

Oregon Mutual

President's Mid-year Report 2018

A Message from President & CEO
Steve Patterson



“We stand willing to listen, learn, and do our part.”

Dear Independent Agent Partners, Colleagues and Friends:

We are now past the mid-year point and I wanted to inform you on the progress of our year and share some items I think will affirm and hopefully inspire your work with us.

2018 has been a good year for Oregon Mutual so far and we thank your agencies for the partnership it requires to make this happen. Through July we are showing positive net income, increased surplus (our policyholder protection fund), and a combined ratio at 99.3%. These results have come in spite of a significant hail event in Idaho Falls, Idaho in April. Once again, the policyholders who had covered damage as a result of that event have received excellent, personal, and timely service from our top-rated claims professionals.



Our highlights include year-to-date net income of \$3.0 million with an increase in surplus of 3% or \$2.1 million above year end 2017 and up \$5.8 million since the end of July last year (8.5%). The change in surplus is lower than net income because of our system transformation expenditures. Our Homeowners project development is on schedule to deliver to select test agents in December and to all agents by the end of January of 2019. Personal Auto and Businessowners policy administration system work has started and we are evaluating schedules with one, if not both, to be deployed in 2019. This requires ability from us and our third-party vendor/partner. We have shown the ability to meet this challenge and we are evaluating their ability as they were acquired this past spring and



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have experienced some growing pains. We recently had a group of 13 agents and account managers come give the new homeowners system a spin. The reviews were really encouraging and they gave us great constructive feedback on a few features that will make what is already an extremely good system move to great. Among the comments,

“Clean, modern, easy to use”

“much quicker and easier to navigate”

“SMOOTH”

“It’s simple and easy to use”

“it is definitely a big improvement! Thank you!”

Year-to-date production is up 7.7% or \$6.3 million over 2017. These are all very positive trends and ones we are determined, with your help, to continue.

The wildfire season is upon us and once again we have, to date, reaped the benefit of conservative underwriting in regards to the brushfire risk that is a part of life in our exceptionally beautiful but densely wooded part of the country. While we have had several small claims (fewer than 10 total) some for additional living expense

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and a few for business interruption, we are thankful and fortunate that we have had no structural losses, due to wildfire as of this writing.

Overall, we are 15.5 percentage points improved over last July with our combined ratio despite our system expenses and hail storm losses. While we still want to grow to support our systems improvements without any deterioration in our loss ratios, we can't say enough about the work so many of you have done to support and sustain our improvement through working with our underwriters to add risks that match our appetite.

In meetings I have had with many of you, I am often encouraged to make sure the company does a better job of telling our story and being more visible. We intend to.

In the spring we started a professional rebranding exercise and with the expertise of an area company, we are in the process of preparing for exciting changes to our look and our messages. It is a big job to identify all the places where a company logo exists, but we are looking forward to rolling all of this out in January of 2019 when we will deliver our Homeowners system and start a year-long celebration of our 125th year as an independent mutual insurance company. We certainly will want to involve you in our celebrations as we have been sold exclusively by independent agents throughout that time.

No business would last 125 days, let alone 125 years, if it mistreated its partners/customers. Suffice it to say, the men and women of Oregon Mutual, on behalf of all of our members, intend to successfully grow and perpetuate this company as a strong and independent insurer. I recently re-read a 2007 article from the Insurance Journal titled, "Why a regional carrier might be an agent's best friend." To paraphrase relevant parts of the article:

"The way carriers handle claims is perhaps the most predictive indicator of policyholder satisfaction. Regional companies have the deserved reputation of providing fast and fair claims handling." (We expect claims to be processed and paid in a matter of days, not weeks. Our clients appreciate that.)



"There's a lot to like about regionals: understand the local issues; responsive to market conditions; localized underwriting; accurate pricing; "native" products; relationship driven; commitment to markets; dedicated to regional success; often outperform industry; excellent claims handling; local management runs the business — all reasons why a regional carrier might be an agent's best friend." This seems even more relevant with news that two of our personal lines competitors in the region have become one with the SAFECO purchase of QBE's personal lines book. This less than a decade after Liberty purchased SAFECO. While we have not financially out-performed the industry as a company in several recent years we can take pride in our ability and willingness to provide localized and personal underwriters and excellent claims handling by local area staff and not anonymous call centers. We are truly a relationship driven company committed to our core line markets with products geared for the people in our four states. Why do we spend time and resources on the OMI claim experience when many competitors

see it as merely an expense... because it is good business for both us and for you. JD Power insurance claim satisfaction surveys show that highly satisfied claim customers are up to eight times more likely to renew their policy (and six times less likely to shop) than a displeased policyholder. The surveys also show a highly satisfied claim customer is up to four times more likely to recommend their insurer and their agent to others. Investments in providing consistently excellent claim service is worth it in increased retention and new customers for our agency partners and ourselves. In claims and other lines of business we are out-performing competitors. Commercial lines is performing very well, with commercial auto and commercial property leading the way. Since that article was written in 2007, the ability to reflect accurate pricing in traditional ways has been upended by the information revolution with more personalized characteristic based pricing and algorithm driven models. Accurate pricing in states with legal restrictions and regulatory controls on rates and rating factors make finding competitive and accurate rates an important, but more difficult task for all insurers.

Fall is a busy time of year in our industry. It might be important for you to know that our reinsurance partners audit our underwriting and claims files and have given us “best in class” comments. In addition, all of these “A” rated reinsurers have and continue to support Oregon Mutual with their own capital and favorable pricing. Their job is to bet on winners and they believe in what we are doing. We want you to believe in what we are doing as well.

Agency management is a part of our desire to find partners and enhance our franchise value for them. To this end we have started earlier and more frequent agency reviews designed to help us provide you with information on our business together. We will work with you to plan our profitable growth with your agency or group. We can and should have reciprocal expectations of each other and the commitment to keep them. We stand willing to listen, learn and do our part.

Sincere and Best Regards,

Steve Patterson

INTEGRITY
RESPECT
INDEPENDENCE
INNOVATION
CITIZENSHIP

