

2018

ANNUAL REPORT



Wayne Cooperative
Insurance Company



To Our Policyholders

2018 was by far, to date, Wayne's best year ever. Since I joined the Company in 1985, I have never seen such great overall results and I am very proud to be able to share these results with you.

In September 2018, A.M. Best, a global credit rating agency of insurer financial strength and creditworthiness, upgraded the Financial Strength Rating of the Wayne Cooperative Insurance Company to A- (Excellent) from B++ (Good).

This means that you can rest assured that we are a financially strong company and have adequate resources to be able to pay for submitted claims.

We have been working hard for many years to get the Company back to an A- (Excellent) status and are very excited to have received this upgrade. It's a real testament to our entire staff and the changes and growth that we've made as a company.

In addition, the Professional Insurance Agents, an insurance trade association dedicated to supporting independent agents, performed a Company Performance Index survey between April and June.

The survey rates companies on 20 various performance items and is a great opportunity for the Company to receive feedback from the independent agents that represent us that can help us improve our operations.

The 2018 results came in and Wayne Cooperative was rated **#5** overall in New York State among all national, super regional, and regional rated carriers.

We were rated #1 in two categories, competitive pricing and flexibility, and were rated in the Top 5 in twelve others. We look forward to using the feedback we received to improve even more.

In this year's report, I provide an overview of the past year, including a highlight of our financial results, what we've done to give back to the local community, as well as what we have planned for the next year.

2018 overview

Unlike 2017 that had started very calmly and quietly, the very beginning of 2018 was anything but that. A very cold start to the year caused reported claim counts in January to double year-over-year, due in particular to an increase in losses caused by freezing HVAC, ice backup, and weight of ice or snow.

While the rest of the first quarter remained stable, we were faced with a widespread windstorm catastrophe (CAT) event that occurred on April 4. We received a total of **230** claims related to that windstorm.

87% of these claims were assigned to a Wayne Cooperative adjuster.

Our claims department goal is to have at least 90% of claims handled by a Wayne Cooperative adjuster and we're very happy that, even during an event when there was a large increase in reported claims, we were able to remain very close to that goal.

Not only were we able to handle a high volume of claims, we were able to do so efficiently.

90% of the windstorm claims assigned to a Wayne adjuster were closed within 20 days, and on average, in **9.7** days.

The claims experience for our policyholders is one of

the most important aspects of what we do and we are always committed to providing the best possible service.

Just as in 2017, a windstorm CAT event was experienced in the first half of 2018. And again, when it looked like we could be in for a rough year, we turned it into the best year we've ever had.

