



2019

ANNUAL REPORT



Wayne Cooperative
Insurance Company

To Our Policyholders

A lot has changed for us over the last ten years. Although it's hard to list everything we've been able to accomplish, here's a highlight of just some of the things we've done over the last decade.

Rebranding

We released a new company logo that gave us a fresh and updated look. In conjunction with the new logo, we also released a new public website. Since that time, we have been working hard to expand both our name and image.

Underwriting Department Reorganization

The department transitioned to working as Underwriting teams with each team assigned a group of agents. That transition really put focus on developing closer and more consistent relationships with all of our agents.

DocuWare

What started as an archival of old documents in our claims department turned into the development of not only paperless storage, but electronic processes and workflows in multiple departments. This has dramatically changed the way we work and has created significant efficiencies to help us work faster for you.

Biennial Fundraising

In 2014, several staff members joined together to participate in the Tour de Teddi, a charity cycling event. After what started as a small group event we were just doing for fun, our team raised over \$9,000 thanks to the support of our agents, vendors, family and friends. This sparked the initiative to begin a biennial fundraising effort. To date, we have sponsored a team in three charity cycling events and raised over \$30,000. We look forward to our next event in Summer 2020.

A.M. Best Upgrade

After receiving a rating downgrade to B++ (Good) in the early 2000s, we spent many years trying to gain our A- (Excellent) status. In 2018, as a result of the Company's balance sheet strength, risk-adjusted capitalization, and improved underwriting performance, we finally received the upgrade and view it as a real testament to our staff and the changes and growth the Company has made.

In the following report, I provide an overview of 2019, including financial results/highlights, what we have been doing in the community, and the importance of business continuity planning.

2019 overview

2019 was a year of windstorms, starting from the very first day. Throughout the year, we tracked three separate catastrophe (CAT) windstorm events taking place in January, February, and October/November.

As can be seen in the graph below of reported claims over the last five years, our annual claims volume is very dependent on the weather. Nearly 60% of all claims reported during this time period have been weather related.

Of the 1,244 total claims reported to us in 2019, 277 (22.27%) of those claims were related to the three CAT events and totaled nearly \$900,000 in losses.

The largest event (160 claims) in February was very widespread, hitting areas from the western part of the state through central/northern New York with total losses of over \$450,000.

Despite the February CAT claims being so widespread throughout the state, 80.63% of claims were handled by a Wayne Cooperative adjuster.

Of those CAT claims handled by a Wayne Cooperative adjuster, the average claim was settled within 7 days and 93.80% of the claims settled within 0-20 days.

Although geography and claims volume does not always

make it feasible, we strive to handle as many claims internally as possible. We place a lot of focus on our customer service to ensure that our policyholders have a positive experience, even during their time of loss.

Financial results

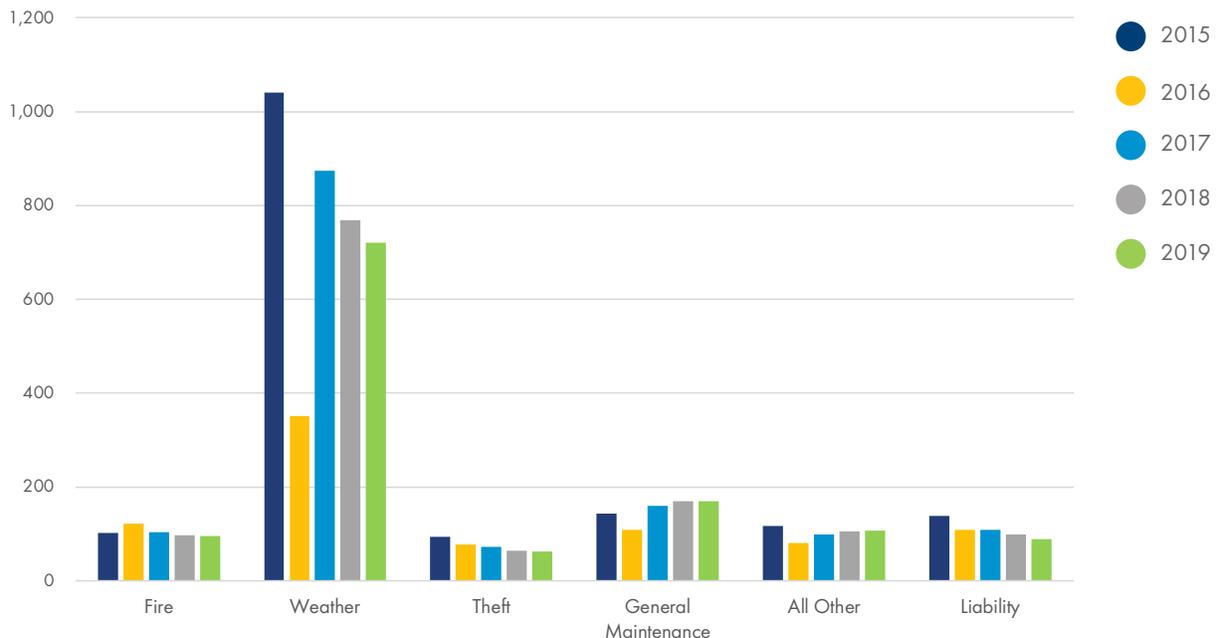
Direct written premium (DWP) continued to modestly grow in 2019, increasing \$527,219 (2.97%) to \$18,250,489. We also saw another year of significant growth in policyholder surplus (PHS) which increased \$2,254,538 (11.51%) to \$21,836,393.

