

Success Story



The way a small, family-owned company transformed itself into a nine-state powerhouse holds lessons for every insurer—regardless of its size.

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As the executive director of the Life Insurers Council, I have had the privilege of visiting the home offices of a number of companies all over North America. It's been truly fascinating to learn about the different tactics and strategies that our members have pursued in order to serve the needs of the modest and middle-income market. It's also been interesting to witness the different culture that defines each company's brand—in some cases more intentionally than others.

As a result of this somewhat unique perspective—sort of like an A.M. Best analyst without an agenda—I thought it would be informative to highlight some LIC member companies from time to time. The primary difficulty has been settling on which company to focus first. Monumental recently documented its 150th anniversary in a coffee table style book that captures their amazing story. North Carolina Mutual is the oldest and largest African American mutual company and its history is

wonderfully displayed “museum-style” in the home office. AFLAC's tremendous growth is an incredible tribute to the power of good marketing. Unitrin, Inc. and Columbian Mutual's success with growth via acquisitions is a valuable lesson in successful execution. American National's debit expansion into Mexico provides an excellent case study for any company considering international expansion.

I could go on, but the difficulty in settling on just one company should be pretty obvious. So, since I had to start somewhere, I thought I would begin with one of the best-known small companies: Charleston, S.C.-based Atlantic Coast Life Insurance Company (ACL).

As a third generation family owned business, the humble beginnings, sporadic periods of growth and decline, and the fierce entrepreneurial spirit that continues to drive the company's success are typical of many small family businesses. However, ACL also has a story to tell that should inspire

every small company struggling to compete against larger and more established competition. In addition, the company recently completed a drastic transformation of its business model that should be an inspiration to companies of all sizes.

Let's start at the beginning. ACL was founded in 1925 when Yancey Wilcox Scarborough Sr. borrowed \$5,000 from his sister to come up with half of South Carolina's minimum capital requirement. His partner, Jesse Orvin, contributed the other \$5,000 and the two began writing debit business in Charleston, with Mrs. Scarborough typing newly issued policies by hand in their living room. At the end of each year when it came time to calculate reserves, they stacked in force policies by class throughout the house to make it easier to tally the different amounts. Eventually the two entrepreneurs had sold enough insurance to form a debit and hired J.L. Byrd to be their first agent. With the dependable Mr. Byrd as their foundation—he stayed with the company until his retirement—Scarborough and Orvin continued selling in Charleston until they had enough business to open a district office and then turned their attention to the rest of the state, quickly branching out into Columbia, Florence, Georgetown, Beaufort, Orangeburg, Greenville, Spartanburg, Sumter, Rock Hill, North Charleston, and Greenwood.

The challenges involved in not only building debits from scratch, but also nurturing a new business venture through the Great Depression, is something that can easily be appreciated today. But ACL thrived and continued to grow and prosper for the first 20 years of operations. At that time, other family members became involved and the difficulties of managing succession and transition to the next generation emerged as one of the first real threats to the company's future.

Both Orvin and YW Scarborough recognized the value—as well as the potential—for ACL and neither were willing to dilute their ownership by selling outside of the family. The dispute was finally settled “Southern gentleman style” in the business equivalent of “dueling pistols”: the two original partners submitted sealed bids for total control of

the company and Scarborough had the highest bid.

Unfortunately, what should have signaled a new beginning for the company ultimately almost triggered its end. YWS Senior acquired complete control of the company in 1954 but died suddenly two years later with little estate planning, leaving the company—and a large estate tax bill—to his four children, only two of whom were actively involved in the business.

YWS Junior and his brother Bobby were turned down by every bank in Charleston and were desperate to raise the money to pay the IRS or risk losing the company completely. As a last resort, they appealed to Charles McCants, a family friend who owned Public Savings Life Insurance Company. During a fateful Saturday morning meeting at Mr. McCants' home, he agreed to execute a loan to the two Scarborough brothers first thing Monday morning. Unfortunately, that wasn't soon enough as the deadline to pay the IRS was that very afternoon! As a result, McCants and the Scarboroughs trooped down to the IRS office together to save the company and ACL's continuation was assured by a whisker.

