



# Building A Bright Future Together

*Main Street America Group's  
2002 Letter from the President & CEO*



MAIN STREET AMERICA GROUP

National Grange Mutual Insurance Company  
Old Dominion Insurance Company  
Main Street America Assurance Company  
Information Systems and Services Corporation

# Building a Bright Future Together

*From Tom Van Berkel,  
President and CEO, Main Street America Group*

Let me begin by expressing my gratitude to all our independent agent customers, our many friends, and our Main Street America Group team for their commitment and support last year. Even with the ups and downs that come with an uncertain economy, I am extremely proud of our accomplishments – and we did it because we worked together as partners.

I'd like to give you as clear and complete a picture of 2002 as possible: our financial results, the challenges we faced and the steps we've taken to deal with them. We'll look at the opportunities ahead and how we plan to embrace them. Although we encountered some challenges (as did the rest of the industry), we achieved many of our short-term objectives while making some significant progress toward our long-term goals.

We understand that looking back is only valuable if we use it as a foundation, a platform from which to build an even stronger, more profitable organization. From this platform, we can look ahead more clearly at the opportunities and challenges that our businesses face, and develop plans to increase the profitability and prosperity of our agents and our company. We expect great things in 2003!

## **2002, Using the Past to Build the Future**

The year 2002 was one of growth, transformation, and a steadfast focus on the independent



agent. Although growth and expansion are essential to the survival and success of a company, we also know that our achievements are based on fundamental beliefs and values that do not change. We serve the Main Street America market and remain true to that segment. And, we are committed to the independent agent as our sole distribution source. Our strict adherence to these values has allowed us to deliver products and services that consistently meet your needs and the needs of your customers.

In 2002, A.M. Best reaffirmed our "A" rating, an indicator of our financial strength. The combination of market conditions and your efforts worked in our favor when it came to increasing revenue. Premiums grew an impressive 19%

overall, led by very strong growth in our most profitable commercial segment. More than half of this growth comes from premium supported by increased rate levels.

We fell short of our calendar year combined ratio target and will post a result of 105.2.

I am heartened, though, that our accident year indications are right where we expect, and will lead to improved results in 2003 and beyond.

In 2001, we finished with a calendar year 99.8. Often in our business, we are never quite as good or bad as we envision. So, in 2002, losses

from prior years developed more than planned, working to balance out the exceptional results of 2001. Specifically, we encountered more development in our private passenger

automobile, package liability and workers compensation lines than originally anticipated. Commercial lines continued to perform as expected - in the low to mid 90's.

Our attention and focus is on personal lines where, like much of the industry, results lag behind market conditions. We have developed action plans for 2003 that will turn these numbers around and I remain confident we will

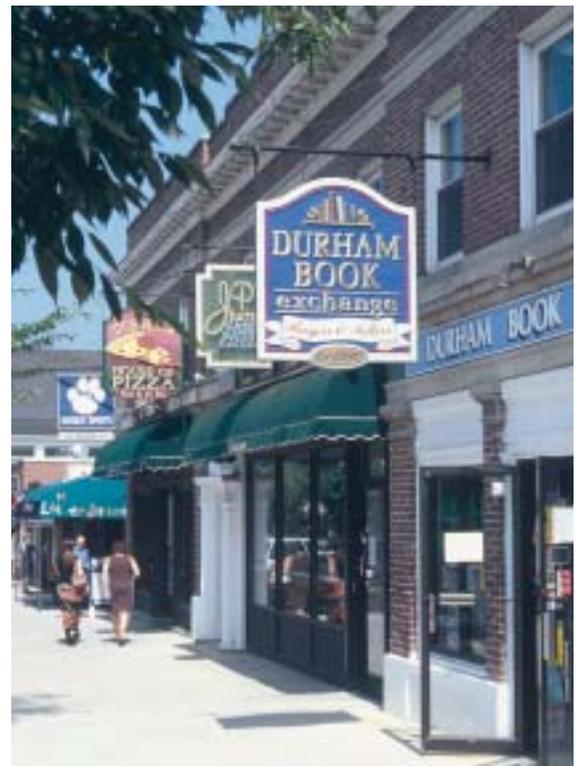
reach our long-range goal of combined ratios in the mid 90's.

Not unlike other carriers, our surplus position did not improve in 2002. And it's no surprise that we didn't get much help from the financial markets. However, our premium-to-surplus ratio is strong at 1.7 to 1 and compares favorably to industry

benchmarks. Also, in 2002, we welcomed Guy Cooper, Chief Investment Officer to our team. With his guidance, we are fine-tuning our long-term investment strategy and are optimistic for the coming year. *(For complete 2002 financial results, log on to our website, [www.msagroup.com/aboutmsagroup/financials](http://www.msagroup.com/aboutmsagroup/financials).)*



## 2002 PREMIUM GROWTH



On the technology front, I'm pleased to report we delivered some solid products last year. Many of you have told us that our on-line policy change request system for personal lines is among the finest in the marketplace.

