



**Wayne Cooperative**  
Insurance Company CLYDE, NEW YORK

# President's Annual Report 2014



## Financial highlights

At and for the year ended December 31,

	2010	2011	2012	2013	2014
Direct Written Premium	12,355,944	12,420,814	12,791,681	13,755,239	14,769,668
Net Earned Premium	11,017,385	11,137,712	11,258,237	11,620,446	12,756,345
Direct Losses Incurred	7,012,890	7,193,521	7,880,252	7,384,139	7,051,248
Net Losses Incurred	6,161,951	7,186,287	6,871,203	7,172,601	6,475,202
Net Loss Adjusting Services	107,840	399,391	241,147	427,614	288,164
Net Underwriting Gain	896,150	(582,785)	(332,538)	(788,834)	946,880
Total Other Income	199,849	201,024	197,532	243,188	258,975
Net Investment Gain/(Loss)	774,965	796,391	784,784	750,649	718,520
Realized Cap Gain/(Loss)	178,333	318,347	79,603	62,569	8,852
Net Income	1,415,595	653,789	729,381	267,572	1,933,227
Total Invested Assets	20,963,641	21,395,202	22,497,327	23,293,609	24,813,237
Total Admitted Assets	23,267,226	23,859,839	25,130,414	26,541,069	28,065,331
Policyholder Surplus	10,439,193	10,837,654	11,702,272	12,212,296	13,628,631
Policyholder Surplus Change	1,646,647	398,461	864,618	510,024	1,416,335
<b>Return Analysis</b>					
Net Yield on Invested Assets	3.87	3.81	3.60	3.31	3.05
Return on Average Equity	14.85	6.38	3.95	1.80	10.30
Return on Average Assets	6.43	2.81	1.80	0.87	4.83
Pre-tax Operating ROAE (%)	19.63	4.05	5.90	1.67	15.27
<b>Ratio Analysis</b>					
Net Loss Ratio	55.93	64.52	61.03	61.72	50.76
Net LAE Ratio	5.60	8.40	7.06	8.60	6.83
Net Loss & LAE Ratio	61.53	72.92	68.09	70.32	57.60
Net Commission Ratio	16.94	17.45	18.54	19.55	19.23
Salaries & Benefits	6.92	7.88	8.61	8.46	7.55
Taxes, Licenses & Fees	1.68	1.20	1.16	1.06	1.21
Admin & Other Expense Ratio	4.54	5.64	6.10	5.92	5.58
Expense Ratio	30.08	32.18	34.40	34.98	33.57
Combined Ratio	91.61	105.11	102.50	105.30	91.16
Operating Ratio	84.57	97.96	95.53	98.84	85.53
Net Leverage Ratio (NWP/Avg PHS)	116.57	109.10	103.64	98.49	105.46

## To Wayne Policyholders:

I am pleased to report that Wayne Cooperative increased Policyholder Surplus for five (5) straight years. We have added \$1,416,335 (+11.60%) to policyholder surplus in 2014 and \$3,189,438 (+30.55%) over the last four years bringing our total Policyholder Surplus to \$13,628,631. Policyholder Surplus provides the financial stability that an insurance company needs to provide coverage at a stable rate over time.

Our Policyholder Surplus came from the following sources:

<b>Change in Policyholder Surplus</b>		
<b>Income Statement</b>	<b>2013</b>	<b>2014</b>
Underwriting Gain/(Loss)	(788,834)	946,880
Net Investment Income	750,649	718,520
Realized Gains/(Losses)	62,569	8,852
Other Income	243,188	258,975
Net Income Pre-Tax	267,572	1,933,227
Federal Corporate Income Tax	(45,648)	(635,512)
Net Income Post-Tax	<u>221,924</u>	<u>1,297,715</u>
<b>Surplus Line Items</b>		
Unrealized Gains/(Losses)	146,145	80,868
Chg in Net Deferred Tax	45,700	10,200
Chg in Non-admitted Assets	96,255	27,555
Other	0	(3)
Total Change	<u>510,024</u>	<u>1,416,335</u>

Our Net Underwriting Income continued to show volatility with an underwriting loss of \$788,834 in 2013 followed by an underwriting gain of \$946,880 in 2014 representing a swing of \$1,735,714 between the two years.

