Harvard Business School **9-692-015**
Rev. January 30, 1997

Manzana Insurance - Fruitvale Branch (Abridged)

It was a Monday morning in early September 1991. Bill Pippin had been at Manzana for only a week, but already he was thinking that perhaps he should have taken a different job. He gazed at a note on his desk from John Lombard, his boss at the Fruitvale branch: "I'm giving a speech at a conference on property insurance, so I'll be out of the office until next week. Please give this some thought while I'm gone." The note was attached to a memo from Tom Jacobs, Manzana's senior vice president for underwriting operations:

To: John Lombard
From: Tom Jacobs
Subject: *Second Quarter Performance*

The performance figures on Property Insurance for the second quarter have just been completed, and Fruitvale is at the bottom of the list again. More important, Golden Gate is killing us in your territory, and they have just announced a promise of one-day turnaround time to all agents. If something isn't done immediately to improve your operating performance, a lot of our agents are going to defect to Golden Gate, and some of us are going to need new jobs. Here are some of the numbers:

	Manzana-Fruitvale		Golden Gate
	This Quarter This Year	This Quarter Last Year	This Quarter (estimated)
New policies	326	278	375
Endorsements	206	235	300
Renewals	1,063	1,253	1,400
Turnaround time (average)	6 days	5 days	2 days
Renewals late	44%	20%	NA
Renewal loss rate	47%	33%	15%

Something has got to be done about this. We're getting lots of complaints from agents about your turnaround time, your percentage late figure is unacceptable, and we can't afford to lose almost half of our renewal business every year.

John, ever since we eliminated an underwriting team in 1990, you've been saying that you need more underwriters. But when we look at the volume of

Christopher Loch and David Paul Grant prepared the original version of this case (S-DS-87, Revised 5/90) under the direction of Professor Michael J. Harrison, Stanford University. It is based on an earlier case by Karlyn Carnahan. Professor Steven C. Wheelwright, Harvard University, prepared the abridged case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

business you are handling, it looks as though there's more than enough people in your operations.

Fruitvale handles only property underwriting, and your branch typically receives about 22 requests for new insurance, endorsements, or price quotes a day, and handles another 17 or so renewals—let's call it 40 total requests per day. Based on average processing times for each major task, Fruitvale should be able to handle that easily. My rough calculations are as follows:

Operating Activities

	Review and Distribution	Underwriting	Rating	Policy Writing
Daily Activity	40 requests	40 requests	40 requests	40 requests
Average Time Required	40 min. each 40 requests = 26.7 hours	30 min. each 40 requests = 20 hours	70 min. each 40 requests = 46.7 hours	55 min. each 30 requests (75% of daily requests) =27.5 hours
Capacity Available	4 clerks 7.5 hrs/day = 30 hours	3 teams 7.5 hrs/day = 22.5 hours	8 raters 7.5 hrs/day = 60 hours	5 writers 7.5 hrs/day = 37.5 hours

Frankly, I don't see where the problem is. If anything, it looks as if you might be overstaffed in rating and policy writing. In addition, I hear that a staff member's workload is quite uneven over time: one day an underwriter might be stretched to the limit; a week later he may be idle. Whatever the problem is, we need a solution fast.

I'll expect a memo with concrete suggestions on my desk in two weeks.

When Bill Pippin was in business school, he had become interested in applying production management techniques to service industries. He had interviewed with a number of financial service companies, including Manzana Insurance and Golden Gate Casualty, California's two largest property-liability insurers. Ultimately, Pippin decided to join Manzana as assistant manager of the Fruitvale branch. (See **Exhibit 1** for an organization chart.) After reading Tom Jacobs's memo, he paused for a few minutes' reflection and then decided to ask some questions about the scheduling of work flow at the Fruitvale branch.

Company Background

Manzana Insurance, founded in Sebastopol, California, in 1902, originally specialized in orchard and farm insurance. Following the San Francisco earthquake and fire of 1906, however, the company saw an opportunity to expand its business throughout northern California by buying several insurers that had been driven to near bankruptcy by the catastrophe. In 1944, anticipating the end of World War II and foreseeing a boom in home ownership in southern California, the company purchased the Santa Ana Underwriting, Casualty and Escrow Company. By 1953, Manzana had become the second-largest home and commercial property insurer in California.

