NAMIC

NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

2019 NAMIC

EXECUTIVE PAY PRACTICES STUDY EXECUTIVE SUMMARY

COMPILED BY WARD GROUP

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NAMIC NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

ABOUT NAMIC

NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400 member companies representing 40 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 $253 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 35 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.

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Special thank you to NAMIC's Property/Casualty Conference Board of Directors for its leadership and support of this project.

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INDUSTRY PERSPECTIVE

By Margaret Resce Milkint, Managing Partner, The Jacobson Group

Talk about a game-changing moment for our industry... We're facing record-low unemployment, a shift in leadership demographics, prolific modernization initiatives and a need for robust succession planning like never before. Insurers must recognize the risks and opportunities in this new environment and rapidly evolve along with the talent landscape.

The nation's current unemployment rate is hovering around four percent, with virtually no unemployment in insurance. However, the industry is growing and more than half of insurers plan to increase staff during the next year.[1] It's vital that our industry is proactive and strategic in recruiting and retaining the best and brightest talent to remain successful and innovative. In this candidate's market, which encompasses individuals from multiple generations and diverse backgrounds, we must offer compensation plans that motivate and inspire leaders and ultimately maintain their loyalty.

THE SHIFTING WORKFORCE

As a major demographic change occurs within our industry, hiring, retention and compensation practices must evolve as well. Baby Boomers are moving into retirement; and if the industry is not vigilant, they will potentially take a wealth of knowledge along with them. At the same time, Millennials are growing up and transitioning into leadership and executive-level positions. Bridging these two generations are members of Generation X, currently the "forgotten generation," but perhaps one of the most important pieces in successful succession planning.

Currently, Millennials make up 35 percent of the workforce.[2] Though this generation has been heavily discussed and analyzed for years, it's expected that by 2025, they will comprise 75 percent of the workforce.[3] The shift will come quickly and our industry needs to be prepared to meet this new group of leaders' unique expectations. For incoming generations of executive leadership, employers of choice need to provide more than a paycheck. While monetary compensation and culture are important, they are more likely to be loyal to companies that offer flexible work arrangements and are committed to diversity and inclusion. The majority of Millennials and their successors, Generation Z, would take a pay cut to work at a company that is better aligned with their own values, compared to only nine percent of Baby Boomers.[4]

[1] U.S. Semi-Annual Insurance Labor Outlook Study (2019). The Jacobson Group and Ward Group. http://content.jacobsononline.com/2019-q1-laborstudyresults

[2] Compensation Planning for Millennials (2018). Aon. https://insights.humancapital.aon.com/talent-rewards-and-performance/compensation-planning-for-millennials

[3] Millennials are the Largest Generation in the U.S. Labor Force (2018). Pew Research Center. http://www.pewresearch.org/fact-tank/2018/04/11/millennials-largest-generation-us-labor-force/

[4] Nearly 9 Out of 10 Millennials Would Consider Taking a Pay Cut to Get This (2018). CNBC. https://www.cnbc.com/2018/06/27/nearly-9-out-of-10-millennials-would-consider-a-pay-cut-to-get-this.html