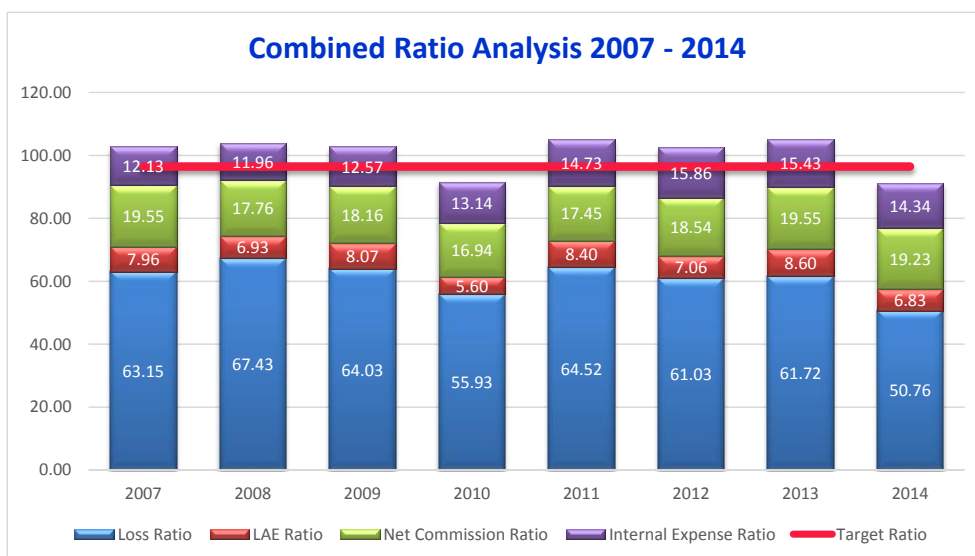
The table below summarizes some factors which explain the wide range of values between years.

<b>Description</b>	<b>+/-</b>	<b>Amount</b>
<i>Direct Written Premium Growth</i>	+	\$ 1,014,429
<i>Direct Losses Incurred (Reduction)</i>	+	332,891
<i>Unearned Premium Reserve Growth (drag on earnings)</i>	-	(536,741)
<i>Reinsurance Ceding Rate Reduction (11.9 to 10.00)</i>	+	280,624
<i>Reinsurance Loss Recoveries Increase</i>	+	364,508
<i>Net Loss Adjusting Expense Reduction</i>	+	139,450

I am especially pleased to report that the Net Underwriting Gain of \$946,880 was augmented by \$986,347 which resulted in a pre-tax Net Income of \$1,933,227 (one of the highest net incomes on record). The table below provides the detail of the other revenue sources:

Other Revenue Sources	2013	2014
Finance Charges & Other Income	243,188	258,975
Net Investment Income	750,649	718,520
Realized Capital Gains/(Losses)	62,569	8,852
<b>Total Other Revenue</b>	<b>1,056,406</b>	<b>986,347</b>
<b>Pre-Tax Net Income</b>	<b>267,572</b>	<b>1,933,227</b>

Management targets a Combined Ratio of 96.5%. The table to the right provides an eight year history of the Combined Ratio and its component ratios. The most recent year shows significantly lower ratios in all components (e.g. Loss, Loss Adjusting Expense, Net Commission and Internal Expense Ratios).



Our top-line Direct Written Premium grew by 7.37% (+1,014,429) in 2014 from \$13,755,239 to \$14,769,668. The Home/Mobile Homeowner premium increased by 12.31% (+572,967) as a result of modest rate increases as well as inflation impacting the exposure limits insured providing additional premium. All other lines showed modest premium growth rates ranging from 2.06% to 9.47%. New submissions increased by 16.55% over the previous year with 4,908 policies received in 2014. We did experience some minor slippage (0.84%) in our policy retention ratio from 87.42% to 86.58%. The tables below reflect our policy count growth and retention ratio:

