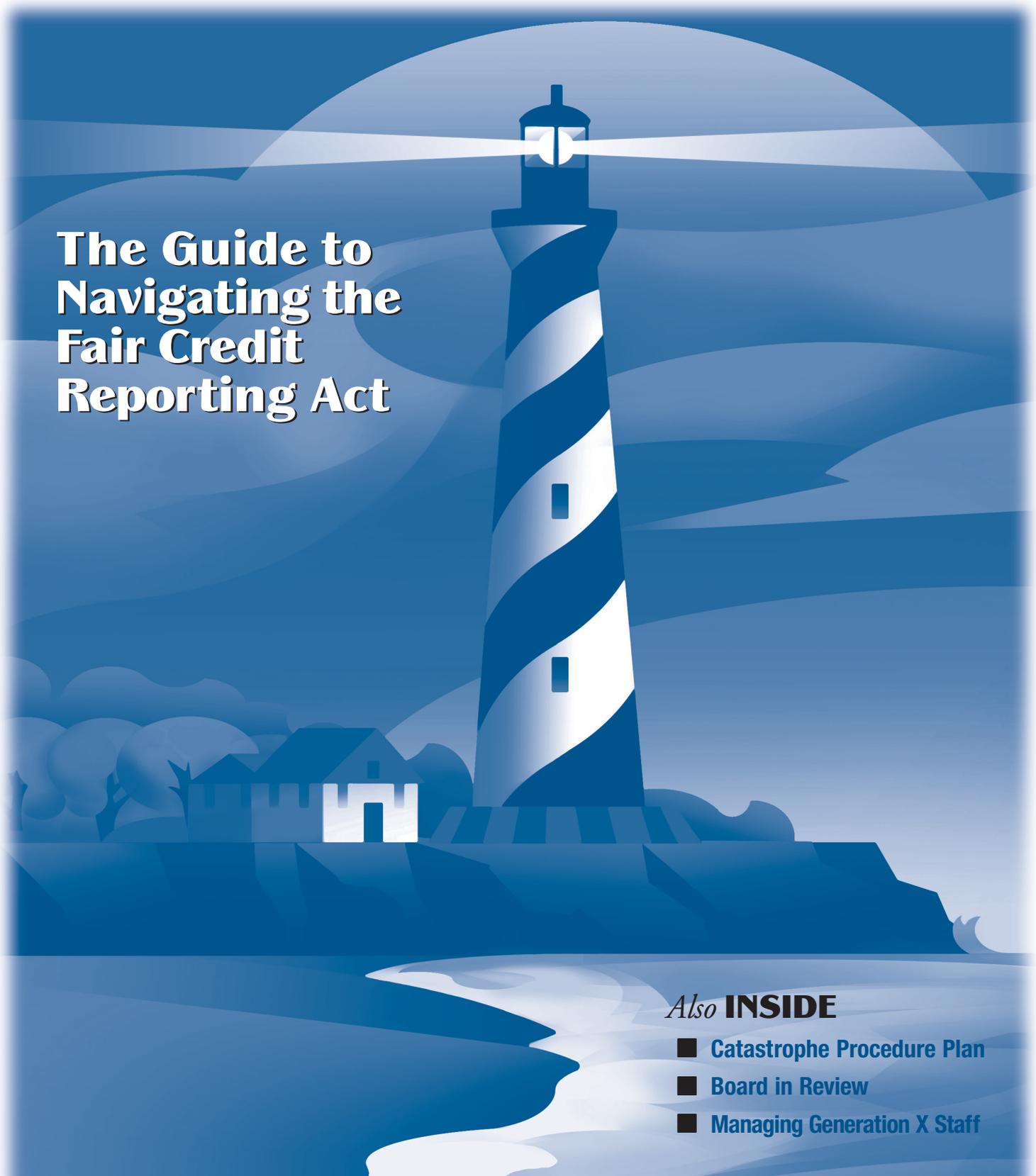


LAUTUM *news*



The Guide to Navigating the Fair Credit Reporting Act

Also **INSIDE**

- Catastrophe Procedure Plan
- Board in Review
- Managing Generation X Staff

Chairman's Message

Harry Fehrenbacher, Heartland Mutual Insurance Co.



