

# MUTUAL REINSURANCE BUREAU

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## 1ST QUARTER 2011

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*President/CEO*

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*Senior Vice President, Sales & Service*

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*Vice President, Sales & Service*

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**Kenneth L. Hense, CPCU, ARe, SCLA, AIC**  
*Assistant Vice President, Claims*

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*Assistant Vice President, Underwriting Services*

**Lisa K. Ebbers**  
*Assistant Vice President, Underwriting Services*

**Scott A. Johannsen, CPA**  
*Assistant Vice President, Controller*



## Production

Net Written Premiums	First Quarter ( <i>in thousands</i> )			Year Ended December 31 ( <i>in thousands</i> )		
	2011	2010	CHANGE	2010	2009	CHANGE
<b>Property</b>						
Pro Rata	\$ 9,016	\$ 9,583	(5.9%)	\$45,977	\$39,119	17.5%
Excess	7,306	5,499	32.9%	28,448	19,951	42.6%
Catastrophe	1,282	1,375	(6.8%)	6,010	6,368	(5.6%)
	<b>\$17,604</b>	<b>\$16,457</b>	<b>7.0%</b>	<b>\$80,435</b>	<b>\$65,438</b>	<b>22.9%</b>
<b>Casualty</b>	<b>\$ 4,177</b>	<b>\$ 3,218</b>	<b>29.8%</b>	<b>\$12,710</b>	<b>\$10,900</b>	<b>16.6%</b>
<b>Total</b>	<b>\$21,781</b>	<b>\$19,675</b>	<b>10.7%</b>	<b>\$93,145</b>	<b>\$76,338</b>	<b>22.0%</b>

## Underwriting Results

Statutory Profit (Loss)	First Quarter ( <i>in thousands</i> )			Year Ended December 31 ( <i>in thousands</i> )		
	2011	2010	CHANGE	2010	2009	CHANGE
<b>Property</b>						
Pro Rata	\$ (652)	\$ 487	\$(1,139)	\$ 825	\$ 2,552	\$(1,727)
Excess	1,851	(833)	2,684	3,830	5,200	(1,370)
Catastrophe	877	1,204	(327)	3,122	2,567	555
	<b>\$ 2,076</b>	<b>\$ 858</b>	<b>\$ 1,218</b>	<b>\$ 7,777</b>	<b>\$10,319</b>	<b>\$(2,542)</b>
<b>Trade Ratio</b>	<b>90.7%</b>	<b>95.4%</b>	<b>4.7%</b>	<b>89.0%</b>	<b>84.5%</b>	<b>(4.5%)</b>
<b>Casualty</b>	<b>\$ 359</b>	<b>\$ 262</b>	<b>\$ 97</b>	<b>\$ (907)</b>	<b>\$ 125</b>	<b>\$(1,032)</b>
<b>Trade Ratio</b>	<b>91.3%</b>	<b>91.9%</b>	<b>0.6%</b>	<b>103.8%</b>	<b>98.9%</b>	<b>(4.9%)</b>
<b>Totals</b>						
Profit (Loss)	\$ 2,435	\$ 1,120	\$ 1,315	\$ 6,870	\$ 10,444	\$(3,574)
Trade Ratio	90.7%	94.8%	4.1%	91.7%	86.6%	(5.1%)

**MRB Reserves for:****Prior Years' Underwriting Results:**

<i>(as of March 31)</i>				<i>(as of March 31)</i>		
	2011	2010	CHANGE		Profit (Loss)	Trade Ratio
Case Losses/LAE	\$ 70,679	\$ 67,843	4.2%	<b>2009</b>	\$ 3,773	82.8%
IBNR	76,147	92,250	(17.5%)	<b>2008</b>	158	100.8%
Premiums and				<b>2007</b>	1,766	93.2%
Commissions	37,575	16,629	126.0%	<b>2006</b>	(468)	103.4%
<b>Total</b>	<b>\$184,401</b>	<b>\$176,722</b>	<b>4.3%</b>	<b>2005</b>	234	99.1%

**2011 MRB Assuming Companies and Directors**

Company	Latest A.M. Best's Rating	MRB Board of Directors	CONSOLIDATED GROUP NUMBERS (as of December 31, 2010)	
			Assets	Policyholders' Surplus
			<i>(in thousands)</i>	
EMPLOYERS MUTUAL CASUALTY CO. Des Moines, Iowa	A- XII	Ron D. Hallenbeck, CPCU, ARe President of EMC Reinsurance	3,163,000	1,079,590
FARM BUREAU MUTUAL IC OF MICHIGAN Lansing, Michigan	A- IX	Steven R. Rock, CPA, CPCU, FLMI Vice President, Corp. Controller	926,775	355,804
KENTUCKY FARM BUREAU MUTUAL IC Louisville, Kentucky	A+ XI	Bill Reddington III Director Actuarial Services	1,801,223	927,149
MOTORISTS MUTUAL INSURANCE CO. Columbus, Ohio	A X	Michael L. Wiseman, FCAS Treasurer/CFO	1,671,476	680,833
<b>Combined Totals</b>			<b>\$7,562,474</b>	<b>\$3,043,376</b>

## *To Our Clients and Friends...*

We've drawn the curtain on the first quarter of 2011 and I'm happy to say we're fairly pleased with our results. On a net basis, we came in at a 90.7% trade ratio for the quarter. This compares to a 94.8% trade ratio for the same period a year ago. So far, so good.

