2017 NAMIC

EXECUTIVE PAY PRACTICES STUDY

COMPILED BY WARD GROUP

SPONSORED BY Insurance Talent JACOBSON

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The Jacobson Group is the leading global provider of insurance talent. For 45 years, we have been connecting insurance organizations with professionals from the board room to the back room on both a permanent and temporary basis. We offer a variety of solutions including executive search, professional recruiting, emerging talent, RPO, temporary staffing, subject matter experts, and onsite and work-at-home operations support.

Jacobson's marketplace longevity creates an extensive industry network, a unique insider's perspective and a reputation for excellence. Regardless of the need or situation, Jacobson is the insurance talent solution.

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Ward Group, a part of Aon plc (NYSE: AON), is the leading provider of benchmarking and best practices studies for the insurance industry. We analyze staff levels, compensation, business practices and expenses for all areas of company operations and help insurers to measure results compared to peer groups, optimize performance and improve profitability. Since 1991, we have performed more than 2,500 operational and compensation benchmarking exercises for companies of all sizes, including more than half of the top 100 U.S. insurance carriers.

For more information, please visit www.wardinc.com.

NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400 member companies representing 39 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers.

NAMIC member companies serve more than 170 million policyholders and write more than $230 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 32 percent of the business insurance markets.

Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

NAMIC HEADQUARTERS
3601 Vincennes Road
Indianapolis, IN 46268
(317) 875-5250

NAMIC WASHINGTON OFFICE
122 C Street, N.W.
Washington, D.C. 20001
(202) 628-1558

www.NAMIC.org

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The "future of work" has become the new business reality. No longer just a buzzword, the industry stands amid an economic cycle where the workplace is in a constant state of flux. Existing trends and emerging "normals" are accelerating and irreversibly changing the workforce as we know it.

The business world—and the insurance industry, in particular—is at the onset of momentous transformation. The future of work is increasingly complex, cutting-edge and markedly different. Only those organizations who readily embrace these changes will be able to successfully compete in this new reality.

THE FUTURE OF WORK

Today's new work environment is typified by an increased level of complexity and interconnectedness. This emerging workplace is characterized as VUCA—volatile, uncertain, complex and ambiguous. Originally conceived as a military acronym, this terminology is a perfect descriptor for a business world that is in a constant state of change.

Volatility sees change happening rapidly and on a large scale. This includes evolving technology, emerging automation and artificial intelligence. **Uncertainty** reflects a future that is no longer able to be predicted with precision due to emerging risks and changing demands. **Complexity** is being driven by challenges that increasingly have multiple factors and few single solutions. **Ambiguity** is seen with industry events and changes whose effects are unknown. This spans from the rise of the "blended" workforce of permanent and temporary professionals to the flattening of organizational hierarchies and the emerging corporate lattice.

In order to find success in this rapidly transforming environment, we—as an industry—must understand the personal, organizational and societal impact of these changes and adapt. Only by rethinking current strategies and redefining their realities can forward-thinking organizations successfully move into the future.

LEADERSHIP IN AN EVOLVED INDUSTRY

The fast pace of today's future workforce requires a new type of leadership. Reflecting the evolving business environment, the competencies organizations require are changing. As insurers focus on redesigning their organizations to be more dynamic, team-centric and connected, they are looking for agile leaders who can mobilize and execute these models.

These new leaders must be able to solve complex problems across boundaries, drive an eco-system of learning and continuous improvement, all while keeping a broader workforce of employees, gig contractors, contingent workers and future talent connected and engaged.

This is certainly a tall order that requires new competencies, abilities and attributes. Driven by an innovative development approach that blends both horizontal and vertical leadership development, these agile leaders are able to build new capabilities, as well as expand their personal worldviews. They are adaptable, creative and versatile. They are self-aware, networked and collaborative. They are able to inspire, manage complexity and develop cultures that are conducive to success in today's rapidly changing environment.