In addition, we recently delivered an on-line bill payment function and are deploying commercial Quick Quote capabilities in all our states. Quick Quote allows our agents to produce a commercial quote online in real time and print out a professional proposal to hand to the customer within minutes.

Technology challenges are substantial in our industry. Our goal is clear; to deliver complete desktop functionality to every customer in our franchise. The pace is never as quick as I'd like, but we are making progress and I'm encouraged by your response to our new offerings and our plans for 2003 and beyond – more about this later. We will not rest until we deliver complete desktop functionality to each and every independent agency customer in our franchise.

### **Our Customer, the Independent Agent - the Keystone**

Now is a great time to be an independent agent! You are gaining market share and currently possess 56% of the entire property/casualty market! Why? You offer what the consumer wants – professional, objective advice and advocacy on a very complicated and important subject – insurance protection for home, auto and businesses.

*“We will not rest until we deliver complete functionality to each and every independent agency customer.”*

Remember it wasn't that long ago that the pundits were predicting the demise of the independent agent! You are alive and well and stronger than ever. I was fortunate to visit with many of you in 2002 and it was indeed a pleasure to participate in the CEO panel discussion

at the Independent Insurance Agents and Brokers of America's (IIABA) national convention in New Orleans in September.



We are proud to be one of the founding members of the IIABA new consumer-marketing brand, Trusted Choice. Much like the “Good Housekeeping Seal of Approval,” Trusted Choice will highlight the unique advantages of



the independent agent and immediately identify members as part of a quality, trustworthy organization. With Trusted Choice every additional 1% of market share is worth \$3 billion in property/casualty premiums! I encourage every agency to join in this valuable initiative.



Agency's office in Clarksville, Virginia. Co-owner Sherry Guerrant contacted insureds and set up appraisal appointments in 30-minute intervals. Tom and Kevin worked from 6 a.m. until

9:30 p.m. for four days straight, appraising auto damage claims on the spot. The agent would then write checks, handing them directly to the customer before they left the premises. Mary Guerrant, of the Central Insurance Agency said, "The support we received from Tom and Kevin was excellent. I am very proud to represent a company that is receptive to the agent's needs and responding in a compassionate manner when an emergency occurs. It is a wonderful feeling when a company takes you personally and not as just a number." Tom still keeps in touch with the Central Insurance Agency on a regular basis, and Mary values his expert advice on claims handling.

Main Street America Group strives to consistently deliver exceptional service to our independent agents.

We want to be recognized as the company that treats our customers better than anyone else. In my travels to agents' offices, I'm often asked for examples of what this looks

*"I am very proud to represent a company that is receptive to the agent's needs and responding in a compassionate manner when an emergency occurs."*

or feels like. Let me share a couple with you.

In May of 2002, Maryland and Virginia were hit with devastating wind and hailstorms. Although Maryland experienced a disastrous tornado, the effects in Virginia were much more widespread, due to the extensive hailstorms. Scores of cars and trucks were severely damaged. Within a day, two MSA Group appraisers, Tom Westgate and Kevin Snow, were on the scene and had set up a temporary claim center, which consisted of a tent right outside the Central Insurance



Also in 2002, the Clark-Mortenson Agency in Keene, NH approached us about a branding initiative they were interested in developing for their agency. They understood and completely agreed with the idea that a strong brand can greatly influence the profitability of the agency, and they were grateful for the expert advice and support the MSA team gave them in launching a successful program. Territory Manager Sue Burd and Agency Development Manager Troy DeLampan worked with agency principals Heather and Tom Minkler to develop and implement a comprehensive branding program. "No other company came close to offering us the kind of help and guidance that MSA Group did," said Heather. "They were there to help every step of the way, and the results were truly eye-opening. We've been able to incorporate many of the findings into our every day operations and it has positively impacted the quality and volume of business we attract and improved our retention. We regard MSA as our true partner in the success of our agency."

### **Our Team - the Supporting Beams**

These examples illustrate that the Main Street America Group team members truly live and breathe the MSA values of ownership, relationships and service. I'm very proud of the efforts and energy level displayed by all our employees in 2002.

Moreover, our team continues to develop, focusing on how to make our organization better, stronger and more responsive to your needs. Our training and development programs center

*"No other company came close to offering us the kind of help and guidance that MSA Group did."*

on providing our people with the tools and the knowledge to enhance their relationships with you. From the underwriter and field representative, to the systems programmer and accounts payable manager, we understand that every employee has an impact on the experience you

have with our company. Our employees know that the most important goal in their jobs is to make it easy for our agents to do business with us. Developing deep, long-lasting relationships is our main competitive advantage, and we are successful because our employees live this ideal every day.