In the 1970s, however, Manzana's growth began to falter in the face of high interest rates and intense competition from Golden Gate Casualty, a new entrant in the home insurance market whose corporate parent was one of the largest retailers in the world. Backed by its parent's resources, Golden Gate launched an intensive marketing campaign and precipitated a price war in an attempt to

gain market share from Manzana. Manzana fought back, and by 1988, the two companies were in a virtual tie for first place in the property insurance market.

In 1989, Manzana was acquired by Banque du Soleil, a multinational financial services company, and new management was installed. Attention was directed towards tightening the company's underwriting standards, regaining market share, and reducing operating expenses. Less profitable lines of insurance were discontinued entirely, and operations at branch offices were reorganized on a geographic basis in order to improve the company's responsiveness to agents and make the company more market-driven.

Organizational Structure

Manzana operated through a network of relatively autonomous branch offices in California, Oregon, and Washington. It treated each branch as a separate profit and loss center, with the authority to underwrite insurance, collect premiums, and settle claims within its territory.

Like many insurance companies, Manzana did not deal directly with the public. Instead, its sales force consisted of about 2,000 independent agents who represented Manzana and other competing insurers. As a result, maintaining close and cooperative relations with the independent agents was a critical factor in building and sustaining market share and profitability.

When Manzana reorganized its underwriting staff in early 1990 along geographic lines, each originating agent was assigned a specific underwriting team (consisting of an underwriter and a technical assistant) to handle all of that agent's property insurance needs; each team was also responsible for handling all of the insurance needs of the agents within its assigned territory. Depending on the location and the volume of business generated, a typical underwriting team served from 20 to 25 independent agents. The smallest Manzana branch had two underwriting teams supporting about 40 agents, the largest had 14 teams and supported over 300 agents. Fruitvale was one of Manzana's smaller branches, with three underwriting teams supporting 76 agents in three geographic territories.

Agents were paid a 25% commission for each new policy sold on behalf of Manzana. In addition, they could earn an annual bonus based on the volume of business they placed with Manzana and the loss history of their insurance sales; this was known as their "book of business." Agents also received a 7% commission for each policy that was renewed.

Manzana branch employees were designated as hourly, salary, or "salary/plus" employees. The latter term referred to those receiving an annual salary plus an incentive payment for each new policy written above their established quota. Manzana instituted salary/plus in 1990 in an attempt to retain its most senior underwriters (those with more than 10 years' experience), who were being intensively courted by Golden Gate. In 1991, all Fruitvale's underwriters and John Lombard, the branch manager, were compensated under the salary/plus program.

Property-Liability Insurance

Property-liability insurance could be divided into two categories: commercial insurance, which provided coverage against loss, damage, or liability arising from unknown or contingent events for businesses, institutions, and public agencies; and personal insurance, which included automobile and homeowners' policies for individuals and families. Each category could be divided further into two broad classes of policies: property insurance, designed to indemnify a property owner against loss of property due to fire, flood, storm, and so forth; and liability (or casualty)

insurance, which provided protection against liability arising from an act or omission of the insured which caused injury to a third party.

Manzana specialized in commercial insurance, with property insurance, in 1991, making up 65% of its revenues, liability insurance 20%, and investment income and miscellaneous specialty lines constituting the remainder. Until the mid-1960s, Manzana wrote almost no liability policies, but as competition from Golden Gate forced it to lower its rates on property insurance, profitability fell and the company began to expand its other lines of business. By 1980, Manzana was writing so many liability policies that revenues from this source were almost equal to those generated by property insurance.

Then, in the early 1980s, just as property insurance premiums were stabilizing at a satisfactory level (and commercial insurers were returning to profitability), the so-called liability insurance crisis occurred, and liability insurers, including Manzana, found that the rising level of settlements paid on liability policies were making them unprofitable. Manzana posted its first annual loss in 1985, setting the stage for its takeover by Banque du Soleil in 1989. The new management had adopted a back-to-basics strategy, concentrating its efforts on cost control and the rebuilding of Manzana's share of the property insurance market. Some smaller branches, such as Fruitvale, refocused on property insurance only.

Underwriting

Underwriting was the technical term for the entire process of insuring a risk. At Fruitvale three teams handled underwriting. They served 76 independent agents and were supported by a number of distribution clerks, raters, policy writers, and miscellaneous office personnel. (See **Exhibit 2** for a diagram of the operations flow.)

