

## **Our Corporate History**

### **April 7, 1914**

A group of farmers chartered an association in response to an issue that had nothing to do with insurance. A group of several hundred Pennsylvania farmers met in Harrisburg on April 7-8, 1914, to protest a newly enacted state law that tightly restricted the weight and cleat size of steam traction engines (tractors) on highways. Accustomed to sharing their mechanized implements, farmers and threshermen often moved their equipment between farms, using public roads to do so. The legislation they protested — the Automobile Law of 1913 — was intended to limit damage to newly improved state roads.

But farmers thought the law was unfair to them. The Pennsylvania Legislature, they charged, was favoring automobile owners and discriminating against farmers. Back then, automobiles were still shedding their image as being recreational playthings of the rich. (Ford Motor Co. had introduced the Model T in 1908 and implemented the assembly-line process the same year that Pennsylvania's auto law was passed.) Farmers, too, paid the taxes that built and maintained roads, and they complained that the ban hurt their productivity, their livelihoods and their way of life. Not only that, they also argued that the roads weren't worth the tax expense. Speakers criticized the state Highway Department for "incompetency and poor work in road building." Jacob A. Rose, who eventually became general manager of the insurance company that the association would later found, was an outspoken advocate of the farmers' position, and his interest was his livelihood — he was local manager for a farm machine maker, the Huber Manufacturing Company. Declaring that the farmers must organize "in self-defense of property rights to sue the traction engine," he helped Pennsylvania farmers organize as the Pennsylvania Threshermen's and Farmers' Protective Association.

By the end of the two-day conference, 748 members were signed up.

That summer, after the farmers continued to agitate for change, the state agreed to temporarily suspend portions of the law. Eventually, in 1915, those portions were repealed when Robert Spangler, an association member who also served in the Legislature, introduced a bill that was passed into law.

Soon the association, fueled by Jacob Rose, was attacking what it viewed as the growth of state government intrusion into various aspects of life and business. "The present day tendency of state politicians is to get control of anything that will give them additional power," wrote Rose in the founding issue of the association's publication, *The Right of Way*. With this framework, the company could have eventually grown into some form of advocacy group such as Common Cause or Pennsylvania Economy League. Instead, its future lay in another direction.

### **1915**

Reacting again to state government, the Pennsylvania Threshermen's and Farmers' Protective Association formed a mutual insurance company. This action was not taken hastily.

In 1915, the Pennsylvania Legislature had passed a law making it mandatory for employers to carry workers' compensation insurance and set up a state insurance fund to provide that coverage, theoretically at cost. Workers' compensation insurance is intended to pay for lost wages and medical costs to treat injuries occurring as a result of accidents on the job. But the next year, when the newly formed Workmen's Compensation Board set occupational rates, farmers and threshermen again thought they were being discriminated against by being assessed disproportionately higher rates.

Although many farmers were exempt, the board's rates called for employers to pay \$4.15 per \$100 of

payroll. This was higher than the rates for policemen and sawmill workers (\$2.40) and foundry workers (97 cents). In fact, among the few occupations that carried higher premiums were gunpowder makers and fire fighters.

“I said that \$4.15 ... was simply too much,” Jacob Rose, secretary-treasurer of the protective association, later wrote. “Running a threshing machine [isn’t] nearly as dangerous as walking down the street now.”

An association survey found that, among 1,000 respondents, 75 percent reported no accidents. Albert Allen, manager of the State Insurance Fund, agreed to reduce the rate to \$3.73 per \$100; still not what the farmers considered to be fair.

In the meantime, the state imposed another law requiring farmers to pay \$5 for a periodic inspection of steam boilers. Inspections were already routine in heavy industry and on the railroads, which employed tens of thousands of steam locomotives, all operating on exactly the same principles as steam traction engines. Rose and PTF association president A. H. Brubaker personally appealed to the Pennsylvania Department of Labor for an exemption, saying that few accidents could have been prevented by inspection. Nevertheless, as in industry and on the railroads, the boilers occasionally did blow up — and did so spectacularly. The state denied the exemption, and PTF went away further irritated by the extent of creeping government control.

## **1918**

Finally, in 1918, the state insurance board raised the workers’ compensation rates for farmers from \$3.73 to \$4.29 per \$100 of payroll. The PTF association blamed the stock insurance companies and polled its members on their interest in forming a mutual (policyholder-owned) insurance company. Again, the association protested the higher rates, and the state again lowered the amount — to \$3.93. But the reduction came too late to placate the farmers, and they decided to press ahead with forming their own company.

The PTF association paid a \$37 fee to the Secretary of the Commonwealth and \$25 to the Insurance Department, and on January 6, 1919, the Pennsylvania Threshermen’s and Farmers’ Mutual Casualty Insurance Company was incorporated.

The company’s charter allowed it to issue insurance to both employers and employees operating threshing machinery, corn huskers, silo cutters, hay balers and shredders. Rates were set at \$6 per \$100 of payroll; implement dealers could be covered at 50 cents per \$100; farmers at \$1 per \$100. While the top rates seemed more expensive, the difference was that the company offered to cover both employers and employees. At that time, most companies offered workers’ compensation coverage only for employees.

Jacob Rose was hired as part-time general manager at \$50 per month. He conducted PTF’s business from a rented desk in his office at Huber Manufacturing Company on 10<sup>th</sup> Street in Harrisburg. PTF’s most immediate goal was to raise \$50,000 in premiums by May 1920. This provision of state law, Rose wrote, “was enacted into law by the influence of the old-line insurance companies, in an effort to prevent the formation of mutuals.” He added, however, that the PTF’s founders say there was “no reason to fear that the necessary fund cannot be raised.” One drawback to a mutual company back then was that, if the company fell short in its ability to pay claims, it could assess members to make up the difference. Still, as an independent-minded group, farmers were willing to take the risk.

