

RE: COVID-19

Steven L. Patterson

President and CEO

Dear Partner Agents,

Out of respect for our relationship, and a desire to remain as transparent as possible, I have written the letter below that I hope will help update you on the COVID-19 situation from our company's perspective. I trust the information I have to share will provide you understanding of our plans moving forward during this national public health crisis.

In early March, I began to pen a letter to recap last year, update you on our progress and plans, and to thank you for your partnership, business, and friendship. We had just completed our annual meeting, and all the work that goes into that gave way to the excitement for the coming spring.

We were generally aware of the novel coronavirus, and we were all taking steps to be safe, wash our hands, keep safe distances, encouraging one another, and wondering what it all meant. Ours is not a huge company, though it is financially strong. We do not have thousands of employees, but the hundreds we do have care about their work and neighbors, as well as our agents, members, communities, states, and nation.

On March 12, before any shelter in place orders had been issued, we implemented a plan to transition to telework where possible. Essential functions, key personnel, what, who, and how many to keep us operating and for how long, were the essential questions at the time.

We wanted to segregate staff to ensure we could continue our expected high levels of service to agents and policyholders while reducing risk to our employees and members.

As I write this, I am one of only eight people in our buildings. To be sure, social distancing has not been an issue. Zoom, Slack, and other social media platforms have helped us stay connected, interconnected, and collaborative. We hope that this finds you and your agency healthy and operational in whatever safe way is possible. In addition, we hope you and your families are healthy and well, as we pray this virus will be contained, and people spared its further economic impact.

A recap of last year was the aim of my initial letter back in early March. But let's be honest, not much of that matters during this time of mandatory orders to stay home, business closings, job losses, and every elected and appointed official trying to provide, hope, answers, and economic relief. We want to provide you with an update on the COVID-19 situation from our perspective.

Oregon Mutual was proactive in offering to work with policyholders adversely affected by the virus and related orders to consider payment options, waive fees, and defer cancellation due to non-payment. We have worked with regulators to identify other areas where conditions may indicate underwriting issues that would be unfair to consider given the closures of governmental services as well. As a reminder, in March informed you of these measures:

- **Placing a 30-day hold on cancellations for non-payment of premium for those policyholders experiencing hardships related to COVID-19. This is not a waiver for those payments due during this time.**
- **Waiving late fees.**
- **Removing accounts from recurring electronic payment methods when necessary.**
- **Adjusting payment schedules when possible.**

Since that announcement, we have also been active in assisting you with adjusting members' low mile credits, where appropriate, and revising business premiums based on reasonable projections of revenues.

In the public square, however, calls to retroactively change or cover the effects of this government shut down to help get relief to consumers, and business is occurring daily. Unfortunately, these well-intended actions are potentially devastating to our industry and would threaten the solvency of both insurers and their reinsurers. We understand this is an emotional period and that some of these actions are done out of a sense of desperation. The trial bar has also been busy filing lawsuits, including a large class action that we and other companies have been named in over business interruption coverage. We intend to defend the policy, and, in the process, the company and agents that sold it.

We have also seen competitors announcing premium refund programs, primarily on personal auto. In fact, the race to make an early announcement and grab some headlines was impressive. We understand these moves are popular with consumers and perhaps many agents. But as a use of resources, it is more marketing than management. Insurers are priced differently and provide different policies and services—many of the carriers rebating charge more upfront. The future of this pandemic holds uncertainty for all consumers, and all businesses and insurers are not immune. With steps we have already taken we are extending insurance to people who cannot pay currently. As fewer people shop for insurance or drop insurance through job losses and business failures, your business and our business will be negatively impacted. In addition, insurance companies keep their policyholder protection funds invested. Even though we are very conservatively invested, market losses and low-interest rates in the bond market negatively impact carriers. All this to say, we are all at some level of economic risk.

As a regional mutual company with a duty to make the best decisions for the health and well-being of our mutual members, this is a difficult decision. We have carefully evaluated the wisdom of providing these refunds.

On an emotional level, we would love to send back money as it is true that many customers are experiencing reduced driving mileage. However, 80 percent of our drivers already have reduced mileage credits of some kind. Claim volume is showing signs of being lower but incurred losses have not yet shown large reductions. Last week, in fact, [CBS News](#) reported in an interview with law enforcement that traffic fatalities across the nation are up during COVID-19 as a result of extreme speeding enabled by reduced traffic congestion.

Stock companies can raise revenue through stock offerings but a mutual company can only build capital through its operations. As a result, we stick close to the principles of insurance

in making financial decisions in order to ensure our long term stability and viability. One of those principles is that we keep the promises we make in our policies.

Our claims services, when our members need them, is a hallmark of our commitment to them. Our claims practices in personal auto specifically are valued by you and members. We do not require or use non-OEM sheet metal parts in repairs. We are top-rated in our operating areas and #5 nationally in how we treat our customers according to the latest national [“CRASH” network survey](#). We also retain field claims professionals near members to better serve them. Moreover, when a member’s vehicle suffers a total loss, we secure two independent total loss evaluations and then pay the higher of the two rather than an average of the two. These practices provide longstanding value to our members, and cost us money every month of every year and not just a small percentage of a couple of month’s premium that our competitors supply. We have a long and difficult past with personal auto, and it has been over a decade since we have been profitable in that line of business. We have made strides towards profitability in the past two years. We have also committed to providing you great products and services while offering competitive prices and stability. We don’t want to give money away today that we may need and have to recover through rates later.

Because of all this, we have concluded that anticipatory refunds are not the best use of our mutual company’s assets nor, in the long run, better for our members.

As such, we have made the decision that we will not be announcing refunds, rebates, or credits. We have made this decision in consultation with many of our largest and strongest agencies. These partners informed us that they certainly see others marketing their actions, but that it doesn’t make business sense to them. They told us that they support our decision and will remind customers of the favorable comparisons based on value and that many of these other carriers were higher priced when they purchased and maybe higher still on their next renewal.

One benefit of our mutual structure is that we have the ability to evaluate financial performance and, if appropriate, declare a dividend. We are committed to evaluating this situation as it continues to develop and to monitor our company results and the impact that all these events have on our financial results. If we experience savings in losses due to lower miles and claims payments and not the offsetting losses of less business, premium write-offs and investment declines, we will likely be in a position to evaluate a dividend or effectively negate or diminish the need for additional rate in any upcoming auto rate filing. This is the way insurance rating works and our current experience will affect future pricing.

As always, we remain committed to meeting the insurance needs of our agents and members. If you have any further questions we encourage you to contact your Agency Marketing Manager, and as always, our Customer Service team at 800-409-3814 is ready to provide assistance when you need it. Thank you for your work and partnership with Oregon Mutual. I look forward to seeing more of you at the end of this public health concern and economic shutdown.

Sincerely,

Steven L. Patterson
President and CEO
Oregon Mutual Insurance

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