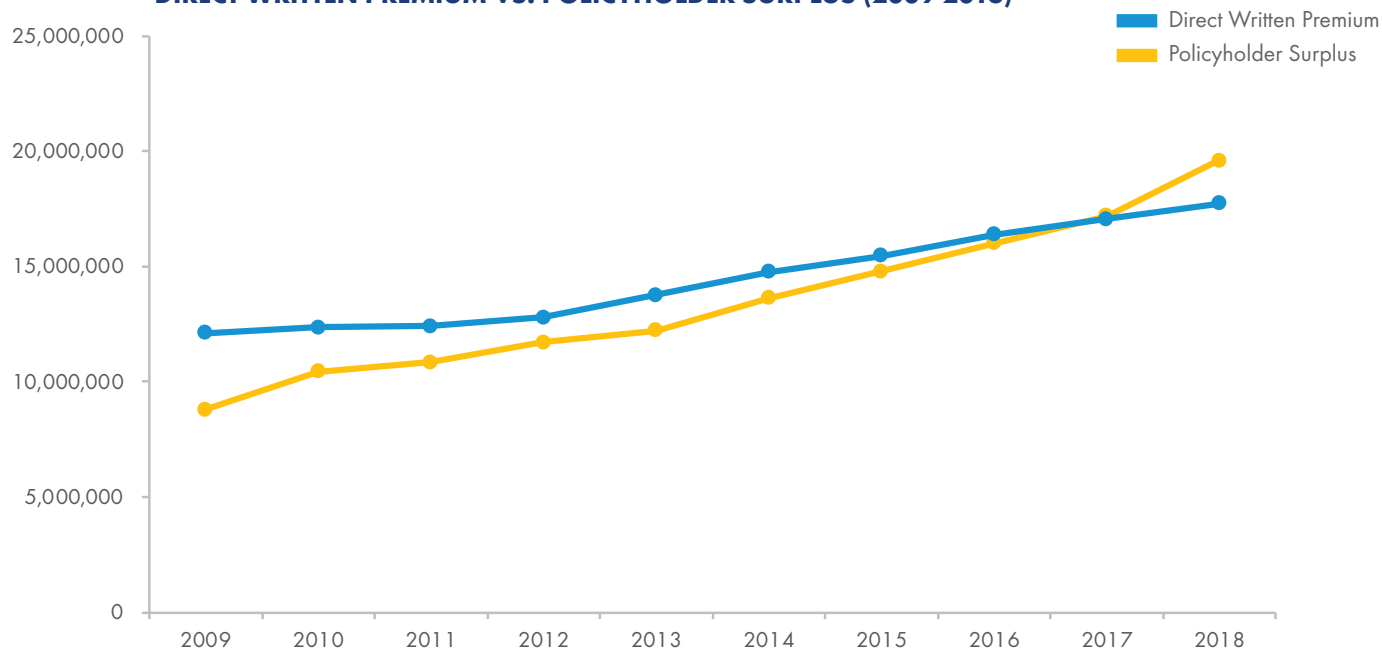
Financial results

In 2018, we saw another year of consistent growth in direct written premium (DWP) which increased \$677,097 (3.98%) to \$17,723,270. In addition, there was significant growth in policyholder surplus which increased \$2,392,163 (13.92%) to \$19,581,855.

Last year we were able to achieve our target goal of a 1:1 ratio for DWP:PHS, ensuring that our premiums do not grow too quickly in comparison to our surplus. This past year, our policyholder surplus well surpassed our premiums, increasing our capacity to write new policies and further ensuring our ability to withstand our probable maximum loss.

While premiums written for the mobile homeowner and commercial lines of business decreased slightly, -1.87% and -1.86% respectively, all other lines of business showed growth rates ranging from 1.64% to 9.84%. As there were no rate changes in effect this past year, all premium increases were a result of natural growth through increased policy limits, endorsements, and policy counts.

DIRECT WRITTEN PREMIUM VS. POLICYHOLDER SURPLUS (2009-2018)



Total policy count in 2018 grew by 1.53%. Although the commercial, farmowner, landlord, and mobile homeowner lines of business saw a very modest decline, the dwelling fire line grew by 1.72% and the homeowner line by 3.71%. Our policy retention rate increased modestly from 86.26% to 87.18%.

Direct losses incurred totaled \$7,869,594, a decrease of \$1,208,899 (-13.32%) from 2017. Nearly \$840,000 of incurred losses and loss adjusting expenses are attributable to the single windstorm event in April 2018. Our reinsurance program provided for \$779,149 in recoveries, 9.90% of total losses incurred. After recoveries, net losses incurred totaled \$7,090,445.

We had a very strong net underwriting gain of \$2,024,184, augmented by investment and other income, that resulted in pre-tax net income of \$3,263,582.

Total admitted assets increased \$2,493,931 (7.15%) to \$37,355,067. Much of this growth can be attributed to the growth in invested assets at book value. Invested assets increased \$2,576,505 (8.35%) to \$33,444,858.

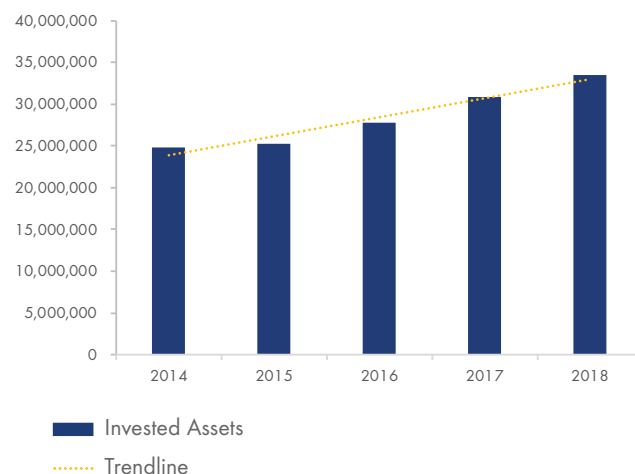
Our investment portfolio consisted primarily of diversified high grade fixed income securities. The book value of the bond portfolio totaled \$27,644,737. It was a \$3,258,969 (13.36%) increase from 2017 and represents 82.66% of the total portfolio.