## **1920s**

The company entered 1920 still \$10,000 short of its goal, but at its February annual meeting, the money was raised quickly when Jacob Rose told members that the final amount could consist of loans. Within minutes, the members began to write out checks from \$100 to \$500. PTF began operating in April 1920 with \$54,000 in assets. “The threshermen’s own mutual company is at last a reality,” Rose wrote.

Moving out of Jacob Rose’s employer’s building, the company occupied an office in the Kunkel building at Third and Market Streets in downtown Harrisburg. The company also bought reinsurance to eliminate the possibility of being forced to assess its members.

At the company’s 1921 annual meeting, PTF officials reported a surplus. Income had totaled \$70,048, and payments and expenses came to \$44,709. The firm distributed a 10 percent dividend to members and soon found the second year to be even more successful — assets totaled almost \$80,000, and the surplus amounted to more than \$37,000.

Growth and success were the fruits of the farmers’ faith and work. In 1922, 1923 and 1924, the company distributed 15 percent dividends; in 1925 it declared a 17.5 percent dividend, which it repeated in 1927 and 1928; and in 1929 and 1930, the figure rose to 20 percent.

In 1927, the company won an endorsement from the Pennsylvania Forest Products Manufacturer’s Association, a lumbermen’s group that voted to place its workers’ compensation insurance with PTF, which already was writing nearly half of the logging and sawmilling insurance in Pennsylvania.

Rose continued to use PTF’s name and publication to pursue his ill-of-government crusade. The Right of Way published the salaries of many state officials, exposed the growth of government spending and attacked the cost and expenses of the board controlling the State Insurance Fund. In 1927, the fund was audited, and the audit revealed mismanagement. The same year, Rose resigned from Huber Manufacturing to devote himself full-time to the insurance company, which by now was writing \$150,000 in premiums and reporting assets of \$227,050.

### **1930s**

In 1931, PTF moved to offices at 311 Mechanics Trust Building, Harrisburg. By this time, it was writing insurance coverage that it had not previously carried — automobile liability and property damage, trucking and workers’ compensation on one of Pennsylvania’s bigger industries, coal mining. The same year, on August 31, the company conducted its first meeting of agents in Harrisburg’s Chestnut Street Hall, the same auditorium in which the PTF Protective Association had been organized 17 years earlier.

In 1932, the company embarked on its first expansion out-of-state, entering Maryland. In 1933, PTF expanded into Washington, D.C.

The company was so successful that it had virtually put the State Insurance Fund out of business. That fund lost about half of its business at a time when some categories of PTF business were nearly doubling.

In February 1933, the company moved to a new two-story brick headquarters in a residential section of Harrisburg at 18<sup>th</sup> and Rudy Streets.

During this time, PTF’s company publication continued to reflect General Manager Jacob Rose’s anti-big-government drive, and The Right of Way in 1932 withdrew its support for Governor Gifford Pinchot, who was elected in 1930 to begin a second term. PTF had supported Pinchot during his first term and in his campaign for a second term. A resolution at the 1932 annual meeting read: “We are still in harmony with the promises and platform of Governor Pinchot as promulgated in his campaign, but with few exceptions see no honest attempt being made to fulfill these pledges and that the first year of his term

has proven to be one of gross extravagance and devoid of accomplishment.”

Some retirees who knew Rose suggest that the split was simply a personal rift between Rose and Pinchot. Certainly the record shows that Pinchot was a progressive Republican who was opposed to the growth of government and who came to office dedicated to the need to “let in the light and clean up the mess in Harrisburg.” In his first administration, he simplified state government by getting a new Administrative Code passed. Early in his second term — on June 22, 1931 — he signed legislation that by all accounts favored PTF’s traditional power base, farmers. He transferred 20,156 miles of township roads to state jurisdiction and began the process of “getting the farmer out of the mud” by ordering the paving of a network of rural macadam roads. It was one of his most popular and enduring acts.

Regardless, Jake Rose, with his bitter attacks, had not only picked a fight, but had also set the stage for a showdown.

### **November 23, 1933**

The Pinchot Administration struck back at PTF swiftly and without warning. On Thursday, November 23, 1933, state Insurance Commissioner Charles F. Armstrong revoked the company’s license and Attorney General William A. Schnader petitioned Dauphin County Court for an order to liquidate the company. The Insurance Department listed three categories of violations of the Workmen’s Compensation Act, but the gist of them was that PTF had provided compensation insurance for employees and had paid some claimants lump-sum settlements. In addition, the state notified agents that their licenses were canceled.

Not only had the company annoyed the administration by criticizing it in *The Right of Way*, but it also effectively competed with the State Insurance Fund. Further, PTF hired employees of the state fund who had been fired by the Pinchot Administration, and these employees provided inside information on the state’s distaste for PTF.

General Manager Jacob Rose was in Baltimore when the order to revoke the company’s license came down. The company at this point had more than \$600,000 in assets and was responsible to thousands of policyholders. When policyholders heard of the revocation, they flooded agents and the company with calls and letters of both concern and support.

“Sure beats thunder, don’t it?” wrote agent A. C. Helfrick of Allensville, Pa. “Policyholders and agents have been calling me all day, and this afternoon I slipped away to get away from the telephone. Wish you could wire me in the morning concerning conditions so that I could tell everybody how things stand. I still have faith in the company and will stick to you.”

Another note read: “Good luck to you. Hope you win out over some of that rotten bunch.”

The next morning, the company started working to get a temporary injunction issued to restore the license. Meeting on Saturday, Dauphin County Court issued the injunction, putting the company back in business. “It is a most drastic proposition to say that you will kill an insurance company because it violated some provisions of the Workmen’s Compensation Act,” said Dauphin County Court President Judge W. W. Hargest.

Harrisburg’s Sunday Courier newspaper commented: “While the Pinchot Administration directed its case against the Threshermen’s Company, there is no doubt in the minds of many familiar with the case that the real target is Jacob A. Rose, secretary-treasurer and manager of the company ... Rose is a vigorous fighter  
....

“The Governor has struck his head into a hornet’s nest, for the organization is one of the most militant

and politically active in the state .... It insures some 20,000 policyholders against the liability imposed upon them under the Workmen's Compensation Law as well as insuring their automobiles against liability.”