The IAMIC fiscal year began on November 1. Already, prior to that date association volunteer leaders were hard at work developing plans and programs for our members for the coming

year. As you use IAMIC services during the coming year, please be aware of the importance of volunteers to your association and consider finding ways that you, personally, can add to that effort.

Your board of directors has met and developed a budget for the coming year. It is a responsible budget that should strengthen the association balance sheet. You are aware that IAMIC has lost a significant source of revenue over the past few years as NAMIC has realigned its insurance programs and has stepped down the surplus lines commission it pays IAMIC. During the early part of this fiscal year, that revenue will cease. This change has caused this and past boards to rethink our revenues and expenses. The board has opted to balance the budget this year by focusing on cutting expenses rather than raising revenue. The board has reviewed, modified when necessary, and justified each line in the budget.

The largest expense item after salaries is our annual convention. While our convention has been very successful and well received by the membership, convention income has not covered convention expenses in recent years. To change that trend, the board has decided to reduce convention expenses by reducing the length of our convention by one half day. This strategy has reportedly worked well for associations in neighboring states.

This change provides a considerable savings to the association by reducing direct expenses. It also provides an even larger savings to member companies by reducing their convention lodging and food expenses

by one day. And, for those individuals who want to attend the convention on a budget (measured either monetarily or in time away from the office and family), it makes it possible to attend all official convention functions with just one night away from home. With these reductions, there will be no need to increase the convention registration fee.

The convention committee has been charged with the task of redesigning our convention to fit into the new time frame without sacrificing the value that our members receive from this annual gathering. The new schedule will be communicated when it is developed. I am confident, after adjusting to the change, we will find the new format very workable.

By focusing on reducing expenses, the board has kept adjustments to member dues at a minimum. For most member companies, dues to IAMIC will be adjusted only to the extent that company premium volume has changed. In other words, there will be no changes in the basic dues formula. There will be a small adjustment in the formula cap on dues to reflect the effects of inflation on our operations and the value of membership. The dues cap will be increased by \$150. With this budget, IAMIC will have worked its way through the significant financial impact that the loss of the surplus lines commission has caused.

Of course, balanced revenues and expenses do not make an association. We have many projects under development to aid our membership, including our traditional educational seminars, a multi-state educational effort, a prototype mutual policy and procedures manual, virtual seminars (accessible by all members without the expense and inconvenience of travel), a mutual marketing program, and possible improvements to the Farm Mutual Act. That is enough to get excited about, and enough to keep everyone quite busy. ❖

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Sullivan Elected to NAMIC Farm Mutual Conference Board Chairman

Doug Sullivan, CIC, PFMM of Svea Mutual Insurance Company was elected to serve as the Chairman of the NAMIC Farm Mutual Conference Board in 2005-2006.

The Farm Mutual Conference Board of Directors oversees educational seminars and other conference activities, including oversight of the Farm Mutual Conference budget.

Congratulations Doug on your election to the Farm Mutual Conference Board. ❖

Needham and Read Receive Professional Farm Mutual Manager Designation

Roger Needham, AIC, PCLS, AIC, PFMM, Forreton Mutual Insurance Company and Harold Read, Berlin Mutual Insurance Company received the Professional Farm Mutual Manager (PFMM) designation at the 2005 NAMIC Convention.

The PFMM designation was instituted in 1994, with a program currently known as the NAMIC Management School. A focal point of this school, tailored specifically for farm mutual companies, was the PFMM designation certification program. Its purpose is to formally recognize the educational accomplishments and dedication to professionalism

of the progressive farm mutual manager.

Candidates for the designation must Submit a PFMM candidate application; Have a minimum of five years insurance experience at the time of completion; Be in management within the mutual insurance industry; Complete each of the three management school modules: financial management, leadership, and underwriting and claims; and Complete one of the following: Agricultural Risk Inspection School, Claims Conference or Farm Underwriting Seminar.

Congratulations Roger and Harold for this great accomplishment. ❖

Annual Convention Strategic Partners

Some of our Convention Strategic Partners were inadvertently omitted from the last issue of the Lautum News. We sincerely regret this mistake and would like to express our appreciation to the following companies for so generously donating funds to help sponsor our 124th Annual Convention.

