

# ACCIDENT FUND HOLDINGS



# 2014 ANNUAL REPORT

ACCIDENT FUND HOLDINGS, INC.



[AccidentFundHoldings.com](http://AccidentFundHoldings.com)

WORKERS' COMPENSATION SOLUTIONS

For more than a century, Accident Fund has been a trusted partner promoting workplace safety and exceptional care for injured workers. Our innovative and knowledgeable team combines industry-leading best practices, analytics and resources to manage risk and minimize loss for our policyholders, while creating safer environments and strengthening businesses with our exceptional agent partners.

profitable growth exceptional agent partners  
**underwriting excellence** loss control expertise  
superior service **innovation** workplace safety  
collective strength value-added effective business strategies  
elite carrier individual focus  
**workers' compensation**  
complex risks industry leading top performer  
data-driven high-touch service model dedicated workforce  
community mindedness  
commitment to injured workers

ACCIDENT FUND HOLDINGS



# Secrets to Our Success



**Andrianna Alexander**

“As a WorkSafe Consultant, I am able to offer value-added services to organizations by reviewing their workplace for

hazards, conducting safety meetings, presenting training and monitoring loss trends.

I also have the flexibility to service accounts as I see fit, which results in a better working relationship with policyholders. The best thing about my role is making a difference and keeping people safe.”

WorkSafe Consultant II  
Accident Fund Insurance Company of America  
Years with the organization: 5



**Allan Dyer**

“Most companies like to think of themselves as unique. Third Coast Underwriters really is! And while we do some of the same things as other

companies, we do them quite differently, and in my opinion, better.

We have talented people who genuinely like what they do and a management team with a clear vision of what we want to be. That vision has been effectively communicated and we have been given the tools we need to ensure its successful implementation.”

Senior Underwriting Technical Advisor  
Third Coast Underwriters  
Years with the organization: 4



**Finnette Goodyear**

“I joined the organization shortly after privatization, during the infancy in creating a new identity as a workers’ compensation carrier.

I was inspired by our leadership and the goals set before us.

Today, I continue to get excited about change and where the organization is headed. I’m especially excited as our Information Technology team embarks on its own transformation.

The idea that tomorrow can be better than today is very exciting.”

Manager, Business Analysts  
Accident Fund Holdings  
Years with the organization: 19



**Grace Hastings**

“Our company is known for its contagious enthusiasm and excitement, for saving our customers time and money, for making an impact,

and for making a difference all while building our bottom line.

Each day, I am inspired by the freedom to brainstorm with co-workers to explore and implement solutions to address the challenges at hand. We consistently use teamwork to solve tough issues to gain positive results for our customers and for the organization.”

Legal Office Administrator  
CompWest Insurance Company  
Years with the organization: 4



**Patrick McKeon**

“I have access to the best resources in the insurance business. My co-workers demonstrate a combination of technical ability,

creativity and common sense to deliver products and services that are different, and better, than our competition.

Our leadership team is enthusiastic, establishes aggressive strategic goals, demands attention to detail and encourages a spirit of collaboration between employees.

I am also proud of how our Enterprise supports diversity and is involved in community initiatives. This ‘giving back’ philosophy places ‘who we are’ in front of ‘what we do.’”

Loss Control Consultant - Southern Region  
United Heartland  
Years with the organization: 3



**Jeff White**

“I truly enjoy working for an organization that is focused on innovation. This focus is clearly evident and stems from our incessant

desire to be the best — and to exceed the expectations of our customers and our agents.

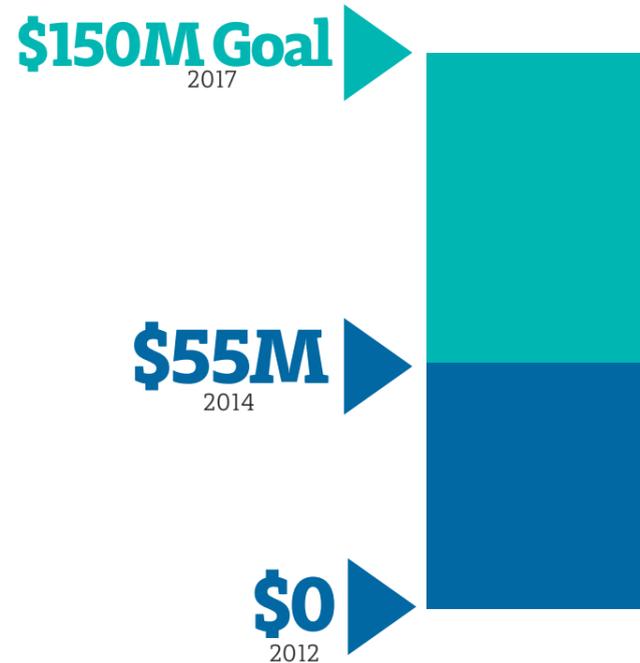
Our journey toward becoming an elite carrier is deeply ingrained in our four brands and within each member of our diverse workforce. Our future is very bright and I am excited to be leading our research toward innovations that will best serve the industry and give us a competitive advantage in the marketplace.”

