



**Great Northwest
Insurance Company**



**Hawaiian Insurance
and Guaranty Company**

Executive Summary

Summary

Great Northwest Insurance is a personal lines property and casualty insurer writing auto, home and a complementary business owner package (BOP) in 16 states. We sell through local independent agents utilizing a revolutionary new business model called the Micro-Insurance Company®. We excel at offering low cost products coupled with the best customer service and retention in the industry.

VISION: To re-establish the local entrepreneur as the primary force in personal auto and home insurance.

MISSION: Great Northwest does the **simple things, less expensively**, and with **greater customer satisfaction**, through the **local entrepreneur**.

VALUES:

- Customer Focus
- Constant Improvement
- Entrepreneur Empowerment
- Integrity

LONG TERM GOALS:

- 15% Annual Organic Growth
- <20% Underwriting Expenses
- <10% Loss Adjustment Expenses
- 96% Combined Ratio
- 90%+ retention

RATINGS:

GNIC:	AM Best B+
	Demotech A
HIG:	AM Best B
	Demotech A

LICENSED STATES: AZ, AK, FL, HI, IA, ID, IN, LA, MD, MN, MO, MS, MT, ND, NE, NM, NV, OH, OK, OR, RI, SD, TN, UT, WA, WI

OPERATIONAL STATES AZ, HI, ID, MN, MT, ND, NE, NM, NV, OK, OR, SD, TN, UT, WA, WI

Stakeholder Value Statements

1. Great Northwest, operating through Micro-Insurance Companies®, is a low cost provider of auto and home insurance products. By eliminating the traditional home and branch office structure, Great Northwest has the lowest overhead expense of any auto and home insurance company selling through agents. This translates into a long-term competitive advantage by providing a low cost product.
2. Great Northwest's Micro-Insurance Company® structure and superior business systems puts the power to address any customer need in the hands of our local agents. As a result, we are able to provide fast, superior customer service resulting in unsurpassed retention.

Great Northwest's Philosophy

Insurance agents are facing a dilemma. Most companies are asking their agents to sell policies (something that most admit is not their strength) and then get out of the way. After the sale is made the company takes over servicing the policy and handling claims, leaving the agent very little interaction with their customers. Many agents and customers are left wondering how the local agent adds value to the process. Consequently, the direct business model has gained market share in recent years by disintermediating the local agent and reducing their sales costs by going directly to the consumer.

Great Northwest holds a contrarian view of the future of the personal lines insurance marketplace. We believe that the traditional home and branch office, and not the local agency, will over time become disintermediated and unnecessary. Great Northwest believes that by eliminating the overhead expense required by the traditional home and branch office structure, independent agents can operate as efficiently as direct companies and provide superior customer service.

Great Northwest is unique in its belief that the battle for customers in the future will no longer be fought over how to distribute the product, but rather how to best service and retain the customer. Tomorrow's customer will demand local service and a low cost product. Successful companies will use all available sales channels to reach their potential customers. The sales channel will no longer be a valued distinguishing feature. Rather, the

customer service channel will be the critical distinguishing feature, and one that makes Great Northwest unique in the marketplace. We believe that the Micro-Insurance Company® model is the key to unlocking the hidden value provided by local agents.

The Revolutionary Micro-Insurance Company® Model

What makes Great Northwest unique is our Micro-Insurance Company® concept, or MIC®. We sell and service our products exclusively through local independent insurance agents. Each agent creates a MIC® to service their local area. The MIC® is responsible for managing all aspects of their insurance business – including underwriting, sales, service and claims administration. Policy issuance, billing and renewals are all handled by the MIC® at the local level. The MICs® forge relationships with local independent adjusters and repair vendors and administrate the claims process, including the issuance of claim checks, but do not adjust claims. For their efforts, MICs® receive higher than market-level compensation and share in the annual underwriting profit of the company.

