LOUDOUN MUTUAL
PIPELINE
A publication for and about the agents and employees of Loudoun Mutual Insurance Company



Smoothing Out the Volatility Coaster Ride

By Chris Shipe, President
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A QUICK LOOK at the numbers and a review of the headlines clearly shows 2022 has been a difficult year for the insurance industry overall. Loudoun Mutual has not escaped the challenging weather patterns and financial markets. At this writing, both the underwriting and investment results for the Company have been nowhere near where we want them to be. Which brings to mind, while I personally prefer to take the slow and steady scenic train ride, the previous five years and the past two years in particular feel like we are on a very fast roller coaster ride. 2021 was an incredibly good year for Loudoun Mutual. It certainly was one of the high points of our ride, but year to date 2022 has definitely been a stomach-churning ride down the other side. While I am not sure it would be a popular name at an amusement park, the best name for our current roller coaster ride is the Volatility Coaster.

How did this roller coaster ride get built and what are we doing to get off it and back on the scenic train ride?

On the investment track of our ride, Loudoun Mutual and the insurance industry overall are giving back a lot of the gains made over the past three years. At Loudoun Mutual we work very diligently and thoughtfully to manage investment risk and investment volatility. We are very fortunate to have wonderful partners, Concord Investment Advisors and New England Asset Managers who help us have thoughtful allocations to various investment classes which have allowed us to participate in up markets while mitigating the effects of a down market. With the use of modeling as well as asset and liability matching there has been ongoing rebalancing of Loudoun's investment portfolio. While the current down markets have affected Loudoun Mutual's invested assets and policyholder surplus, overall, the portfolio is performing well against multiple benchmarks. It is a bit ironic, recent stress testing of our investment portfolio showed with the current downturn in the equity markets, our investment portfolio has less downside risk. Looking at our investment glass being half full, the current raising of interest rates will have a very positive impact on Loudoun Mutual's investment income. Rising interest rates has the potential to dramatically raise the Company's income from bonds. With challenges, come opportunities. The challenging equity markets and improving bond market returns have given Loudoun Mutual the opportunity to increase investment income and smooth out our roller coaster ride by mitigating some of the volatility in the equity investment results.

Things are bit more complex with the underwriting track of our roller coaster ride. Since 2017, plain and simple, weather has been driving the volatility in our underwriting results. Good weather, good results, bad weather, bad results. At the end of August, weather has contributed 32 points to the company loss ratio. Historically, weather has contributed 15 points to the Company's loss ratio, but over the past 5 years, the weather loss ratio has been dramatically trending upward. Although some storms have been very localized to areas where Loudoun Mutual has a significant presence, the good news/bad news is weather doesn't just target Loudoun Mutual. If my peers were being forthright with me at the recent mutual insurance convention, it would seem the majority of our Loudoun Mutual peers are having the same or worse year in 2022 as a result of weather.

In addition to tornadoes and hail,

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FALL 2022

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Smoothing Out the Volatility Coaster Ride

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*t*he major weather event that has affected many Mid-West and Ohio companies has been derecho-straight-line winds. One of our peers, North Star Mutual, incurred a derecho that completely exhausted their catastrophe reinsurance program. Are severe weather events the new normal? It would sure appear to be the reality we are facing. In addition to more frequent and severe weather events, changing policyholder expectations are also contributing to our roller coaster ride. What was once cosmetic damage, which didn't cause any functional loss, now creates an expectation of a complete roof replacement. Adding to all this is inflation which has increased the cost of repairs. The scarcity of skilled tradespeople has also caused delays in repairs being made, which in turn may result in additional damage. The uphill climbs on our roller coaster have certainly gotten steeper.

At Loudoun Mutual are we simply hoping things get better and are we thinking severe weather is just a temporary phenomenon? Absolutely not! We fully accept that weather is going to have a major impact on our results, and we need to continue to build on the multiple initiatives we put in place beginning in 2019 to reduce the impact of weather. In underwriting, a few of the things we have done and will be building on include: (1) refining rating territories and pricing to accurately reflect weather patterns, (2) increasing use of "fly-over" analytics to better identify potential roof and property issues, and (3) utilizing additional policy language and pricing tools to provide options which better reflect the elevated weather risks associated with older roofs and siding. We will also be mindful when we set inflation factors in our rates. With the introduction of product and rating enhancements to commercial, farm, and dwelling, and the affiliation with the Pennsylvania companies, we have also put in place a strong foundation to better diversify Loudoun Mutual's products and non-storm correlated geography.