Director of Innovation  
Accident Fund Holdings  
Years with the organization: 5

# Achievements

Accident Fund Holdings achieved important milestones and earned a number of significant honors in 2014, which affirmed the commitment of our dedicated workforce to helping injured workers and firmly established our position as a leader in the workers' compensation industry.

## Long-Term New Market Revenue



As an Enterprise, we exceeded our major financial goals, including net income, underwriting income and return on equity. **Exceeded Major Financial Goals**

**Strong Capital Position** | Our strong capital position improved while our reserve position is at its strongest level in seven years.

**\$39 Million in New Market Revenue** | Focused on profitable growth which led to the successful entry into several new markets throughout the country, producing an additional \$39 million in new market revenue.

Celebrated the 20-year anniversary of ownership by Blue Cross Blue Shield of Michigan. **20-year Anniversary**

**Best Underwriting Year Since Privatization** | Concluded the best underwriting year since privatization and the second best year for net income.

**Successful Loss Sensitive Product** | Launched a successful loss sensitive product, reflecting our goal to expand into new markets and diversify our product offerings.

Earned national recognition for our research on the impact of physician dispensing of narcotics and the effects of opioids on injured workers. This included testifying in front of the U.S. Food & Drug Administration in May.

**National Recognition for Research**

**Provided Enterprise Leadership** | Provided Enterprise leadership representation on a number of industry boards, including appointment of our CEO to the board of the American Insurance Association while concurrently serving a second term as chair of the board of the National Council on Compensation Insurance.

Made our highest investment to date to create opportunities for diverse suppliers, which ensures equal opportunity in the contracting process. **Opportunities for Diverse Suppliers**

**New Innovation Team** | Created a new innovation team to foster our nationally-recognized research initiatives and technology transformation.

Business Insurance magazine again recognized the Enterprise as a "Best Place to Work" in insurance.



# Financial Results

Accident Fund's journey toward elite carrier status continued in 2014 as we produced exceptional results while strengthening relationships with agent partners and policyholders.

## Accident Fund Holdings — Annual Results

	2014	2013	2012
Net Written Premium/Surplus	1.25	1.04	1.02
Leverage Ratio (Net Written Premium + Net Reserves/Surplus)	2.61	2.33	2.55

101.0%

Industry

91.1%

Accident Fund Holdings

Accident Year Combined Ratio

## Accident Fund Holdings — Year Ended December 31

Dollars in thousands

	2014	2013	2012
<b>Revenues</b>			
Direct Written Premiums	946,574	870,062	824,817
Net Earned Premiums	914,901	684,311	629,725
Net Investment Income & Net Investment Gains	87,176	96,450	125,642
Total Revenue	1,002,077	780,761	755,367
<b>Net Income</b>			
Net Income	84,732	56,051	35,326
Return on Equity	11.7%	8.1%	5.3%
<b>Underwriting Ratios as a Percentage of Net Earned Premiums</b>			
Accident Year Combined Ratio	91.1%	94.3%	99.7%
Calendar Year Combined Ratio	91.2%	97.2%	107.1%

## 2014 Shared Profits

### Agents

Distributed \$16 million in incentive and contingent commissions to select agents and brokers across the country.

### Policyholders

Paid \$23 million in policyholder dividends to select insureds who produced excellent results.

# Brand Performance



## CompWest Selected Financial Data

Dollars in thousands

	2014	2013	2012	2011	2010
Direct Written Premium	63,265	48,797	57,513	65,021	92,945
Net Earned Premium	59,720	35,929	45,719	64,849	92,889
Underwriting Gain (Loss)	(15,604)	(22,618)	(59,757)	(69,989)	(94,376)
GAAP Combined Ratio	126.1%	163.0%	230.7%	207.9%	201.6%

CompWest Insurance Company is a member of Accident Fund Holdings, Inc.

### About Us

CompWest Insurance Company is a dynamic provider of workers' compensation insurance in California and select Western states, targeting customers in health care, hospitality, manufacturing, professional services and retail and wholesale services ranging in premium size from \$1,500 to \$500,000.

