

RISING TO THE  
CHALLENGE  
— of a —  
NEW TOMORROW



# MMG'S AGENTS ADVISORY BOARD

## MINUTES

October 27 & 28, 2016

### Present from Agents Advisory Board:

Marc Berube, CIC, of Eaton & Berube Insurance Agency, Inc. in Nashua, NH  
James Chalmers, CIC, of Chalmers Insurance Group in Scarborough, ME  
Danny Edgecomb, AAI-M, AIM, AIS, SM, of Kennebunk Savings Insurance in Portsmouth, NH  
Michael Funkhouser of Haun-Magruder, Inc. in Woodstock, VA  
Dan Lussier of NFP Property & Casualty Services, Inc. in St. Johnsbury, VT  
Drew Richards of The Richards Group in Brattleboro, VT  
Mark Rosborough, CIC, of J.T. Rosborough, Inc. in Ellsworth, ME  
Jeffrey Shaw, CIC, of Clark Insurance in Portland, ME  
Ryan Towle, CIC, of Davis & Towle Morrill & Everett, Inc. in Concord, NH  
James Wehar, of Rodgers Insurance Group in Pittsburgh, PA

### Present from MMG Insurance:

Larry M. Shaw, CPCU, President & CEO  
Matthew R. McHatten, Executive Vice President / COO  
Stephen J. Gallant, Senior Vice President / External Operations  
Keith D. Sperrey, API, AINS, Marketing Manager  
Kristen Clark, Marketing and Communications Coordinator

The meeting was called to order by Chairperson, Ryan Towle. Mr. Towle welcomed everyone to the meeting and then turned the meeting over to Larry Shaw, President and CEO of MMG. Mr. Shaw also welcomed everyone to the meeting and thanked the Advisory Board Members for their attendance. He encouraged everyone to participate in the meeting and to feel free to ask questions.

### **COMPANY PRESENTATION**

Mr. Shaw began his presentation with a report of the state of the Company. He started by advising the Agent Board Members of the recent focus on reserve strengthening of casualty reserves.

- Reserve Strengthening
  - Reserve pressures started to appear in 2014 and 2015, as a result of auto severity, frequency and reserving philosophy
    - Contributing factors to severity
      - Legal Environment / Litigation trends
      - Medical inflation
      - Rise in distracted driving
      - Increase in miles driven
      - Overall complexity of claims
  - In late 2015 the company started a deep analysis of reserves and current reserving philosophy and has adjusted accordingly, resulting in a year to date increase on the combined ratio of 9.5 points. Impact on the annual combined ratio is expected to be 5.5 points.

Mr. Shaw reviewed year to date growth rates, loss ratios, retention rates and the combined ratio. He noted that growth continues to remain strong and retention rates are solid. Mr. Shaw reviewed, in depth, the loss ratios by State and by line of business. The Homeowners loss ratio remains favorable due to underwriting discipline and firming of rates. The Personal Auto loss ratio is high and continues to be a focus for us. We continue to have very good loss results in the Commercial Lines book of business. Overall the financial numbers reflect good long term results.

**Financial Update**

	<u>Y/E 2015</u>	<u>YTD Sept, 2016</u>
Combined Ratio	98.3%	104.62%
Growth Rate:	9.16%	6.54%
<ul style="list-style-type: none"> <li>• By line of business               <ul style="list-style-type: none"> <li>○ Home</li> <li>○ Auto</li> <li>○ Commercial Lines</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>8.18%</li> <li>10.84%</li> <li>9.01%</li> </ul>	<ul style="list-style-type: none"> <li>4.90%</li> <li>4.66%</li> <li>10.09%</li> </ul>

Mr. Shaw continued his presentation with a review of the current marketplace dynamics and MMG’s areas of focus for both Personal Lines and Commercial Lines.

- Marketplace Update
  - Personal Lines
    - Overall marketplace continues to firm up
    - The rise in auto severity is prevalent industry-wide
    - Rate increases are forecasted to continue
    - Overall the Homeowners line remains profitable
  - Commercial Lines
    - Competitiveness continues among all policy types
    - The market is attractive to most, if not all carriers, particularly small commercial business
    - Commercial Lines is projected to remain competitive into 2017
- Areas of Focus
  - Personal Lines – Auto
    - The loss ratio across all states is elevated and is being watched closely
    - 2<sup>nd</sup> Generation predictive rating model is now active in all states
    - This new predictive rating model is working – requires time to be effective
    - Increase in rates with a shift in profile is in process
  - Personal Lines – Homeowners
    - Excellent five-year results combined across all states
    - Current approach
      - Continue with the inspection of all new business
      - Thorough review of all aging properties
      - Use of our renewal scoring tool
      - Closely monitoring the dynamic of the Personal Lines Package
      - Remain focused to sustain current gains