Less expensively. The historic structure of insurance companies operating through agents has had three elements, a home office, a branch office, and an agency system. The average underwriting expense for this system of providing preferred auto and home is over 30%. Loss adjustment costs are typically in excess of 10%. Total expenses are more than 40%.

The innovation of direct companies, including GEICO and Progressive Direct, was to eliminate the agent and reduce the underwriting cost for auto insurance to less than 20%.

Great Northwest's innovation was to eliminate the traditional home and branch office system and move all functions to the local agent, which is now set up as a Micro-Insurance Company®. Through re-engineering the structure and moving 100% of customer service functions to the local MIC®, overhead costs have been reduced significantly. Great Northwest's underwriting expense has been approximately 24% with an additional 11% for Loss Adjustment Expense. With further scale, underwriting expenses can be reduced to less than 20% and LAE under 10%, bringing total expenses under 30%. This represents a cost savings of approximately 10 percentage points, or 33% compared to our general competition.

Greater Customer Satisfaction. Today's consumers demand not only low cost, but extremely high levels of service. This raised standard of service includes not only basic needs such as speed and effectiveness, but also higher level needs such as accountability, trust, and friendliness.

Great Northwest's Micro-Insurance Companies® act as "customer advocates" in order to meet these higher level needs. By moving functions performed by other insurance companies at a home or branch office to the MIC®, our agents can provide immediate solutions to their customers. Everything from marketing, sales, policy issuance, insurance card production, renewals, endorsements, billing, and claims administration service is handled locally in real-time by the Micro-Insurance Company®.

Most importantly, the Micro-Insurance Company® has the information and tools needed to perform their valued customer advocacy role throughout the claims process. The use of an impersonal call center as the first point of contact after a claim weakens the bond of the agent with their customer. All claims for Great Northwest policyholders are reported first to the local Micro-Insurance Company. The MIC® handles simple claims directly by referring their customers to their preferred vendors. More complex claims are referred to the local independent adjusters for handling, but the MIC® personnel always are available to perform their valued role as the customer advocate.

The MIC® acts as a customer advocate throughout the entire claims process. Once a claim settlement is reached, the claim check is printed at the site of the agency, allowing it to be delivered in person to the customer. This enhances the value of the agency, and reinforces the local image of a MIC®.

This greater customer satisfaction results in superior customer renewal ratios and greater revenue growth. Our 2008 and 2009 renewal ratios for our customer base exceeds 97%.

Micro-Insurance Company® Characteristics. We focus our recruitment efforts on agencies that have the following characteristics:

1. Focus on personal lines
2. A belief that their participation in service is important to the customer, and can make a significant impact on customer retention.
3. Presence of an experienced individual on staff who can manage the details of the MIC®.

4. A history of profitable personal lines.

The Quality Control Center

Great Northwest operates three Quality Control Centers (QCCs) in St. Paul, Boise, and Honolulu to provide the products, tools, and oversight necessary for MICs® to operate effectively. The QCCs are responsible for quality control, product management, and information technology.

Quality Control. With the decentralized structure of the Micro-Insurance Company®, strict quality control is needed in order to ensure the integrity of our underwriting and claims processes. The proprietary Great Northwest Audit system was designed to ensure compliance with our procedures and guidelines.

The core of the Great Northwest Audit system is based on a battery of quality measures with pre-set control limits. Various underwriting quality measures such as underwriting tier mix and home inspection results are tracked, in addition to claims quality measures such as the aging of claims and timeliness of claims handling. When a MIC® goes outside of these control limits, corrective action procedures are automatically triggered to address the issues.

Great Northwest also performs regular spot checks and on-site audits in order to hold our Micro-Insurance Companies® accountable and to identify training issues.

Product Management. Great Northwest's use of decentralized Micro-Insurance Companies® to service the customer requires a simplified approach to our products and processes. We offer only industry standard ISO coverages in order to simplify the claims process for our MICs® and their independent adjusters. Using technology to automate and monitor most of our processes allows our MICs® to maintain their efficiency and effectiveness.