Rose kept running the day-to-day business of PTF while at the same time consulting with company attorneys on continuing the court battle. Relying partly on former state employees who had been fired by the Pinchot Administration, he uncovered specific evidence of vindictive efforts by state officials to find any technical violation to build a case against PTF. Although a few members wished that Rose would not be so aggressive, he enjoyed widespread support and admiration for his willingness to tell the truth. Both he and the other officers were consistently re-elected.

Meanwhile, the company continued to enjoy financial success, and in 1934, it broke the million-dollar mark by taking in \$1.4 million in premiums and declaring assets of \$1.3 million.

Pinchot left office in early 1935 and was succeeded by Democrat George Earle, who replaced Schnader with Charles Margiotti as attorney general. Margiotti formally dismissed the case on December 30, 1936, officially ending hostilities between the Commonwealth and PTF.

Two expansions occurred in 1938, when the company began writing business in Delaware and when it opened a branch office in Philadelphia. The following year, it opened an office in Pittsburgh and, soon thereafter, one in Baltimore.

By this point, PTF was writing a large amount of auto insurance, and in 1939 the company introduced a 15 percent safe driver award.

## **1940s**

In 1940, the company's assets exceeded \$5 million, and its surplus was \$1million. PTF also declared policies to be non-assessable.

In terms of physical growth, the Home Office was expanded with the addition of a 20,000-square-foot annex. The workforce at this site now amounted to 110 employees.

During 1941, the company expanded into New Jersey and also began to write township and other municipal liability insurance.

On June 1, 1941, PTF lost its single greatest human asset when Jacob Rose died.

World War II affected the company in several ways. Some employees, both men and women, joined the military. Small business policyholders were operating with fewer employees, so they spent less in premiums for workers' compensation insurance. And tire and gasoline rationing caused less auto usage (with a resulting drop in premium payments) and, as a practical matter, caused PTF to cancel its annual meetings for 1942 and 1943.

In February 1943, the company changed its name to Pennsylvania Threshermen and Farmers' Mutual Casualty Insurance Company (dropping the "s" on Threshermen).

The final year of the war, 1945, PTF found that the Home Office workforce of 170 persons had outgrown even the expanded headquarters building at 18<sup>th</sup> and Rudy Streets. The heady and optimistic postwar atmosphere brought the announcement in 1947 that PTF was planning a new headquarters building at 19<sup>th</sup> and Derry Streets in Harrisburg.

On July 8, 1948, President J. F. Weaver laid the cornerstone for the new \$1 million Home Office,

figuratively laying the groundwork for PTF's next wave of expansion. Placed in the cornerstone was Jacob Rose's Bible, which he had customarily read every night during his adult life.

### **July 12, 1949**

The company's steady expansion made a new Home Office both possible and necessary. On July 12, 1949, a new \$1 million headquarters at 19<sup>th</sup> and Derry Streets, Harrisburg, opened, marking a milestone for the Pennsylvania Threshermen and Farmers' Mutual Casualty Insurance Company. During the dedication ceremonies, state Insurance Commissioner James Malone spoke, but his speech — attacking government control of the insurance industry — seemed to come right out of the top drawer of old Jake Rose's desk.

"Experience shows that private enterprise can do for the beneficiaries what government control cannot," he said, "and those who seek government takeover of all forms of insurance are either mistaken theorists or power-hungry opportunists, hungry to lay their hands on what does not belong to them."

Daniel N. Casey, secretary of the Harrisburg Chamber of Commerce, repeated the theme, saying that the company's growth "is an example of American enterprise .... It is the answer to the pessimists, politicians and the peanut-minded, who clamor that so many of our daily affairs should be grooved into government control." Other guests included Gov. James H. Duff and Harrisburg Mayor Claude R. Robins.

The building was designed by Harrisburg architect Edmund George Good Jr., a graduate of Yale University who reviewed more than a billion dollars' worth of construction projects for the federal government during World War II. Built by general contractor Ritter Brothers of Harrisburg, the four-story structure occupied the former site of the Dunkle family mansion.

Boasting the latest horizontal "strip fenestration" (windows) and sun louvers, the building contained light, open rooms and, on the fourth floor, a 500-seat auditorium and a recreation room.

PTF was rightly proud of its new headquarters and offered public tours. More than 8,000 people visited the new building.

William F. Hovetter, vice president and general manager, was the only one of four founders still with the company. Within two years, Hovetter became the company's president.

### **1950s**

The optimistic postwar era of the 1950s brought further expansion. By 1955, the staff had outgrown the new Home Office, and PTF built an annex across 19<sup>th</sup> Street at 1842 Derry Street. That same year, the PTF fire insurance company expanded into marine and casualty coverages. In addition, PTF began to gain control of the Home Mutual Fire Insurance Company of Williamsburg, Pa., a company that later moved to Harrisburg and was absorbed into PTF.

In 1956, Hovetter retired and was succeeded as president by K. H. Wagner. Also, the Greensboro, N.C., office gained branch office status that year.

By 1958, PTF was writing business in 15 states through seven branch offices. Types of coverage offered were workers' compensation, accident, automobile casualty, automobile physical damage, general liability, inland marine, plate glass, burglary, fidelity and surety, general fire and homeowner's policies. The largest category was workers' compensation, and the second largest was auto. Many insurance companies found auto coverage to be a losing line of business, but it was cross-subsidized by profits from premiums paid on other types of coverage.

The 15 states in which the company was doing business were Pennsylvania, New Jersey, Maryland, Delaware, Virginia, Tennessee, North and South Carolina, Georgia, Alabama, Florida, Texas, Oklahoma, Kansas and Missouri. At the close of that year, PTF had recorded assets of \$38 million and a surplus of nearly \$8 million.