Cash and short-term investments decreased by \$357,859 (-11.91%) to \$2,648,014, representing 7.92% of the entire investment portfolio.

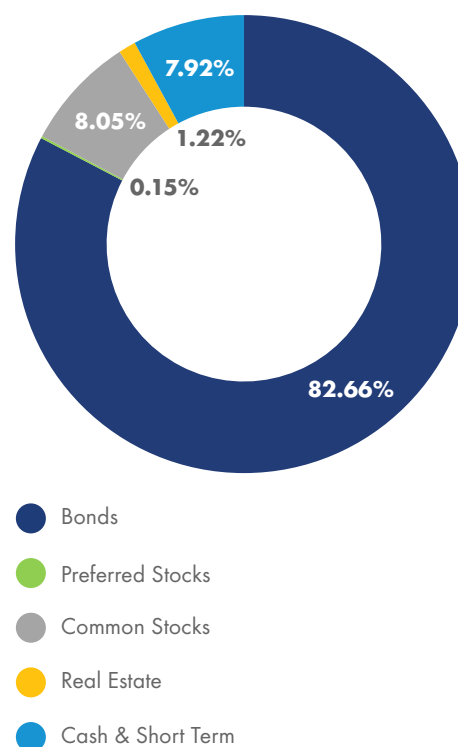
We returned a 3.02% net yield on our invested assets. U.S. Treasury short-term rates (2 Yr.) increased from 1.89% to 2.48% and long-term rates (10 Yr.) increased from 2.40% to 2.69% year-over-year. We've seen our net yield flattening out around 3% over the past several years which is reflective of the challenging investment environment.

The equity portfolio of preferred and common stocks decreased \$308,996 (-10.12%) to \$2,743,510, made up of 1.88% preferred stock and 98.12% common stock. Relative to the entire investment portfolio, the equity portfolio segment decreased slightly from 9.89% to 8.20%.

TOTAL INVESTED ASSETS (2014-2018)



