



## **Opening remarks...**

By Mark Sammarone, Vice President of Arthur Hall Insurance.

Arthur Hall Insurance is a property & casualty agency that has been in business since 1966 and was started by one person operating from his home.

It was then acquired in 1986 by a second person who grew it to twenty times the original size at acquisition.

It is currently owned and operated by 5 managing partners.

There are 22 employees, most of whom are full time. This is twice the number of employees from when I personally joined the firm in 2000. The FT positions are all professional and the benefits provided include health, disability, life, profit sharing, and paid vacations/personal time.

Because we were able to transition to a third generation, the number of people we employ is at least ten more workers than we would have had if we merged or been purchased by a larger brokerage house or bank. There are numerous examples of former peer agencies in West Chester that did merge or sell out to large entities which partially or completely eliminated all the local jobs associated with the original agency. Our agency received no benefit from any state “jobs” programs through our growth.

As we look to the future and what threatens our business, or which could cause material cutbacks in staffing, it is government regulations that stifle our agency or our client’s businesses.

- A. Regulations that prevent us from negotiating and collecting revenues at consistent levels from year to year. Unpredictability in the rules of the game.
- B. Fines and penalties from accidental failure to comply with numerous regulations across multiple government agencies including federal, state, and sometimes local.
- C. Increased cost of compliance; needing to use money on compliance that would otherwise be used to expand our business and pay wages sufficient to support a family.
- D. The inability to augment and adjust our staff levels on an as needed basis due to a myriad of regulations in which we must comply, such as health care and other mandated benefits.

## **Comments:**

A property and casualty agency is a good window into the economy since business insurance premiums are mostly based on payroll and sales. A typical agent will work with businesses in a variety of industries.

Here are some recent activities that have diverted resources from small businesses that could have otherwise been used to expand and ultimately hire additional workers. These distract businesses from the goal to prosper, expand, and hire additional workers. See appendix for more detail on each specific event.

- 2012 PA Supreme Court ruling *Heller v. Penn PRIME* case – will cause additional claim activity in an employer’s insurance program and therefore increase their premiums and overhead.
- The following new regulations and laws were passed during the worst recession in decades. This hit the construction industry harder than others causing more resources and dollars to go into compliance rather than growing their business and adding workers.
  - o In 2008, the Pennsylvania Legislature passed the Home Improvement Consumer Protection Act. This increased the number of places contractors need to register and added a new fee. It failed to eliminate some of the other local contractor registration fees as promised.
  - o In 2008, EPA issued the Renovation, Repair and Painting Rule. This added additional steps and costs to construction projects and additional training and registration fees. It also materially increased the cost of construction for consumers.
  - o In 2010, HB400 Construction Workplace Misclassification Act. This eliminated work opportunities for skilled trade contractors seeking work from multiple general contractors.
  - o In 2012, PA Compensation Rating Bureau issued Bureau Circular No. 1604. The PCRB agreed not to interfere with additional premium being collected by insurance companies on worker payments that were previously not included in the calculation of premium. This will cause a further decline in the ability of skilled workers and small firms organized as simple LLC’s, sole proprietors and partnerships to secure work from other businesses; and increase the overhead for everyone.

My point with all the above examples is that these rules and regulations make us “feel” safer at face value, but it has a tremendous stifling affect on true small businesses with 1 to 50 workers. It creates more obstacles for businesses attempting to augment their work force with additional workers and passes non-productive compliance expenses down to the consumers. Especially with the recent changes in the construction industry, consumers are seeing exponential increases in all their renovations costs (in the thousands of dollars) and the number of small local firms and individuals to do the work are dwindling or worse going underground.

The single most helpful thing the state legislators can do to create a pro-business environment is to rein in the implementation of regulation that prevents business owners from being able to manage the risks and obligations of being in business. Each person who endeavors to start or grow a small business could be the next success story hiring 20-30 employees. But, if they can’t get off the ground or navigate all the regulations, you have missed an opportunity to create jobs. Increased regulation stacks the deck in favor of large corporations that are able to hire staff charged with compliance; which puts small business owners at a disadvantage in the market place.

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## Appendix:

- 2012 PA Supreme Court ruling *Heller v. Penn PRIME* case ruled that an exclusion of UIM coverage benefits for individuals eligible to receive workers' compensation benefits under an employer-sponsored auto policy violates public policy and is therefore unenforceable. The affect this has on small business, even in the case of a not-at-fault auto accident, will be the employer bears the increase in their experience rating on the workers compensation policy for three years but now it additionally impacts their commercial auto insurance premium too when the cost of these new claims start to be incurred. This is certain to increase the cost of coverage on commercial auto policies in the state as the insurance companies prepare to receive these new claims. Increasing insurance costs for small businesses just extracts more dollars that could be used to hire and expand. Also, this decision erodes the premises that Workers Compensation is the sole recourse to employees for work related injuries.
- In 2008, the Pennsylvania Legislature passed the Home Improvement Consumer Protection Act. The law requires that all contractors who perform at least \$5,000 worth of home improvements per year register with the Attorney General's Office. The law also exempted all large businesses like Home Depot and Lowes. It still baffles me why we allowed the Attorney General to get into the registration of business arena. The “State Constitution provides that the Attorney General shall be the chief law enforcement officer of the Commonwealth and shall exercise such powers and perform such duties as may be imposed by law”. (This increased the number of places contractors need to register and added a new fee.)
- In 2008, EPA issued the Renovation, Repair and Painting Rule. It requires that firms who perform renovation, repair, and painting projects that disturb lead-based paint in pre-1978 homes, child care facilities and schools be certified by EPA and that they use certified renovators who are trained by EPA-approved training providers to follow lead-safe work practices. Individuals can become certified renovators by taking an eight-hour training course from an EPA-approved training provider. (This added additional steps and costs to construction projects and additional training and registration fees.)
- In 2010, Governor Rendell signed HB400 Construction Workplace Misclassification Act into law. This law added definition in the construction industry as to what constituted a true independent business (subcontractor) verses someone who was actually an employee by virtue of their duties but misclassified as a subcontractor. This prevented small sole proprietors from starting up small businesses under a general contractor willing to hire them to augment their workforce. Why just the construction industry? There are other industries like technology and real estate that regularly use subcontractors to augment staffing. (This eliminated work for skilled trade contractors seeking work from multiple general contractors)
- In 2012 the PA Compensation Rating Bureau issued a Bureau Circular No. 1604 stating they will not interfere with insurance companies making a premium charge under the general contractors workers compensation policy for money paid to these independent business people if that independent contractor did not voluntary purchase workers compensation coverage on themselves. This was implemented shortly after the 2011 Act 20 was signed into law making workers compensation insurance available to previously ineligible business owners including LLC's, Sole Proprietors, and Partnerships. (This will cause a further decline in the ability of skilled workers and small firms organized as simple LLC's, sole proprietors and partnerships to secure work from other businesses; and increase the overhead for everyone.)