President K. H. Wagner noted the difficult circumstances surrounding the industry, writing that “1958 will go down ... as one in which all phases of the insurance industry were faced with such ... problems that many boards of directors and agents wonder if satisfactory answers could be found. Unpleasant decisions had to be made by management. Companies experienced shrinking net income. Agents and brokers had faced increasing overhead expense and reduced commissions. Meanwhile, the public is complaining of paying too much for their insurance protection.” In 1960, Wagner wrote further about “dog-eat-dog” competition; despite that, the company’s assets rose to \$40 million and its surplus to more than \$10 million by the end of the year.

PTF decided to enter the life insurance business and in 1962 organized the Pennsylvania National Life Insurance Company, a public stock subsidiary, to write life, health and annuity policies. The company's name was submitted in a contest to name the new subsidiary. Agent Louis Dreyling of Jamesburg, N.J., won a \$50 prize for submitting the winning name.

### **January 23, 1963**

The Pennsylvania Threshermen and Farmers’ Mutual Casualty Insurance Company had come a long way since consisting of just a rented desk and chair in a corner of a farm machinery office. Our company had come so far, in fact, that we were now writing many different kinds of insurance, not just workers’ compensation, and in many states, not just rural Pennsylvania.

Moreover, by the 1960s, the occupation of thresherman was extinct, having been replaced by the process of custom combining. Although PTF would never forget its agricultural roots, they no longer were its primary constituency. As a result, on January 23, 1963, company officials discarded the farming overtones of the former title and renamed the firm Pennsylvania National Mutual Casualty Insurance Company. This name was similar to that of the life insurance subsidiary created a year earlier. To complete the identity makeover, the PTF Fire Insurance Company was renamed Pennsylvania National Mutual Insurance Company.

While our company was still writing a great deal of automobile casualty insurance, we also were losing money on it, leading to a decision in 1964 to eliminate dividends and deviations for that line of business.

President K. H. Wagner retired in 1966 and was succeeded by Raymond Shaffer.

On December 30, 1967, Pennsylvania National Mutual Insurance Company was merged into the parent, Pennsylvania National Mutual Casualty Insurance Company.

The company was swept into the social arena in 1968 when we paid claims as a result of racial unrest that erupted into riots in several Northeastern cities. “The riots of early 1968, plus several tornado catastrophe losses, were the principle contributions to the underwriting loss sustained in the fire and multi-peril lines,” Shaffer wrote to agents in early 1969.

Shaffer retired as president on April 14, 1969, and was succeeded by C. E. Mills.

### **1970s**

In 1972, the company absorbed an affiliated company, the Home Mutual Fire Insurance Company. On

April 9, 1973, Richard C. A. Martin was chosen to succeed Mills as president. He was hardly settled into office when the A.M. Best Rating Company, which publishes its findings on the financial stability of insurance companies, dropped the company's rating from A+ to A. While the reduction was unwelcome, a Best representative complimented our company on having remained faithful to agents and policyholders, whom other companies, to retain a higher rating, would have dropped.

On January 9, 1974, the company added a second subsidiary, PENCO Consumer Discount Company, to provide premium financing services to our policyholders. This was the first of three subsidiaries Martin launched.

Financially, our company was still on a roller-coaster ride. Inflation caused the cost of living to rise by nearly half (between 1967 and 1974), but rates did not keep up with that pace, and our company's surplus dropped, even as our assets grew.

The picture improved somewhat in 1975, as assets rose to \$142 million and surplus to \$29 million. In addition, our company needed more expansion space and opened a third building — 1830 Derry Street — in the Home Office complex.

The company's territory at this point was organized into four regions: the Central Regional Office in Pittsburgh served western Pennsylvania, West Virginia and Ohio; the Mid-Atlantic Regional Office in Harrisburg served New Jersey, Delaware, Maryland and Washington, D.C.; and the Midwestern Regional Office in Greensboro, N.C., served Virginia, Kentucky, the Carolinas, Tennessee, Georgia, Alabama, Florida and Mississippi. Our company operated an additional 17 claims service offices.

## **1980s**

During 1980, the company created a third and fourth subsidiary, Inservco Insurance Services, Inc., to offer insurance-related support services to groups that self-insure, and ESL, Inc., to find markets for excess and surplus lines of insurance for unusual types of insurance and high-risk insurance.

In 1982, the company bought all of the outstanding shares of the life insurance subsidiary, making it a wholly owned subsidiary.

President Martin retired in 1983 and was succeeded by John L. Longnaker. The high interest rates and business recession of the early 1980s pushed the insurance industry into a cycle of price-cutting, and many companies flirted with bankruptcy. In 1984, the effects of this situation showed up on the company's books when surplus dropped from \$99 million to \$80 million. Although the company didn't come face to face with financial disaster, neither did it emerge unscathed. The A. M. Best Company downgraded the rating again, from an A ranking to a B+.

By 1988, the company began a steady recovery and assets totaled \$586 million with a surplus of \$103 million. Total assets for all the companies combined reached \$700 million. A. M. Best, however, did not upgrade the rating for several more years.

In 1989, the company added a fifth subsidiary, Penn National Security Insurance Company. A stock subsidiary, the Security Company provides additional marketing and pricing options throughout its territory. While technically a subsidiary, the company exists as a paper entity, with no employees or offices of its own.

The company celebrated its 70<sup>th</sup> anniversary in 1989. Finances had been strained since the early 1980s, but by the anniversary year, the recovery was well underway. Although employees had much to celebrate, they also had far to go.

As part of the belt-tightening that was strengthening the company's finances, management closed the Kansas City offices and withdrew from doing business there, and also closed the Richmond Branch Office, continued doing business in Virginia, but withdrew from West Virginia. The company closed the Birmingham Branch Office, but continued doing business in the state.

The company then divided the underwriting and processing for Virginia's business between the Hunt Valley Branch Office and the Greensboro Branch Office. The Nashville Branch picked up the business from the Birmingham Branch Office. These changes resulted after the company reviewed the cost of the field office structure, which was planned in 1985 and 1986. The premium generated by these two offices was not justifying the investment, and experts predicted very slow growth in the future.