Three Star Partner

Farmers Mutual Hail Insurance Company of Iowa

One Star Partner

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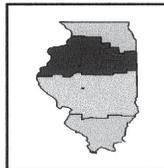
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FOR INFORMATION CONTACT:

Sandra Wulf, CAE, IOM
IAMIC
leadership@iamic.org
800-694-2642

Mike Davis, CIC
AAIS Forms Committee Chairman
mdaviscic@netscape.net
815-946-2542

Insurance Scoring Court Case Provides Guidance

In a case of first impression, on October 3, 2005, the 9th Circuit Court of Appeals, in a consolidated case, rendered a decision that – for better or worse – gives guidance to all insurance companies navigating the requirements of the Fair Credit Reporting Act (“FCRA”). *[Note, the court originally rendered a decision in August of this year; and this subsequent opinion was issued after defendant insurance companies, joined by other insurance companies and trade associations – including the National Association of Mutual Insurance Companies – asked the Court to rehear the case. The substance of the Court’s opinion did not change after rehearing; and at this time, it is unknown if further litigation is likely.]*

The FCRA governs an insurance company’s use of information contained in a consumer’s credit report. In particular, FCRA requires an insurance company to provide a “notice of the adverse action” to a consumer whenever the insurance company takes an “adverse action” with respect to that consumer. For years, banks and other financial institutions have navigated their way through FCRA, and there are many court decisions interpreting FCRA in the context of financial industry practices. However, because the insurance industry’s use of credit reporting information is relatively new, there are few court decisions interpreting FCRA in connection with insurance industry practices. In a recent Ninth Circuit case, however, the Court not only addressed the main issue raised by the defendant insurance companies’ practices, but it answered five ancillary questions related to insurance companies, as well. The Court’s rulings are as follows.

1. FCRA applies even if an insurance company charges a higher rate in connection with an *initial* policy of insurance.
2. An adverse action occurs any time an insurance company charges a higher rate because of the consumer’s credit information. (One insurance company only sent an adverse action notice to consumers with below average credit ratings, and other insureds with average or above average

credit ratings who were not charged the best rate because of their credit score did not receive a notice. The Court found this practice violated FCRA.)

3. Charging more for insurance on the basis of a credit report stating that “no credit information” or “insufficient credit information” is available constitutes an “adverse action” and requires the giving of an adverse action notice under FCRA. (Under the facts of one case, information from Trans Union, a consumer information bureau, was transferred to ChoicePoint, a risk assessment and data supply firm, and Choice Point consolidated the credit information into an “insurance score.”)
4. An adverse action notice must, among other things, “communicate to the consumer that an adverse action based on a consumer report was taken, describe the action, specify the effect of the action upon the consumer, and identify the party or parties taking the action.” (In one case, the insurance company’s notice was deemed insufficient because it only stated that a consumer’s credit information could affect the insurance rate charged, and it did not advise the consumer that the consumer’s credit information did, in fact, affect the rate.)
5. If a consumer applies for insurance with a family of companies and is charged a higher rate for insurance because of his credit report, two or more companies within that family may be jointly and severally liable; and liability may be imposed on any of the companies that: make a decision to impose a higher rate, issue a policy at a higher rate, or refuse to provide a policy at a lower rate, if the action is based in whole or in part on the consumer’s credit information. (In one case, the duty ran to the company that set the rates along with the subsidiary company that issued the policy; and in another case, the duty ran to both subsidiary

By Megan G. Heeg
Ehrmann Gehlbach Badger & Lee
815-288-4949



—continued on next page

Insurance companies that consider a consumer's credit information in setting insurance rates must follow these legal guidelines unless and until they are further modified by Congress or the courts.

companies involved in placing the insurance and issuing the policy.) Although multiple liability may exist, the Court noted, multiple notices were not necessary, and a single notice could be used, identifying those companies involved and their respective roles.

6. Finally, FCRA imposes liability for willful violations of FCRA. Disagreeing with the insurance companies on this issue, the Ninth Circuit held that a company is liable for a willful violation of FCRA if it "knowingly and intentionally committed an act in conscious disregard for the rights of others"; and "conscious disregard" means either knowing their procedures are "in contravention of the rights possessed by consumers pursuant to the FCRA or in reckless disregard" of whether they contravened those rights. (The Court stated: "on the record before us the defendants all acted in reckless disregard of the consum-

ers' statutory rights" by their "exceedingly narrow interpretations" of their obligations under FCRA.)

