



Wayne Cooperative
Insurance Company CLYDE, NEW YORK

Annual Report

2016

Mission Statement

Provide peace of mind before during and after a loss occurrence. Be there when disaster strikes and provide prompt and fair claims settlements through our 24/7 personalized claims service. Help prevent losses by assisting with loss control. Keep expenses low to keep premiums competitive and protect capital and surplus with conservative investment strategies. Partner with likeminded agents located within New York State for value added service. Remain a responsible member of the communities where we do business.

(ed. 2014_0722.01)

** Reviewed and edited Board Meeting 08/21/2014

Mission Statement & Guiding Principle(s)

Provide peace of mind before, during and after a loss occurrence

- Provide prompt and fair settlements when disaster occurs
- Control expenses to keep premiums competitive
- Partner with agents where we conduct business
- Be a responsible member of the communities where we do business
- Prevent losses with loss control recommendations and education
- Protect capital & policyholder surplus through conservative investment strategies

(ed. 2014_0722.02)

Financial highlights

At and for the year ended December 31,

	2012	2013	2014	2015	2016
Direct Written Premium	12,791,681	13,755,239	14,769,668	15,468,148	16,375,413
Net Earned Premium	11,258,237	11,620,446	12,756,345	13,631,901	14,172,040
Direct Losses Incurred	7,880,252	7,384,139	7,051,248	8,865,741	8,355,716
Net Losses Incurred	6,871,203	7,172,601	6,475,202	7,382,383	7,643,593
Net Loss Adjusting Services	241,147	427,614	288,164	384,184	450,166
Net Underwriting Gain	(332,538)	(788,834)	946,880	725,065	602,581
Total Other Income	197,532	243,188	258,975	240,309	290,452
Net Investment Gain/(Loss)	784,784	750,649	718,520	730,461	780,678
Realized Cap Gain/(Loss)	79,603	62,569	8,852	19,713	46,677
Net Income	729,381	267,572	1,933,227	1,715,548	1,720,388
Total Invested Assets	22,497,327	23,293,609	24,813,237	25,255,148	27,794,544
Total Admitted Assets	25,130,414	26,541,069	28,065,331	28,828,535	31,625,766
Policyholder Surplus	11,702,272	12,212,296	13,628,631	14,777,344	16,008,981
Policyholder Surplus Change	864,618	510,024	1,416,335	1,148,713	1,231,637
Return Analysis					
Net Yield on Invested Assets	3.60	3.31	3.05	3.02	2.97
Return on Average Equity	3.95	1.80	10.30	9.13	7.32
Return on Average Assets	1.80	0.87	4.83	4.48	3.79
Pre-tax Operating ROAE (%)	5.90	1.67	15.27	12.55	10.82
Ratio Analysis					
Net Loss Ratio	61.03	61.72	50.76	54.16	53.93
Net LAE Ratio	7.06	8.60	6.83	7.81	8.24
Net Loss & LAE Ratio	68.10	70.32	57.60	61.97	62.17
Net Commission Ratio	18.54	19.55	19.23	18.70	19.30
Salaries & Benefits	8.61	8.46	7.55	7.19	7.37
Taxes, Licenses & Fees	1.16	1.06	1.21	0.62	0.71
Admin & Other Expense Ratio	6.10	5.92	5.58	5.46	5.14
Expense Ratio	34.40	34.98	33.57	31.97	32.52
Combined Ratio	102.50	105.30	91.16	93.94	94.69
Operating Ratio	95.53	98.84	85.53	88.58	89.18
Net Leverage Ratio (NWP/Avg PHS)	103.64	98.49	105.46	103.26	94.56

To the Wayne Cooperative Policyholders:

I am pleased to report that Wayne Cooperative increased Policyholder Surplus for five (5) straight years. We have added \$1,231,637 (+8.43%) to policyholder surplus in 2016 and \$4,306,709 (+36.80%) over the last four years bringing our total Policyholder Surplus to \$16,008,981. 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:

Change in Policyholder Surplus		
Income Statement	2015	2016
Underwriting Gain/(Loss)	725,065	602,581
Net Investment Income	730,461	780,678
Realized Gains/(Losses)	19,713	46,677
Other Income	240,309	290,452
Net Income Pre-Tax	1,715,548	1,720,388
Federal Corporate Income Tax	(482,590)	(588,097)
Net Income Post-Tax	<u>1,232,958</u>	<u>1,132,291</u>
Surplus Line Items		
Unrealized Gains/(Losses)	(94,060)	74,818
Chg in Net Deferred Tax	(6,100)	29,000
Chg in Non-admitted Assets	15,915	(4,473)
Other	0	1
Total Change	<u>1,148,713</u>	<u>1,231,637</u>

Our Net Underwriting Income continued to show positive results with gains of \$725,065 and \$602,581 in years 2015 and 2016 respectively.