Although by this point the company's reserves and underwriting results were steadily improving, the expense ratio continued to be far higher than that of peer companies. While an expense ratio problem can be solved through rapid, profitable growth, the company was somewhat limited in our growth capacity. The solution, then, was to reduce fixed expenses wherever practical.

Since managers by nature are not eager to voluntarily reduce their budgets, our company studied various ways to involve employees in finding savings opportunities. This resulted in an employee suggestion program, which surfaced many ideas for improving service, efficiency and savings. But our company needed to go further. In 1989, with assistance from an international consulting firm, the company began an employee-led expense-reducing project, using the name "Activity Value Analysis" to describe the process. This involved asking employees and managers to document all their activities, measure the resources devoted to those activities and then measure the return on the investment. For each activity, managers were to ask, "What would happen if we stopped doing that?" The idea was to identify the hypothetical 20 percent of activities that yield 80 percent of positive results and to then clear away activities that did not contribute. This project was applied only to headquarters activities.

Along with successfully saving the company more than \$3 million in headquarters expenses, it also eliminated 51 jobs at headquarters, even though the project's emphasis was on reducing unnecessary activities and not on cutting jobs. The company had experienced significant morale damage from a staff reduction in 1987, and until that point, like most American businesses, prided itself in protecting its workers' jobs. To continue this tradition, and to balance it with the pressing necessity of reducing expenses and adapting to a changing business environment, the company created a "Talent Bank," which sheltered the employees. The Talent Bank offered employees 90 days of continuing salary and employment, career counseling and the first position in line for newly posted job openings. By the end of the Talent Bank's operation, 27 members found other jobs within the company, and the remaining 24 were terminated.

Although the Activity Value Analysis, or "AVA" as it was usually called, was a financial success, and involved extensive teamwork among employees, it took its toll on the corporate psyche. Some employees believed the activity reductions were arbitrary decisions, foreordained by top management, regardless of their input into the AVA teams. Employees, with the memory of the 1987 workforce reduction fresh in their minds, joined so many other American workers in realizing that the nature of American business was changing. The pace of change was becoming dizzyingly fast, and jobs were no longer guaranteed for life.

Employees found little solace in realizing that this change in corporate culture reflected a change in most American businesses, but in general, the company did benefit from the more painful aspects of the AVA and of this corporate cultural change. Management began questioning what corporate values it should retain in the midst of such rapid cultural change. This questioning, coming during the infancy of the

company's improved strategic planning and results management processes, eventually led to the codification of corporate guiding beliefs and to the development of training in technical skills, management skills, teamwork skills and leadership skills.

### **1990s**

After leading the company through this steady recovery period since the early 1980s, President John Longnaker announced his retirement on April 19, 1990, and began the process of selecting a successor with the executive committee of the board of directors. They selected James I. Taylor, CPCU, ARM, a 30-year veteran of the insurance industry, with extensive line and staff management experience in several divisions of The Hartford Insurance Group.

When a company selects an outside candidate as president, many within the company fear an interruption of corporate continuity and that corporate traditions and structures will get swept away overnight.

Taylor came on board just as the company was analyzing employees' responses to a survey that measured their satisfaction and their communication needs. One commonly heard complaint was that employees felt overworked and that their units were understaffed. They stated that, although the company's expense ratio was higher than insurance industry averages, and although the Activity Value Analysis and the 1987 workforce reduction had eliminated positions that the company believed were unnecessary, many units appeared to need more people. Some recognized the need for improved automation tools.

The problem Taylor inherited was that the corporation knew it could be using more advanced automation, but with the strained finances of the early 1980s, the company had fallen behind on automation investments. From the mid-1980s on, finances strengthened each year, but other priorities seemed to continue to delay the necessary automation expenditures. But by 1991, when Taylor came on board, the money was becoming available to fund the systems and structural improvements. By restructuring the former Data Systems Division into the Information Technology Division, by naming a vice president to the division who also would serve as chief information officer, by creating an interactive teamwork structure between data customers and data providers, and by calling for the creation of what the company called a "Strategic Information Plan," the company began to re-invigorate its automation. Working with assistance from an international consulting firm, an employee team designed and began introducing the Strategic Information Plan.

During the multiple-year implementation of Taylor's automation initiatives, the property-casualty insurance industry was battling a protracted soft cycle, in which over-capitalized companies were willing to cut rates to irresponsibly low levels, forcing even the less well-capitalized – like Penn National Insurance at the time – to reduce rates, too.

Most lines of business were selling for rates that could be sustained only by the continuing infusion of capital by overly optimistic investors for publicly traded companies. Profitability for most insurers was marginal, if not negative. Taylor's team had projected that they could drive the company to grow faster and more profitably than competitor companies and that this would finance the automation and, ultimately a headquarters relocation initiative. The growth materialized but the profitability did not.

Financial results weakened substantially.

To enhance the corporation's capitalization, Taylor's team gained capital infusions totaling \$50 million from three unaffiliated outside investors.

In 1992, the company changed its name to Penn National Insurance. This new trade name replaced the more cumbersome Pennsylvania National Insurance Companies. The company also changed its corporate logo to today's three-part keystone shape.

Taylor inherited another problem that had developed because of resource shortages in the early 1980s. Although he was impressed with Penn National Insurance's people, agency force, financial performance and planning process, he was troubled by the inadequacy of the company's office environment. Particularly at the headquarters offices, handicapped employees lacked state-of-the-art access, and the buildings' archaic structure limited new runs of computer cables and fiber optic cables.

Picking up on the work done before his arrival, he encouraged the property committee of the board of directors to consider approving funds for a solution. The committee began a detailed study, analyzing whether to renovate the existing headquarters and build another building on the property or to find a new site in the Harrisburg area.

After consulting with commercial real estate experts, the committee concluded that renovating and rebuilding at the present site would cost too much and would not be a good use of company funds.

The committee began evaluating dozens of building sites in the Harrisburg area and surrounding suburbs. They settled on a suburban property in nearby Hampden Township, on the West Shore of the Susquehanna River.