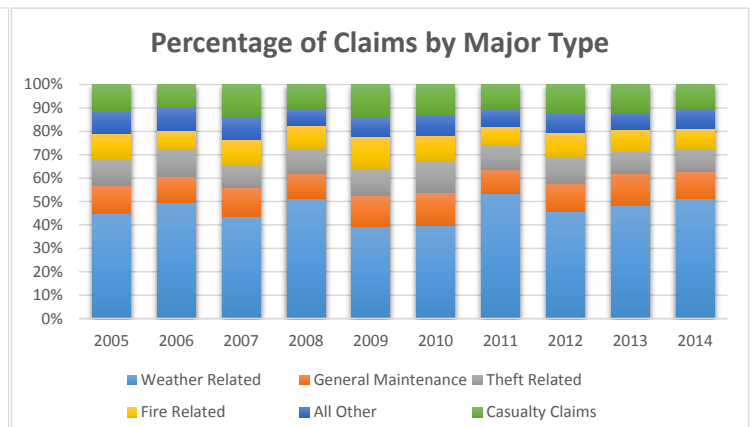
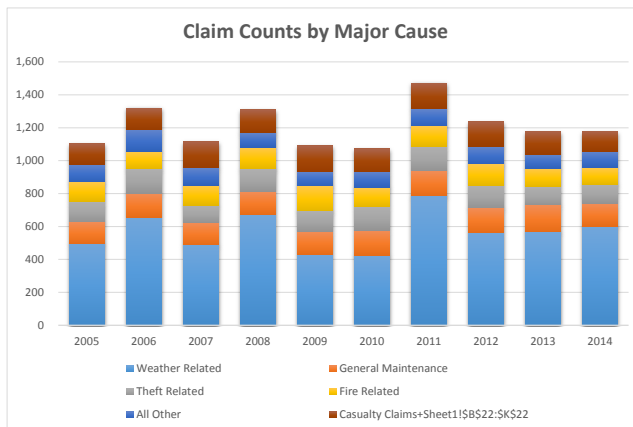
2014 Calendar Year Policy Count Growth & Retention									
Line of Business	Starting	New	Cancelled		Ending	Rates			
			New	Renewal		New Growth	New Cancel	Renewal Cancel	Retention Rate
Dwelling/Farm Fire	4,417	1,265	(283)	(821)	4,576	28.64	(22.37)	(18.59)	81.41
Farmowner	1,638	138	(7)	(121)	1,648	8.42	(5.07)	(7.39)	92.61
Homeowner	9,847	1,635	(200)	(1,111)	10,171	16.60	(12.23)	(11.28)	88.72
Mobile Homeowner	1,959	205	(42)	(285)	1,836	10.46	(20.49)	(14.55)	85.45
Commercial Multi-Peril	615	134	(22)	(96)	632	21.79	(16.42)	(15.61)	84.39
Landlords Package	7,009	1,531	(295)	(985)	7,257	21.84	(19.27)	(14.05)	85.95
<b>Total</b>	<b>25,485</b>	<b>4,908</b>	<b>(849)</b>	<b>(3,419)</b>	<b>26,120</b>	<b>19.26</b>	<b>(17.30)</b>	<b>(13.42)</b>	<b>86.58</b>

2013 Calendar Year Policy Count Growth & Retention									
Line of Business	Starting	New	Cancelled		Ending	Rates			
			New	Renewal		New Growth	New Cancel	Renewal Cancel	Retention Rate
Dwelling/Farm Fire	4,275	1,056	(234)	(689)	4,417	24.70	(22.16)	(16.12)	83.88
Farmowner	1,652	141	(9)	(146)	1,638	8.54	(6.38)	(8.84)	91.16
Homeowner	9,631	1,390	(178)	(1,005)	9,847	14.43	(12.81)	(10.44)	89.56
Mobile Homeowner	2,056	206	(24)	(283)	1,959	10.02	(11.65)	(13.76)	86.24
Commercial Multi-Peril	584	160	(36)	(94)	615	27.40	(22.50)	(16.10)	83.90
Landlords Package	6,812	1,258	(228)	(929)	7,009	18.47	(18.12)	(13.64)	86.36
<b>Total</b>	25,010	4,211	(709)	(3,146)	25,485	16.84	(16.84)	(12.58)	87.42

We have appointed eleven (11) agency representatives 10 are new to Wayne and 1 existing agency purchased a new location. Many of the new agents are located in the North Country area of the state. We now have 172 agency locations representing Wayne Cooperative throughout Upstate NY.