The next few years were difficult as YWS Junior and Bobby struggled to grow the company while simultaneously completing the buy-out from Jesse Orvin, pay the McCants loan, and

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buy out their two inactive siblings. It was a big nut to crack but ultimately, the company prospered and by the 1980s, they were well on track again with premium income at historic highs and more than 250 agents contracted.

Not content with merely running a successful company, YWS Junior and Brother Bobby were also extremely active in the community, setting a precedent that would become a family hallmark. Both brothers' resumes contain three pages of community and industry involvement, culminating with Robert Bowman Scarborough's election to the South Carolina House of Representatives, where he served from 1963 to 1968 and Senate, where he served from 1969 to 1972. In

fact, there's a major bridge on the James Island Expressway in Charleston that the family casually refers to as “Bobby's Bridge” because the South Carolina House of Representatives dedicated it in his memory. Perhaps equally impressive (to me, anyway) is YWS Junior's involvement in the LIC, ultimately serving as President of the Board of Directors in 1969.

Even better, though, was the fact that the company's succession planning was in place and three members of the next generation were actively engaged in leading the company into the future: YWS III, his brother George, and Bobby's son Wallace. However, as the third generation of Scarboroughs learned the ropes and prepared to

assume their places at the helm of the family business, the debit business began a drastic decline. High agent turnover, poor persistency, and an overabundance of overhead dictated the consolidation of debits, reduction of agents, and drastic elimination of many district offices. Sales suffered, assets declined, and, although the company was still profitable and had a strong capital base, unless something drastic was implemented to bring vitality to the financials, it was evident that the third generation would pre-empt the demise of their cherished family business.

Dramatic Transformation

This is where we can diverge from the historical summary and focus on the specific tactics that the Scarboroughs employed in response to these challenges.

After hearing Tom Rattman, president of Columbian Financial Group, speak about pre-need insurance at a LIMRA Meeting in 2002, Bill Scarborough III decided that this might be a good product for Atlantic Coast Life to pursue. In February 2003, ACL decided to move forward and hired Mike Leary, senior vice president at Catholic Holy Family Society, to act as a consultant to help them understand and execute a pre-need strategy. Incredibly, six months later the Company sold its very first pre-need policy.

The process that Mike Leary implemented to assist ACL in their new venture is worthy of a case study. In fact, the LIC sponsored a One-Day Workshop in November where Mike Leary and a number of other specialists walked participants through an effective process for entering new markets and used the ACL experience as the prime example.

If moving from concept to first sale in six short months isn't impressive enough, consider also that ACL received an endorsement from the South Carolina Funeral Directors Association their very first year. This is especially noteworthy given that the company had no market share, no product performance history, and no sales history on which to base expected sales growth. In fact, part of their pitch to the SCFDA was to "take a chance on Atlantic Coast Life". The fact that ACL was successful in receiving

the endorsement provides a valuable lesson for all companies who compete against larger, better capitalized, and more established competition.

The essence of ACL's pitch to the SCFDA was essentially this: "we're from South Carolina, just like you; we've been burying people in South Carolina since 1925—not through pre-need contracts, but through burial policies just the same; we're a third generation family owned business just like many of the funeral homes who belong to the SCFDA; give us a chance and let us show you what we can do."

The fact that the SCFDA endorsed ACL over a number of other high quality pre-need companies with national presence and a long track record of garnering significant market share in South Carolina is truly a testimony to the power of small company branding, especially with respect to regional marketing.

A few years later, ACL was given the opportunity to repeat this message to the North Carolina Funeral Directors Association and received their endorsement in 2008. In this instance, ACL made essentially the same pitch but removed the state border and appealed as fellow "Carolínians". There was a critical moment during the presentation to the NCFDA board where Bill Scarborough III referenced how his mother was from North Carolina and was especially proud of her North Carolina BBQ. One of the directors raised his hand and asked, "Which BBQ—East or West"? Knowing that the outcome of the meeting resting significantly upon how he answered this question, Bill had to sheepishly admit that he didn't know there was more than one kind of North Carolina BBQ. Fortunately, this resulted in a very spirited discussion among the board about the pros and cons of East and West style BBQ and probably did as much for ACL receiving the endorsement as anything else during the presentation!

