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Director Q & A

Q. Want to get your opinion on where we are with policy and contract administrations.

A. I perceive the current PLUS system to be a major risk thy Personal Lines and American Family because it is a 20+ year old system, .t is difficult to maintain, expensive to maintain, doesn't have the functionality this company requires. Particularly if we look at alternative channels of distribution or looks alternative business models, like acquisition of a company or block of business we are going to be in a world of hurt, because we'll never be able to convert nor would we want to convert another companies business to the PLUS system.

Q. Do you have an insight into kind of maybe the approach on getting rid of the PLUS system?

A. I think it's a slam dunk, you go buy something. American Family has failed miserably, never done a good job on build. We can't wait 10 years for a new system. In the early 80's there weren't mature systems out there one could go and shop for. Today there are. Now whether they are scaleable enough or not, can we run, a policy processing system in the mid-tier or do we have to look for something that allows us to have a mainframe solution, .11 we build something in my mind that will be a huge mistake.

Q Are there any particular systems you have in mind?

A. That's really IT's area. I've been involved with Duck Creek, AQS, CSC there is a lot out there to purchase if one is willing to implement it in a fairly delina fashion. The other problem that American Family has is getting away from doing it the American Family way. My recommendation would be go find a system that meets our scale, implement it and change the business processes to match the system rather than the other way around, We have bastardized stuff to the point that it is so customized that it becomes very painful every time a service pack comes out and we simple can't do that because in my mind property and casualty insurance has become a commodity and it's all about cost. It's all about being a low cost producer and I think trying to differentiate ourselves and be everything to everybody is a classic mistake. Match the business process to whatever the system will perform. Unless you have a regulatory compliance issue that requires you to customize it —just leave it alone.

Q. How do you see something like say if we purchase something from Duck Creek or one of these other policy admin systems integrating with our billing system and our customer information system?

A. Not very well, would recommend using whatever comes with the system,

Q. You would recommend changing a number of systems? Yes and then processing, we got to get people out of the loop in touching this stuff it has to be submitted by the agent or CSR and then go to some expert underwriting system (which we have struggled to develop), it has to punch up the policy and the declaration. Then have to look at the billing system, we can't be every thing to every one and news flash it's not like the billing system we have is best in breed. It would be one thing if some of the systems we had were really nitch systems that made our products so desirable but I just don't see it. This would allow us to get out of being a policy

centric organization to being a customer centric organization. American Family is one of a handful of companies that still issue a policy for every risk (two cars — two policies). We really need to move toward an insurance product, come insure my stuff. Insure my home, cars, boat, my life, etc. and give me an insurance policy. Because right now if you have 3 policies and they all have a different version of my name, trying to get the systems to talk to each other to figure out how many policies I have is difficult. And that is not really the trend in best practices going forward.

Q. Are there companies out there that you think that kind of have that already in place that would be perhaps something that we should fly?

A. That's the way General Casualty does it, Allstate does it, and GEICO does it. Now some of them still split the lines, you will have a casualty policy and a fire policy. Ideally you would really to get to the point where you have an insurance account. I'm sure there is some regulatory compliance issues buried in there some place that we would really have to skate to get around, I think that's something out there we would like to attain. But we have to figure out how to be a low cost producer. We have Dave and Jack right now saying they want to take 260 million dollars in expense out of the company in the next 3 or 4 years. Well we're not going to be doing that by developing these policy processing systems that have some nice to haves but they don't service the customers service elasticity of demand.

Q. In terms of offering excellent customer service what are some of the keys to that?

A. Pricing, price, price — because it's becoming a commodity. I think there is a question— American Family has built its reputation on service that the agents provide. Having the captive agent force has always been American Family's ace in the whole. Right now I am seeing it's kind of looking like that channel of distribution is broken — the captive agent channel. They have added 2700 agents in the last 3 years for a next decrease of like 30. We can't get the independent contractors to follow the rules. We have measurements that we expect the agents to remain within tolerance and they refuse to do so and there is nothing we can do about it because they aren't employees. We have agents who that have a big enough book of business that their willing to live on renewals and really not interested in selling any more new business and that seems to be the mantra of management. We have agents that say it isn't worth us to write condo policies for what we get. The goals of the agents are not in line with the goals of American Family right now and that channel of Marketing is really broken right now.

