Income or (Loss)</td>
<td>(6,391,672)</td>
<td>(6,310,870)</td>
<td>8,150,284</td>
<td>(6,004,652)</td>
<td>22,721,523</td>
</tr>
<tr>
<td>Change in unrealized gains or (loss)</td>
<td>3,517,708</td>
<td>2,400,706</td>
<td>(7,877,723)</td>
<td>(3,540,857)</td>
<td>4,000,405</td>
</tr>
<tr>
<td>Changes in net deferred income tax</td>
<td>3,942,859</td>
<td>1,365,030</td>
<td>1,034,283</td>
<td>5,797,925</td>
<td>(2,912,390)</td>
</tr>
<tr>
<td>Change in nonadmitted assets</td>
<td>2,306,354</td>
<td>1,465,620</td>
<td>3,143,317</td>
<td>1,278,987</td>
<td>11,814,788</td>
</tr>
<tr>
<td>Change in provision for reinsurance</td>
<td>-</td>
<td>203,050</td>
<td>-</td>
<td>129,574</td>
<td>(332,904)</td>
</tr>
<tr>
<td>Cumulative effect of changes in accounting principles</td>
<td>-</td>
<td>1,625,539</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Aggregate writtens for gains and losses in surplus</td>
<td>(2,371,161)</td>
<td>311,910</td>
<td>(2,347)</td>
<td>63,102</td>
<td>(2,510,344)</td>
</tr>
<tr>
<td>Change in surplus as regards policyholders for the year</td>
<td>4,694,488</td>
<td>(8,935,725)</td>
<td>2,716,038</td>
<td>(7,339,039)</td>
<td>8,270,062</td>
</tr>
<tr>
<td>Capital and Surplus, December 31</td>
<td>$237,405,350</td>
<td>$233,710,852</td>
<td>$241,645,567</td>
<td>$238,318,549</td>
<td>$246,246,580</td>
</tr>
</tbody>
</table>

Statement of Income and Capital and Surplus Account
For the Year Ended December 31, 2013

<table>
<thead>
<tr>
<th>Balance Per Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Income</td>
</tr>
<tr>
<td>Premiums earned</td>
</tr>
<tr>
<td>Deductions</td>
</tr>
<tr>
<td>Losses incurred</td>
</tr>
<tr>
<td>Loss adjustment expenses incurred</td>
</tr>
<tr>
<td>Other underwriting expenses incurred</td>
</tr>
<tr>
<td>Total underwriting deductions</td>
</tr>
<tr>
<td>Total net underwriting deductions</td>
</tr>
</tbody>
</table>

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

**PEMCO Structure**

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

- **PEMCO Mutual Insurance Company**
  - **PEMCO Insurance Agency, Inc.** 100%
  - **PEMCO Corporation** 100%
    - **PCCS, Inc.** 100%

## Top Advertising Expenses

### Top US property & casualty insurance advertisers in 2013

<table>
<thead>
<tr>
<th>Rank</th>
<th>Insurer</th>
<th>Advertising expense ($M)</th>
<th>YOY advertising growth (%)</th>
<th>Personal lines direct premium written ($M)</th>
<th>Ratio of advertising to premium (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GEICO Corp.</td>
<td>1,175.3</td>
<td>5.18</td>
<td>18,564.6</td>
<td>6.33</td>
</tr>
<tr>
<td>2</td>
<td>Allstate Insurance Group</td>
<td>886.5</td>
<td>6.96</td>
<td>25,509.4</td>
<td>3.48</td>
</tr>
<tr>
<td>3</td>
<td>State Farm Mutual Automobile Insurance Co.</td>
<td>802.8</td>
<td>3.21</td>
<td>50,917.1</td>
<td>1.58</td>
</tr>
<tr>
<td>4</td>
<td>Progressive Insurance Group</td>
<td>595.4</td>
<td>13.19</td>
<td>15,407.4</td>
<td>3.86</td>
</tr>
<tr>
<td>5</td>
<td>Liberty Mutual Insurance Co.</td>
<td>423.2*</td>
<td>7.37</td>
<td>14,369.7*</td>
<td>2.95</td>
</tr>
<tr>
<td>6</td>
<td>Nationwide Mutual Insurance Co.</td>
<td>352.2</td>
<td>13.76</td>
<td>10,731.7</td>
<td>3.28</td>
</tr>
<tr>
<td>7</td>
<td>Farmers Insurance Group of Cos.</td>
<td>304.3</td>
<td>-21.23</td>
<td>14,917.1</td>
<td>2.04</td>
</tr>
<tr>
<td>8</td>
<td>American Family Mutual Insurance Co.</td>
<td>144.2</td>
<td>-5.93</td>
<td>4,912.0</td>
<td>2.94</td>
</tr>
<tr>
<td>9</td>
<td>Travelers Cos. Inc.</td>
<td>120.4</td>
<td>-25.62</td>
<td>6,714.8</td>
<td>1.79</td>
</tr>
<tr>
<td>10</td>
<td>American International Group</td>
<td>120.3</td>
<td>-20.52</td>
<td>(221.4)**</td>
<td>NM **</td>
</tr>
<tr>
<td>11</td>
<td>United Services Automobile Association</td>
<td>117.0</td>
<td>12.74</td>
<td>13,495.2</td>
<td>0.87</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>5,041.6</td>
<td>2.67</td>
<td>175,317.7</td>
<td>2.88</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td>6,044.8*</td>
<td>3.88</td>
<td>266,066.6*</td>
<td>2.27</td>
</tr>
</tbody>
</table>

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 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 only to personal lines of business for companies that reported data in the NAIC P&C combined statements.

* 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.
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.

Source: https://www.greenbiz.com/article/roi-csr-how-one-company-generated-600-million-return
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