The process of writing a *new commercial policy* usually began when a distribution clerk received a written Request For Underwriting (referred to as a RUN) from an agent (called the originating agent). The distribution clerk logged in all incoming requests, entered data into the computer for transfer to other departments and for future retrieval, and distributed each RUN to the underwriting team responsible for handling that RUN's originating agent. Distribution was also responsible for analyzing and disseminating data published each month by the state insurance commissioner, researching and verifying insurance rates quoted by local competitors, and overseeing the rating operations.

After each RUN was passed to its assigned underwriting team, that team took responsibility for evaluating, selecting, classifying, and pricing it. After review and classification by the underwriting team, the RUN went to the Rating Department, where policy premiums (the prices to be charged) were calculated based on the team's instructions. Although the rating position had once required significant computational and technical skills, the advent of desktop computers made the job almost purely mechanical.

From the Rating Department, a RUN was transferred to the Policy Writing Department. Policy writing encompassed the actual typing, assembly, and distribution of completed policies, although the computer had altered the nature of this function as well. Few policies in 1991 required actual typing. Instead, the emphasis was on selecting the appropriate pages for each individual policy from a computer data file of standard pages, as specified by the underwriting team, and printing and assembling them into a finished package. As a result, the time required to process an average policy in this department had decreased significantly during the late 1980s and early 1990s. Once printed and assembled, each policy was sent to the insured party; a duplicate was sent to the originating agent, and a copy was retained in branch records.

Issuing new commercial policies was considered the most profitable aspect of an insurance company's work because new policies commanded the highest premiums. On average, a new property insurance policy written by the Fruitvale branch during the first six months of 1991 generated annualized premium revenues of $6,724. The corresponding figure for new policies in 1989 was $5,706, and in 1990 it was $6,101. However, the branch was also responsible for servicing policy renewals, policy reratings, policy endorsements, and price quotes.

A *policy renewal* involved the annual reevaluation and, if necessary, repricing of the risks insured by a commercial policy. The renewal was done on the anniversary of the original commercial policy's issuance, unless the policy had been canceled by the insurer or not renewed by the insured. At Fruitvale, Requests for Renewal were called RERUNs. Generated automatically by a computerized "tickler" system at each branch, they were transmitted to the distribution clerks for processing along with current RUNs. As risks aged, the costs of insuring them tended to decrease, and thus insurance companies generally charged lower premiums on older policies. The average policy renewal at Fruitvale was expected to generate annualized premiums of $6,205 in 1991, compared with $5,130 in 1989 and $5,630 in 1990.

If there was a physical change in the property being insured, a *policy endorsement* was needed to amend the terms of the existing policy. Most endorsements did not significantly affect the nature of the risk being insured, but did increase the amount of insurance or the premium charged because of some unique characteristic of the property involved. At Fruitvale, processing a policy endorsement, referred to as a Request for Additional Insurance (a RAIN), differed from processing a RUN only in the time required for the various departments to reprice the policy; all other aspects of the underwriting process remained the same as those for a new policy. The average endorsement in 1991 was expected to generate additional premiums of $645, an increase from the $533 and $587 earned in 1989 and 1990, respectively.

Finally, *price quotes* involved the evaluation and pricing of a risk, in the anticipation that a new commercial policy would be issued. A Request for Price (called a RAP) was identical to, and required the same handling as, a RUN, except that the transfer of a RAP to the Policy Writing Department was not automatic. After rating, the RAP was returned to a distribution clerk, who was responsible for sending a price quote to the originating agent. Most quotes were accepted or rejected within 10 days. If the quote was accepted, the RAP became a RUN (both for processing and accounting purposes) and was transferred directly to policy writing, where the issuing process continued. If the quote was rejected, no further action was taken. On average, only 15% of all quotes resulted in new policies.