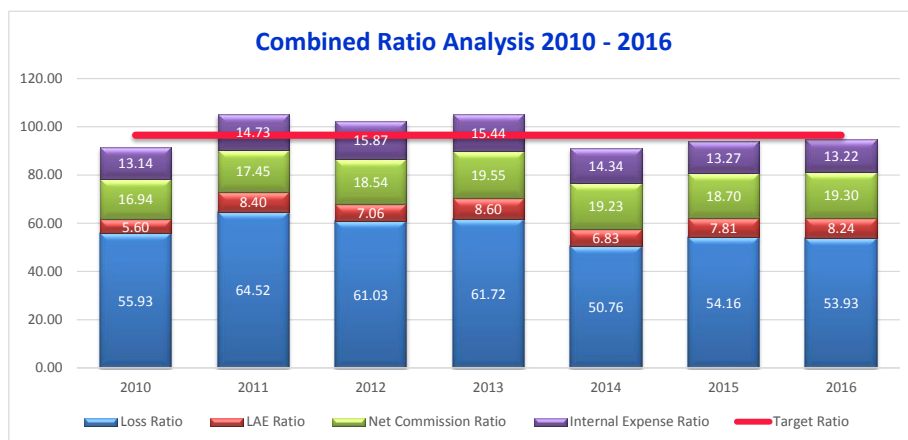
The table below summarizes some factors which explain the Gain/(Loss) in Policyholder Surplus

Description	+/-	Amount
<i>Direct Written Premium Growth</i>	+	\$ 907,265
<i>Direct Losses Incurred Decrease</i>	+	510,025
<i>Reinsurance Loss Recoveries Decrease</i>	-	(771,235)
<i>Unearned Premium Reserve Growth (drag on earnings)</i>	-	(460,563)
<i>Reinsurance Ceding Premium Increase (Rate 9.30 to 10.63)</i>	-	(302,037)
<i>Net Loss Adjusting Expense Increase</i>	-	(102,901)

I am especially pleased to report that the Net Underwriting Gain of \$602,581 was augmented by other revenue sources of \$1,117,807 which resulted in a pre-tax Net Income of \$1,720,388. The table below provides the detail of the other revenue sources:

Other Revenue Sources	2015	2016
Finance Charges & Other Income	240,309	290,452
Net Investment Income	730,461	780,678
Realized Capital Gains/(Losses)	19,713	46,677
Total Other Revenue	990,483	1,117,807

Management targets a Combined Ratio (CR) of 96.5%. The table to the right provides a seven year history of the Combined Ratio and its component ratios. The most recent year's CR is 94.69% slightly above last year's 93.94% and under our target CR.



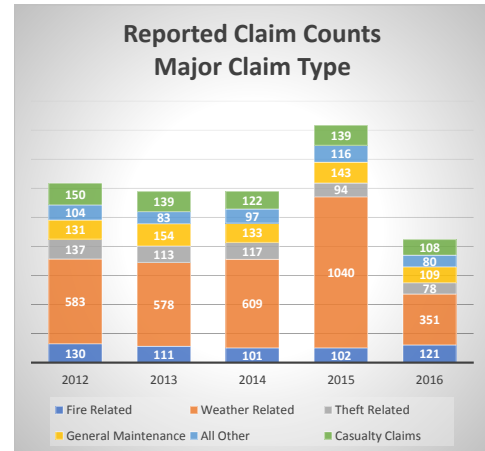
Our top-line Direct Written Premium grew by 5.87% (+907,265) in 2016 from \$15,468,148 to \$16,375,413. The Home/Mobile Homeowner premium increased by 7.60% (+420,984) as a result of policy count increases (exposure units) as well as exposure limit increases from replacement-cost indexed policies. The premiums associated with liability coverage on our Dwelling Fire program increased by \$85,383 (+38.20%) due to policy count growth as well as rate increases. All other lines showed modest premium growth rates ranging from +2.08% to +6.47%. New submissions increased by 4.89% over the previous year with 5,572 applications received in 2016. Our policy retention ratio has stabilized with only a minor slippage from 86.39% to 86.13%.