Q. How do we align the channels?

A. My opinion — make them employees. I know there are some huge issues with that, but until their goals are aligned with our goals (right now they are independent business men and are looking after number one — themselves). And I see it at strategic planning meetings they are driving this stuff down and making a critical assumption that the agent values and objectives are aligned with management objectives and that just is not true. There are some agents thumbing their noses at us because they can. They've got 7000 policies in there agency, knock off a few life applications each month and life is good.

- Q. Do you see any changes in incentive programs or anything like that or are we just not doing anything towards that?
- A. We've got the levels of commission which we started 20 years ago and that has been a good idea. Because if you pay all this big front end money for new business, then you lose out on retention. Go to a level commission system, they are making so much on their renewals that they can just kick back and make a good living of their renewals. What you need is them to be employees and sure they have a salary that focuses retention. In other words, if you don't have a certain level of retention you no longer have a salary ID and a job, and then you give them some lift for all the new business they can bring in. But that's only way we are going to get control over them and really align their business objectives with our business objectives. Right now they're over here and we're over here and we are trying to force a square peg in a round hole right now. That's my observation ... only been back two months —but some things never change.
- Q. We have heard some other issues around the agents with accuracy at the data being entered; sometimes they would enter bad data just because the field needed something in it. What incentive do we have other than doing some hard stops and kick it back to underwriting and then they just go back and change it again. How do we get good data we can't control?
- A. Another big issue they got all the CSR's out there. We pushed back when we ran the defacto system out we pushed all that data entry out into the agent offices, So what did they do? They went out and hired all these CSR's, minimum salary, no benefits, no career path — turn over is huge. And these people come in and have no idea what they are doing — so they pick up the phone and get one of the processors in the operations area and burn up their time. So not only are we paying the agent to pay the CSR but we are paying the processor to tell the CSR what to do. And you are never going to get around that CSR problem. Twenty years ago you had a coop agent office, you would go in and that office and there would be 6 agents and one secretary who was handling the calendars.
- Q. Are there any bonus incentives based on profitability at all for the agents?
- A. I believe there is based on their AOR performance. I think the retention is built into the profitability bonuses; you would need to talk to Marketing.
- Q. What do you think of the whole customer self service and do you think that is the way of the future?
- A. Yes, have to have that, I just heard a comment the other day backing off the use of credit cards to save money. On the face of it I thought that was a pretty bad idea. Because customers expect to be able to log on at 2:00am and on their banking, their insurance or whatever they want to do, they don't want to have to use pay pal. The information I got back from finance was that the people that pay their renewals with credit cards are some of our worse retention business. I can see why EFT would enhance retention. Customer self service- if you don't go there you are going end up alienating a huge market, whether it's a market that we want to get into, I don't know.

- Q. From the systems stand point it looks like — one system, limit customization, have the options for customer self service.
- A. Customer self service I think really should be secondary to getting, we can't wait 8 or 9 years or whatever ILP says they are going to get around replacing PLUS.

- Q. So you really think that you guys are at a competitive disadvantage by having PLUS.
- A. Not only is it a competitive disadvantage it is a huge risk. American Family is looking at some big risk (New Mandarin Fault. Pacific Tsunami) PLUS goes south on us and we can't get it to work again — that's how big a risk I think it is.

We are trying to establish an Enterprise Data Warehouse, and the reason that we are trying to establish the Enterprise Data Warehouse is because an insurance company is nothing more than a large data warehouse. We use data to evaluate and price risk, our data is in pretty bad shape. And that is because PLUS is being bastardized because it is cheaper than to actually putting maintenance on it. So not only is it an expensive system, but it is bastardizing the data out in our data warehouse. Which means that we can't really select and price risk the right way. Here's an example: in snowmobiles they use the PLUS area that denotes the model of the car to put in the percentage discount that snowmobile is getting. If you go to the data warehouse and pull down that field in casualty you'll have Explorer. Highlander — 10%, Galaxy 500 — 15%. That's a whole other issue that until we get this system fixed the data quality that we have in our Enterprise Data Warehouse is un-acceptable. So what is the risk that we face or potential cost for not being able to have quality data to use to analyze their business.