The Claims Department responded to 1,179 policyholder reported claims in 2014 which is almost exactly the claim count reported in 2013 (1,178). Weather-related claims continue to be the vast majority of claim submissions by count with 603 (51.1%) followed by Maintenance-related & All Other Property Claims at 236 (20.0%); Casualty Claims at 122 (10.3%), Theft-related at 117 (9.9%); and Fire-related at 101 (8.6%).

The tables below reflects a ten-year history of claim activity:

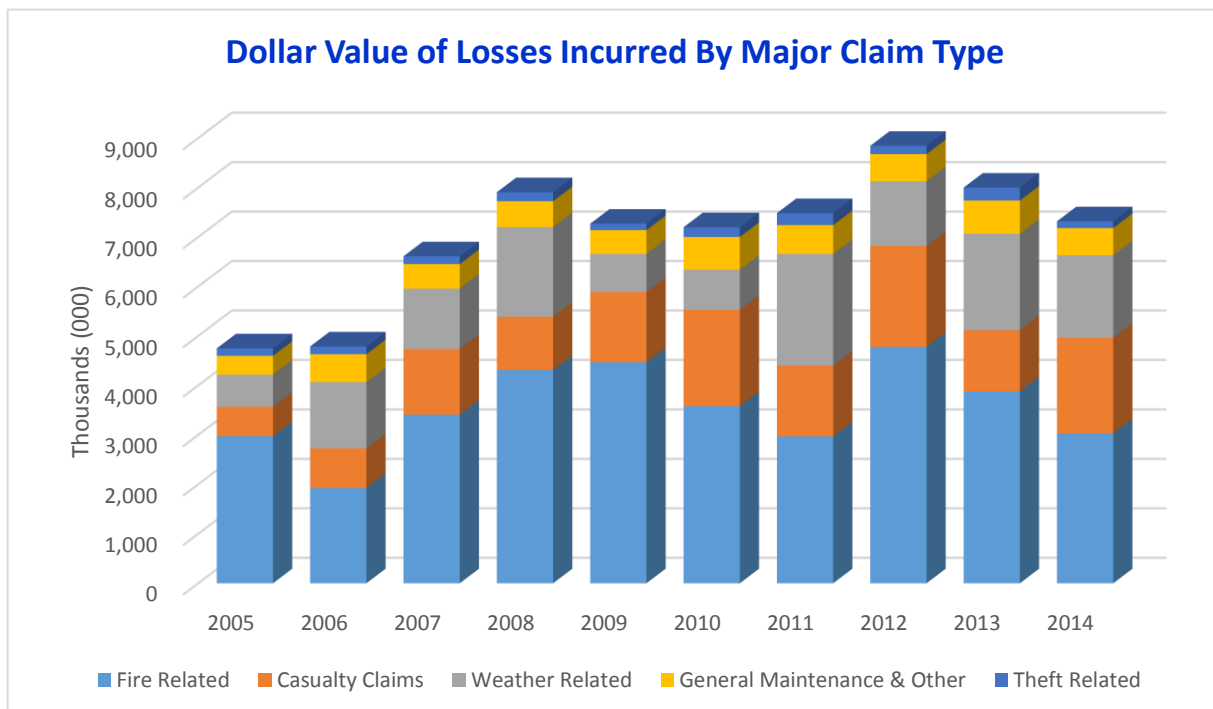


As the Direct/Ceded/Net Incurred Loss Table indicates direct losses incurred showed a reduction of \$332,891 (-4.51%) over the previous period. Our reinsurance program provided a bit more support as we were able to recover \$364,508 more in reinsurance than the previous year. Our recovery rate was 8.17% of direct losses and 39.01% of premium that was ceded to our reinsurer.