INVESTED ASSETS CONCENTRATION



\$17,723,270

Direct Written Premium

\$19,581,855

Policyholder Surplus

\$2,024,184

Net Underwriting Gain

\$37,355,067

Admitted Assets

\$3,263,582

Pre-Tax Net Income

86.32%

Combined Ratio

Financial highlights

AT AND FOR THE YEAR ENDED DECEMBER 31

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------------------|------------|------------|------------|------------|-------------------|
| Direct Written Premium | 14,769,668 | 15,468,148 | 16,375,413 | 17,045,510 | 17,723,270 |
| Net Earned Premium | 12,756,345 | 13,631,901 | 14,172,040 | 14,884,541 | 15,532,239 |
| Direct Losses Incurred | 7,051,248 | 8,865,741 | 8,355,716 | 9,078,493 | 7,869,594 |
| Net Losses Incurred | 6,475,202 | 7,382,383 | 7,643,593 | 8,029,155 | 7,090,445 |
| Net Loss Adjusting Services | 288,164 | 384,184 | 423,858 | 555,494 | 420,914 |
| Net Underwriting Gain/Loss | 946,880 | 725,065 | 602,581 | 440,707 | 2,024,184 |
| Total Other Income | 258,975 | 240,309 | 290,452 | 341,723 | 255,100 |
| Net Investment Gain/Loss | 718,520 | 730,461 | 780,678 | 835,031 | 959,203 |
| Realized Cap Gain/Loss | 8,852 | 19,713 | 46,677 | 28,846 | 25,095 |
| Net Income | 1,933,227 | 1,715,548 | 1,720,388 | 1,646,307 | 3,263,582 |
| Total Invested Assets | 24,813,237 | 25,255,148 | 27,794,544 | 30,868,353 | 33,444,858 |
| Total Admitted Assets | 28,065,331 | 28,828,535 | 31,625,766 | 34,861,136 | 37,355,067 |
| Policyholder Surplus | 13,628,631 | 14,777,344 | 16,008,981 | 17,189,692 | 19,581,855 |
| Policyholder Surplus Change | 1,416,335 | 1,148,713 | 1,231,637 | 1,180,711 | 2,392,163 |
| Return Analysis | | | | | |
| Net Yield on Invested Assets | 3.05 | 3.02 | 2.97 | 2.89 | 3.02 |
| Return on Average Equity | 10.30 | 9.13 | 7.32 | 6.85 | 13.55 |
| Return on Average Assets | 4.83 | 4.48 | 3.79 | 3.53 | 7.17 |
| Pre-Tax Operating ROAE (%) | 15.27 | 12.55 | 10.82 | 9.61 | 17.18 |
| Ratio Analysis | | | | | |
| Net Loss Ratio | 50.76 | 54.16 | 53.93 | 53.94 | 45.65 |
| Net LAE Ratio | 6.83 | 7.81 | 8.24 | 9.10 | 7.99 |
| Net Loss & LAE Ratio | 57.60 | 61.97 | 62.17 | 63.05 | 53.64 |
| Net Commission Ratio | 19.23 | 18.70 | 19.30 | 19.59 | 19.00 |
| Salaries & Benefits | 7.55 | 7.19 | 7.37 | 7.57 | 7.78 |
| Taxes, Licenses & Fees | 1.21 | 0.62 | 0.71 | 0.85 | 0.81 |
| Admin & Other Expense Ratio | 5.58 | 5.46 | 5.14 | 5.25 | 5.09 |
| Expense Ratio | 33.57 | 31.97 | 32.52 | 33.26 | 32.68 |
| Combined Ratio | 91.16 | 93.94 | 94.69 | 96.30 | 86.32 |
| Operating Ratio | 85.53 | 88.58 | 89.18 | 90.69 | 80.14 |
| Net Leverage Ratio (NWP/Avg PHS) | 105.46 | 103.26 | 94.56 | 90.38 | 84.04 |





PICTURED LEFT TO RIGHT:

Katherine Strawser (Food Bank of the Southern Tier), Jeff Rice (President & CEO), Kristen Rice (Administrative Asst.), Laura Harris (VP Consumer Affairs, Agency Marketing & Underwriter), Bryan Rice (VP IT, CTO & CISO), Marshall Hancock (EVP & VP Claims) and Meghan Parsons (Food Bank of the Southern Tier)

Giving back to the community

TOUR DE KEUKA

In 2018, Wayne continued its biennial fundraising program by participating in the Tour de Keuka, a charity cycling event supporting the Food Bank of the Southern Tier headquartered in Elmira, NY.

We set a company goal to raise at least \$10,000 in donations. With the very generous support of our agency representatives, business associates, friends and family, we were able to raise over \$11,000 in total. As just \$10 could help provide 30 meals, we were able to help provide over 33,000 meals to those in need.

Our cycling team of 13 riders not only included Wayne employees, but several agents from Van Parys Associates and The Northwoods Corporation, business associates from Venture Underwriting and Kenney Shelton Liptak Nowak, LLP, as well as friends and family.

As the highest fundraising team, we were invited to the

Food Bank of the Southern Tier for a site tour and check presentation as shown in the photo above.

It was a great opportunity for us to not only learn more about the Food Bank's operations, but to see how our donations would help make a big local impact.

WEEK OF GIVING

During the Insurance Industry Charitable Foundation's annual Week of Giving, several Wayne employees volunteered time at the Samaritan Center in Syracuse. This organization provides a hot breakfast and afternoon/dinner meals to those in need.

Although we were unable to be there for a dinner service, it was astounding to see how much work was required to prepare for just one meal. It was a very humbling experience for us and we appreciated the opportunity to give back to the community.

Own your insurance

Over the past several years, we have placed a lot of focus on enhancing the Company's image and brand recognition. As your insurance company, always there for you if something should go wrong, we want to be someone you know and trust.

In 2018, we developed a new concept: **Own Your Insurance**. The main idea behind this concept is that, as a cooperative, we're a policyholder-owned company. It's important to us that you know that, as one of our policyholders, you're actually a part owner of the Company. We're all in this together. Maintaining the best interests of our policyholders is central to what we do and how we operate.