Clearly, the above six holdings give significant guidance to all insurance companies navigating their way through FCRA; and, although many insurance companies may dislike the path these rulings force them to take in setting a consumer's insurance rate, for better or worse, insurance companies that consider a consumer's credit information in setting insurance rates must follow these legal guidelines unless and until they are further modified by Congress or the courts. ❖

Ms. Heeg practices law in Dixon, Illinois with the firm Ehrmann Gehlbach Badger & Lee, 815-288-4949. The information provided in this column is not intended as legal advice. Specific questions regarding the legal needs of your company should be directed to the attorney of your choice.

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David L. King Educational Claims Scholarship Application

The Illinois Association of Mutual Insurance Companies (IAMIC) has developed a new scholarship program for our members, to further their claims education.

All members are eligible for the scholarship, worth up to \$500. The scholarship may be used for any claims education – IAMIC, NAMIC, PLRB, ACE, IIA or any other educational school, seminar or independent learning as long as it relates to claims education.

If you are interested in being considered for the 2006 David L. King Educational Claims Scholarship, please complete the application below and return it to the IAMIC office, PO Box 7083, Springfield, IL 62791-7083 or fax it to 217-787-8389. You may also apply for the scholarship online at www.iamic.org.

Applications are due by February 1, 2006. The 2006 scholarship will be valid from March 1, 2006 to February 28, 2007.

*Please return this application by February 1, 2006 to:
IAMIC, PO Box 7083,
Springfield, IL 62791-7083,
F: 217-787-8389 or apply online at
www.iamic.org!*

David L. King Educational Claims Scholarship Application

Please TYPE or print

Applicant's Name: _____

Company Name: _____

Address: _____

City _____ State _____ Zip _____

Phone: _____ Fax: _____

E-mail: _____

List your Title, Job Duties and Responsibilities: _____

Is Employer a Member or Associate Member of IAMIC? Regular Member Associate Member

Length of full time service in the insurance industry: _____

Length of full time service in the mutual insurance industry: _____

How long have you been employed at your current employer: _____

Will your employer pay for your cost if you do not receive this Scholarship? Yes No

List any volunteer positions you have had with IAMIC, NAMIC or other insurance organizations: _____

List any awards or recognition received from IAMIC, NAMIC or any other organizations: _____

List any professional designations (include month and year earned): _____

List the last three schools or seminars that you have attended relating to mutual insurance: _____

In your own words (attach a separate sheet) tell why you should receive this scholarship and for what you intend to use it. Please include the estimated cost including your travel cost.

Board in Review

The IAMIC Board of Directors met October 26, 2005. The following board members were present: **Chairman Mike Davis, Chairman Elect Harry Fehrenbacher, Vice Chairman David Campbell, Secretary/Treasurer Ronette Payne and Directors Cindy Theis, Joe Reid, Steve Prosser, Jackie Rakers and Becky Deters.** Also in attendance were President **Sandra Wulf, Roger Needham, Tricia Mickley, Jim Wright and Bill Peck.** Absent from the meeting was **Kathie Cobb.**

Association Reserves

The board approved setting the Reserve level for the association at one year's dues revenue.

Membership Dues

The board approved the following dues formula for FY 2005-2006:

- Regular Members – \$400 base amount plus \$1.75 per \$1,000 in 2004 Gross Written Premium, to a maximum of \$2,300
- Associate Members – \$350 for industry-related firms and \$1,650 for insurance companies not incorporated under the laws of the state of Illinois.

FY 2005-2006 Budget

The board reviewed and approved the FY 2005-2006 budget, as recommended by the Budget & Executive Committees.

Convention Schedule

The board approved shortening the 2006 IAMIC Convention. The event will now be held Sunday, August 20 – Tuesday, August 22.

New Members

The board of directors approved the membership applications of the following companies:

Ferguson, Ruud & Associates, LLP

Main Contact: Thomas Ruud
216 North Court Street
Rockford, IL 61101
815-961-9100, F: 815-961-9118
E: tgrlaw@aol.com

Digital Business Solutions Corporation

Main Contact: Scott Heckenlaible
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2005 Strategic Partners

Our sincere thanks to the following companies for their generous financial support of our 2005 education programs.