- Commercial Lines
  - Carry on with our product enhancements
  - Planning for an aggressive 2017 growth budget
  - Continue to learn from loss activity and amend underwriting practices where necessary
  - Strive to provide a unique option in the marketplace
- Technology – Legacy Systems Replacement (MMG Next)
  - Major project for replacement and modernization of our legacy systems
  - Critical for competing and succeeding in the future
  - Currently in the 1<sup>st</sup> phase of replacing our billing system
- Talent
  - Great gains made in talent over the past three years
    - Significant recent additions within the Claims Department
  - Flexibility is one key to acquiring and retaining experienced talent
    - Experiencing a shift in culture with more employees working from home in our regional areas
  - Successful 2016 Summer Intern Program
    - The program focuses on engaging college sophomores and juniors with the optimism of retaining them upon graduation
  - New Vice President of Human Resources is now in place with a focus on the following major areas:
    - Talent – attraction and acquisition of new employees
    - Employee retention
    - Development of current employees
- Emerging Markets
  - Pennsylvania
    - Profitability push continues
      - Results show improvement which is encouraging
      - Agency partners remain supportive of measures taken
    - Gains will continue with rate increase and the 2<sup>nd</sup> Generation predictive rating model in place
    - Commercial Lines growth has been strong year to date and the loss ratio remains favorable with very good retention
  - Virginia
    - Focused on Agency footprint expansion
    - Continuing to monitor profitability
    - Promoting Commercial Lines business and Personal Lines portfolio business

Mr. Shaw concluded his presentation by touching upon how MMG reinforces its competitive strategy and reviewed the recognition of recent awards. MMG remains committed to a high tech/high touch model and strives to provide a unique option for our agents and policyholders. This approach will drive our principles and value proposition well into the future. MMG was recently recognized for the following industry honors; 2016 PIA Top Performing Company in New Hampshire and the 2016 Company of the Year in Maine. The meeting was then turned over to Stephen Gallant, Senior Vice President/External Operations.

Mr. Gallant presented on Commercial Lines. He began his presentation by reviewing MMG's 10 year vision and growth strategy.

- 10 Year Commercial Lines Vision
  - Grow Commercial Lines to \$150 million by 2025
  - Increase the Commercial Lines mix to 45% - 50%
  - Grow profitably by writing and retaining quality business that we understand
  - Continue to handle small accounts very well
  - Remain a consistent, reliable and stable market for our Agents
  - Strive to be our Agents' "Carrier of Choice"
- Commercial Lines Strategy
  - Focus on small to middle market accounts
  - Provide highly competitive products and pricing
  - Deliver best in class service
  - Offer best in class technology
  - Focus on ease of doing business, including placement of new business
  - Build strong relationships – trust is key
  - Hire and develop top talent that our Agents regard as highly knowledgeable and valuable

Mr. Gallant continued his presentation by reviewing MMG's Top Ten classes of business for the Business Owner and Special Trade Contractor lines of business. Mr. Gallant also reviewed MMG's past and current Commercial Lines Expansion Timeline. Recent expansion in 2016 includes the addition of a Contractor's Errors and Omissions endorsement, updated BOP ISO forms, an increase of the basic fire legal limit of liability to \$1 million, the addition of ten new manufacturing classes, and the enhancement of the Commercial Auto Valu-Pak. To conclude his presentation, Mr. Gallant reviewed the following Commercial Lines initiatives for 2017 and beyond:

- Commercial Lines Future Enhancements
  - Products and Coverages
    - Develop Cyber Liability
    - Continue to broaden BOP endorsements
    - Enhance the current BOP product to include Pet Groomers Professional Liability
  - Ease of Doing Business
    - Enhance efficiencies for Agents
    - Provide assistance to support all viable opportunities for new business
    - Streamline internal processing efficiencies
  - Communication
    - Continue to produce brochures and sell sheets for major product lines and classes
  - Relationships
    - Increase Underwriter travel
    - 2016 Commercial Lines Frontline Advisory Board Meetings were successful and will continue in 2017
    - Provide new producer education on general coverages

Upon completion of the Commercials Lines update and discussion Mr. Gallant turned the meeting over to Mr. Matthew McHatten, Executive Vice President/COO, for his presentation on emerging trends, understanding the millennial generation and the current small commercial business market. Mr. McHatten also updated the Agents Advisory Board on MMG Next.

McHatten started with a trend update within the buying value proposition of the insurance industry along with areas of potential focus:

- A broad generational divide continues relative to the research and buying of insurance. McHatten referenced information from MMG's technology consultant *Novarica* and its September 2016 study *Millennials and Insurance: Understanding Tomorrow's Mass Affluent Today*. Millennials continue to represent a larger portion as they gain assets, start families and etc. Therefore, a focus must be placed on millennials and how they interact with the insurance process.
  - Their research starts with the internet as well as their first impression of us as providers
  - Agent and Insurance Carrier websites must be kept current and areas like search engine optimization leveraged
  - Consumer expectations continue to rise with advances in technology and buyer knowledge
  - There is a major need to provide real-time information
  - Consumer reviews are often accessed and contribute at a significant level in various ways in e-Commerce. We have a lot of testimonial that is verbal or in paper form. McHatten urged the Agents to find ways to migrate to electronic feedback that can be more readily accessed by millennials. A lack of reviews will be an issue in terms of the millennial impressions of us.
  - Millennials are cited for preferring digital records due to wanting to access records from anywhere and due to frequent address changes. Their sense of place is virtual and we need to provide in that medium.
  - The millennial generation is just now getting to the point of buying our products at a level of needing consultancy. Evolution will only quicken relative to the above.