Standards and Due Dates

During an average day, an operations employee at Fruitvale handled dozens of RAPs, RUNs, RERUNs, and RAINs (collectively referred to as requests). For each commercial policy, a computer at a branch automatically generated a RERUN 30 days before the anniversary date of the policy, and the anniversary date became the due date for that RERUN. All other requests (RAPs, RUNs, and RAINs) were assigned due dates based on the total number of requests then being handled by the branch, as follows:

Each Monday morning, the branch manager compiled a report of the number of RAPs, RUNs, RERUNs, and RAINs on the desks of each distribution clerk, underwriting team, rater, and policy writer. Using these figures, the manager calculated the total time required to complete the processing of the requests. The calculations were made by multiplying the number of each type of request at each desk by a standard completion time (SCT). By adding these figures together, the manager determined the expected turnaround time (TAT) for each new request entering the system during the coming week. (See **Exhibit 3**.)

Then, as each RAP, RUN, or RAIN was received by a distribution clerk (DC), the TAT was used to establish the due date quoted to the requesting agent. For example, if January 1 was a Monday, and the TAT calculated by the manager on that date was 10 working days, then a RAP received on January 5 was assigned a due date of January 19 (10 working days later).

The SCT for each processing step was based on a companywide study, completed in 1986, which had surveyed the time required to process different types of requests by distribution clerks, underwriters, raters, and policy writers. Based on those figures, standard completion times sufficient to handle 95% of all requests had been assigned to each processing step; that is, it was expected that only 5% of the requests received would take more than the allotted 95% SCT. (See **Exhibit 4**.) A study by the Fruitvale branch suggested that its processing times did not differ substantially from those shown in **Exhibit 4**.

Operating Procedures

Bill Pippin had been told that company policy was to use a first-in-first-out (FIFO) system at each stage of the underwriting process: All requests were supposed to be processed in the order in which they arrived. In practice, he found that RUNs and RAPs were given priority over RAINs and RERUNs, but requests were processed on a FIFO basis *within* each of these two priority classes. The practice had arisen because renewals were considered less profitable than new policies and were, therefore, not allowed to interfere with the progress of new requests (RUNs and RAPs) through the system.

For example, most underwriters began each day by sorting through their in-baskets looking for RUNs and RAPs to work on first; only when all of those had been processed would they begin to work on RAINs and RERUNs. When Pippin asked Bob Melrose, the supervisor of underwriting, about this practice, Melrose explained:

> Everyone knows that new policies are the most profitable ones for the company, so naturally we process RUNs and RAPs first. As for RERUNs, we've got plenty of advance notice, and customers usually renew their policies anyway. As we say in underwriting: it's better to RUN than RAP; it's better to RAP than RAIN; and RERUNs will take care of themselves. The FIFO system works fine, as long as you keep your priorities straight.

Processing a RERUN involved appraising the general claim history of the risk category and of the individual insured risk. In order to base the appraisal on the most up-to-date information, the computer-generated RERUNs were not released to the DCs until the last day before the due date. The rated renewal policy was then faxed to the independent agent, avoiding any further delay. For the time between expiration of the old policy and start of the new (or cancellation, respectively), the client was fully covered by a mandatory "contingent binder" clause and thus protected in the event of late renewal.

When Pippin asked Rick Ramirez, manager of the Rating Department, about the priority system, he got a new perspective:

> We give priority to RUNs and RAPs because we're told to, but if you ask me, we should just switch the whole shop over to straight FIFO without priorities. Then we wouldn't have the problem of getting RERUNs so late that there is no way for us to get them done on time. The UTs seem to think that RERUNs handle themselves, but they take just as much work as any other policy. If we keep getting them late, there is no way we're ever going to clean up the backlog of requests in our department.

As far as Pippin could tell, policy writers used the same basic scheduling rules as did UTs and RTs, with some adaptations. Phyllis Chen, the manager of the department, told him:

FIFO works fine. If what you want to do is be fair to all customers and give them all equally good service, processing requests in the order that they come in makes a lot of sense. The only thing we do that is slightly different is that after we sort all of our work by priority and arrival date, we usually try to handle the simple jobs before tackling the longer or more difficult requests. That way, we get rid of some of our backlog and reduce the sheer physical volume of paper on our desks.

Recent Performance

As Pippin examined Fruitvale's quarterly financial and operations summaries for 1989, 1990, and 1991 (**Exhibits 5** and **6**), he could see why Tom Jacobs was so concerned. On every measure of performance, the branch seemed to be falling apart.