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Three Star Partner

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Two Star Partners

AAIS

Green Garden Mutual
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Rockford Mutual
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One Star Partners

Home Farmers Mutual
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Company

J.L. Payan

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Fax: 815/ 379-2731
Deer Grove, IL 61243

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Davis Earns NAMIC Merit Award

Mike Davis, CIC, 2004-2005 IAMIC Chairman and Forreton Mutual Insurance Company Board President was one of eleven recipients of the 2005 NAMIC Merit Award

Established in 1973, the NAMIC Merit Award recognizes professional advancement in the insurance industry, specifically among those individuals affiliated with NAMIC member companies. Award recipients are enrolled as members of the NAMIC Merit Society.

Congratulations Mike on this great accomplishment. ❖

Mutual News

- Frontier Mutual Insurance Company and Menard County Mutual Insurance Company announced that the companies merged effective October 1, 2005. The company will operate as Frontier Mutual Insurance Company in Lincoln.
- Bureau County & Wyandot Mutual Insurance Company and Rockford Mutual Insurance Company announced that the companies have merged effective November 1, 2005. The company will operate as Rockford Mutual Insurance Company in Rockford. ❖

Catastrophe Procedure Plan

Catastrophic events no one wants; but they do and will happen. A catastrophe procedure plan will provide your office with a guide to help your staff overcome any challenge that will arise should a disaster hit your area. A comprehensive catastrophe procedure plan will help your office in advance to insure that you can protect your insured's property and assets, after a catastrophe event.

The scene after a disaster can be one of shock, confusion and above all a scene of complete helplessness. The catastrophe procedure plan will enable you to quickly organize and implement your procedure for the processing of the policyholders claim.

Each catastrophe is unique and any manual should be used as a guide.

Preparation for a catastrophe

- A guide of current prices of material and labor rate with local contractors and material suppliers.

- A directory of building contractors is necessary for quick reference.
- A directory of material suppliers should be compiled to have available for the adjusting personal.
- A directory of cleaning services and repair shops.
- A directory of all storage facilities and their charges per month should be assembled.
- A directory of salvage buyers.
- A directory of independent adjusters.
- A directory of part time clerical help (former employees and temporary office services)
- A directory of agent names, addresses and phone numbers.
- Emergency telephone directory.
- Area maps and plat books.
- Alternate or temporary office space.
- Additional computer equipment, copiers and fax machines.

—continued

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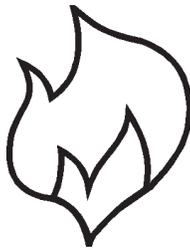
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Activation of catastrophe plan

- Determine if it is necessary to relocate your office or setup a temporary claim facility.
- Contact the appropriate mutual personnel needed to assist with the implementation of the catastrophe plan.
- Locate and survey the damaged areas.
- Contact all agents and verify the type of losses and number of claims in their area. Also, evaluate what the total amounts of all the losses are in the area.
- Notify all agents, your reinsurer and IAMIC of temporary office location and phone number if relocation is required.
- Determine if additional adjusting personnel are needed.
- Set priorities for the handling of losses. Claims should be prioritized according to:
 - Dwellings not habitable, may be total losses, may have hole in the dwelling or part of the dwelling destroyed. Electricity should be shut off to prevent any further damage or injury.
 - Some large livestock operations, such as hog confinements or milking parlors, may need repairs as soon as possible to insure normal operation.
 - Dwellings that are repairable may need temporary repairs to be habitable; Estimates of the damage should be obtained as soon as possible.
 - Minor damage may be handled over the telephone, according to claim procedures.
- Provide the adjusting personnel with all the directories of building contractors, material suppliers, cleaning service and repair shops, storage facilities, and salvage buyers.
- Contact additional personnel or temporary workers to handle extra paperwork generated by the large number of claims.
- Identification cards will be needed for staff to enter restricted areas. Arrangements should be made with the local and state authorities for your staff to have access to the mutual office or other storm damaged areas.
- Check into the use of a Fax or Email with your reinsurer and expect to process proof of loss for quicker payments of reinsurance recovery.
- Appoint one person to be the spokesperson that will handle media questions. This will ensure the information will come from one source and be accurate and consistent.
- If needed, place an advertisement in your local paper to give instructions to your policyholders of the procedure they need to follow if they have suffered damage to their property.

