CORPORATE
SPOTLIGHT

Stuart Henderson tells Liz French that an independent agent system helps his company weather any storm.

Western National Mutual

Firmly Planted

After a series of hail storms, tornados, and other unfortunate weather patterns hit Minnesota between the 1998 and 2001, Western National Mutual Insurance Company found itself in a financial pinch. The state's insurance industry paid out an average of about $3 in claims for every dollar it took in from home owners for premiums, so many companies stopped writing insurance in Minnesota at a time when citizens needed it the most. But firmly rooted Western National wasn't going anywhere.

"The insurance market had been soft for many years, meaning prices were down and competition high," said Stuart Henderson, president and CEO. "But in the last few years, the market turned hard. We write 85% of our business in Minnesota—we aren't leaving."

A cyclone of events

When Henderson took the helm in 2001, Western National was at its lowest profitability point in its 100-year history. In May of 1998, a single hail storm/tornado swept through Minnesota that cost the company $56 million in claims. Its equity fund equaled $72 million and it had only bought $21 million in re-insurance from another insurer. "All insurance companies except for one or two in the world, including State Farm, buy insurance for themselves," Henderson explained. For example, if the company is faced with a catastrophic weather loss like a tornado, it will pay the first $1 million and then bill the reinsurer for the remaining loss; when that reinsurance runs out, the company has to pay out of equity.

The company's financials immediately dropped, but it wasn't over yet. The next few years saw more strange weather that hadn't occurred in a century. "We had several consecutive years of huge storm losses and we continued to stagnate and lose money. The whole industry in this state was affected and that is why prices went up and people left the market. Most companies refused to write here anymore because you just couldn't make money in homeowners' insurance," said Henderson.

Pulling out of such a financial dip involved some difficult decisionmaking, but Henderson was ready to do what was necessary to get Western National back on its feet. He found that the company was writing more premiums than it could support, so the first measure was to talk to the company's independent agents about writing fewer policies. "Some of them reduced the business they wrote with us by half. They had to turn people away or send them to another company, which was tough for them. This was profitable business, but I had to get rid of it because it was sitting there like a time bomb if a tornado came through and wiped it all out," said Henderson, noting that 99% of Western National's independent agents cooperated with the effort. In the end, the company actually benefited from the exodus from the Minnesota insurance industry because it created less competition.

Added value

Originally Mutual Creamery and Cheese Factory Fire Insurance Company of Minnesota, the group had three companies: one for fire, one for liability, and one for tornados. By the 1950s, the company wrote insurance for 90% of creameries in Minnesota and realized that it needed to diversify from its saturated market. It started writing auto and home insurance and eventually consolidated into Western National Mutual Insurance Company in the 1970s. Today, it has a variety of products for both personal and commercial lines. One tradition that has kept it thriving through the decades is its uncommonly good relationships with independent insurance agents.

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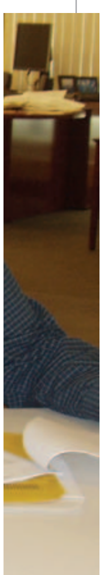

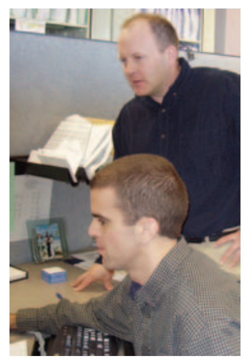

Western National does not sell directly to customers. It uses an independent agency system, which consists of agents who represent Western National along with several other competing insurance agencies. "When you go to an independent agent for a homeowner's policy, he may price it with 10 different companies," said Henderson. "Insurance is best sold through an intermediary because we have a vested interest in doing business a certain way that might not fit you. If you get private advice, you may insure with us or you may not, but we believe you are best served by going to an independent agent."

Three hundred agencies represent Western National and 75% of them have been with the company for more than 10 years, nearly half for more than 20 years. "Independent agents have known our employees forever because we have extremely high employee retention rates. They like to be able to call us up and speak to the person they've been working with for years," Henderson said, adding that the average tenure for Western National's 345 employees is 10 years; with management its 25 years.

As Henderson explained, the system keeps his company honest. "It's a symbiotic relationship where we benefit from their input and advice," he said. "I think of them as outside consultants." Agents may point out areas Western National needs to improve or come up with innovative ideas the company could use to stay competitive. "They want us to survive because if we do, they survive."

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Because independent agents work with customers face-to-face, Western National stays better connected to the customer through agents' objective feedback. "A lot of times when you lose a customer, they don't tell you why they left. But we get honest feedback from those agents," Henderson said. "If we did our business over the Internet and outsourced to India, we would be able to sell our products a little cheaper, but the independent agents are adding value; my basic philosophy is that they need to represent the customer, not us."

Mutual benefits

Customers don't just benefit from the objective advice they get from independent agents; they also benefit from the basic philosophy that has fired Western National since 1901. "The purpose of a mutual insurance company isn't to enrich the CEO and the officers. We are trustees of the policyholders' insurance money and that is all we are," Henderson explained.

"I've seen insurance companies de-mutualize. In most cases, after going public, the policies were the same, the premiums were the same, but if it didn't make money during a quarter, it raised prices or cut back on salary or benefits. The top three or four people become millionaires, and everyone else is no better or worse off," he continued. "I do not consider going public in the best interest of policyholders."

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