CompWest emerged from 2014 as a much healthier and integrated brand within Accident Fund Holdings. The year-end marked the conclusion of a successful three-year turnaround effort, which further demonstrated our long-term viability. This was evidenced by a strong fourth quarter underwriting profit which has positioned us well for the next stage in our evolution — a focus on profitable growth for the Enterprise.

Our 2014 results in underwriting income were \$5 million better than plan, and our combined ratio of 126.1% represents a 37-point improvement over 2013. Additionally, a focus on growth led to direct written premium year over year growth of almost 30%.

As part of the Enterprise initiative to enter new markets, CompWest expanded into health care midway through 2013 and successfully grew this segment to \$18 million in premium for 2014. In total, we produced \$26 million of new business, resulting in a two-year total of \$54 million, more than three times the volume generated in the previous two-year period.

Building on these successes, our 2015 focus will be to further strengthen our brand with agent partners and customers in an environment that is becoming flooded with increased choices. Our recent success, however, demonstrates the legitimacy of CompWest in the workers' compensation market and we anticipate we will carry our brand to unmatched success in the new year.

## Third Coast Underwriters Selected Financial Data

Dollars in thousands

	2014	2013	2012	2011	2010
Direct Written Premium	76,218	57,955	37,512	13,251	3,657
Net Earned Premium	65,942	48,621	24,620	7,819	1,145
Underwriting Gain (Loss)	12,265	6,441	1,152	(5,489)	(2,024)
GAAP Combined Ratio	81.4%	86.8%	95.3%	170.2%	276.8%

Third Coast Underwriters is a division of Accident Fund Holdings, Inc., and its subsidiaries.

In 2014, Third Coast Underwriters (3CU) made great progress in raising our profile in the workers' compensation market as a proven regional provider focused on offering workers' compensation solutions for complex operations. After four years of operation, 3CU has become synonymous with outstanding customer service and exceptional outcomes.

Results in 2014 include a combined ratio of 81.4% and an underwriting profit in excess of plan. Our aggressive regional strategy was fully implemented and each office is now staffed with local customer service representatives who are delivering the 3CU promise to new and existing customers.

Building relationships with agency partners was also a key strategy for 2014. This effort resulted in 25% of new business premium coming from these partnerships. This growth enhanced an already strong agency base and will ensure future success as we demonstrate our value to new partner agents.

Third Coast Underwriters also executed a targeted marketing effort by advertising throughout the Southeast and Gulf. This strategy continues in 2015 as we demonstrate our relevance and presence as a regional niche player.

We are confident in our proven ability to skillfully evaluate complex risks and produce great results. Over the short term, we will identify customers who understand the impact of workers' compensation costs and who are willing to enter long-term partnerships to obtain superior results. This will provide great opportunities as we deliver customized solutions to gain and build on their trust in 2015 and beyond.



### About Us

Third Coast Underwriters (3CU) specializes in workers' compensation and is dedicated to understanding and actively managing complex workers' compensation risk with an unwavering attention to service. Serving customers with a minimum premium of \$150,000 and a focus on Midwest, Gulf and select Southeastern states, we specialize in underserved markets including construction, specialty transportation, energy (gas & oil), emerging markets, longshore and mergers and acquisitions.

# Brand Performance



## Accident Fund Companies Selected Financial Data

Dollars in thousands

	2014	2013	2012	2011	2010
Direct Written Premium	559,702	519,698	490,011	463,789	431,997
Net Earned Premium	551,716	498,046	494,931	444,063	444,436
Underwriting Gain (Loss)	103,419	40,653	13,955	(78,768)	(57,170)
GAAP Combined Ratio	81.3%	91.8%	97.2%	117.7%	112.9%

Accident Fund companies include Accident Fund Insurance Company of America, Accident Fund National Insurance Company and Accident Fund General Insurance Company.

### About Us

Accident Fund Insurance Company of America has provided workers' compensation insurance coverage since 1912. As the WorkSafe People™ and a leading provider of workers' compensation coverage across the United States, we partner with independent agents to provide small- to mid-size businesses with exceptional claims expertise, unrivaled loss control services and extensive online safety resources and training.

Accident Fund had one of its most noteworthy years in 2014, achieving exceptional top- and bottom-line results generating more than \$100 million in underwriting profit.

Supporting its growth strategy, Accident Fund grew its distribution channel and appointed 150 new agencies at 220 total offices across the country.