Great Northwest utilizes a proprietary multivariate scoring system to underwrite and price auto and home policies. Our online rating system utilizes customer credit, motor vehicle record, accident history, and other



risk characteristics gathered from the application in order to price the policy. The rating system is available in real time to all of our Micro Insurance Companies®, and allows for immediate underwriting decisions and processing of new business, renewals, and endorsements at the site of the Micro-Insurance Company®.

Information Technology. The technological revolution has been characterized by the movement of information and power outward from the centralized structure to the local entrepreneur. The Micro-Insurance Company® takes advantage of this dramatic shift by putting all functions in the hands of our agents via their desktop.

To our MICs®, the Great Northwest business resides as a node on the internet. All transactions by a Micro-Insurance community are completed in real time directly in our database, which can be accessed by our MICs® anywhere in the world via a browser. We utilize state-of-the-art internet security methods in order to protect the integrity of our database and the privacy of our policyholders.

The Great Northwest system has been built with object oriented programming on a relational database, keeping our mission statement regarding simplicity always in mind. The robustness of our systems have been tested thoroughly by outside consultants, and are capable of growing with Great Northwest's expectations towards superior growth.

History

Great Northwest was established in late 1992 with the goal of re-establishing the local entrepreneur as a primary force in personal lines property and casualty insurance. Venture capital was provided by the St. Paul Fire and Marine Insurance Company (now Travelers), and Century Capital. Great Northwest's first policies were written in late 1993.

During the first few years, the Micro-Insurance Company® template was tested in Idaho, Montana, and Nevada. The original targets and goals were accomplished, and a second phase of scalability was implemented in 1997.

During the scalability phase, Great Northwest entered 8 new states in partnership with Northbrook, a subsidiary of St. Paul. Northbrook state



licenses were utilized and St. Paul agents were among the many agents who signed on as Micro-Insurance Companies®.

During the summer of 1999, St. Paul announced the sale of their personal lines to Metropolitan. Great Northwest was forced to find additional capital to buy the stock owned by St. Paul and Century Capital, and to search for an industry partner that was licensed in our operating states. In 2000, Great Northwest was successful in locating capital to buy out the original venture capital investors and formed a partnership with Clarendon National to provide state licenses. This began a four year transition to our current structure.

This transition phase lasted until 2004, when Great Northwest was successful in raising substantial Private Equity capital to create our own insurance company structure.

After obtaining private equity capital, Great Northwest purchased a shell insurance company, renamed it Great Northwest Insurance Company, added additional capital, and again successfully transitioned our agents and their customers from Clarendon National to the Great Northwest Insurance Company.

The assumption of business from Clarendon to Great Northwest began in 2005. In 2006, Great Northwest completed the assumption process for the majority of its policyholders.

In 2006, Great Northwest purchased Hawaiian Insurance and Guaranty with its book of 20,000 policyholders. Hawaiian Insurance Guarantee Limited continues to operate as a subsidiary of Great Northwest.

Today, Great Northwest Insurance Company (GNIC) continues to operate under the same entrepreneurial principles on which we were founded more than 16 years ago.

Summary

The personal lines insurance industry has debated for many years about the future structure of the industry based on a consumer's choice of distribution channel, agent or direct. Great Northwest sees this distribution distinction as meaningless since it is not associated with any inherent cost or customer retention advantage.

Great Northwest believes the key to reducing costs and improving customer retention will be determined by how a company chooses to service the customer after the sale.

Great Northwest's Micro-Insurance Company® model utilizes the power of technology to eliminate the traditional home and branch office and reduce costs substantially.

The Micro-Insurance Company® model elevates the value of the local agent as a customer advocate and real-time service provider to achieve superior customer retention.

This juxtaposition of cost competitiveness and superior customer retention is a powerful driver for superior performance.