Procedures for Agents

- Report all claims promptly in writing to the company.
- Accurately complete a Notice of Loss with the following information:
 - Name of policyholder.
 - Location of insured's property.
 - Identify all items that are damaged and the extent of these damages.
 - Indicate whether or not emergency or temporary repairs are necessary.
 - Location and phone numbers of where policyholder or representative can be reached.

A comprehensive catastrophe procedure plan will help your office in advance to insure that you can protect your insured's property and assets, after a catastrophe event.

—continued on next page

IAMIC Anti-Trust Statement

The purpose of IAMIC is to promote the best interests of the mutual insurance community, and particularly the best interests of policyholders of mutual insurance companies. To this end, IAMIC programs and activities are planned and implemented with the objective that policy holders will benefit from the best products and services.

It is not the intention of IAMIC to provide a forum for standardizing products or rates, dividing markets, fixing profit levels, or categorizing customers to whom insurance products may be sold.

If you have any concerns about the prohibited activities in connection with any IAMIC activities, please contact the president or any IAMIC Board member immediately.

- Do not discuss with the policyholder the amount of the loss or make any commitments as to coverage of their claim.
- Advise the insured that they are required, under the terms of the policy, that they should protect the property from any further damage. Remind them to keep receipts for any temporary repairs they make.
- Advise the insured that permanent repair or replacement of any damage should not be made until they are contacted by an authorized company adjuster.
- Advise the policyholder that an authorized company adjuster will be in contact with them as soon as possible with all the necessary forms and instructions for submitting a claim.
- Notify the policyholder if a deductible will apply to their loss.
- Copy of the notice of loss
- Copy of declaration page and all endorsements
- Claim activity sheet.
- Claims file should be sorted by area and prioritized.
- If additional adjusting personnel are used, a copy of the claim file will need to be made so the original claim file can stay in the company office.
- Additional adjusting staff will be provided with maps, claim forms and current procedure manual outlining contractors, material suppliers, storage facilities, service companies and updated rate cost.
- Payment to an insured after a loss will include the mortgage or loss payee as listed on the policy.
- Payment will be made to insured for all covered losses as soon as possible.
- Timely reports to the reinsurance company will be made advising them of the number of claims, paid amounts and outstanding amounts. ❖

Company Claim Procedures

- Set up a claim file for every reported loss.
- Claim file should contain the following information:

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Managing Generation X: What Motivates Younger Workers?

With the Baby Boom generation retiring or looking to do so soon, staff in Illinois mutuals are either starting to change or will do so in the near future. More and more workers in "Generation X" (Gen X) and beyond are coming into the industry and a shift in work and motivation will need to follow if we hope to attract and retain this younger generation of workers.

More than 40 million American workers are in their twenties or thirties. To stereotype these workers is dangerous, but managers need to understand what motivates this generation. Here are four ways managers can get through to Gen X employees, and motivate them to work hard:

Give them responsibility for projects

Gen Xers have more of an independent spirit than Baby Boomers or older workers. Rather than mistake this quality for a liability – e.g., a refusal to stick to procedures – treat it as an asset. Give them clearly defined goals – and the freedom to achieve them in their own way.

Help them "train for another job"

It sounds crazy, but Gen Xers realize that the old "employment contract" is no more. Most Gen Xers expect that they will not likely stay with one company for their entire career. So ironically, the way to keep them is to help them acquire skills that will make them more marketable later on. The more they can learn, the more they'll want to stick around.

Offer constant informal feedback rather than periodic performance reviews

Younger workers expect a lot of feedback from managers. Formal, sporadic performance reviews are not timely enough to keep up with the rapid pace at which Generation X works best.

Offer them access to many different kinds of information

Individuals in Generation X and beyond have grown up in the computer age and are quite adept at using different data and technology to bring together seemingly unrelated elements to solve problems. Managers who hoard information are stifling the greatest resources younger workers bring to the table.