The new AFXpress product generated more than \$1.3 million in written premium in North and South Carolina. AFXpress offers a simple and convenient way for agents to quote business, with quick results through a highly automated process. Accident Fund also successfully entered South Dakota as a new core state. Although small, we anticipate this region will produce great results for the AFXpress model.

In addition, Accident Fund produced more than \$16.5 million in written premium through FocalPoint, a new program that allows agents to share their book of business to determine the best opportunities for partnership. This program is designed to quote more accounts that are a clear fit with Accident Fund, minimizing the work required from our partner agents while maximizing their volume and profit-sharing opportunities.

As a data-driven workers' compensation specialist focused on providing exceptional service through trusted, independent agent partners, Accident Fund is committed to helping injured workers and offering the best workers' compensation solutions in the industry.

## United Heartland Selected Financial Data

Dollars in thousands

	2014	2013	2012	2011	2010
Direct Written Premium	243,331	243,612	239,781	229,625	209,369
Net Earned Premium	237,524	241,294	234,756	219,178	208,251
Underwriting Gain (Loss)	(5,647)	7,578	(1,949)	(27,906)	(4,599)
GAAP Combined Ratio	102.4%	96.9%	100.8%	112.7%	102.1%

United Heartland is the marketing name for United Wisconsin Insurance Company, a member of Accident Fund Holdings, Inc.



### About Us

United Heartland is a leading regional workers' compensation carrier specializing in education, health care, long-term care facilities, manufacturing, nonprofits, social services and wholesale/retail industry segments. Our high-touch service model and broad experience allow us to be nimble and responsive to effectively manage large accounts with complex needs.

Through a high-touch service model and core segment specialization, United Heartland (UH) delivered outstanding workers' compensation products and services in 2014.

Most notably, we successfully launched Risk Management Services, a new offering providing a comprehensive workers' compensation product for retrospective and large deductible buyers.

United Heartland also extended its reach into Florida in 2014 focusing on health care, long-term care and social service organizations. As a result, UH wrote \$4 million in new business for the year and established a servicing team to support our efforts to establish a strong presence in the region. Our successful entrance into Florida will serve as an impetus to pursue additional regional opportunities in 2015.

United Heartland's focus on health care was not confined to Florida. We grew the segment by \$19 million across all states and our partnership as an exclusive carrier for the Iowa Hospital Association helped to bolster these efforts, earning solid results and profitability for our brand. This partnership produced nearly \$6 million and customers benefitted from our expertise in delivering exceptional claims and loss control services.

Supported by the collective strength of Accident Fund Holdings, our strategic vision and the strong customer relationships built by our dynamic leadership team have positioned us well for success.

# Community Impact

## BLOOD DRIVES

430+   
PINTS

in the last 2 years

## HAVE REACHED OVER

= 1300   
PEOPLE

Through volunteerism, sponsorships, initiatives and personal passions, Accident Fund Holdings and our brands provide more than a business service; we are an integral part of our communities and our communities are an integral part of our success. We focus on non-profit organizations that have a connection to our core business — workplace safety, accident prevention, return-to-work programs, disabilities and rehabilitation. As a responsible citizen, we also lend support to human service organizations, educational initiatives and economic development opportunities in our communities.

The success of our community relations efforts is directly related to the commitment of our employees, their willingness to volunteer and generosity in giving to charitable causes.

Here are a few examples of our efforts:

### Caring and Sharing Community Campaign

Each year Accident Fund Holdings and its brands dedicate a week for an annual Caring and Sharing Community Campaign. Although employees give back all year long, this is a special week where all employees join together to focus on giving. Employees participate in events to raise money for a variety of worthwhile human services organizations that have a direct connection to our industry or locations.

### Volunteer Programs

Throughout the year, Accident Fund Holdings and its brands provide opportunities for employees to give back to the community. Employees donate their time to organizations such as local food banks, American Red Cross, United Way and Habitat for Humanity.

## FOOD BANK

14,761   
POUNDS

Volunteers boxed and sorted more than 14,000 lbs. of food

“The SF-Marin Food Bank thanks Accident Fund Holdings, Inc. for the 12,000 meals the company has contributed to the Food Bank.”

— SF-Marin Food Bank

## VOLUNTEER HOURS

542   
HOURS

More than 600 volunteers gave nearly 600 hours to serve the community

“Thank you so much for including Gleaners Community Food Bank in your Caring and Sharing Community Campaign. We are so grateful for the kindness of your employees and the generosity of your company. This generous donation will provide 4,320 meals for our hungry neighbors.”