At the same time, the City of Harrisburg approached Penn National Insurance, through Mayor Stephen R. Reed, to ask what it would take to keep the company in the city. At that point, the decision to go ahead with the suburban relocation was all but made, but because of Penn National Insurance's 75-year history in Harrisburg, Taylor agreed to review a city proposal. Property Committee members were surprised when the city's proposal was for the northwest quadrant of Market Square, a prime location, but one which contained existing buildings, most of which were not on the market, and a complicated network of impediments to constructing a large office tower. The city's proposal showed in great detail how Penn National Insurance could acquire all the necessary properties, overcome the impediments and build a high-rise office tower.

On April 13, 1993, Penn National Insurance accepted the Mayor's proposal.

This set a number of wheels in motion. Architectural and engineering design began. Negotiations for the required properties started. Detailed development of a tax incremental financing package was initiated, and a master development agreement between Penn National Insurance, the City of Harrisburg and a dozen other related parties was negotiated. Finally, the plans and specifications were completed, approved by the City's Planning Commission, and bid. Five general contractors bid on the project and, after additional negotiations, the company selected a contractor.

The project was complex, and the company was challenged by several obstacles. Structural problems with an existing historic property, which included a façade that the company had pledged to preserve and incorporate into the southern façade of the new building, dictated that it be demolished, tenants relocated and the office building redesigned. A protracted negotiation with the Historic Harrisburg Association, which was fighting to preserve the façade, resulted in a compromise in which Penn National Insurance capitalized an historic preservation fund through Historic Harrisburg Association, in return for the association's dropping the fight over preserving what engineering studies had deemed to be an unpreservable façade.

Project leaders next learned that the original parking garage design concept of a bridge directly to the

office building's seventh floor could not be translated into a practical reality. The garage was redesigned with great success, resulting in a garage that users find easy to enter and exit.

The relocation project team members also encountered problems with property acquisition and with neighbors. Construction delays, coupled with subsidiary lease expirations, dictated that the company begin to occupy completed floors as they became available, rather than moving all employees into the new building simultaneously.

Although some employees moved in earlier, Penn National Insurance officially opened its new, downtown headquarters building in April 1997, when the bulk of the workforce moved in.

Backtracking a few years, in 1993, following more than a decade of turbulent change in the life insurance industry, the company sold its life subsidiary, Pennsylvania National Life Insurance Company. During the boom period of the 1980s, life insurers developed a dizzying array of products that combined investments with life insurance coverage. While this gave life insurers many attractive new products to market, they faced the challenge of keeping their premiums at competitive levels while offering attractive investment performance on their complex products.

Life insurance consumers, confused by sometimes overwhelming choices, began to chase after the best price and best investment results, as advertised in investment magazines and newsletters. Fewer consumers were content to buy a simple whole-life policy, pay their premiums for decades and withdraw their accumulated cash value at retirement. Cutthroat term insurance rates became the topic of cocktail party financial conversations, mixed in with mad tales of killings to be made in the junk bond and penny stock market.

Although these early changes in the life insurance industry pre-dated the Internet revolution of the mid-1990s, they conditioned life insurance consumers to shop long and hard and to buy from national players, selling by phone and by mail. Regional insurers found it tougher to compete. Agents found it difficult to attract and retain skilled life producers, and many large Penn National Insurance property-casualty agents cared little about the products and services offered by the life subsidiary.

The company selected Ohio National Life Insurance Company as a buyer. Following the sale, Ohio National and Penn National Insurance were able to offer new positions to many key employees from the life subsidiary.

Also in 1993, in recognition of the improvements that resulted from the leadership of former CEO John Longnaker, the A.M. Best Company raised Penn National Insurance's rating from B++ to A-.

Just two years later, Penn National Insurance's rating dropped to B++, reflecting marginal profitability and inconsistent financial results.

Dennis C. Rowe became president & CEO, in August of 1998, following the resignation of James I. Taylor, who resigned following irreconcilable differences about the strategic direction of the company with the company's board of directors.

Faced with rapid changes in the industry and a mandate from the board of directors to lead decisive initiatives that would quickly put the company back on course, Rowe's team began to plan a series of strategic and operational changes that would touch all areas and all levels of the corporation.

Rowe launched a drive to return the company to consistent profitability, a necessary prerequisite for regaining an A rating from A.M. Best Company. A 30-year veteran of the company when elected president and CEO, Rowe had spent years working closely with the agency force, forming strong personal bonds

with agents. Rowe saw an opportunity to strengthen the company by strengthening agency relationships. Many insurers had run roughshod over agents during the 1980s and early 1990s. With increasing pressure from insurers selling directly to the consumer, agents had reached an unparalleled level of mistrust and frustration with most insurers, although not with Penn National Insurance. Rowe pledged to strengthen agency partnerships by enhancing service to them and to their customers with Web-delivered tools that would not compete with the agency distribution system, but which would strengthen it.

By 1999, the company's 80<sup>th</sup> anniversary year, Rowe's management team was ready to launch initiatives that would spark the revitalization of the company — changes that would reverse the downward spiral of performance experienced during most of the decade.

## **2000s**

Rowe's management team began a detailed comparative analysis of Penn National Insurance's performance, studying it against the performance of a select grouping of similar peer and competitor companies. After identifying numerous opportunities for improvement, Rowe's team led a multi-phase corporate reorganization that joined the formerly separate personal and commercial underwriting divisions into one. Management team changes included naming a new chief financial officer and chief information officer, eliminating the position of senior vice president of human resources and administration, naming a new leader for the Claims Division who would jointly manage Inservco, and numerous other management changes. Rowe's team also led a workforce reduction from 1,100 employees in 1998 to 875 employees in 2000 and an expense reduction from \$107 million at year-end 1998 to \$92 million at year-end 2000.

The team also reconfigured the corporate headquarters building to free up more rentable space and generated annual tenant income of \$2.1 million. Divisional accomplishments included centralizing personal lines processing in Harrisburg and revamping the personal lines underwriting component, reorganizing the Claims Division and closing three claims service offices and consolidating New Jersey underwriting operations into Harrisburg.