Total policy count in 2019 grew by 0.53%. All lines of business experienced negative growth rates ranging from -3.48% to -0.27% except for the homeowner line that had positive growth of 2.68%. Our policy retention rate very marginally decreased from 87.18% to 86.99%.

Despite the homeowner line being the only line of business to see positive policy count growth, we saw premiums written increase amongst the fire, allied lines, homeowner, landlord, and inland marine lines ranging from 0.61% to 5.01%. Premium decreases were very marginal, ranging from -1.56% to -0.45%.

With no rate changes made in 2019, all premium growth was a direct result of increased policy limits, endorsements added to current policies, and overall policy count growth.

REPORTED CLAIMS BY CLAIM TYPE (2015-2019)



Over the last decade, DWP has increased 47.71% from \$12,355,944 and policyholder surplus has more than doubled from \$10,439,193.

We placed a lot of focus on achieving a 1:1 ratio for DWP:PHS and reached our target in 2017. Since then, we have continued to improve our gross leverage ratio (direct written premium/policyholder surplus) to 1:1.20, or 83.58.

Direct losses incurred totaled \$9,122,593, an increase of \$1,252,999 (15.92%) from 2018. Our reinsurance program provided for \$458,485 in recoveries, 5.03% of total losses incurred. After reinsurance recoveries, net losses incurred totaled \$8,664,108.

Net losses incurred increased \$1,573,662 (22.19%) year-over-year due to an increase in direct losses and a decrease in ceded reinsurance. Despite tracking three windstorm CAT events, none of the events reached the loss threshold to trigger our reinsurance program.

Although we were not able to replicate the net underwriting success we had last year, we still achieved a net underwriting gain of \$493,142 that was augmented by investment and other income, resulting in another very strong pre-tax net income of \$2,057,867.

Total admitted assets increased \$2,396,552 (6.42%) to \$39,751,619. This growth can be attributed to the growth in bonds and common stocks. Total cash and invested assets increased \$2,137,783 (6.39%) to \$35,582,641.

Our investment portfolio consisted primarily of diversified high grade fixed income securities. The book value of the bond portfolio totaled \$28,634,075. It was a \$989,338 (3.58%) increase from 2018 and represents 80.47% of the total portfolio.