The table below reflects our policy count growth and retention ratio:

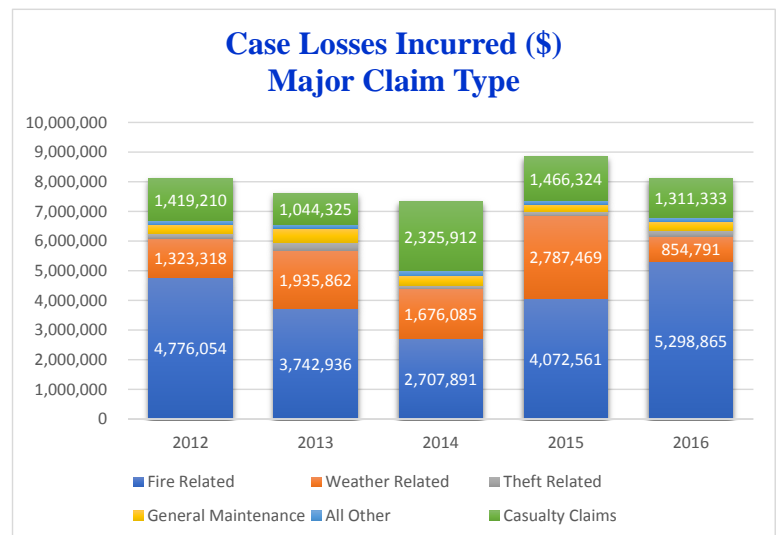
2016 Calendar Year Policy Count Growth & Retention									
Line of Business	Starting	New	Policies Cancelled		Ending	New Growth Rate	Policy Retention Rates		
			New	Renewal			New Cancel	Renewal Cancel	Retention Rate
Dwelling/Farm Fire	4,759	1,413	(337)	(922)	4,913	29.69%	-23.85%	-19.37%	80.63%
Farmowner	1,651	141	(9)	(127)	1,656	8.54%	-6.38%	-7.69%	92.31%
Homeowner	10,594	1,957	(248)	(1,211)	11,092	18.47%	-12.67%	-11.43%	88.57%
Mobile Homeowner	1,776	204	(24)	(190)	1,766	11.49%	-11.76%	-10.70%	89.30%
Commercial Multi-Peril	647	131	(20)	(85)	673	20.25%	-15.27%	-13.14%	86.86%
Landlords Package	7,663	1,726	(283)	(1,222)	7,884	22.52%	-16.40%	-15.95%	84.05%
Total	27,090	5,572	(921)	(3,757)	27,984	20.57%	-16.53%	-13.87%	86.13%

There were fourteen (14) new agencies appointed with eight (8) appointments targeted in Central NY. There are currently 192 agency locations throughout Upstate NY representing Wayne Cooperative. The core four county area around the home office (Wayne, Monroe, Ontario & Cayuga) account for 42.2% of total agency locations. Expansion continues into Central NY, North Country and Western NY areas for geographic diversification. Over the last five (5) years, there have been 44 agency appointments outside of our 4-county core writing territory.

The Claims Department responded to 847 policyholder reported claims in 2016. This represents a decrease of 48.2% (-787) over the previous year. The year 2015 was marked by a brutal extended winter with 662 claims (63.7%) reported between 02/01/2015 and 04/30/2015. As can be seen by the Reported Claim Counts by Type, 2016 is noted as one of the quietest weather years in the last five with reported claims at 55.5% of the five-year average for this type of claim. Reported claims for all types were down except for the Fire-related perils. Fire-related reported claims increased from 102 to 121 in 2016.



Fire-related claims continue to be the most costly. The dollar value of fire-related claims incurred in 2016 totaled \$5,298,865 (65.4%). The highest real dollar level in the last five years and 28.6% over the five year average. Weather-related claims totaled \$854,791 (10.6%) and about 50.2% below the five year average. Casualty losses totaled \$1,311,333 (16.2%) and also reported 13.4% below the five year average. The top six (6) losses were all Fire losses and totaled \$1,902,435 in the aggregate with the largest recorded at \$395,900.