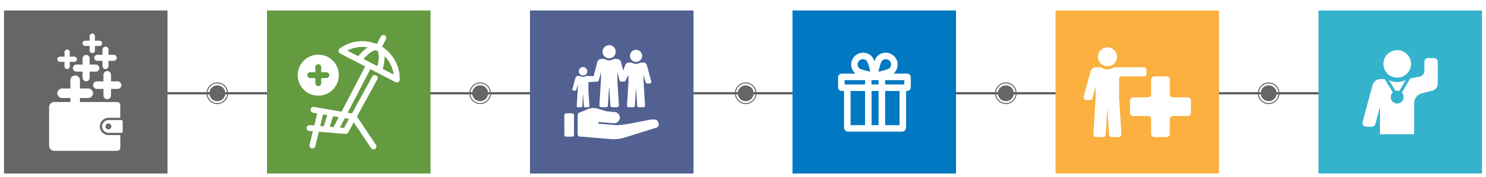
ATTRACTING TOP TALENT

As the industry transforms and competition for top talent escalates, we should be positioned to offer unique benefits and creative compensation plans that resonate with individual leaders. There is rarely a one-size-fits-all approach to attract and motivate a broad group of talent with diverse competencies, abilities and attributes. Organizations are getting creative in their compensation packages and placing more emphasis on the “hidden paycheck,” which may include perks and benefits such as executive coaching opportunities, incentive programs, flexible work arrangements, Supplemental Executive Retirement Plans (SERPs) and unlimited PTO.

RETAINING FUTURE LEADERS

To stay competitive, insurers should accelerate and prioritize succession planning and ensure individuals of all generations are competitively compensated, based on their values and expectations. In today’s talent marketplace, a thorough and continually reviewed succession plan is more critical than ever. Invest in preparing Millennials and members of Generation X for key executive and leadership roles. This may mean building a bench by providing top talent with access to networking and training programs internally. Mentoring, coaching and sponsorship opportunities are other key ways to grow and engage talent, while bridging multiple generations.

The Jacobson Group is honored to—once again—sponsor the 2019 NAMIC Executive Pay Practices Study. This study offers a valuable view into compensation practices and benchmarks within mutual insurance organizations. As an industry, we should use these insights and findings to take real action to evaluate current compensation practices and continue to evolve and perhaps re-imagine our strategies. By going beyond base salary and a bonus, we’re able to provide comprehensive and holistic compensation plans that best motivate and resonate with current and future leaders.



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INTRODUCTION

OVERVIEW

Executive management compensation often includes more than just a base salary and annual bonus. Long-term incentives, deferred compensation, SERPs, and a variety of other benefits and perquisites are all part of the equation. To gather information on industry trends with respect to executive benefits and other factors included in total compensation, Aon, on behalf of NAMIC and sponsored by the Jacobson Group, conducted a survey of executive pay practices at U.S. P&C carriers.

This report presents the findings of the in-depth survey of executive management team pay practices conducted in early 2019.

BENCHMARK GROUPS

A diverse group of 54 insurance carriers participated in the survey. Participants are listed on the following page. Results are calculated using the total number of participant responses to each survey topic.

To further analyze the survey responses, benchmark groups were developed by company size and overall performance in the industry. A complete comparison by benchmark group is provided in the appendix. The following summarizes the benchmark groups used for the study:

- Overall Benchmark: All 54 carriers
- Large Company Benchmark: Carriers with more than $300M in DPW
- Small Company Benchmark: Carriers with less than $300M in DPW
- High Performer Benchmark: Carriers who are considered a Ward's 50 company

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Society Insurance
The Bar Plan Mutual Insurance Company
Vermont Mutual Insurance Group
Wayne Mutual Insurance Company

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.

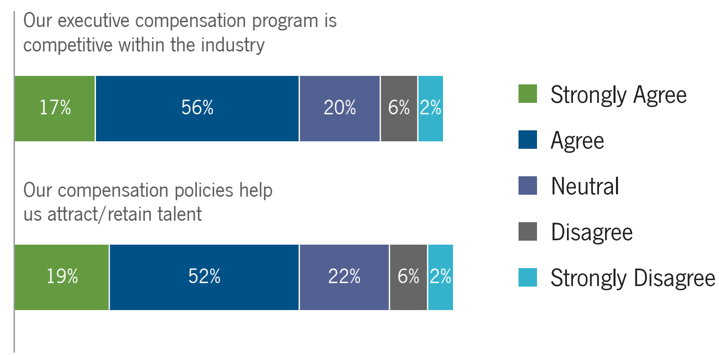
Fifty-four carriers participated in the study, providing extensive data regarding organizational structure, compensation planning, incentive compensation design, and additional benefits offered to executives. To further analyze the results, four benchmark groups where developed.