Branch profitability was declining. The backlog of policies had increased since 1989, and the number of new policies and endorsements appeared to be stagnating, whereas the rest of the industry (Golden Gate, in particular) reported moderate growth rates. The number of late renewals (those completed after their due dates) was at an all-time high, causing a dramatic rise in the renewal loss rate. Agents expected a renewed contract offer from Manzana on or before the expiration date of the old policy, and they were more likely to recommend other carriers to their customers when contract renewals were late. The renewal losses represented a significant loss of business and an overall reduction in the number of policies in force (**Exhibit 7**).

In addition, turnaround time had jumped from about three days to more than five days. Pippin knew that this increase could be an important factor in Fruitvale's loss of business. As competition in the insurance business had increased, insurance rates and commission schedules had become nearly identical among competitors. As a result, agents had begun to steer their clients to particular insurers on the basis of service, one measure of which was a company's TAT, or the number of days between the receipt of a RUN and the issuance of a final policy. It was not uncommon for an agent to call an insurer for an estimate of that company's TAT and then refer business elsewhere if issuing a new policy would take too long.

And Golden Gate had announced a guaranteed turnaround time of one working day (exclusive of transit time) on new policies, price quotes, and policy endorsements, with a 10% premium discount in the event of delay. John Lombard had expressed dismay over this move the previous Friday:

> There's no way Golden Gate can live up to that promise—it's just impossible. They'll end up paying the discount to too many agents, and even though their parent has deep pockets, top management won't be able to stand the losses for more than a few months. In the meantime, they lure agents away from other carriers, and everybody loses in the end.

The one thing Bill Pippin knew for sure was that if Golden Gate could make good on the one-day turnaround guarantee, a lot of agents would be defecting from Manzana. The Fruitvale branch was having a hard time just maintaining past performance, and pressure from the outside was mounting. He wondered what, if anything, he should recommend to help improve Fruitvale's performance.