### **The Market Place – Building Materials**

As of this writing both the personal and commercial lines markets are deep into a hard market – what I like to refer to as “in cement!” I



maintain this market has legs well into 2004. Companies simply haven't been healthy long enough and there is still much more balance sheet repair needed. In addition, there remains too much uncertainty in the investment side of the equation to expect any movement sooner.

Commercial lines will see the earliest signs of softening (when it does occur), where the most significant rate action and underwriting rigor has already been applied. We as a company have always maintained our underwriting and pricing discipline, giving us a healthy business and providing you with consistency. The personal lines market has a much longer road to recovery. The industry has been too slow to respond to real rate needs, and involuntary markets and regulatory constraints burden the business.

We will monitor developments closely and make sure we are properly positioned for whatever comes. One thing I can promise you we won't do is to rush into "trendy" markets that seem to offer unprecedented opportunity. We've built our success on steady, conservative underwriting within our market niche and I see no reason to change that. I've seen too many times

the truth in the old saying, "If it seems too good to be true, it probably is."

We are looking at opportunities for growth within our niche in 2003, especially on the commercial side. Main Street small businesses are a significant part of our economy and are an excellent business opportunity for you and us.

### **Our Focus On Technology – Windows on the World**

Technology is one of the greatest issues facing insurance businesses and it is front and center in our operations. Legacy systems have crippled our industry and the way out is slow. The winners, and we will be one, will navigate the challenges with precision. I'm proud of the web-based deliveries in 2002 and like what I see on the table for 2003. Many of our customers are realizing the benefits of using our Personal Lines Policy Change Requests (PCR) on the web.



The PCR function allows our customers to input changes to auto and homeowner policies via our website. The changes are processed and downloaded directly to their agency management systems. A process that used to take weeks, now takes days, many times overnight! Agents are seeing a marked decrease in errors because the agency employee who originates it is the one who inputs the information into the system. This results in a much higher level of customer satisfaction.

Our site allows agency principals to view and print their commission statements, loss reports, and experience reports. And, you and your customer service employees have access to our billing and claims inquiry functions. Our goal is simple... to give you access to your information anytime, anywhere.

In addition to our efforts to increase functionality on our own website, we are focused on SEMCI (Single Entry Multiple Company Interface). We are one of a handful of carriers who will take steps to adopt IVAN's Transformation Station for commercial lines in 2003. With this single entry system, agents will be able to upload requests directly from their agency management system, and within minutes receive quotes from multiple carriers. In our case, you will also receive a professional proposal downloaded directly into your management system. We recognize that you and your employees need as much efficiency as possible in your day-to-day work processes and we are committed to providing you with services that integrate your agency management system with our web-based solutions.

Our efforts in developing this technology is not an end in itself, but a means to an end – that is



making the experience of doing business with us as easy as possible.

## Our Futures Together Look Bright!

Our futures together do indeed look bright! It's a great marketplace and simply a great time to be an independent agent. You offer your customer choices and they trust you. Here are some ideas that may help you in planning your success in the years to come:

- Know who your partners really are and reward them with your best opportunities.



Carriers who compete against you by utilizing alternate distribution channels do not have your best interest in mind.

- If you haven't done so, make a commitment to join Trusted Choice today. Invest in your brand! Independent agents have so many advantages over their competitors – do everything possible to make sure your customers and potential customers know this.
- Use every bit of technology available to you. Don't wait. The technology investments we and other carriers are making are significant and our futures depend on our ability to compete on all levels, including via the Internet. Don't be left behind.
- Consider the best, most productive way for your staff to spend its time. Assess what activities offer the greatest return on profits and modify work habits to take advantage of those opportunities.
- Take a careful look at your retention rates and the number of policies per insured. Research shows that the more policies a person has with you, the more likely they are to stick with your agency.
- Look two, five and ten years into the future. Strategic planning isn't just a "nice



to have.” In today's marketplace, it's a necessity!

## Building a Successful Future

As I look back on 2002 and years prior, I am gratified at the solid foundation we have built for our company and am eager to continue the process of constructing a stronger, more responsive organization that not only meets, but far exceeds our customers' expectations. Two things will propel us to unprecedented growth

and success in the years to come. First and foremost is the faith we have in our independent agent customers. YOU are the key, and we will do everything possible to ensure you have all the tools you need to expand your market share

and increase your value in the community. Second, is the faith I have in MSA employees. They have demonstrated again and again that they can anticipate your needs and deliver on the promises we make. The best thing I can do is simply stay out of their way and let them do their jobs! We've said many times that our business is a people business – people serving people. And together as partners we make a formidable team!

Finally, let me end with six simple words: Thank you for being our customer!

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