Our Claims Department settled or processed 90.4% of all claims submitted and used outside independent adjusters for 9.6%. 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 our exposure expands over a wider geographic area, we have and continue to foster great working relationships with quality third-party loss adjustment services to provide additional support into other regions as well as during times of weather-related events.

As the Direct/Ceded/Net Incurred Loss Table below indicates, direct losses incurred in 2016 were \$448,297 over the last five year average. Our reinsurance program provided financial support with 8.52% in recoveries of the total direct incurred loss dollars. Wayne recouped 40.86% in loss recoveries from each dollar ceded to the reinsurer(s).

Losses Incurred	Accounting Year					
	2012	2013	2014	2015	2016	Average
Direct Loss Incurred	7,880,252	7,384,139	7,051,248	8,865,741	8,355,716	7,907,419
Ceded Loss Recovery	1,009,049	211,538	576,046	1,483,358	712,123	798,423
Net Loss Incurred	6,871,203	7,172,601	6,475,202	7,382,383	7,643,593	7,108,996
Net Loss Retention Rate	87.20%	97.14%	91.83%	83.27%	91.48%	89.90%
Ceded Premium	1,385,067	1,641,527	1,476,582	1,518,752	1,742,810	1,552,948
Reinsurance Recovery Rate						
- Ceded Loss to Direct Loss	12.80%	2.86%	8.17%	16.73%	8.52%	10.10%
- Ceded Loss to Ceded Premium	72.85%	12.89%	39.01%	97.67%	40.86%	51.41%

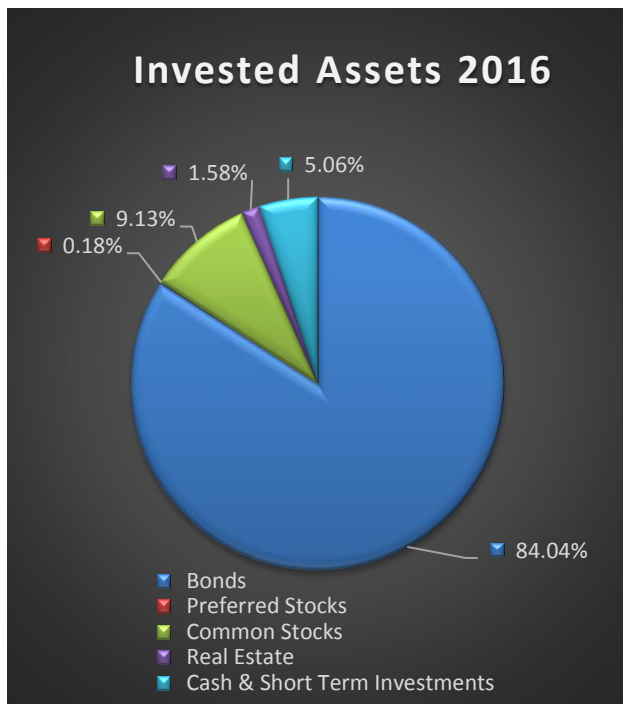
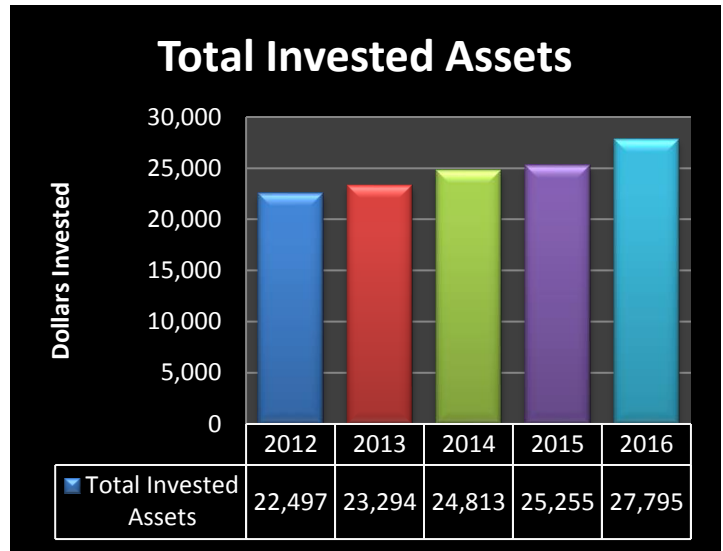
As Wayne is and always has been a mutual insurance company, management and the Board of Directors are ever mindful of providing policy coverage but more importantly superior claims service at a reasonable price. We know that every dollar our policyholder earns is precious.