Exhibit 1 Organization Chart, September 1990

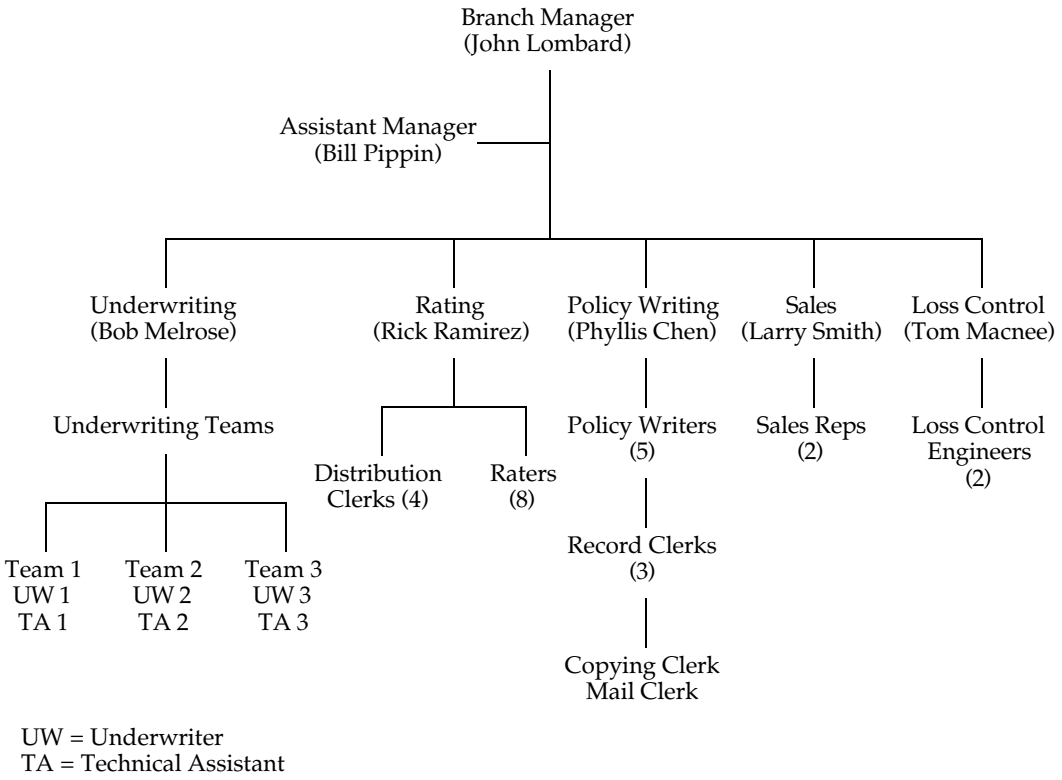

Exhibit 2 Operations Flow

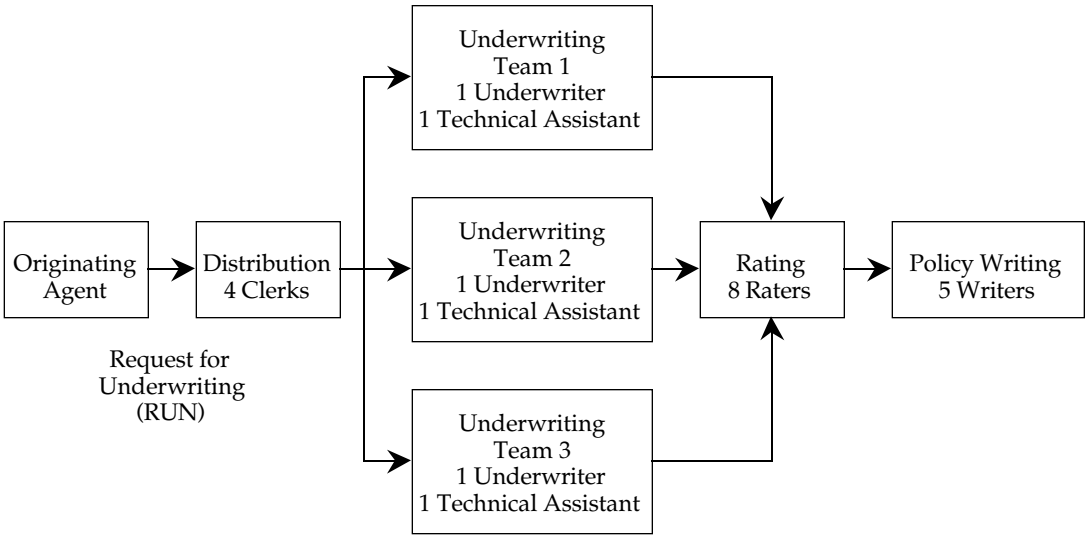

Exhibit 3 Backlog and Turnaround Time Calculations for the Week Ending 6 September 1991

Operating Steps	Number of Requests to be Processed RUNs	RAPs	RAINs	RERUNs	Total Throughput Days
1-Distribution (4 clerks)					
Total at DCs	1.0	3.0	1.0	11.0	
To be processed[a]	1.0	3.0	1.0	11.0	
Average per DC	0.25	0.75	0.25	2.75	
95% SCT per request	128.1	107.8	68.1	43.2	
Total minutes	32.0	80.9	17.0	118.8	0.6
2-Underwriting (3 teams)					
Total at DCs	1.0	3.0	1.0	11.0	
Total at UTs	3.0	7.0	6.0	36.0	
To be processed[a]	4.0	10.0	7.0	47.0	
Average per UT	1.33	3.33	2.33	15.67	
95% SCT per request	107.2	87.5	49.4	62.8	
Total minutes	142.6	291.4	115.1	984.1	3.4
3-Rating (8 raters)					
Total at DCs	1.0	3.0	1.0	11.0	
Total at UTs	3.0	7.0	6.0	36.0	
Total at RTs	1.0	2.0	1.0	7.0	
To be processed[a]	5.0	12.0	8.0	54.0	
Average per RT	0.625	1.5	1.0	6.75	
95% SCT per request	112.3	88.7	89.4	92.2	
Total minutes	70.2	133.1	89.4	622.4	2.0
4-Policy Writing (5 writers)					
Total at DCs	1.0	3.0	1.0	11.0	
Total at UTs	3.0	7.0	6.0	36.0	
Total at RTs	1.0	2.0	1.0	7.0	
Total at PWs	0.0	NA	1.0	2.0	
To be processed[a]	5.0		9.0	56.0	
Average per PW	1.0		1.8	11.2	
95% SCT per request	89.3		72.1	67.0	
Total minutes	89.3		129.8	750.4	2.2
Summary					
Total backlog	82.0 Requests-in-Process				
Total TAT	8.2 Days (0.6 + 3.4 + 2.0 + 2.2)				

Notes:

DC =	Distribution Clerk
95% SCT =	95th percentile of the Standard Completion Time
TAT =	Turnaround Time for a new request
UT =	Underwriting Team
RT =	Rater
PW =	Policy Writer
RUN =	Request for Underwriting
RAP =	Request for Price
RAIN =	Request for Additional Insurance
RERUN =	Request for Renewal

[a]To be processed includes Requests-in-Process at this step and at upstream steps.