- Q. Are you in agreement with what they are doing with the Sales Initiative Suite (815), where they are trying to roll this out for new business applications?
- A. I am not familiar enough with it to offer a comment. I have seen ADS and that whole distributed data scenario is a night mare, so that doesn't work. My fear is that when you replace PLUS you are going to hear that doesn't play well with my system and it doesn't play well with my system either. We've reached era of service oriented architecture their not building there systems to plug and play. This is the new system and you are going to have to make do with what it does.
- Q. You talked about competing in cost as to automation, processing and underwriting and straight through processing. What do you see there regards to may be operations, next what do we need to do to make that more competitive?
- A. Straight through processing — make it operate as cheap as possible, that's really the point to straight through processing.

What's the best way at getting to doing that?

Monolithic system that's installed in a vanilla fashion. This company lives on exceptions underwriting exceptions, processing exceptions, billing exceptions-- I'm sorry that stuff has got to stop. This company has to watch its expense ration because we are losing our competitive advantage with the competition. If the GEICOs and Progressives at some point can get to the point where they call process as efficiently and cheaply as we can and they're not paying a lot of the front end commissions and all the direct business they'll

going to bury us. We'll never be competitive again. There is only so much you can do about your expenses, no amount of discounts or holding down claims costs. There's no reason to believe that we can have better severity or frequencies than anyone else in the industry. So really the only place that we can compete with people on cost of processes. Keeping our loss adjustment low, keeping our processing cost low, and the only other option is to go in and hit commissions and nobody wants to that at this point.

I see reporting systems, that's going to be a problem. Everyone is going to want to do customized reporting on everything and the system is only going to have canned ways of getting information out of it, we're just going to have to come to grips with that.

Q. So in general you really think we should just try a really streamlined created monolifick

A. Yes and do something fast, a canned system that you implement in a vanilla, fashion, because the conversion is going to be really painful.

Q. Do you see a logical way of maybe approaching this as if we expand in other states policy management system?

A. Yes, you can't go bing, bang this is going to have to be an inneractive process, you are going to have to plan out how you art going to do this, and legally I think you are going to have to wait for business to renewal anyways to change the contract. You'd have t have a pilot and all new business would go on to this and you would pick certain state and convert them over, it can be painful process. And that's the thing, you go out and spend 9 months evaluating systems, 6 months negotiating a contract, and then you here and spend a year and a half getting it ready to go and then your talking about a year conversion process and after that your talking maybe 4-5 years before you can get rid of PLUS entirely. If we were really good and we followed all the rules and we didn't compromise and we stuck to our guns, it's still a 5 year project. If we don't do something the market is going to fix the problem for us I'm afraid.

Q. Do you think upper management is willing to support those type of changes?

A. Here is an interesting perspective on that I am on a committee for required capital, Greg Gisi is running its all part of the Enterprise Risk Management and right now they are saying they've got excess surplus. And their looking for potential targets for investing it, I got one. We probably have a better chance of getting support now than we've ever had. Would Harvey, Dale or Bob Cook have ever supported not doing it the American Family way? Probably not. I've known Dave for 25 years, he's a pretty pragmatic guy, you make a business case for it, and I think he's going to get on board.

Q. How do we sell it to these guys?

A. I know for a fact that Joe thinks the same way I do. Build a business case and he will support it.

Q. How do we sell it to Jake and Dave?

A. The business case that you make by stating the risk for not doing it. We can not establish a reliable Enterprise data warehouse (bad data).

Q. Across division collaboration?

A I am finding that to be a real challenge within this organization. Across divisions there are a lot of silos. How are you going to get Commercial lines on board?