The table below reflects the use of premium dollars:

	2015	2016
DIRECT PREMIUMS EARNED	100.00	100.00
EXPENSES		
Reinsurance Costs	9.55	10.94
Loss & Loss Adjusting Expenses		
Net Losses	48.99	48.03
Net Loss Adjusting Expenses		
- Net Outside Adjustment Costs	2.55	2.66
- In-House Adjustment Costs	4.52	4.67
Total Loss Adjustment	7.07	7.34
Total Loss & Loss Adjustment	56.06	55.37
Underwriting Expenses		
Net Agency Commissions	17.31	17.75
Salary, Payroll Tax & Benefits	6.66	6.77
Operations	5.05	4.73
Taxes, Licenses & Fees	0.58	0.65
Total Underwriting Expenses	29.59	29.90
Net Underwriting Gain/(Loss)	4.80	3.79

For every \$100 premium dollars earned in 2016, we incurred \$10.94 in Reinsurance Costs; \$48.03 in Net Losses; \$7.34 in Net Loss Adjusting Expenses; \$17.75 in Net Agency Commissions and \$12.15 in Underwriting/Operating Expenses. This resulted in an underwriting gain and a remainder of \$3.79 as outlined in the table above.

Total admitted assets increased by \$2,797,231 (+9.70%) in 2016 to total \$31,625,766. Admitted assets have increased by \$6,495,352 (+25.85%) over the last four years. Invested assets (at book value) increased by \$2,539,231 (+10.05%) in 2016. Over the last four (4) years, we have increased our invested assets (book value) by \$5,297,217 (+23.55%) from \$22,497,327 to \$27,794,544.

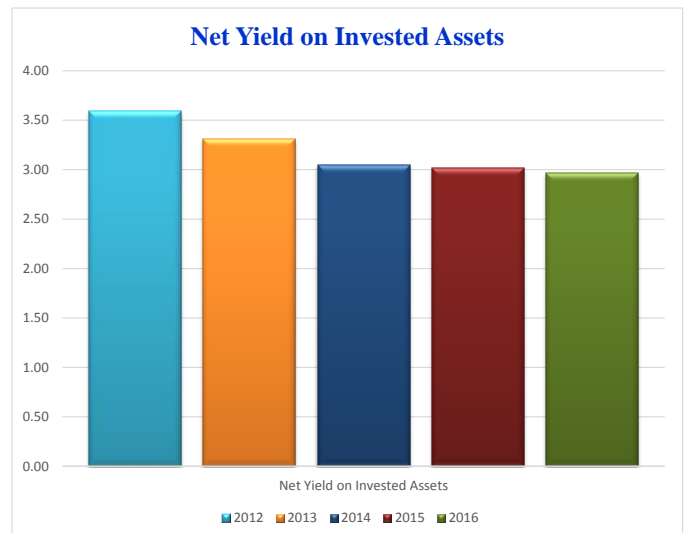


The investment portfolio consists primarily of diversified high grade fixed income securities (84.0%). This allocation has been consistent over the last five years (high of 84.0% and a low of 81.3%). The Book Value of the bond portfolio totaled \$23,359,876 with the fair market value totaling \$22,540,157. The fixed income portfolio showed significant turnover with maturities, calls and swaps generating \$5,366,001 in cash with reinvestment of all of the proceeds plus an additional \$2,450,074 generated from our underwriting operations.

The equity portfolio allocation (Common & Preferred) of invested assets increased from 6.50% to 9.31% as the direct result of a net positive investment of \$735,731 and the remainder from net unrealized gains or losses.

The net yield on our invested assets have flattened out around 3.00% over the last 3 years as larger coupon bonds have either already matured or been called and replaced with lower returning securities as exhibited by Net Yield on Invested Assets graph to the right.

US Treasury interest rate levels rose slightly in 2016. The short term interest rates (2 Yr.) going up 15 bps from 1.09% to 1.24% while longer-term rates (10 Yr.) increasing by 18 bps from 2.31% to 2.49% as of 12/29/2016. Like all financial institutions and pension plans, it has been an extremely challenging time period for investment returns.