Exhibit 4 Policy Processing Times (in Minutes) by Department (1986)

Operating Steps		RUNs	RAPs	RAINs	RERUNs
1-Distribution					
Min		30.5	31.5	27.0	20.5
Max		142.0	124.0	286.0	276.0
Mean		68.5	50.0	43.5	28.0
Standard Deviation		30.7	24.9	9.2	6.2
95% SCT		128.1	107.8	68.1	43.2
Weighted average processing time per request	41.0				
2-Underwriting Team[a]					
Min		1.7	6.0	0.5	4.2
Max		599.0	395.0	411.0	720.3
Mean		43.6	38.0	22.6	18.7
Standard Deviation		32.0	24.5	11.7	19.8
95% SCT		107.2	87.5	49.4	62.8
Weighted average processing time per request	28.4				
3-Rating					
Min		7.0	8.0	15.0	7.0
Max		465.0	417.0	439.0	465.0
Mean		75.5	64.7	65.5	75.5
Standard Deviation		20.5	13.6	15.9	9.7
95% SCT		112.3	88.7	89.4	92.2
Weighted average processing time per request	70.4				
4-Policy Writing					
Min		39.5	NA	30.0	39.0
Max		371.0	NA	275.5	370.5
Mean		71.0	NA	54.0	50.1
Standard Deviation		10.3	NA	8.6	9.5
95% SCT		89.3	NA	72.1	67.0
Weighted average processing time per request	54.8				

[a]The underwriting teams work together on a policy. Hence, the processing times shown for an underwriting team represent the amount of time each member of the team contributes to the policy.

Exhibit 5 Financial Summary, Fruitvale Branch (in thousands)

	1989				1990				1991	
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter
Gross Premiums										
New policies	$1,485	$1,523	$1,540	$1,546	$1,635	$1,684	$1,763	$1,763	$2,024	$2,172
Endorsements	96	113	109	96	117	138	134	134	158	133
Renewals	6,607	6,582	6,602	6,710	7,140	7,067	6,898	6,971	6,317	6,596
	$8,188	$8,218	$8,251	$8,352	$8,892	$8,889	$8,797	$8,868	$8,499	$8,901
Commissions	8334	841	847	856	909	916	924	929	948	1,005
Other Expenses	67	92	69	85	87	99	132	96	130	121
Net Underwriting Revenue	7,287	7,285	7,335	7,411	7,896	7,874	7,741	7,843	7,421	7,775
Ordinary Insured Losses	4,176	4,273	4,208	4,928	5,602	5,778	5,718	6,030	6,155	6,453
Extraordinary Losses	508	-	-	-	-	-	-	612	-	-
Less: Branch Protection[a]	400	-	-	-	-	-	-	400	-	-
	$4,284	$4,273	$4,208	$4,928	$5,602	$5,778	$5,718	$6,242	$6,155	$6,453
Gross Underwriting Results	$3,003	$3,012	$3,127	$2,483	2,294	2,096	$2,023	$1,601	$1,266	$1,322
Operating Expenses										
Office rent	33	33	33	33	36	36	36	36	40	40
Property and Equipment	2	7	3	7	8	7	6	1	1	2
Depreciation	13	13	13	13	15	15	15	15	16	16
Finance charge[b]	4	4	4	4	5	5	5	5	5	5
Salaries	961	961	961	961	935	935	935	935	1,028	1,028
Plus Program[c]	-	-	-	-	80	83	87	87	90	97
Branch protection	100	100	100	100	100	100	100	100	100	100
Branch allocation[d]	120	120	120	120	120	120	120	120	150	150
Other	5	6	8	7	5	9	5	7	10	5
	$1,238	$1,244	$1,242	$1,245	$1,304	$1,310	$1,309	$1,306	$1,440	$1,443
Branch Profit (Loss)	$1,765	$1,768	$1,885	$1,238	$ 990	$ 786	$ 714	$ 295	($ 174)	($ 121)

[a]Represents an allocation of up to $400,000 of extraordinary loss to the Branch Protection pool which is funded by monthly contributions from each branch.
[b]Represents a charge made by the Home Office against the branch due to late collection of premiums.
[c]Beginning in 1990, senior underwriters and their division manager received a $150 bonus on each new policy written.
[d]Represents a charge made by the Home Office against the branch for general support.