As most of you know, we write a significant amount of property business in the northeast. I don't need to tell those of you who live up there that this year's winter weather left a lot to be desired. It snowed...and it snowed....and it snowed some more. Winter freeze and collapse losses there were significant..... and our property results reflect it.

Offsetting our less than stellar property result was some positive (the good kind) development on our casualty book. It's nice to have a pleasant surprise or two every now and then on old year casualty business....and that development contributed nicely to our decent 1st quarter result.

I'll go out on a limb here and make a claim it's too early to research or prove one way or the other. I'm willing to bet we're one of very few reinsurers anywhere out there that will be reporting a first quarter profit in 2011. I don't recall seeing earthquake frequency and severity anything like we've seen in the last 6 months, or the series of non-U.S. cat events in general. It's just too early to know a firm number for the Japanese earthquake and tsunami that occurred in mid March. While an early \$25-\$30billion insured loss seems to be the number we're hearing, that number seems to be coming from the estimates of cat modeling companies and is

very much subject to change. In Japan, most of the residential EQ loss is insured by the Japanese government. I can only imagine the size of the insured loss from this event if this residential exposure was privately insured. From the standpoint of overall economic loss, I've heard numbers north of \$300billion.

We're hearing that the biggest chunk of the insured EQ loss in Japan will find its way into the reinsurance market, unlike some of the more recent catastrophes here in the U.S. Most of the Asian reinsurance programs renew at April 1, and renewal pricing seemed to reflect the enormity of the event. We're hearing of instances of price increases upwards of 50% there.

Conversely, the April 1 renewals here at home seem to have been done in orderly fashion, with little pricing impact as a result of the Japanese quake. The arm chair quarterbacks are telling us that all of the recent cats are more of an "earnings event" than a "capital" event. In layman's terms, that means that there is still plenty of reinsurance capital and capacity out there and that price increases will be imposed on only programs suffering losses. Makes sense to me.

That said, all eyes are on the Caribbean. Dr. Gray et al are predicting a very active tropical cyclone year in the Atlantic basin. If the U.S. mainland takes a direct hit in the wrong place from a class 4 or 5 hurricane this year the reinsurance market will become a completely different animal, rest assured.

I've been around long enough to remember "the good old days", whatever those were. Back then, capacity shortages seemed to happen more often and last longer. These days, a massive amount

of private equity capital is always looking for a good home and there seems to be no shortage of it when it's time to "reload". And, it moves much faster and far more efficiently than it did "back in the good old days". In fact, it's only been about three weeks since the occurrence of the Japanese EQ and I've already read about the establishment of a new sidecar in Bermuda. Recalling the movement of capital to Bermuda post-Andrew in 1992 and the start up classes of 2001 and 2005 there, my takeaway is that for fairly priced reinsurance there will always be a home. Maybe I'm wrong, but I don't think so.

For our part, we're just going to stick to our knitting. When you're 90 years old, you know no other way. In fact, we're positioned nicely, in my opinion. Our (new) regional broker market book is continuing to grow and is performing nicely. It's our hope and expectation that it will continue to do so. We've also had some nice conversations with people about replacing Country Companies as our fifth ACO and in that regard, I remain hopeful. That said, our current group of ACO's is very committed and supportive. For that, we are grateful. We have the capital we need to maintain and grow our organization.

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Many of you have asked how John Duncan and Bob Monaghan are getting along in their retirements. John has stayed in touch (mostly via email) and it sure sounds like he and Florida are getting along nicely. And, I think Donna is keeping him busy with their remodeling project. Mel and I (and our wives) enjoyed dinner the other evening with Caroline and Bob Monaghan and it sounds like retirement is suiting Bob just fine, too. In fact, Bob remarked that "it's so nice to not have to be in a hurry to do anything". For my part, I can't wait.

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As I write this, the clock is ticking on a government shutdown over the budget dilemma. If agreement isn't reached by midnight tonight, the government will, for all practical purposes, shut down. The lead article on the website I just saw read "They can't agree on why they can't agree".

I don't know about you, but my wife and I have never run our household as if there was an unlimited amount of free money available to us. And, I assure you, MRB isn't run that way either. Neither establishment would last long with that type of management style. With a \$14 trillion national debt (and growing), hyperinflation must surely be just around the corner. I can only imagine trying to run a business if/when we try to do it with a currency that devalues (from inflation) by the day. Eat, drink, and be merry, for tomorrow may never come. That seems to be the government mantra these days.

It scares the willies out of me.

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So, after that pleasant thought, here's wishing all of you a calm, peaceful, (and profitable) rest of 2011. By the way, please keep the hurricane gods away.

Best regards,



Tim Dorr, CPCU  
President/CEO