Generation X is certainly a different type of worker than what our mutuals are accustomed to. Different yes. Bad no. Just as the baby boomers blazed a trail in their work ethic and attitudes, Gen Xers and those that come after them will bring great changes to our industry. Our mutuals depend on the creativity, dedication and knowledge of staff. Keep the four tips above in mind when looking to manage and motivate your Generation X employees. ❖

More than 40 million American workers are in their twenties or thirties. To stereotype these workers is dangerous, but managers need to understand what motivates this generation.

This article was adapted from *The Motivational Manager* and *HR Focus* (American Management Association).

Loss Control for Success

By Ginger Baker, Manager
Trade Lake Mutual Insurance Co.

Due to a financial situation that needed to be addressed, Trade Lake Mutual Insurance Company of Frederic, Wisconsin, started an active Loss Prevention Inspection Program in May 2000. At this time, we have about 80% of our existing business fully inspected and plan to complete the first time through in 2005. We chose to contract the program out to our professional adjusting company because they are well qualified to look at the important issues—heating, electrical, roofing and liability exposures.

premises. Due to the change of occupancy, I was able to 10-day cancel the policy (the insured refused to disconnect the electricity and have an electrician repair it as he was more concerned about the sump pump in the basement).

In another case, the inspector identified an active business being operated in the garage/shop of the home. I wrote to the insured immediately, advised that the policy excluded outbuildings with business exposure and had limited coverage for business personal

It is quite a bit of additional work to review the inspection, write to the insured and follow-up to make sure the recommendations have been completed. However, we have had several instances where the program has paid for itself in losses avoided.

The program has been met with mixed reviews by our policyholders; from the insured that flatly refuses to have the inspector step on the property, to the insured that welcomes the inspection and completes the recommendations almost before the inspector leaves. From a manager/underwriter standpoint, it is quite a bit of additional work to review the inspection, write to the insured and follow-up to make sure the recommendations have been completed. However, we have had several instances where the program has paid for itself in losses avoided. For instance, one inspector visited a premises, found it had been vacated and the outside wiring was bare and snapping against the home. She took pictures of the burn marks on the siding, checked the fuse box, found more, and called me from the

property. The agent contacted the insured with quotes for business insurance; the insured came into the office and discussed the issue with me, and called and discussed it with the agent, but felt he could not afford to insure the business. We then set the policy up to non-renew. Before the non-renewal date, the building burned down and we had to deny the claim. These are just a few examples of the savings to the company through loss control.

As you all know, we can't always put a dollar amount on the value of an avoided loss. The win/win situation is if the loss doesn't happen because the issue was observed and attended to; the insured avoids the mental, physical, and financial costs of the claim and the company has again begun to grow our surplus. ❖

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IAMIC 2005-6 Calendar of Events

December	13-14	IAMIC Board Orientation, Retreat & Meeting	Hilton Garden Inn, Springfield
January	18	Virtual Meeting – Director Module	
February	21	IAMIC Board Meeting	Crowne Plaza, Springfield
	21-22	IAMIC/NAMIC Claims Seminar	Crowne Plaza, Springfield
March	7	Virtual Meeting – Management Module	
	21	Southern Regional Meeting	Rend Lake Resort, Whittington
	22	Central Regional Meeting	Doubletree Hotel, Bloomington
	23	Northern Regional Meeting	Ramada Suites, Rockford
April	11	Underwriting Seminar	Père Marquette Hotel, Peoria
	18	IAMIC Board Meeting	IAMIC Office, Springfield
May	2	Virtual Meeting – Agent Module	
June	7	New Manager's Meeting	IAMIC Office, Springfield
	20	IAMIC Board Meeting	IAMIC Office, Springfield
July	11	Virtual Meeting – Management Module	
August	8	IAMIC Board Meeting	IAMIC Office, Springfield
	20-22	Annual Convention	Crowne Plaza, Springfield
September	12	Virtual Meeting – Director Module	
October	17-18	Manager's Retreat	Stoney Creek, East Peoria
	31	IAMIC Board Meeting	IAMIC Office, Springfield
November	14	Virtual Meeting – Agent Module	
December	5	Directors School	Location TBA
	6-7	IAMIC Board Orientation, Retreat & Meeting	Location TBA

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