— Gleaners Community Food Bank

## DONATIONS

\$525K 

More than \$525,000 in charitable giving to nearly 200 organizations

“Because Accident Fund is a large Michigan-based carrier, we have always wished for a corporate partnership to ‘set the bar’ for other large donors in Michigan. Accident Fund has granted that wish and we believe that other carriers, vendors, employers, and the like will now see us as a way to give back to not only the injured employees, but to their children and to give the children hope for a better future.”

- Kids' Chance of Michigan

# CEO Message

“Strive not to be a success, but rather to be of value.”

~ Albert Einstein

Twenty years ago, our company began a transition that would dramatically change an organization that had successfully provided workers' compensation insurance for nearly a century. Beginning in 1912, Accident Fund served as a state workers' compensation agency. But in 1994, Michigan signed legislation authorizing the privatization of Accident Fund, which led to our purchase by Blue Cross Blue Shield of Michigan.

much has changed in terms of *how* we do business, we remain vigilant as to *why* we pursue excellence: to achieve the best outcomes for injured workers; to provide exceptional value to agents; and to offer the highest return on investment for our shareholder.

In 2014, our focus on value led to yet another successful year, one in which all major financial goals were achieved. Our targets for new market

“Our targets for new market growth and surplus far exceeded plan and our underwriting efforts reflected the best results since privatization.”

Today, 20 years after this transition, our organization has continued to succeed in the workers' compensation market despite the challenges of a privatized environment. And while

growth and surplus far exceeded plan, our underwriting efforts reflected the best results since privatization and we posted the second-best results in overall net income in 20 years.

During this period, we also made significant changes to reinforce our desire to become an elite carrier. Our strategic pillars of Underwriting Excellence, Medical Management & Claims, Product & Market Development and Scalability & Culture served to effectively guide our major initiatives.

As an organization focused on innovation, we continued to earn recognition as a thought leader in workers' compensation and led the way in the battle against opioid abuse. We were one of the leading industry voices supporting the reauthorization of the Terrorism Risk Insurance Act. We launched a detailed initiative to revamp our information technology, which, once fully executed, will position us as a formidable tech leader in the work comp space. And, along with our reaffirmed “A-” (Excellent) rating with a stable outlook by A.M. Best, we continued to demonstrate merit and excellence in the industry. The result led to our repeated listing as a “Best Places to Work in Insurance” by *Business Insurance* magazine.

It is with deep appreciation that I thank all who contribute to our success as a value-focused organization. Our employees work hard every day

to deliver the best service and results. Our agents share their valuable accounts and partner with us to service them and create lasting relationships. Our policyholders remain committed to creating safer work environments for their employees. And our board of directors and our shareholder continue their support in both good and challenging times by embracing our mission, vision and strategies and by offering guidance to help us achieve our goals.

Our path to becoming an elite carrier is now well established and we will continue to work hard each day to sustain our value in a challenging industry.

Elizabeth Haar  
President & CEO  
Accident Fund Holdings



# Board of Directors

**James G. Agee**

Chair  
President  
J.G. Agee Consultants, LLC.

**Lewin Wyatt Jr., D.O.**

Vice Chair  
Medical Provider

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Executive Vice President, Chief Financial  
Officer and President of Emerging Markets  
Blue Cross Blue Shield of Michigan

**Michael L. Browne**

Retired President and Chief Operating Officer  
of Harleysville Insurance, a Nationwide  
Insurance Company

**Patrick J. Devlin**

Financial Secretary-Treasurer  
Michigan Building and Construction Trades  
Council

**A. Gregory Eaton**

Partner, Karoub Associates  
Owner, Metro Cars Luxury Sedans and  
Gregory's

**Diane R. Goddeeris, R.N., B.S.N.**

Registered Nurse-OB Informatics  
Sparrow Hospital

**Elizabeth R. Haar**

President and Chief Executive Officer  
Accident Fund Holdings, Inc.

**Daniel J. Loepp**

President and Chief Executive Officer  
Blue Cross Blue Shield of Michigan

**Timothy J. McCarthy**

Retired President and Chief Operating Officer  
Soave Enterprises Transportation Group

**Gary J. McInerney**

Owner  
McInerney and Associates

**Nancy P. McKeague**

Senior Vice President and Chief Human  
Resources Officer  
Michigan Health and Hospital Association

**Gregory A. Sudderth**

President  
Executive Labor-Management Services Inc.

**Richard E. Whitmer**

Retired President and Chief Executive Officer  
Blue Cross Blue Shield of Michigan

“Our desire is to demonstrate value through innovation to maximize the benefits to injured workers, partner agents, policyholders and our shareholder.”

— Liz Haar