

BEST'S REVIEW

Insurance Issues and Analysis

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Standing *the Test of* Time

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Fifteen property/casualty insurers have managed a remarkable feat—maintaining a Best's Rating of A+ or higher for the past 50 years.

Experts in athletic performance call endurance “strength over time.” In financial services, it’s a challenge to find an organization that has managed to sustain the highest Best’s Ratings for more than a decade—let alone five decades. In the case of the property/casualty industry, 15 have been assigned a Best’s Rating of A+ or higher every year between 1954 and 2003.

What sets these companies apart, however, is more than their assigned Best’s Ratings. They are dramatically different companies.

Two of them are among the biggest property/casualty insurers—State Farm and Nationwide.

State Farm, the largest personal-lines writer in the United States is sometimes referred to by competitors as the “Big Dog.” But it had humble roots, starting 81 years ago in Bloomington, Ill., by a farmer who believed that his colleagues and their families should pay less for insurance because they drove less

and had fewer losses than people who lived in cities. Since then, it has grown to 50 states and other lines of business, but its focus remains on middle-class Americans living relatively average lives.

Nationwide and Alfa also started by selling car insurance to farmers.

Others carved out a specific geographic niche to become the preeminent provider in their tightly defined region. Take Lititz Mutual Insurance Co., based in Lititz, Pa. A visit to Lititz is a journey into the heart of Pennsylvania’s Amish and Mennonite farmland regions. It underwrites home and auto coverage in towns and counties within a 25-mile radius, areas best known for horse-drawn carts and great antiques.

Others don’t define themselves by geography, but rather by the risks they cover. Pharmacists Mutual Insurance Co., based in Algona, Iowa, sticks closely to the business it

knows—pharmacists and their stores. Founded 105 years ago by a man who set out to be a pharmacist, only to see his drug store burn down, the company remains true to its roots. Today’s board of directors is composed of practicing pharmacists.

Another example of a company that sticks to the niche it helped develop: Church Mutual Insurance Co., based in Merrill, Wis. Started 106 years ago as the Wisconsin Church Mutual Fire Insurance Association, the original board was composed of eight businessmen and two ministers—and the company was not tied to any particular church or denomination.

Only six days after Church Mutual was incorporated, Otsego Mutual Fire Insurance Co. was officially established in Burlington Flats, N.Y. The company was started by Silas L. Kelsey after three floods and a fire had wreaked havoc on the town. Although he knew the success rate for fire insurance companies at that time was dismal—27 had gone out of business two



Illustration by Timothy Shroy

years earlier—Kelsey set up shop in a back room of his home. Not only did he beat the odds of failure, but he built a financially strong company that has stood the test of time.

These insurers all chose a financial strategy that kept them in good stead throughout the decades. At State Auto all employees receive the same percentage of profit sharing based on their branch office's experience and the experience of the overall company. The plan Quincy Mutual Fire Insurance Co. embraced has been to maintain a low leverage in premium writings to surplus.

Amica has staked its financial strategy on building a loyal customer base from which it gets most of new business referrals. Since 1907, Amica has compiled an enviable record of paying policyholder dividends for 91 consecutive years.

Three long-established members of

the Chubb Group of Insurance Cos. achieved this distinction: Federal Insurance Co., Great Northern Insurance Co. and Vigilant Insurance Co.

Most of the companies recognized in this article have a domestic focus, often a very small geographic area or narrow niche. An exception is AIU, which manages AIG's overseas property/casualty operations.

The sole reinsurer to qualify is General Reinsurance Corp. Originally incorporated in 1921 in New York, General Re, the third-largest reinsurer in the world, was acquired by Berkshire Hathaway Corp. in 1998.

How This Study Was Conducted

This study involved searching all the property/casualty companies included in A.M. Best publications that have earned an A+ or A++ rating consistently during the past 50 years. This search yielded a total of 15

property/casualty companies, out of more than 3,300 property/casualty insurance companies listed in *Best's Insurance Reports*. Twelve of the 15 companies maintain an affiliation with one or more property/casualty companies. Their ratings are based on the consolidated performance of the company and its affiliation with one or more insurers, which collectively operate, in A.M. Best's opinion, as one coordinated insurance group.

As noted in the accompanying tables, there are only three unaffiliated companies that have been rated A+ or higher during the past 50 years. In addition to the unaffiliated distinction, five of the companies were also incorporated more than 100 years ago.

A.M. Best maintains the world's largest database of insurance information and has been collecting financial information on property/casualty insurance organizations since 1899.

Property/Casualty Companies With A+ or Higher Ratings Since 1954

Company	AMB #	P/C Group Affiliation
AIU Insurance Co.	02389	American International Group Inc.
Alfa Mutual Insurance Co.	02005	Alfa Insurance Group
Amica Mutual Insurance Co.	02162	Amica Mutual Group
Church Mutual Insurance Co.	00259	none
Federal Insurance Co.	02084	Chubb Group of Insurance Cos.
General Reinsurance Corp.	02198	Berkshire Hathaway Insurance Group
Great Northern Insurance Co.	02085	Chubb Group of Insurance Cos.
Lititz Mutual Insurance Co.	00558	Lititz Mutual Group
Nationwide Mutual Fire Insurance Co.	02357	Nationwide Group
Otsego Mutual Fire Insurance Co.	03152	none
Pharmacists Mutual Insurance Co.	00320	none
Quincy Mutual Fire Insurance Co.	00796	Quincy Mutual Group
State Automobile Mutual Insurance Co.	00855	State Auto Insurance Cos.
State Farm Mutual Automobile Insurance Co.	02479	State Farm Group
Vigilant Insurance Co.	02086	Chubb Group of Insurance Cos.