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

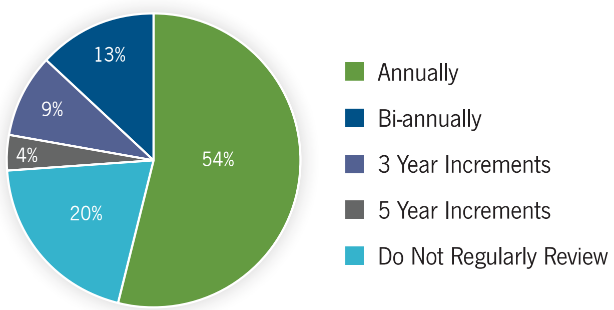
COMPENSATION PLANNING AND COMPETITIVENESS

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.

COMPENSATION COMPETITIVENESS



EXECUTIVE COMPENSATION REVIEW FREQUENCY OVERALL BENCHMARK



While many carriers believe their programs are competitive, 33% 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 regarding whether their pay levels are fair against the market and performance of the company.

COMPENSATION

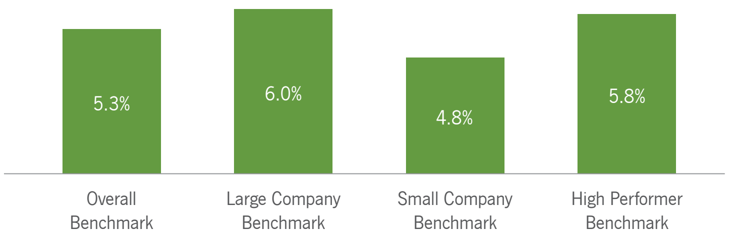
After a few years of low to flat base compensation increases for executive management positions, in 2018, carriers were more likely to increase executives' base compensation. CEO base compensation increased on average by 5.3% and all other management levels saw average increases at 4.3%.

Although 2017 financial results were below expectations for many carriers and worse for the overall P&C industry than 2016, the survey identified higher increases in base pay and overall incentive payment in 2018. Overall 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, CEO annual bonuses were 9% higher than target; and annual bonuses were 19% higher than target for the other executive management positions in this benchmark group. It is anticipated that the improved 2018 financial performance of the industry will result in incentive payments that will be moderately above targets.

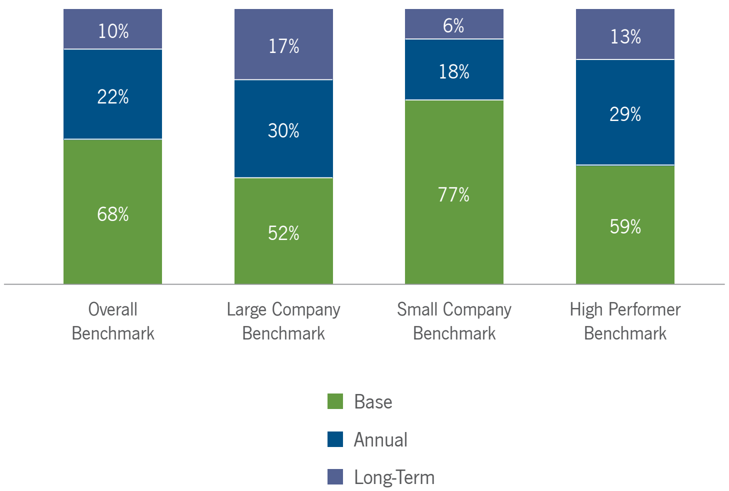
Long-term incentive programs were less prevalent at participating carriers than annual bonus plans. Only 50% of participating firms indicated having a long-term incentive plan in place for senior management. These plans, which vest over a 3-5 year period, typically relied on fewer performance measures 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 24% of their compensation at-risk compared to 47% at large carriers. Similar trends also were noted at the SVP/EVP level and VP level.

AVERAGE BASE COMPENSATION CHANGE FROM 2017 TO 2018 - CEO



COMPENSATION DISTRIBUTION - CEO



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.