Losses Incurred	Accounting Year					
	2010	2011	2012	2013	2014	Average
<b>Direct Loss Incurred</b>	7,012,890	7,193,521	7,880,252	7,384,139	7,051,248	7,304,410
<b>Ceded Loss Recovery</b>	850,939	7,234	1,009,049	211,538	576,046	530,961
<b>Net Loss Incurred</b>	6,161,951	7,186,287	6,871,203	7,172,601	6,475,202	6,773,449
<b>Net Loss Retention Rate</b>	87.87%	99.90%	87.20%	97.14%	91.83%	92.73%
<b>Ceded Premium</b>	1,243,758	1,239,161	1,385,067	1,641,527	1,476,582	1,397,219
<b>Reinsurance Recovery Rate</b>						
- Ceded Loss to Direct Loss	12.13%	0.10%	12.80%	2.86%	8.17%	7.27%
- Ceded Loss to Ceded Premium	68.42%	0.58%	72.85%	12.89%	39.01%	38.00%

Although Weather-related claims are the most frequent, Fire-related and Casualty claims have the most impact. Fire-related claims incurred in 2014 accounted for \$3,031,562 (41.4%) of the \$7,317,544 in total case direct losses incurred. The top five (5) losses consisted of two (2) Casualty losses and three (3) Fire losses totaling \$1,255,007 in the aggregate with the largest recorded at \$500,000.

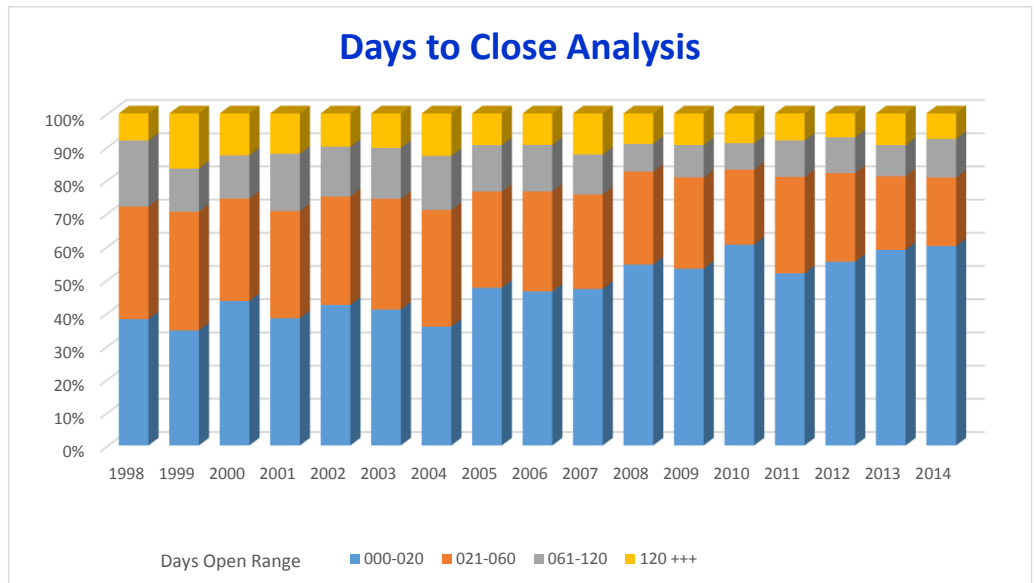
The table below reflects Direct Incurred Losses by claim type.



We continue to track weather events affecting our bottom line. There seems to be a higher incidence of weather-related events in the most current years creating an impact in our service territory. Our writing territory is principally the Finger Lakes region in Upstate NY and the North Country. The table to the left reflects the 2013 tracked storm events:

Weather Events 2014			
Event	Dates	Claims Reported	Incurred Losses
Severe Convective Storm	05/13 - 05/17	31	61,478
Severe Wind/Rain Storm	07-08 - 07/10	47	162,667
Severe Winter Storm (WNY)	11/20 - 11/27	14	91,951
<b>Total</b>		<b>92</b>	<b>316,096</b>

Our Claims Department settled or processed 86.3% of all claims submitted and used outside independent adjusters for 13.7%. We continue to find that our staff can provide superior and prompt service (24x7x365) to policyholders in need at the time of a claim whenever it occurs. As evidenced by the chart below, we have been able to settle claims fairly and quickly with over 60.0% closed within 21 days of report.



