

Thirty-five Year Legacy of Service Excellence and Success

An Interview with Terry Miller, President and CEO of the SFM Mutual Insurance Company

The Demotech Difference had an opportunity to speak with Terry Miller, who has been an instrumental part of SFM's success to discuss his 35 years with the company and the direction SFM will take in the future.

TDD: Mr. Miller, today you are the President and CEO of one of the premier workers compensation insurers in the Midwest, perhaps the country. Tell us about the journey that led to this accomplishment.

TM: I grew up in Silver Bay, Minnesota, a small taconite mining town on the north shore of Lake Superior. My dad worked as a supervisor in the pelletizer department of the taconite plant and my mom was a homemaker who also taught school. They had

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both grown up on dairy farms and knew what it meant to work hard! They instilled in my sister and me a solid work ethic, along with the notion that it was important to take pride in whatever kind of work you do and to treat all people that you meet like you want to be treated.

Two of my friends' dads were accountants for Reserve Mining and they encouraged me to consider a college degree in accounting and working for a "Big Eight" firm. I graduated with honors with a degree in accounting from the University of Minnesota-Duluth in 1980 and then took a job in Saint Paul with Peat, Marwick, Mitchell & Co., the largest CPA firm in the world at that time. Most of my clients were insurance companies. I found that I really liked insurance and when I decided I had had enough of public accounting, I was lucky to become the controller at SFM (originally named Minnesota Workers' Compensation Mutual Insurance Company and then State Fund Mutual Insurance Company and now SFM Mutual Insurance Company).

I grew up at SFM. At first, I was responsible for the financial statements, annual statements and other regulatory filings



Terrence Miller, CPA, CFA, President and Chief Executive Officer, SFM Mutual Insurance Company

Terry Miller has worked at SFM for over 30 years, serving as the company's original controller. He has since risen through the ranks, becoming Vice President of Accounting, Vice President of Finance, Senior Vice President and Chief Financial Officer, then Executive Vice President and Chief Operating Officer. He became President and Chief Executive Officer in November, 2018.

He is a Certified Public Accountant and holder of the Chartered Financial Analyst designation. He previously practiced with KPMG (formerly Peat, Marwick, Mitchell & Co.), the largest international independent auditing firm.

Terry serves on the Board of Directors of the Minnesota Workers' Compensation Reinsurance Association, the Insurance Federation of Minnesota and Small Sums, a Saint Paul, Minnesota-based nonprofit. He recently was on the board of the Minneapolis Urban League. He's also a member of the Minnesota Society of CPAs, the American Institute of CPAs, the CFA Institute and the Insurance Accounting and Systems Association.

He graduated with honors from the University of Minnesota-Duluth with a bachelor's degree in accounting, and received a master's degree in business administration from the University of St. Thomas.



and all of the billing and collecting of premium and paying of general and administrative expenses. Over the years as SFM grew, my responsibilities grew, and I found that my interests and SFM's interests aligned. How could we be a financial success and be passionate about service excellence while meeting our mission of being the workers' compensation carrier of choice for agents, policyholders and injured workers? We have found that doing the next right thing, whether it is in an underwriting decision, claim judgement or in a loss prevention visit, results in our financial success. SFM believes that we have to be the

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best in the workers' compensation market to survive in markets where over 100 companies are writing workers' compensation insurance.

TDD: We could not help notice that you are thoroughly credentialed. Most readers are familiar with your credentials as a Certified Public Accountant; please explain your Chartered Financial Analyst designation.

TM: Early in my career at SFM, as we were growing our business and gaining acceptance in the workers' compensation marketplace, we suffered a large investment loss. Our CEO at the time made an investment in some mortgage derivatives — not knowing what had been purchased. The derivatives declined in value when mortgages were refinanced. This resulted in SFM suffering a very sizable loss of its capital and surplus. Because of that loss I vowed I would learn more about investments. It was also important to learn about investments due to the huge part investment income plays in a long-tail line like workers' compensation. I wanted to build SFM's internal investment expertise, not to actually manage the assets but instead to understand what our outside expert investment managers were investing in. I pursued the Chartered Financial Analyst (CFA) designation to learn more about investment products, asset groups, governance of investment managers and basis for appropriate investment policies.

TDD: There is no doubt that your professional training and experience provide you with a marked advantage to evaluate the cost drivers of an organization such as SFM. What will you draw on to sustain and reinforce the corporate



SFM

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commitment to service excellence that policyholders and claimants have come to expect from SFM?

TM: Despite my financial background and a great understanding of the numbers, I am a believer that the investment in service excellence pays for itself and makes us more profitable. Have we ever invested in something we thought was going to move the mark and it didn't? Yes, but we learned from those instances not to stop innovating and finding new ways to deliver service excellence. It's important to be honest when something is not working — shut it down and move on.

TDD: You have been with SFM since 1984. Could you share your thoughts on a singularly important situation that prepared you for the resolution of the major decisions you will need to coordinate within SFM? Was it a previous experience, the curriculum associated with one of your designations, a combination of the two?

TM: I touched on one earlier, the investment loss in 1992. But after that it was a catastrophic claim where a 20-year-old construction laborer, three days on the job and walking in a restricted area, was struck in the back of the head by an I-beam that was being transported through that area. The blow resulted in the young person being unconscious for the next 20 years before he finally succumbed to pneumonia. Over that entire time his mother cared for him pretty much 24/7/365. That was just heart-rending. This incident instilled a couple of things in me: first, let's do everything possible and economically feasible to prevent injuries; and second, workplace injuries are not just a financial equation. Injured workers, their families, their employers and others are all affected in very profound and oftentimes sad ways. So, let's prevent injuries when we can, and when we can't, we will be empathetic to the people we are working with.