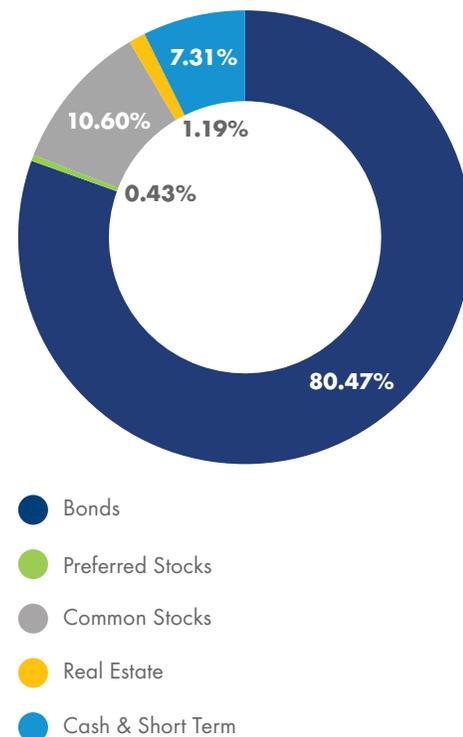
We returned a 3.08% net yield on our invested assets. U.S. Treasury short-term rates (2 Yr.) decreased from 2.48% to 1.58% and long-term rates (10 Yr.) decreased from 2.69% to 1.92% year-over-year. Our net yield has continued to flatten out around 3% due to the challenging investment environment.

While other invested assets remained relatively stable, the equity portfolio of preferred and common stocks increased \$1,181,812 (43.08%) to \$3,925,322. In particular, common stocks, representing 96.10% of the total equity portfolio, increased \$1,080,136 (40.12%) to \$3,772,106 and grew to 10.60% of the total portfolio from 8.05%.

TOTAL INVESTED ASSETS (2015-2019)



INVESTED ASSETS CONCENTRATION



\$18,250,489

Direct Written Premium

\$21,836,393

Policyholder Surplus

\$493,142

Net Underwriting Gain

\$39,751,619

Admitted Assets

\$2,057,867

Pre-Tax Net Income

96.20%

Combined Ratio

Financial highlights

AT AND FOR THE YEAR ENDED DECEMBER 31

	2015	2016	2017	2018	2019
Direct Written Premium	15,468,148	16,375,413	17,045,510	17,723,270	18,250,489
Net Earned Premium	13,631,901	14,172,040	14,884,541	15,532,239	16,012,701
Direct Losses Incurred	8,865,741	8,355,716	9,078,493	7,869,594	9,122,593
Net Losses Incurred	7,382,383	7,643,593	8,029,155	7,090,445	8,664,108
Net Loss Adjusting Services	384,184	423,858	555,494	420,914	457,305
Net Underwriting Gain/Loss	725,065	602,581	440,707	2,024,184	493,142
Total Other Income	240,309	290,452	341,723	255,100	506,260
Net Investment Gain/Loss	730,461	780,678	835,031	959,203	1,045,046
Realized Cap Gain/Loss	19,713	46,677	28,846	25,095	13,419
Net Income	1,715,548	1,720,388	1,646,307	3,263,582	2,057,867
Total Invested Assets	25,255,148	27,794,544	30,868,353	33,444,858	35,582,641
Total Admitted Assets	28,828,535	31,625,766	34,861,136	37,355,067	39,751,619
Policyholder Surplus	14,777,344	16,008,981	17,189,692	19,581,855	21,836,393
Policyholder Surplus Change	1,148,713	1,231,637	1,180,711	2,392,163	2,254,538
Return Analysis					
Net Yield on Invested Assets	3.02	2.97	2.89	3.02	3.08
Return on Average Equity	9.13	7.32	6.85	13.55	7.92
Return on Average Assets	4.48	3.79	3.53	7.17	4.39
Pre-Tax Operating ROAE (%)	12.55	10.82	9.61	17.18	9.73
Ratio Analysis					
Net Loss Ratio	54.16	53.93	53.94	45.65	54.11
Net LAE Ratio	7.81	8.24	9.10	7.99	8.01
Net Loss & LAE Ratio	61.97	62.17	63.05	53.64	62.11
Net Commission Ratio	18.70	19.30	19.59	19.00	19.31
Salaries & Benefits	7.19	7.37	7.57	7.78	8.54
Taxes, Licenses & Fees	0.62	0.71	0.85	0.81	0.79
Admin & Other Expense Ratio	5.46	5.14	5.25	5.09	5.43
Expense Ratio	31.97	32.52	33.26	32.68	34.08
Combined Ratio	93.94	94.69	96.30	86.32	96.20
Operating Ratio	88.58	89.18	90.69	80.14	89.67
Net Leverage Ratio (NWP/Avg PHS)	103.26	94.56	90.38	84.04	77.78

Out and about in the community

UNITED WAY DAY OF CARING

Each May, the United Way of Wayne County hosts a Day of Caring. This event brings together individuals from our local communities to participate in community service projects.