These talented individuals are key to driving transformation and navigating the workplace of the future. Unfortunately, insurers are competing against a number of industries for these highly-talented and sought-after leaders.

As the "war for talent" rages, **compensation is a critical component in differentiating insurance as an industry of choice.** Increasingly, the wider "hidden paycheck" of employee benefits and lifestyle perks is being considered by professionals when making career decisions. Incentive programs, professional development opportunities, disability income protection solutions and carried interest plans are all additions that add value to a compensation package.

The Jacobson Group is honored to—once again—sponsor the 2017 NAMIC Executive Pay Practices Study. This study provides a robust view and insider lens into compensation best practices and strategies, including salary and incentive programs and performance plan guidance. We, as an industry, should use these insights as pivot points from which we can build an effective framework for a competitive, compelling and real-world executive compensation strategy. Only by disrupting the status quo across all business practices—including our compensation strategies—will we be able to thrive in today's fast-paced reality.

EXECUTIVE PAY PRACTICES STUDY – **KEY FINDINGS**

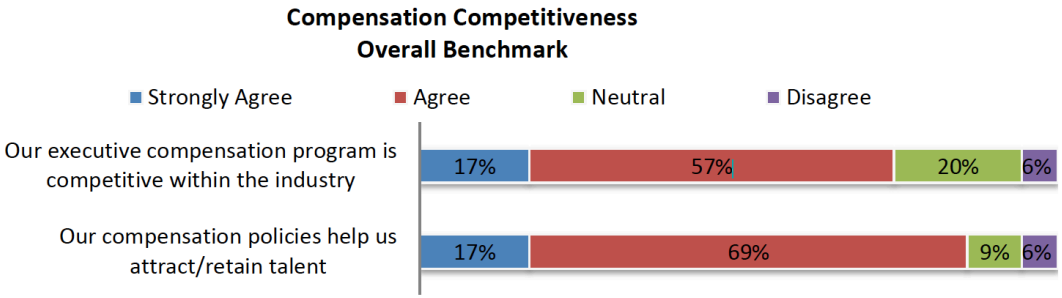
Ward Group is pleased to be partnering with NAMIC and The Jacobson Group to conduct this year's Executive Pay Practices Study. When used in conjunction with the Property/Casualty Compensation Survey, participants understand the complete picture of the executive team's total compensation package, including actual market compensation for executive positions and the measures and components of performance, funding, and perquisites for these roles.

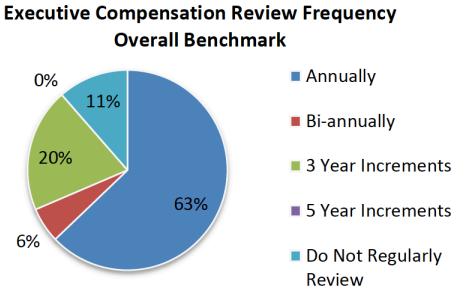
Thirty-five carriers participated in the study, providing extensive data regarding organizational structure, compensation planning, incentive compensation design, and additional benefits offered to executives. To further analyze the results, four benchmark groups where developed.

Below is a brief summary of the study findings. The full report is available for purchase from NAMIC and Ward Group's websites.

COMPENSATION PLANNING AND COMPETITIVENESS

A majority of participating carriers felt their executive compensation programs were both competitive within the industry and adequately helped them attract and retain key talent. However, only 17% of respondents strongly agreed that the plan was competitive.