This concept will continue to drive change for us throughout 2019.

"Maintaining the best interests of our policyholders is central to what we do and how we operate."

Technology will be making the biggest impact for us, both internally and externally. We are constantly making our internal operations more efficient to improve the way we work for you.

In addition, we will be unveiling a new public website and policyholder account portal in the very near future. Not only are we developing a whole new look and feel, but we will be adding additional features to give you more access to the policy documents and information you need.

Cybersecurity at the forefront

Cybersecurity and the protection of your nonpublic information (NPI) is of critical importance to us.

Throughout 2018, we continued to expand our use of a secure cloud-based solution for transferring documents containing sensitive and private information. Not only are we able to encrypt electronic documents and files that we send outside our organization, but we have now provided a simple and secure way for documents containing private information to be uploaded to us to ensure your information stays safe.

As we add additional features to both our policyholder and agent portals to make working with us easier, cybersecurity will be at the forefront of what we do.

A collaboration of efforts

Our tremendous success over the past year has been the result of a collaboration of efforts. I'm so appreciative of the hard work our employees provide day in and day out, the many independent agents that represent us throughout the state, every policyholder that selects Wayne Cooperative to insure their interests, our Board of Directors for their valuable guidance, and all of our business partners that help support us.

While it seems hard to top a year like we just had, I'm confident that we can do even better.



JEFFREY W. RICE

President & Chief Executive Officer

Corporate Officers

JEFFREY W. RICE

President & Chief Executive Officer

THOMAS J. LISENO

Vice President Underwriting &
Assistant Vice President Investment Management

LAURA M. HARRIS

Vice President Consumer Affairs &
Agency Marketing & Underwriter

MARSH J. HANCOCK

Executive Vice President & Vice President Claims

BRYAN J. RICE

Vice President Information Technology
Chief Technology Officer & Chief Information Security Officer

Board of Directors

ROBERT F. BRISKY

Owner - Park Lane, Finger Lakes Garage Door
Director since 1994

KENNETH E. DISANTO

Owner - Brickoven Restaurant
Director since 1996

BRADLEY E. KEEM

Associate Attorney - D.J. & J.A. Cirando, Esqs.
Director since 2016

MICHAEL J. PALUMBOS

Owner - Family Wealth & Legacy
Director since 2010

WAYNE V. RICE*

Retired President & CEO - Wayne Cooperative Ins. Co.
Director since 1979

RICHARD A. WADSWORTH

Teacher Assistant - Gananda School District
Director since 1994

MICHAEL A. VIRTIS

Self-Employed - Real Estate Sales/Development
Director since 2013

CLAIR J. BRITT, JR.

Executive Officer - Lyons National Bank
Director since 2007

JANE E. HUBBS

Retired Manager - Rochester Community Savings Bank
Director since 1987

GRETTA B. MILES

Director of Accounting & Reporting - TCGplayer
Director since 2018

JEFFREY W. RICE

President & CEO - Wayne Cooperative Ins. Co.
Director since 1985

WILLIAM M. THOMPSON, SR.

Owner - Jackson Hewitt
Director since 1992

MELANIE L. WICKHAM

Proprietor/Manager - Pick 'n Patch
Director since 2011

*Chairman of the Board

Board Committees

NOMINATIONS & GOVERNANCE COMMITTEE

Jane Hubbs
Bradley Keem
Wayne Rice*
Michael Virts
Melanie Wickham

COMPENSATION COMMITTEE

Robert Brisky
Kenneth DiSanto*
Jane Hubbs
Michael Virts
Richard Wadsworth

RISK COMMITTEE

Kenneth DiSanto
Bradley Keem*
Michael Palumbos
Wayne Rice
William Thompson
Melanie Wickham

*Committee Chair

AUDIT COMMITTEE

Robert Brisky
Clair J. Britt, Jr.
William Thompson*
Richard Wadsworth
Melanie Wickham
Gretta Miles

FINANCE COMMITTEE

Clair J. Britt, Jr.
Kenneth DiSanto
Michael Palumbos
Wayne Rice*
Gretta Miles

EXECUTIVE COMMITTEE

Robert Brisky
Kenneth DiSanto
Jane Hubbs
Wayne Rice*
William Thompson