McHatten then discussed the growing competitive forces in Small Commercial Lines. He characterized it as the new battleground with significant research attention being paid to the segment recently. He then shared highlights from *McKinsey and Company's 2015 Small Commercial Buyer Survey*. Major points included:

- Analysis of shopping trends
- A new perspective on how to segment small commercial in order to deliver the highest level of value
- A review of where the Independent Agent is strong amongst these segments and where there is opportunity to improve

Mr. McHatten continued his presentation with an open discussion on how the Independent Agent and Insurance Carriers need to recreate "the experience" for the consumer. He talked about the success of other industries in moving from commodity to an experience and potential areas of focus. He then summarized his presentation with several action steps to consider which included:

## What can we do?

- Google is the first stop. Web sites MUST be intuitive and actionable.
- How's your search engine optimization? What are your on-line reviews (check them out)? How do you increase and get credit for the positive feedback and testimonials you are getting now by moving into electronic form?
- Must have email and mobile #'s – how do we get 100% paperless for the next generation so they can access information anywhere?
- Adapt our message to consider Millennials' "voice".
- Is there potential to improve success and value in Small Commercial Lines through new approaches to targeting/segmentation?

Mr. McHatten concluded his presentation by advising the Agents on the MMG Next project. He discussed foundations being established with MMG's technology partner, Majesco. McHatten discussed the fact that this is not simply a technology project – it is much more about operational modernization. The planned progression on legacy replacement is billing, policy and then claims. The billing project is well underway.

**Note: Should you wish to have further information regarding this presentation, please contact Matt McHatten at 207.760.8609, or at [matt.mchatten@mmgins.com](mailto:matt.mchatten@mmgins.com).**

On October 28<sup>th</sup>, 2016 Chairperson Ryan Towle, called the meeting to order at 8:30 AM. The Agents stated their appreciation for MMG and agreed that there is a true partnership in place. The Agents also thanked MMG for hosting the meeting and providing a time for open dialogue as it reaffirms MMG's commitment to its Agency plant.

Topics discussed or questions asked with MMG responses are as follows:

**The Agents advised that other carriers are experiencing similar dynamics with reserving and personal auto trends.**

- The Agents understand the need for reserve strengthening and that ultimately it will have a positive impact
- They appreciate the additional dialogue and have appreciated the Marketing Reps. reviewing affected accounts
- The Agents expressed their sensitivity to this area and valued our transparency

**Agents asked what our predictions are for growth and retention for Personal Lines in 2017.**

- Anticipating Personal Lines net new policy count growth to be flat (ME, NH, VT, PA)
- Personal Lines net new policy count to be up in Virginia
- Personal Lines retention expected to take a small hit due to work of the 2<sup>nd</sup> Generation rating model

**The Agents discussed that other carriers are active in book transfer strategies and asked why this strategy has not been more prevalent for MMG with regard to growth?**

- We have a selective approach to book transfers versus a wide open approach
- A potential book of business needs to fit our model
- Transferred business has the potential to introduce issues to our current book of business if not underwritten well

**Agents asked for more details on how MMG plans to grow Commercial Lines to \$150 million in 10 years.**

- 2016 Commercial Lines growth rate is currently at 10%; we will aggressively budget for continued growth in this line of business
- Small Commercial Lines business lines up directly with our high tech/high touch model
- Continue to enhance overall appetite
- Continue to add new class offerings
- Changes in technology and tools will enhance our abilities to grow

**Agents raised the topic of the current roll for MMG's Marketing Reps and Underwriters.**

- MMG and the Agents discussed current best practices in the marketplace
- Agents communicated they are comfortable with MMG's hybrid approach and agree it is working well

**Agents asked for an update on the Reinsurance market.**

- Current rates are staying firm with an expectation of increase on the horizon
- Casualty Reinsurance – focus will remain on severity trends
- Long term, strong relationships and an thorough understanding of current book of business are key between reinsurers and carriers

**Agents asked for an update on our Commercial Lines Loss Control approach.**

- Currently performing property inspections on all new business
- In the strategic planning stages of a more formal Loss Control approach
  - Possibility of using a 3<sup>rd</sup> party vendor
  - Establish Loss Control libraries of digital information and videos
- The Agents discussed “mandatory loss recommendations” versus “advisory recommendations”

Mr. Ryan Towle closed the Agents' portion of the meeting. He again thanked MMG for hosting the meeting and encouraging open dialogue.

Following the Agent portion of the meeting, Mr. Shaw announced that this was the last Agents Advisory Board Meeting for Jim Chalmers, Dan Lussier and Ryan Towle as their term had ended. Mr. Shaw presented each Agent Board Member with a gift and thanked them for being a board member. He then closed the meeting by thanking everyone for their valuable input and time.

Mr. Keith Sperrey, Marketing Director, advised that the next Agents Advisory Board meeting would be held on March 30<sup>th</sup> and 31<sup>st</sup>, 2017. The location and venue to be determined.