In addition to the “numbers” that been reported above, I am pleased to report on the charitable activities of the company and our staff.

We had nine (9) employees volunteer for the **Ronald McDonald House Charities** semi-annual household sale during the “Week of Giving” recognized by The Insurance Industry Charitable Foundation (IICF). The Ronald McDonald House charity provides support to families with children seeking treatment at local hospitals by providing a “home away from home”.

Company employees also supported the **Tour de Cure** a bicycle ride of varying lengths from a few miles to a hundred miles. The Tour De Cure raises funds for those with Diabetes and specifically children in the Finger Lakes. Our Employees, Agency Representatives and their staffs and our business partners provided sponsorship funds for the ride. Through very gracious donations, we were able to raise almost \$11,500 for this most worthy cause.

Everyone at Wayne Cooperative continues to strive to better our operations. Our efforts were recently recognized both on a state level and national level by the Professional Insurance Agents of NY (PIA-NY) and Demotech, Inc respectively.

Professional Insurance Agents Recognition

Each year PIANY, an organization representing independent agents operating in NY, sponsors a survey of their membership and other agents working within NYS. More than 700 agents participated in the survey rating 74 companies. The companies ranged in size from the Travelers to the Wayne Cooperative. The table below show the areas where companies were evaluated, the relative priority as determined by the agents and Wayne Cooperative’s resulting rank.

Fair Claims Adjustment <i>Priority #1</i>	Prompt Claims Payment <i>Priority #2</i>	Resolves Issues Quickly <i>Priority #3</i>	Clear, Honest Communication <i>Priority #4</i>	Underwriter Knowledge, Experience <i>Priority #5</i>
Listens & Responds to Agents <i>Priority #6</i>	Consistent Underwriting <i>Priority #7</i>	Easy Intuitive Technology <i>Priority #8</i>	Stable Markets <i>Priority #9</i>	Flexible When Warranted <i>Priority #10</i>
Competitive Compensation	Dedication to Agency System	Branding	Message Supports Agents	Highly Accurate, Few Errors
Customer Service Oriented	Competitive Pricing	Superior Coverage	Download Works Well	Enables Real-Time

Ranked #1

Ranked #2

Ranked #3

The actual findings were stunning to say the least. Out of the twenty (20) categories, Wayne Cooperative ranked #1 in six; ranked #2 in three and ranked #3 in two. The staff and management of Wayne Cooperative ranked #2 Overall in the state with a score of 168.7 (48) narrowly beating Great American 168.6 (34) and Andover Cos. 168.3 (26). This clearly indicates that in the eyes of our agency force, we are striving to meet our Corporate Mission Statement every day.

Demotech Stakeholder Team Accomplishment Recognition (STAR)

The STAR award is presented by Demotech annually in recognition of the following factors:

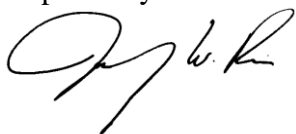
- **Employee & Producer Benefits** - Compensation levels above median for Company Classification
- **Claimants Benefits** – 2015 Accident Year Loss and Loss Adjusting Expense Ratio
- **Regulators & Consumers Benefits** – Strong Balance Sheet & Relative Financial Stability
- **Reinsurer Benefits** – Relative stability between net loss and loss adjusting expense ratios and ceded loss and loss adjusting ratios
- **Relative Profitability** in the top third of the Company Classification
- **March 2016 Quarterly Results** – Consistent reserve setting with results in Q1 2016 indicating that the year-end 2015 results were realistic and reasonable, particularly regarding loss and loss adjusting expenses.

We continue to strive to build on our previous accomplishments which is no different 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 in our claims, underwriting, human resources departments to increase efficiencies in our operations as well as to provide secure off-site access for authorized users.
- Implementation of a secure cloud-based software solution for quicker, more effective claims settlements.
- Implementation of a cloud-based secure document transfer process between the company, agents, policyholders and third-party business partners (e.g. independent adjustors and attorneys).
- Streamline policy issuance through better agency-company interfaces.
- Development of a more efficient billing platform and to provide for more policyholder options.

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 to the policyholder, our employees' dedication and effort, and our business partners. It takes a team effort to truly succeed in today's business world.

Respectfully Submitted,



Jeffrey W. Rice,
President/CEO