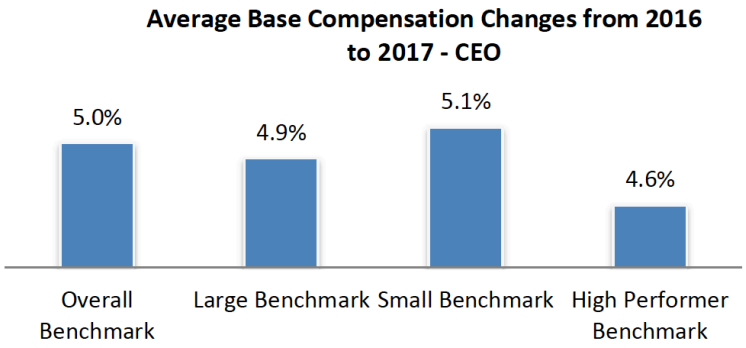
While many carriers believe their programs are competitive, only one-third of participants reported that they do not review their executive compensation strategy on a frequent basis (bi-annually or annually). Ward Group considers it a best practice to review executive compensation strategy on at least a bi-annual basis for a number of reasons. Frequent review of compensation is useful in determining whether current performance targets are in line with relative industry performance and a consistent process helps reduce tension amongst senior management regard whether their pay levels are fair against the market and performance of the company.

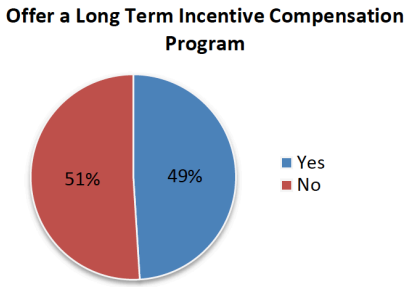
COMPENSATION

After a few years of low to flat base compensation increases for executive management positions, in 2017, carriers were more likely to increase their executives' base compensation. CEO base compensation increased on average by more than 5% and all other management levels saw average increases slightly higher than 4%.

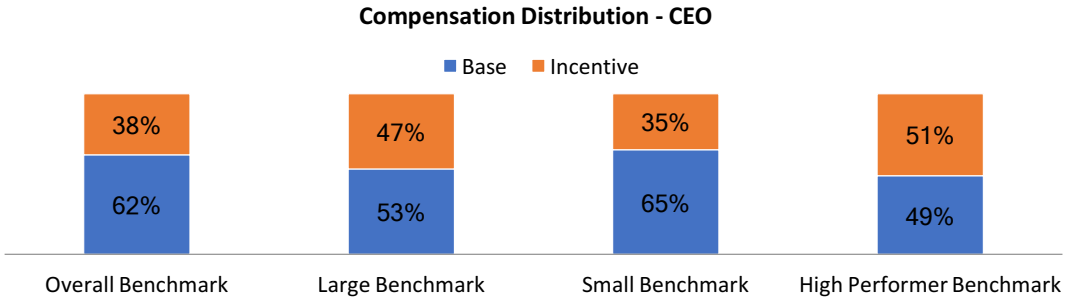
While 2016 financial results were worse than 2015 for the P&C industry, with a combined ratio of 100.5, surveyed companies outperformed peers with a 95.7. Carrier performance resulted in annual bonuses that fell in line with or above targets for most senior management positions. For those companies that were high performers in 2016, CEO annual bonuses were 23% higher than target; and annual bonuses were 26% higher than target for the other executive management positions in this benchmark group.

Long-term incentive programs were less prevalent at participating carriers than annual bonus plans. Only 49% of participating firms indicated having a long-term incentive plan in place for senior management. These plans, which vest over a 3-5 year period, typically relied on fewer performance measures than the annual bonus plan and were more focused on financial returns, such as surplus growth or return on equity. These programs have shown to be important retention tools for key executives.





Carrier size had the most pronounced impact on overall compensation distribution for the CEO position. As carrier size grew, the percent of "at-risk" or incentive compensation became significantly larger. CEOs at small carriers had on average 35% of their compensation at-risk compared to 47% at large carriers. Similar trends also were noted at the SVP/EVP level and VP level.



ADDITIONAL BENEFITS

Benefits beyond compensation are also an integral part of executive total rewards programs and can help attract and retain key talent. The use of benefits such as deferred compensation, supplemental executive retirement plans (SERP), car allowances, and paid time off programs were used to varying degrees across all carriers.