As much as I like amusement park roller coasters, the 2022 insurance company Volatility Coaster has not been a lot of fun. Having said that, I am very thankful and grateful for directors, agents, and employees at Loudoun Mutual who have made the 2022 Volatility Coaster a lot more bearable. Everyone, particularly the claims folks, has worked incredibly hard to keep the Loudoun Mutual coaster on the tracks. I would not want to ride the 2022 Volatility Coaster with anyone else. I sincerely believe with the multiple initiatives in-progress, along with the hard work and dedication of so many of the folks associated with Loudoun Mutual, we can get off the roller coaster and ride the scenic train together.



Gaultheria procumbens…

By Chuck Good, Vice President & Marketing Manager

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FOR THE FIRST TIME since 2019 we are prepping for Wintergreen…and this time it is going to happen! In the pandemic years of 2020 and 2021 we put in all the work needed to have this important event as we were determined not to cancel the HR nightmare dubbed, *The Annual Agents Meeting*. So, for the first time since 2019, I am more concerned about side effects of Corona than that of the virus.

Considering the vast number of new agent appointments and first-time attendees, it would behoove us to go through what to expect from "Wintergreen" as I have already fielded several questions about what to expect, how to dress, etc. "Wintergreen" is actually *The Annual Agents Meeting*. For the most part, this gathering is a no strings attached, get the low down on new products, rates, services and kick your feet up, let your hair down, annual culture and relationship building event where you will not be judged if you lose control of your faculties or behavior. I am confident that all in attendance will consume responsibly no matter if this statement refers to the sun or other things more fun. Regardless, it is always more entertaining to have one idiot in the crowd…when it is not you. The mentioning of the sun reminded me, temperatures are usually cooler up on the mountain thanks to elevation approaching 4,000 feet. Dress code is resort casual and activity specific for the agencies who qualified for the fun events on Wednesday and Wednesday night, whereas Thursday's agent meeting will be business casual.

Switching gears, our trusted Board of Directors, who will also be in attendance for *The Annual Agents Meeting*, just approved our 2023 rate book. For 2023 the focus will rest on homeowners once again as all other lines are behaving responsibly. Our wild child, homeowners, needs a few subtle tweaks, updates, and improvements to counter the monumental task of off-setting the wrath of Mother Nature. Once again, weather driven loss causes are the main drivers of incurred losses and we have devised the following course of action:

- Increase Homeowners key premium 3%
- Territory factor adjustments between -3% to +3%
- Increase MasterGuard tier factor for Homeowners +1%

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Steady Climb

By Tim Koppenhaver,
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CHRIS SHIPE'S ARTICLE in this edition of our newsletter is about the up-and-down profitability roller coaster of the past two years. My article is less volatile, involving a steady climb upward of underwriting data.

In 1987, when I started at Loudoun Mutual, underwriting was a simple process relying heavily on an agent's field work and recommendation. Our application essentially asked just a few questions, but more importantly, required an agent's signature confirming they vouched for the risk. And that simple process worked for decades building a strong book of business for Loudoun Mutual.

Along came the Polaroid camera which afforded the underwriter an opportunity to also judge the quality of the risk. This was the first step in transferring the heavy lift of risk assessment from the agent to the Company. In the following years, a steady increase in data collection began. Credit scores. Loss history data bases. Building characteristics from real estate assessment information. Steadily upward – year after year – more data kept flowing into the underwriting process. Paper applications with recommendations were replaced by digital submissions, digital images, and publicly accessible data. It all came rushing in via the internet. An information race was on. Which company could make the best use of the new data and find needles in the data haystack?

At Loudoun Mutual, we embraced much of that steady influx of data over the years, and now the next source we're allowing into our data haystack is aerial imagery. Though we've dabbled in it cautiously over the past few years, we've recently decided to open the flood gates. We will soon begin obtaining continually updated imagery of our entire Homeowners book. If we insure a home in Virginia, we'll have a high-resolution bird's eye view at our fingertips.

Why do we do this? Mostly, because if we don't, we'll begin to suffer from adverse selection. Other carriers are using it now and are picking out the needles from the haystack. We need to start picking needles too before they're all gone.

Just image if we had not embraced credit scoring or loss history data. We'd be left with a weak pool of risks…and the profitability roller coaster that Chris writes about would be even more pronounced.



Electronic Commission Delivery

By Kimberly Fry, Vice President & Treasurer
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I AM PLEASED to announce that during the last quarter, Loudoun Mutual has set up electronic delivery of commission statements to all agencies. Statements can only be sent to one email address per agency. If a change is needed, please email **ap@loudounmutual.com** to request that the email address be updated. Additionally, the ADP statements are still mailed via the postal service. This is a direct deposit receipt unless there is a banking change, and the first month after the change has been requested, this will be a live check before the new direct deposit is activated.