TDD: As the President and CEO of a well-respected, independent, specialty insurer, how do you envision your role in maintaining the balance between the legacy that is in place, the culture that underlies SFM, and the rigors of change and adaptation that SFM will face in the future?

TM: That is the \$64,000 question. We just completed our seventh consecutive year of combined ratio under 100 percent and are planning for an eighth in 2019. Who would want to change that? While not wanting to change the results, we do need to keep reevaluating what we are doing to remain successful. We have not just lucked into the results and then rinsed and repeated. We have made numerous changes and innovated a lot in the past 34 years to get us to where we are. For example, SFM was one of the first insurers to rally around a mantra of “return to work” being the right thing for the worker and the business. It would be folly to stop innovating and rest on our laurels. The world is changing too fast to sit back and say “we are good.” Having said that, we are not out to be “bleeding edge” innovators. We look at

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disruptors in our business and evaluate their likely impact. We're more focused on responding to changing needs and expectations than trying to be the company that discovers the next big thing.

TDD: As a Chartered Financial Analyst and a Certified Public Accountant, what is your view and perspective on regulatory requirements such as Own Risk and Solvency Assessment and Enterprise Risk Management?

TM: I am an active CPA, and I value continuing education as an important way to keep informed on what is going on outside our organization. While we have not been required to actually follow Own Risk Solvency Analysis (ORSA) due to the size exemption (under \$500 million in premium) we already meet a lot of the requirements. We have been building an Enterprise Risk Management program (ERM) for many years. SFM started analyzing its risks and the impacts of those risks along with mitigating controls in 2000. Through this analysis we have addressed many of the things in ORSA. It is my belief that all companies regardless of size should be considering ORSA and ERM. At the end of the day ORSA and ERM are making companies responsible and accountable to their Board, regulators, policyholders and stakeholders regarding their approach to understanding the risks that their company faces. I don't see anything wrong with that, and encourage companies to embrace ERM and ORSA as a way to navigate the ever-changing world we operate in.

TDD: Set your modesty and humility aside and share with us how your leadership style will demonstrate to each employee that SFM continuously strives to be an employer's carrier of choice?

TM: A CEO can't know everything or do everything. It is my belief that the CEO sets the company operational and communication tones. The CEO and leaders build a place where people like to come to work every day. Finally it is most important that SFM has a structure in place that has the right people in place to do the job that is called for at the time. So that means every single employee and the job they do is critical to our success. I really believe that everyone doing their job well is what impresses the employers who make SFM their carrier of choice.

TDD: Third party studies and financial analysis of mutual versus stock carriers appear frequently in the trade press. Any observations you might share on differences in focus between mutual and stock insurers?

TM: I think mutual insurers are allowed to consider the long game of insurance a bit more than stock insurers. Mutuals are there for their policyholder owners and might be willing to ride out some claims or a pricing cycle in order to maintain relationships. Stock insurers do feel more pressure regarding premium and earnings growth than mutual insurers. Mutuals can back off from growth when the market cycle gets too long, whereas I am not so sure stock companies can do that. I would probably have a hard time convincing an activist investor that doing the next right thing in the claims process will immediately result in successful financial results, but I wholeheartedly believe that as a mutual we get to prove that rather than taking the “profits at all costs” route. I will add that our return on surplus has definitely not suffered because of that thought process!

TDD: The graying of the insurance business and the need to attract intelligent, energetic talent to replace the expertise retiring now and in the near future has been the focus of many articles and panel discussions over the past several years. What is SFM doing to attract and retain intelligent, energetic talent?

TM: A better question might be what isn't SFM doing to attract and retain talented employees! Different demographics have different priorities in compensation, benefits and workplace environment. Younger employees may like a student loan reimbursement plan while employees with growing families are more interested in the 401(K) match and the quality of health benefits. These are important in attraction and retention.

We have found that even getting on the radar to tell our story to attract new talent requires a new way of thinking. As our recruiting practices become more sophisticated, we're able to vary our approach depending on what type of position we're hiring for. Through it all, we work hard to identify the prospective employees that will share our passion for the “people” side of the insurance business.

TDD: Follow-up question — what is SFM undertaking to attract or retain independent agencies that will produce the

quality and quantity of business that is critical to their future as well as that of SFM?

TM: Much like our pursuit of new employees we are doing a variety of things to attract and retain new producers. One of the big successes we have had is by hosting “Work Comp 101” days for new producers from our best agency partners. Workers’ compensation insurance can be one of the most daunting products for new agents, so training them on the basics of the insurance is a great way to help them talk to their customers and prospects about what’s important. Building those relationships early helps SFM be their go-to partner when they need help with work comp issues.

TDD: When you are not serving as the President and Chief Executive Officer, how do you spend your time? What do you do to relax?

TM: I like to run, circuit train, golf, play hockey, read and travel with my wife (we do watch a lot of series on Netflix after work too!)

TDD: Final words of advice for CPAs or CFAs who seek the positions of CEO or President?

TM: Numbers and financial rules and regulations are important, but you need to understand the people side of the business in order to be a long-term success. 🚀

Mission and history of SFM

The SFM Mutual Insurance Company began as a member-owned mutual company in the State of Minnesota and grew to an industry leader in Minnesota — and eventually the Midwest. Their mission and history are what made them the industry leaders they are today. A lot has happened since they were created in 1983 and Terry Miller was named their original controller. Throughout the years, their mission has remained constant. SFM is passionate about:

- *Helping employers maintain safe work environments*
- *Restoring injured workers to health and productivity*
- *Avoiding unnecessary costs*
- *Providing the very best in customer service*