What had been a growing, but largely unprofitable, corporation became a company focused on putting profit first and growing only with the assurance of acceptable profitability. Agents reported a renewed allegiance to the company and high satisfaction with online services. Industry trade publications have pointed to Penn National Insurance as a model of an agency-focused, profit-focused, increasingly successful insurer.

In 2003, the company's rating from A.M. Best Company increased from "B++ (Very Good)" to "A-(Excellent)," as a result of the operational enhancements achieved since 1998.

Dennis C. Rowe was elected chairman and chief executive officer, in 2007, from his former position of president & CEO. Kenneth R. Shutts was elected president and chief operating officer, from his former position as executive vice president, secretary, and general counsel. Christine Sears was elected executive vice president and chief financial officer, from her former position of senior vice president and CFO. Karen C. Yarrish was elected general counsel and secretary, from her position of vice president of legal.

## **2010s**

In preparation for Mr. Rowe's fall retirement in 2010, at the company's April 2010 board meeting, the board enacted the following executive promotions.

**Dennis C. Rowe, CPCU**

Mr. Rowe retained chairman position and turned CEO position over to Mr. Shutts.

**Kenneth R. Shutts**

Mr. Shutts elected president and CEO.

**Christine Sears, CPCU**

Ms. Sears elected executive vice president and COO.

**Gregory R. Stine, CTP, FLMI**

Mr. Stine elected senior vice president, treasurer, and CFO.

**Karen C. Yarrish**

Ms. Yarrish elected senior vice president, secretary, and general counsel.

**Robert B. Brandon, CPCU**

Mr. Brandon elected senior vice president of underwriting operations.

**Highlights Through the Years**

**1914:** More than 400 farmers and threshermen from throughout Pennsylvania meet in Harrisburg to protest the Automobile Law of 1913 and form the Pennsylvania Threshermen's and Farmers' Protective Association.

**1916:** The newly formed Pennsylvania Workmen's Compensation Board prescribes a rate of \$4.15 per \$100 of payroll for traction engine owners. Farmers feel the rate is too high. The Protective Association creates a committee to consider forming their own mutual insurance company. The committee polls members of the association to see whether they support the idea and receives almost unanimous approval.

**1919:** The Protective Association pays a \$37 charter fee and \$25 to the state Insurance Department, and the Pennsylvania Threshermen's and Farmers' Mutual Casualty Insurance Company is incorporated. P.M. Spangler is elected president, W.F. Hovetter is elected vice president and Jacob Rose is elected secretary-treasurer and general manager, at a salary of \$50 per month. Before issuing policies, the company must get \$50,000 in premium pledges by May 1920.

**1920:** The company enters 1920 still \$10,000 short of its goal. At the February convention, Jacob Rose tells members that the final \$10,000 may consist of loans. Within minutes, members respond with checks for between \$100 and \$500. In April 1920, the company begins operations with \$54,000 in assets. Jacob Rose writes, "The threshermen's own mutual company is at last a reality." H.S. Lee is elected president.

**1921:** The company reports a surplus for its first year of operation, after repaying all loans, and declares a 10 percent dividend.

**1922:** S. U. Kepple is elected president of the company. The company raises its dividend to 15 percent.

**1923:** E.F. Strasbaugh is elected president of the company.

**1925:** H. L. R. Anderson is elected president. The company announces a record 17.5 percent dividend.

**1927:** The company receives a valuable endorsement from the Pennsylvania Forest Products Manufacturers' Association, a lumbermen's organization. The company is already writing nearly 50 percent of the sawmilling and logging payroll in Pennsylvania.

**1930:** The company is writing automobile liability and property damage, trucking and workers' compensation on coal mines.

**1931:** The Pennsylvania Threshermen's and Farmers' Mutual Casualty Insurance Company opens headquarters at 311 Mechanics Trust Building, Harrisburg. The first agency meeting takes place in Chestnut Street Hall, Harrisburg.

**1932:** The company expands into Maryland.

**1934:** The company breaks the \$1 million mark with premium writings of \$1,423,563 and assets of \$1,390,390.

**1938:** The company enters Delaware.

**1940:** The company declares its policies non-assessable and builds an addition to the Home Office at Eighteenth and Rudy, having outgrown the building in just seven years.

**1941:** Jacob Rose dies in June. Company officers divide his duties among three positions, appointing W.F. Hovetter vice president and general manager, J. G. Feinour secretary and F. R. Moyer treasurer. The company expands into New Jersey.

**1942:** J. F. Weaver is elected president. The company cancels its annual meeting because of tire and gasoline rationing. General Manager William Hovetter writes: "There are many difficulties to be overcome. We have to think in terms of our war effort as well as of our own Company interests. We have lost some valuable employees. We shall lose others. We have, at times, to work beyond our regular hours. We have had to concentrate as never before. These conditions our family of employees have met with loyalty and devotion."

**1943:** The company's assets surpass \$7 million, and surplus rises to more than \$2 million.

**1944:** The Pennsylvania Threshermen's and Farmers' Mutual Casualty Insurance Company becomes licensed in West Virginia, Virginia and North Carolina. In December, the company absorbs the Blair County Mutual Fire Insurance Company, by charter amendment, into a new subsidiary, the Pennsylvania Threshermen and Farmers' Mutual Fire Insurance Company.

**1945:** The Pennsylvania Threshermen's and Farmers' Mutual Casualty Insurance Company reaches \$9.1 million in assets and \$2.8 million in surplus and becomes licensed in South Carolina, Alabama and Tennessee.

**1947:** Free from the gasoline and rubber rationing of World War II, the company buys 60 new Dodge cars, creating the largest fleet of its kind in Pennsylvania.

**1948:** President Weaver lays the cornerstone of a new Home Office building at 19th and Derry Streets, Harrisburg.

**1949:** The new Home Office is dedicated. More than 8,000 people tour the facilities. The company enters Kansas and Missouri.