Exhibit 6 Number of Policies Processed, by Quarter (Fruitvale Branch)[a]

	1989				1990				1991	
	1st Quarter[b]	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter
RUNS										
Requests Processed (RUNs originating as RUNs)	160	166	170	170	157	165	178	178	164	186
Requests Processed (RUNs originating as RAPs)	103	96	100	103	109	113	112	110	134	140
Total RUN Requests Processed	263	262	270	273	266	278	290	288	298	326
Late	0	0	0	0	0	0	0	0	0	0
RAPs (Total, including RAPs completed as RUNs)										
Requests Processed	653	691	698	725	681	748	819	831	862	936
Late	0	0	0	0	0	0	0	0	0	0
RAINs										
Requests Processed	181	212	204	180	199	235	232	229	245	206
Late	0	1	1	0	2	0	0	0	0	3
RERUNs										
Requests Processed	1,288	1,283	1,287	1,308	1,268	1,253	1,228	1,238	1,018	1,063
Late	205	191	220	201	225	248	310	387	425	468
TOTALS										
Requests Processed	2,282	2,352	2,359	2,383	2,305	2,401	2,457	2,476	2,289	2,391
Late	205	192	221	201	227	248	310	387	425	471
Renewals—number lost	193	205	232	219	400	414	436	467	429	497
Weighted average TAT (days)	4.7	5.7	5.1	5.6	5.9	5.1	5.3	5.7	5.8	6.2

[a]Arrivals appear to be perfectly random, with no discernable pattern of peaking within the quartaer.
[b]An average month is 20 working days (4 weeks of 5 days).

Exhibit 7 Processing Requests, Fruitvale Branch, 1989-1991

	1989	1990	1991 (6 months)
Territory 1 (Number)			
Agents	22	22	23
Policies in force	1,719	1,651	1,151
Requests processed			
RUNs originating as RUNs[a]	268	305	162
RAPs converted to RUNs[b]	131	164	112
Total RUNs	399	469	274
RAPs (Total)[c]	1,000	1,232	761
RAINs	276	358	196
RERUNs	1,713	1,568	636
Renewals lost	317	784	403
Gross premiums	$11,204	$11,898	$5,915
Territory 2 (Number)			
Agents	29	28	26
Policies in force	1,755	1,693	1,393
Requests processed			
RUNs originating as RUNs[a]	186	190	100
RAPs converted to RUNs[b]	132	144	79
Total RUNs	318	334	179
RAPs (Total)[c]	815	907	513
RAINs	237	273	125
RERUNs	1,958	2,021	840
Renewals lost	258	497	227
Gross premiums	$11,991	$13,579	$6,497
Territory 3 (Number)			
Agents	28	26	27
Policies in force	1,727	1,660	1,402
Requests processed			
RUNs originating as RUNs[a]	212	183	88
RAPs converted to RUNs[b]	139	136	83
Total RUNs	351	319	171
RAPs (Total)[c]	952	940	524
RAINs	264	264	130
RERUNs	1,495	1,398	605
Renewals lost	274	436	296
Gross premiums	$9,814	$9,969	$4,988
Branch Totals (Number)			
Agents	79	76	76
Policies in force	5,201	5,004	3,946
Requests processed			
RUNs originating as RUNs[a]	666	678	350
RAPs converted to RUNs[b]	402	444	274
Total RUNs	1,068	1,122	624
RAPs (Total)[c]	2,767	3,079	1,798
RAINs	777	895	451
RERUNs	5,166	4,987	2,081
Renewals lost	849	1,717	926
Gross premiums	$33,009	$35,446	$17,400

[a]The number of new RUNs processed (not including RAPs converted to RUNs).
[b]The number of RAPs that were subsequently accepted by the customer and processed as a RUN.
[c]The total number of RAPs processed, including those subsequently accepted by the customer and processed as RUNs.