As many of you are aware, 2022 has been a challenging year for the insurance industry and Loudoun Mutual has not been immune to this. Last month at meetings with our reinsurer's someone used the phrase to describe 2022 as a litter of kittens. It is a bunch of mini "cats" that are not cute and just keep scratching. Loudoun Mutual has been hit by several significant weather events this year that have been below our catastrophe retention treaty but have added up to some challenging results. Here are the year over year results:

	Year to Date through August 31, 2022	Year to Date through August 31, 2021
Total Invested	102,137,357	109,748,641
Total Admitted Assets	112,875,028	120,672,861
Underwriting Profit (Loss)	<6,682,738>	2,963,491
Investment Income	2,719,944	2,062,232
Net Income (Loss)	<3,874,356>	4,049,998
Combined Ratio	115.1%	91.5%



Tech Tips for the Fall

By Luis Manzano, Systems Administrator

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FALL IS A SPECIAL season; season, in many ways it represents the start of something new. We leave behind the warmer weather and now embrace the trees shining in gold to remind us that winter is just around the corner. After a hiatus we are looking forward to seeing you in person at our Annual event in Wintergreen. There is no doubt that the pandemic has shifted expectations in many ways, but the energy and conversations we experience in person can never be replicated by digital video conferencing.

Some of the most interesting ideas and projects at Loudoun Mutual have originated from talking to our agents in Wintergreen, in IT we are always looking at ways to improve our technology by understanding the trends and behaviors our agents experience. In a world where everything is shifting towards automation we are focused on people; we want to understand your experiences and perspectives. Technology feels like a never ending race, tech gets faster, computers more portable, and new products seem to magically materialize. At Loudoun we are constantly looking internally and externally; our tasks, our interactions and our processes in an effort to enhance or experiment if necessary.

Since this is an IT newsletter I cannot conclude without a couple of tech related tips and in light of recent hurricane activity in Florida. First and foremost download the FEMA app available in Android and IOS; this app will help you plan and be notified in case of any disasters in multiple locations. Second, acquire a couple of power banks or battery backups for your cell phone or tablet. Solar powered power banks are available at very affordable prices. Power banks allow you to charge your devices multiple times during power outages. Third and last, if you are an Android or iOS user, you have the option to download offline versions of your Google or iOS maps. These features are useful in times of telecommunication congestion caused by damages to physical landlines.

We look forward to seeing you once again this October at Wintergreen, we hope to connect with you there!



'Tis the Season

By Kerri Guild, Claims Supervisor

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FALL SEASON is upon us!! It's that time of year to clean the gutters, sweep the chimneys and check the smoke detectors. It was nice to meet up with you all at Wintergreen this year. As you know, the claims presentation discussed the severity of the storms in 2022. We are hoping, and I'm sure you all are, for a quiet end of the year. The Fall is a season of change, with that being said we would love to take the opportunity to introduce our new staff members.

The Claims Department has added three new associates to our family: Sara Davidson, Catherine Corsini. and Ozkan (Oz) Dixon.



Sara Davidson joined the inside team as a Claims Examiner earlier this year. She brings to Loudoun Mutual a great fun-filled attitude and excellent customer service skills. Sara has worked in several areas where customers are her top priority, which as you know is our main focus here at Loudoun Mutual. She has a caring nature and loves to talk about her dog "Alice". We are happy to have Sara as part of our team and look ahead to her building relationships with our insureds and agents.



Catherine Corsini has joined our inside claims department as a Claims Examiner. She is a recent graduate of the University of South Carolina and lives in Fairfax Station, VA. Catherine has worked several internship opportunities in Investment, Business Operations and Wealth Management. In addition, she has various leadership experience and is very involved in community activities. We are very happy to have her join our team.



Ozkan (Oz) Dixon has joined our claims department as a Field Adjuster in the Northern Virginia area. Oz brings a wealth of knowledge of water and fire mitigation as well as construction repairs to the team. He also has leadership experience as team lead and project manager of different mitigation teams. We are happy to have Oz join our Loudoun Mutual family.

As always, please contact our office with any questions or concerns. We look forward to our new additions building great relationships with the agents and our insureds.

Employee Appreciation Day 9/14/2022















Agents Meeting at Wintergreen 10/5-10/6/2022




















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- Coverage increase of 4% to help with inflation
- Smooth out the loyalty discount for Homeowners
- Add a loyalty discount for Dwelling Fire
- Reduce Dwelling Fire vacant surcharges
- Add $5 to the flat rates for the ML-208, FL-208, FO-208 (Water Damage - Sewer/Drain)

Coming off one of the most fruitful years in the history of the Company and in the face of a tough 2022, we are confident in the diligent front-line underwriting of our trusted agency partners and the expertise built over our rich, 173-year history. These changes attempt to achieve the stability sought by our policyholders, stimulate new business in targeted areas, increase policy retention and control risk exposure. We appreciate your partnership and look forward to continuing our mutual success.

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RISKS WORTH NOTING

- A secondary residence containing two $1M homes.
- A $1.3m ham curing and storage building.
- A Dwelling Policy covering nine locations.