**1955:** The Pennsylvania Threshermen and Farmers' Mutual Fire Insurance Company expands its underwriting powers into marine and casualty lines by amendment of its charter.

**1956:** At the end of the year, W. F. Hovetter retires, and K. H. Wagner replaces him as president.

**1962:** The casualty company organizes the Pennsylvania National Life Insurance company, a public stock insurance company, to write life, health and annuity coverages. Agent Louis Dreyling, of Jamesburg, N.J., wins \$50 for naming the company.

**1963:** The Pennsylvania Threshermen's and Farmers' Mutual Casualty Insurance Company changes its name to Pennsylvania National Mutual Casualty Insurance Company. The Pennsylvania Threshermen and Farmers' Mutual Fire Insurance Company is renamed Pennsylvania National Mutual Insurance Company.

**1966:** K. H. Wagner retires. R. L. Shaffer is elected president.

**1967:** Pennsylvania National Mutual Insurance Company is merged into the Pennsylvania National Mutual Casualty Insurance Company, since both companies are writing the same lines of business.

**1968:** The casualty company surpasses \$62 million in assets and \$15 million in surplus.

**1969:** President R. L. Shaffer retires, and C.E. Mills is elected to succeed him.

**1973:** C. E. Mills retires. R.C.A. Martin is elected president.

**1974:** The casualty company forms PENCO Consumer Discount Company, renamed PENCO Finance Company in 1985, to provide premium finance services to our insureds.

**1975:** The casualty company's assets reach \$142 million. Surplus rises to more than \$29 million.

**1976:** The company adds another building to the Home Office complex at 1830 Derry Street, Harrisburg.

**1980:** The casualty company forms its third subsidiary, Inservco Insurance Services, Inc., to provide insurance-related services to groups that self-insure.

**1981:** The casualty company organizes ESL Incorporated, a subsidiary formed to find markets for excess and surplus lines insurance.

**1982:** The casualty company buys all outstanding shares of Pennsylvania National Life Insurance Company stock, making it a wholly owned subsidiary.

**1983:** J. L. Longnaker replaces R. C. A. Martin as president.

**1988:** The casualty company completes 1988 with \$587 million in assets and \$103.6 million in surplus, after writing \$308.2 million in premium. The group's assets surpass \$700 million.

**1989:** Pennsylvania National's fifth subsidiary, Penn National Security Insurance Company (PNS), begins issuing policies. PNS is a wholly owned stock subsidiary formed in December 1988 to provide additional marketing and pricing options to the parent company throughout its territory. Company withdraws from Kansas, Missouri and West Virginia and closes Kansas City, Kan., Richmond, Va., and Birmingham, Ala., offices (although still doing business in Virginia and Alabama). Activity value analysis identifies ways to reduce expenses by reducing nonessential activities.

**1990:** James I. Taylor elected as John L. Longnaker's successor. Data Systems restructured into Information Technology. Strategic information plan creates road map for IT's future. Company begins to plan new headquarters.

**1992:** Company changes trade name from Pennsylvania National Insurance Companies to Penn National Insurance. The company introduces new logo along with name change.

**1993:** Company selects downtown Harrisburg site location for new Home Office Building.

**1996:** A.M. Best rating moves from A- to B++, following deterioration in performance and key financial indicators largely attributable to catastrophic weather losses.

**1997:** Employees move into new Home Office building in April 1997. Large team of move coordinators, made up of employees from various divisions and staff units, mastermind a moving process that outside observers called one of the smoothest, most successful relocations of a major corporate headquarters that they had witnessed.

**1998:** President & CEO James I. Taylor, CPCU, ARM, resigns in August, following irreconcilable differences with board of directors. Board elects Dennis C. Rowe, CPCU, president & CEO, and Kenneth R. Shutts executive vice president, secretary & general counsel. At their elections, Rowe had 30 years of experience with the company, and Shutts, 18.

**2003:** Rating from A.M. Best Company increases from “B++ (Very Good)” to “A-(Excellent),” as a result of the operational enhancements achieved since 1998.

**2007:** Dennis C. Rowe was elected chairman and chief executive officer, from his former position of president & CEO. Kenneth R. Shutts was elected president and chief operating officer, from his former position as executive vice president, secretary, and general counsel. Christine Sears was elected executive vice president and chief financial officer, from her former position of senior vice president and CFO. Karen C. Yarrish was elected general counsel and secretary, from her position of vice president of legal.

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**Gregory R. Stine, CTP, FLMI**

Mr. Stine is elected senior vice president, treasurer, and CFO.

**Karen C. Yarrish**

Ms. Yarrish is elected senior vice president, secretary, and general counsel.

**Robert B. Brandon, CPCU**

Mr. Brandon is elected senior vice president of underwriting operations.

**Branches & Claim Service Offices**

New Jersey – Lawrenceville

North Carolina – Greensboro

Pennsylvania – Harrisburg (headquarters) & Pittsburgh

Tennessee – Nashville

**States in which we have active books of business**

Pennsylvania – 1919 to present

Maryland – 1932 to present

District of Columbia – 1933 to present

New Jersey – 1941 to present

North Carolina – 1944 to present

Alabama – 1945 to present

Tennessee – 1945 to present

**Penn National Insurance Presidents**

A. H. Brubaker – 1919 to 1920

F. M. Spangler – 1920 to 1921

H. S. Lee – 1921 to 1922

S. U. Kepple – 1922 to 1923

E. F. Strasbaugh – 1923 to 1925

H. L. R. Anderson – 1925 to 1933

Harry M. Kauffman – 1933 to 1942

John F. Weaver – 1942 to 1951

William F. Hovetter – 1951 to 1956

K. H. Wagner – 1956 to 1966

Raymond L. Shaffer – 1966 to April 1969

C. E. Mills – 1969 to 1973

Richard C. A. Martin – 1973 to 1983

John L. Longnaker – 1983 to 1990

James I. Taylor – 1990 to 1998

Dennis C. Rowe – 1998 to 2010

Kenneth R. Shutts – 2010 to present