

## At Insurance Agency, A Charity Policy

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At a time when business news reads like a criminal rap sheet, a new insurance agency is out to donate half its profits to charity and prove it can build a prosperous, multistate business while living up to its name - GoodWorks Insurance.

North Canaan-based GoodWorks recently opened its first two sales and service offices in Granby and in Great Barrington, Mass., and aims to establish 10 more by the end of next year.

It wasn't started by a longtime philanthropist. Founder and chief executive Joseph Grochmal - an affluent veteran of investment banking in the insurance industry - wanted to get into the competitive insurance agency business and needed a marketing edge.

Grochmal, inspired by his wife and a business partner's charitable activism, decided doing good in the community could be the spark to differentiate his new agency from competitors.

The specific idea to give away profits came to him in 2003 as he reached for a Newman's Own pretzel. Actor Paul Newman gives all of the food company's after-tax profits - more than \$200 million so far - to charity.

Industry experts say the insurance agency business is lucrative enough that GoodWorks could donate 50 percent of its profits - reaping tax deductions - and thrive. The challenge, they say, will be building a clientele from scratch when there already are so many other avenues for consumers and businesses to buy insurance.

GoodWorks, privately owned by investors, is currently selling property-casualty insurance, including auto and homeowner's policies. It expects to expand to employee benefits such as group life and disability insurance.

The agency has been appointed by seven insurers so far to sell their policies: The Hartford, St. Paul Travelers, Chubb, Arbella (only in Massachusetts), Litchfield Mutual, National Grange Mutual, and Progressive's Drive Insurance. More appointments are expected.

Grochmal, 47, thinks the unusual charity commitment - in addition to good service - will attract and keep customers.

"For people who believe in doing good things and believe that business can have a different role and a constructive role in communities, I think we can offer an approach that costs them nothing," said Grochmal, a former Suffield resident now living in Housatonic, a village of Great Barrington.

GoodWorks, he said, isn't tacking on extra costs to customers in order to boost profits so it has enough money for charity. Its customers would pay the same premiums if the agency weren't

donating funds.

Grochmal figures the time is right for the charity angle.

"This is an industry that's had reputation issues, more so recently with companies and bid-rigging and brokers that have done these things," he said. Even before the recent scandals, people often distrusted insurance companies and disliked buying insurance, he said.

So why would people trust GoodWorks and its promises of charity?

GoodWorks entered a contract requiring it to donate at least 50 percent of its operating profits each year - a minimum of \$15,000 per agency location - to nonprofit organizations serving towns where the agency has customers.

Operating profits, which GoodWorks promises to disclose from its tax returns, are what's left of revenues after expenses, including salaries, are paid. The profits don't include what GoodWorks can earn by investing its capital and the earnings it keeps.

The contract is between GoodWorks and seven people, mostly from Connecticut and Massachusetts, who know Grochmal or other board members and are interested in social responsibility. The seven each gave GoodWorks \$1 to make the agreement legally binding, and the company will appoint someone independent to verify it is living up to the contract.

The contract says if GoodWorks fails to make donations as required, the signers - or any other citizen in a community where the company does business - can enforce the agreement.

It seems unlikely anyone would spend the time and money to take GoodWorks to court over charity money, but the commitment behind the contract is already appealing to consumers.

Anne Lesser of West Stockbridge, Mass., for instance, recently switched her homeowner's insurance to GoodWorks from another agency.

She considers insurance "a necessary evil" and likes the idea that "even if nothing bad happens, your money is doing something good ... rather than just a hedge against disaster."

Grochmal doesn't know whether GoodWorks is the only insurance agency donating half its profits, but it's believed to be the only one doing so under a charitable contract. In fact, Grochmal is seeking a business method patent on the idea of selling any product in the United States linked to making a contractual commitment for charitable donations.

He wants to keep competitors from copying GoodWorks and to avoid abuses. "I believe that corporate America can make a good thing great, but it can [also] make a great thing bad," he said.

GoodWorks, which will focus donations on health, safety and education, has already donated \$4,000 to the Granby Education Foundation and \$4,000 to the Berkshire Hills Fund for Excellence, which provides grants for teachers' projects.

The company will also give \$5,200 to help install solar-powered warning lights at crosswalks in Great Barrington, where an elderly woman was killed crossing the street. Grochmal, who spearheaded the project, said he got local businesses to pony up the balance of the \$26,000 that was needed.

GoodWorks has started donating even though it's not expected to break even until its fourth year in business. Until then, it's running on the nearly \$1.6 million invested in its holding company, Noble View LLC, by about 20 people.

The money came through an investment fund set up by Grochmal and Dave Schupp, who had

created a venture capital fund management company in Hartford called Schupp & Grochmal.

Grochmal, who gets a \$170,000 salary at GoodWorks, contributed \$100,000 of the start-up capital. He expects to raise more capital for the business.

Other investors who sit on GoodWorks board include present and former managers from Aetna and Hartford Life, and Schupp.

Schupp's civic and charitable activism inspired Grochmal's idea to make GoodWorks a force for the public good.

Schupp, who lives in Granby, said test marketing of the GoodWorks idea did well, and he predicts publicity from making donations will help draw new customers. He invested with Grochmal's track record in mind.

Grochmal was an insurance stock analyst at Conning & Co. in Hartford in the 1980s but left with others from Conning to start Northington Partners in Avon, where he did some equity research but focused on insurance industry deal-making.

Later, Grochmal served as chief financial officer for about 18 months at The Covenant Group, which acquired independent insurance agencies, giving him some insight into the business.

He anticipates GoodWorks will open one more location this year in Connecticut and one in Massachusetts. The company now has seven full-time employees and two summer interns. GoodWorks could open eight more offices in 2007, and eastern New York, from Glens Falls down to Brewster, is in the company's sights, Grochmal said.

From March, when it opened Great Barrington, to the end of June, the company sold 36 policies. GoodWorks is advertising and networking to drum up sales and hopes to enlist bankers and real estate agents in handing out its brochures.

Last month, GoodWorks entered a joint venture with the Connecticut subsidiary of broker Hilb Rogal & Hobbs Co. to handle larger or more specialized commercial customers.

The challenge for any start-up agency is to get insurers' authorization to represent them and get qualified staff, said Brian H. Burke, founder and president of B.H. Burke & Co. Inc. in Westbrook, which helps buy, sell and manage agencies.

Burke says Grochmal's long-term projection of an average 15 percent pre-tax profit margin is in line with what a well-run agency can do. And giving away half your profits is doable too, he says.

"This is not just a pipe dream," Burke said. "I'm sure Joe will do well."

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