“Our job is to try to make our policyholders’ lives whole again after they experience a loss. But to us, it really shouldn’t stop there.”

Two staff members volunteered at the Family Counseling Service of the Finger Lakes where they helped prepare for a local LGBTQ Pride event.

Several other staff members donated their time at the Victim Resource Center where they helped sort through donated items, removed old furniture from the building and organized and painted meeting rooms.

VICTOR-FARMINGTON FOOD CUPBOARD

In November, several staff members joined the Rochester Chapter of the CPCU Society to volunteer for the Victor-Farmington Food Cupboard.

As the holiday quickly approached, we helped unload food supplies and pack 625 Thanksgiving boxes to provide a full holiday meal to those in need.

With a little sweat and a lot of teamwork amongst all of the volunteers, the boxes had all been packed in only a few hours and we had a great time helping.



The importance of business continuity planning

A company's Business Continuity Plan (BCP) outlines the processes it will follow to maintain operations should an unexpected event occur.

Our BCP is periodically reviewed and tested through tabletop exercises to ensure it remains up to date. In October 2019, we did face a real event that required its use.

On October 3rd, Wayne Cooperative experienced an internet outage due to a cut in our service provider's fiber line in a nearby town. This was a widespread outage that affected many users throughout the local area.

One of the first actions we took was to have our senior management team utilize the LTE network from their cell phones to create hot spots that could be used to connect laptops to the internet.

As we use a cloud-based service for email notifications to our independent agents, this gave us the capability to get online to send an email regarding the internet outage and keep them apprised of the situation. It also allowed our senior management team to monitor their email inboxes. To quickly inform the public, notifications and updates were posted to our social media accounts.

Our next priority was to focus on the telephone system. To ensure that we were able to handle incoming calls, our operator line was forwarded to a cell phone.

Although we were unable to forward calls to the appropriate department or employee extension, we took as many calls and answered as many questions as possible. Any voicemails received while on the phone were called back promptly.

While the internet outage did impact several areas of our business, our day-to-day operations do not fully rely on an internet connection.

Despite all of our policies and claims being paperless, we still had full access to our management system and the paperless environment that stores our policies and claims to continue working as normal.

After about five hours, our internet connection was restored and the phone system was fully up and operational.

Even though it was only a relatively short period of time, our BCP helped guide us through the steps we needed to take to keep our operations running as smoothly as possible.

“While we never wish to have to use it, I was very proud of the way our team handled this event.”

It gives me great confidence, and I hope it gives you confidence as well, in our operations and our ability to always be available for our policyholders.

Only together do we succeed

I'm very thankful for our staff that works hard every day, the independent agents that choose to represent Wayne Cooperative to their clients, all of the policyholders that give us the opportunity to insure their property, our Board of Directors that bring their own expertise to the oversight of the Company, and the business partners that help support our operations.

We had another successful year that was only made possible by working together. I look forward to seeing what 2020 will bring for us.



JEFFREY W. RICE

President & Chief Executive Officer

Corporate Officers

JEFFREY W. RICE

President & Chief Executive Officer

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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

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Director since 1994

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Owner - Brickoven Restaurant
Director since 1996

BRADLEY E. KEEM

Owner - Keem Appeals
Director since 2016

MICHAEL J. PALUMBOS

Owner - Family Wealth & Legacy
Director since 2010

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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

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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.

Retired Owner - Jackson Hewitt
Director since 1992

MELANIE L. WICKHAM

Proprietor/Manager - Pick 'n Patch
Director since 2011

*Chairman of the Board

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Bradley Keem
Wayne Rice
Michael Virts
Melanie Wickham

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Kenneth DiSanto*
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Michael Virts
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Wayne Rice
William Thompson
Melanie Wickham

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Melanie Wickham

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Gretta Miles
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Jane Hubbs
Wayne Rice*
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