	2013	2014
<b>DIRECT PREMIUMS EARNED</b>	100.00	100.00
<b>EXPENSES</b>		
Reinsurance Costs	12.38	10.37
<b>Loss &amp; Loss Adjusting Expenses</b>		
Net Losses	54.08	45.49
Net Loss Adjusting Expenses		
- Net Outside Adjustment Costs	3.22	2.02
- In-House Adjustment Costs	4.31	4.10
<b>Total Loss Adjustment</b>	7.53	6.13
<b>Total Loss &amp; Loss Adjustment</b>	61.61	51.62
<b>Underwriting Expenses</b>		
Net Agency Commissions	17.85	17.96
Salary, Payroll Tax & Benefits	7.72	7.05
Operations	5.41	5.21
Taxes, Licenses & Fees	0.97	1.13
<b>Total Underwriting Expenses</b>	31.95	31.35
<b>Net Underwriting Gain/(Loss)</b>	105.94	93.34

As Wayne is and always has been a mutual insurance company, management and the Board of Directors are ever mindful of providing policy coverage but more importantly superior claims service at a reasonable price. We know that every dollar our policyholder earns is precious.

The table to the left reflects the major use of premium dollars:

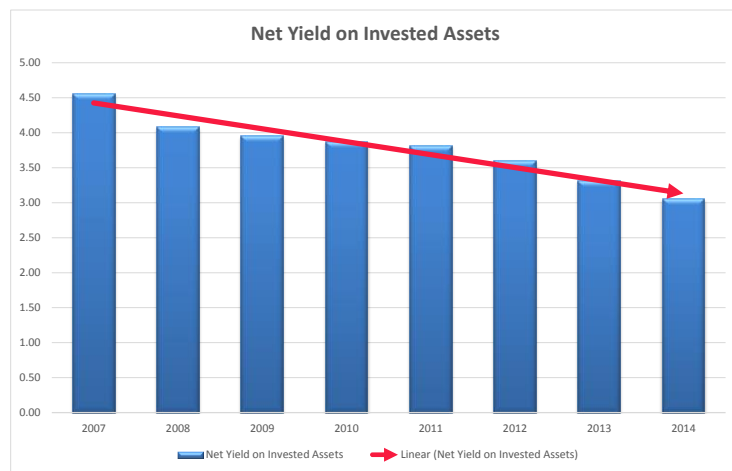
For every \$100 premium dollars earned in 2014, we incurred \$10.37 for Reinsurance Costs; \$45.49 in Losses; \$6.13 in Loss Adjusting Expenses; \$17.96 in Net Agency Commissions and \$13.39 in Underwriting Operating Expenses. This resulted in an underwriting gain as outlined in the table on the left.



Invested assets (at book value) increased by \$1,524,262 (+6.52%) in 2014. Over the last five (5) years, we have increased our invested assets (book value) by \$3,849,596 (+18.4%) from \$20,963,641 to \$24,813,237. The majority of the investment portfolio (84.0%) continues to be held in fixed income securities. This allocation has been consistent over the last few years (high of 84.0% and a low of 79.7%). Though the Book Value of the bond portfolio totaled \$20,843,596, the fair market value totaled \$21,378,092 resulting in an unrealized gain of \$534,496. This unrealized gain is an off-balance sheet gain and not recognized in our policyholder surplus.

Throughout 2014, we balanced capital gains with capital losses within the portfolio and reinvested funds. The net yield on our invested assets continues to go lower as larger coupon bonds mature or are called and replaced with lower returning securities as exhibited by Net Yield on Invested Assets:

It is still uncertain as to when rate levels will turn upward. Like all financial institutions and pension plans, it has been an extremely challenging time period.



Everyone at Wayne continues to strive to better our operations and that is no different in 2015. We are looking at accomplishing even more in the coming year.

Some of the projects in the works include the following:

- Advancement in our Secure Agency/Policyholder Web Portal(s) to provide more information to our agency representatives and our policyholders.
- Implementation of a secure Document Management System to increase efficiencies
- Review Cloud-based Software Solutions for quicker, more effective claims settlements
- Streamline Policy Issuance
- Development of a Better Billing Model Including Additional Payment Methods

In closing, I want to thank all those that have contributed to our successes this year. In addition, I am personally grateful to the perspectives that our Board brings to the table, our agency representatives who provide a local face for the Wayne Cooperative policyholder, our employees' dedication and effort, and our business partners. It takes a team effort to truly succeed in today's marketplace.

Respectfully Submitted,

Jeffrey W. Rice,  
President/CEO