It was very interesting listening to Bill Scarborough III recite the corporate history, because there was a personal element that permeated every story. With a family business, the ups and downs are much more than a footnote in a financial statement or an excerpt from board meeting minutes—they all are

very personal and intimately intertwined in family history. Lessons learned, strategies that succeeded or failed, and relationships that were developed and lost were captured and carried forward much more cohesively than in companies where changing leadership often triggered new directions and turnover in management. In other words, the corporate "memory" at ACL is truly one of their greatest assets.

Another advantage for family businesses is the potential for consistent corporate values to pass from generation to generation. For the Scarborough family, the foundation for all of their business and personal dealings is the concept of "honor". For example, when the company was selling their old home office—a stately mansion located in downtown Charleston—it was discovered that the building contained numerous original Tiffany stained glass windows. The appraiser suggested that the company remove the windows, replace them with replicas, and sell the originals at auction (for an expected price that would actually exceed the value of the entire building). The Scarboroughs rejected that offer because "it wouldn't have been honorable"—the windows were part of the original building and it was important to keep the entire package intact.

They evoked a similar pronouncement of "honor" when, after much soul searching, they decided to meet a real estate developer somewhat over-inflated price in order to purchase a small plot of land near their new home office. The developer, perhaps desiring to take advantage of the company's strong intent to acquire the property, responded by raising his price even higher than what he originally said he would accept. The Scarboroughs rejected the counter-offer on the basis of principle because "it wasn't honorable" for the developer to not keep his word.

As I write this article, ACL has transitioned from a single state/single product company to a nine state pre-need and home service carrier with plans to expand into final expense in early 2009. Throughout the course of this dramatic transformation, ACL worked hard to communicate openly and consistently with its employees,

agents, and policyholders. As a result, all constituents have expressed strong support of the new initiatives and have responded enthusiastically, despite the drastic changes.

The learning curve involved in a new venture can be daunting for any company, but the limited resources that constrain smaller companies require heroic efforts on the part of all levels of staff. For example, in order for ACL to expand geographically, someone had to prepare multiple state filings. Rather than squander precious resources on outside legal fees, Bill Scarborough III downloaded information from the various state insurance departments and completed the filings single handedly. In fact, he's quick to point out that the primary reason why the company won't be expanding into any new states in the near future is because the last thing he wants to do is spend more late nights trying to figure out how to complete another state filing!

In a similar manner, when principle-based reserving first emerged, George

Scarborough—the acknowledged family genius—dug in with the corporate actuary so that he could re-program the PC-based administration systems that he had developed in order to support the complicated new reserving requirements. This level of hands-on execution on the part of ACL's senior management puts a whole new meaning to the term "leading from the top" and is indicative of why so many small companies tend to focus their business strategies on more practical rather than theoretical or academic initiatives.

I'd like to close this article with one final story about Bill Scarborough and Atlantic Coast Life that epitomizes their entrepreneurial thinking. ACL has a chandelier in the lobby entrance of its new home office. Bill Scarborough insists on changing the light bulbs on the chandelier himself. This involves stepping over a railing on the second story balcony, out onto a narrow ledge so that he can reach out to pull the chandelier toward him with one hand while hanging onto the railing with the other. When I

asked Bill why he thought this was a job for the president and CEO he replied cheerfully, "I'm the perfect one for the job. If I fall and get hurt, at least I know I won't sue the company. And if I fall and get myself killed, I have plenty of key man insurance and plenty of people ready to step up to take my place!"

And with that refreshing attitude, it's easy to share Bill Scarborough's confidence that neither he, nor Atlantic Coast Life, will be falling any time soon. ■



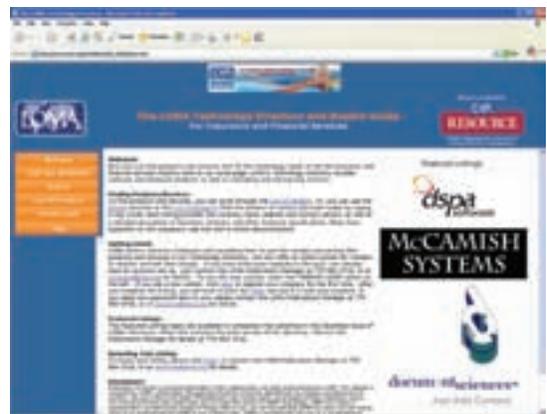
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