Unaffiliated Companies*

Company	AMB #
Church Mutual Insurance Co.	00259
Otsego Mutual Fire Insurance Co.	03152
Pharmacists Mutual Insurance Co.	00320

Incorporated More Than 100 Years Ago

Company	AMB #	Date of Incorporation**
Church Mutual Insurance Co.	00259	March 4, 1897
Federal Insurance Co.	02084	Feb. 15, 1901
Lititz Mutual Insurance Co.	00558	Sept. 17, 1888
Otsego Mutual Fire Insurance Co.	03152	March 10, 1897
Quincy Mutual Fire Insurance Co.	00796	March 22, 1851

Ratings as of Dec. 5, 2003

* **Unaffiliated Companies:** Unaffiliated companies have been rated on a stand alone basis in each of the past 50 years. However, an unaffiliated company may have participated in a merger or acquisition during its history.

** **Date of Incorporation:** This date represents the company date of incorporation and does not necessarily represent the date that business commenced.

Time Frame of the Study: The 1954 edition of *Best's Insurance Reports, Property/Casualty* served as the starting point of this 50-year study.

Source: A.M. Best data. A combination of computer databases and the annual publications of *Best's Insurance Reports* were the data sources of this study.

Quality vs. Quantity

Otsego Mutual owes its big success to a downsized approach.

Otsego Mutual Fire Insurance Co. may forgo big buildings, a big staff and a big presence, but it's never given up on its big dreams.

"Our goal has always been to be strong financially, not necessarily big physically," said President Kelley Burke Cough.

And over the past 105 years, the company has done just that. In addition to maintaining an underwriting profit consecutively over the past 25 years, the small company has grown from a one-person operation to an 80-member agency force with a book of business of \$3.8 million in net premiums written and admitted assets totaling about \$56 million in 2002, according to A.M. Best Co. data. It is one of only 15 companies and only three unaffiliated companies to be ranked A+ or higher by A.M. Best Co. for the past 50 years.

The secret to its success? "We grow our policyholder surplus faster than growing our writings," said Cough. Over the past 25 years, Otsego's assets and surplus have grown 11 times, while its premium writings have grown only three times—a 360 degree approach from that of most companies, she added. "We don't have huge writings, staffs or buildings...we have a certain comfort level with this and it works well for us."

In addition, the company keeps its expenses to a minimum, doesn't have any consultant or management fees to pay, owns its own building and has no debt, said Cough.

Otsego began in 1897 with the pioneer spirit of its founder, Silas Kelsey, who took a limited insurance background and started the Burlington Flats, N.Y.-based company. Despite his



Kelley Burke Cough
President

many hardships prior to that time, including the community's business district burning down, the town dam collapsing three times in 40 years, and then his general store and sister's home burning down, Kelsey decided to make a positive difference in the community and began his new venture. At that time, the company insured farm, village and business properties.

Over the years, the company has made several important decisions based on its financial strategy. "We decided we didn't want to grow like crazy and jeopardize the success of our operation," said Cough. Today, the company primarily writes homeowners policies in New York state, half of which are written in the five boroughs of New York City.

Otsego also writes a small amount of fire, allied lines and inland marine coverages throughout the state.

"Quality vs. quantity applies to many aspects of the business, from our financial strength to our employees," said Cough. While the company's staff may be small in number, its employees and agents are "top quality," she added. Otsego currently has a staff of 21 employees, 17 of whom work full time.

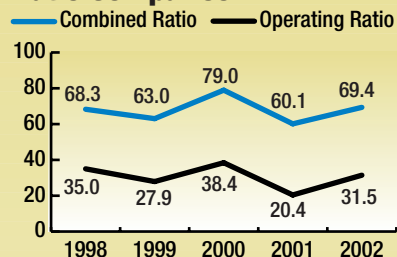
"Companies are often judged on their size and market presence in order to be viewed as successful, but that's not what is important to us." What is important, however, is the company's focus on its long-term goals and trying to be the best in its niche, she added.

—Lori Chordas

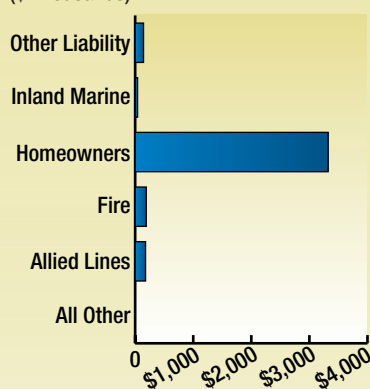
Rated
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Otsego Mutual Fire Insurance Co.

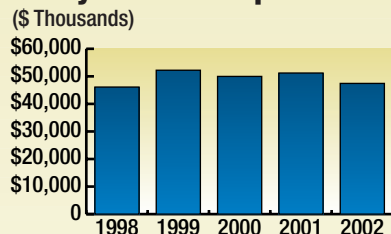
Ratio Comparison



Net Premiums By Line—2002 (\$ Thousands)



Policyholders' Surplus



Then and Now

	1953	2002
Assets	\$1.3 million	\$56 million
Net Premium	\$2 million	\$3.8 million

Source: A.M. Best Co. Executive Summary Report; A.M. Best Company Report