United Fire Group Insurance

2023 Third Quarter

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CORPORATE PARTICIPANTS

Eric Martin – *Executive Vice President & Chief Financial Officer*

Kevin Leidwinger – *Chief Executive Officer*

Julie Stephenson – *Executive Vice President & Chief Operating Officer*

Tim Borst – *VP and Director of Investor Relations*

PRESENTATION

Operator
Good morning. My name is Anthony and I'll be your conference operator today. At this time, I would like to welcome everyone to the UFG Insurance Third Quarter 2023 Financial Results Conference call. All participants will be in listen-only mode. Should you need assistance please signal conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

Thank you. I now will turn the call over UFG VP and Director of Investor Relations, Tim Borst. You may now go ahead.

Tim Borst
Good morning, and thank you for joining this call. Yesterday afternoon, we issued a press release on our results. To find a copy of this document, please visit our website at UFGinsurance.com. Press releases and slides are located under the Investors tab.

Joining me today on the call are UFG President and Chief Executive Officer, Kevin Leidwinger; Executive Vice President and Chief Operating Officer, Julie Stephenson and Executive Vice President and Chief Financial Officer, Eric Martin.

Before I turn the call over to Kevin, a couple of reminders. First, please note that our presentation today may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The company cautions investors that any forward-looking statements include risks and uncertainties and are not a guarantee of future performance. These forward-looking statements are based on management's current expectations. The actual results may differ materially due to a variety of factors, which are described in our press release and SEC filings.

Also please note that in our discussion today, we may use some non-GAAP financial measures. Reconciliations of these measures to the most comparable GAAP measures are also available in our press release and SEC filings.

At this time, I will turn the call over to Mr. Kevin Leidwinger, CEO of UFG Insurance.

Kevin Leidwinger
Thank you, Tim and good morning, everyone. Welcome to our Third Quarter Conference call. I'll begin this morning by providing a high level overview of our third quarter results. Following my comments, Julie Stephenson will discuss our underwriting results in more detail and Eric Martin will discuss our financial results.

As indicated in yesterday's press release, I remain pleased with the progress we are making as we continue positioning UFG to deliver superior financial and operational performance. Our third quarter results show signs of improvement while we continue to execute a broad range of strategies to strengthen our company.

Net income improved to $6.4 million in the third quarter of 2023 compared to a $23 million loss in the third quarter of 2022 while the combined ratio improved 9.6 points to 102.1% compared to 111.7%, same quarter last year. Net written premium was flat in the third quarter as growth in our core commercial and assumed reinsurance business was offset by targeted underwriting action on underperforming segments as we work to continuously improve the profile of the portfolio. In addition, net written premium growth

was impacted by increased surety reinsurance reinstatement premiums. Average renewal premium increases in core commercial accelerated to 11% in the third quarter outpacing lost cost trends. The acceleration was led by property rating increases of 17%.

The underlying loss ratio was 60.5% in the third quarter, which included approximately 2 points of impact from a small number of large losses and associated reinsurance reinstatement premiums in our surety business. Catastrophe losses contributed 5.9% to the combined ratio in the third quarter, a 5.5-point improvement over the third quarter of 2022 and well below our 5 and 10-year averages of approximately 12% and 10%, respectively.

Prior period reserve development is relatively neutral overall and in line with our expectations following the actions taken in the second quarter. We made small adjustments across lines of business as our enhanced actuarial process helps us more quickly evaluate emerging trends and changing environments. The expense ratio was 35.5% in the second quarter, up four-tenths of a point compared to a year ago. Surety reinsurance reinstatement premiums added seven-tenths of a point to the third quarter expense ratio, which would have otherwise declined on a year-over-year basis because of our ongoing expense management efforts. Our intense focus on improving the expense ratio was accelerated in the third quarter by introducing a voluntary early retirement package, as well as changes to our paid time off policy that will provide additional expense ratio benefits in 2024.

While not satisfied with the combined ratio, I am pleased with the improvement in the quarter as well as the progress we're making in executing strategies we believe will deliver consistent profitability and create long-term value for our shareholders. We remain fully confident in our path forward.

With that, I'll hand it over to Julie Stephenson, our Chief Operating Officer, to discuss our underwriting results in more detail. Julie.

Julie Stephenson
Thank you, Kevin, starting with growth, net written premium in our core commercial business, which includes small business and middle market, grew 3% to $165 million compared to the third quarter of 2022. Renewal premium change in our core commercial business accelerated to 11% in the third quarter. Average rate increases were up from the second quarter across all lines of business, excluding worker’s compensation, with total rate achievement at the highest level since 2018.

Commercial property was the largest contributor to this increase with third quarter property renewal premium change of 23%, including rate increases of 17% and exposure increases of 6%. We remain diligently focused on price adequacy across all lines of business.

Retention for our core commercial business at 81% remained above prior year and consistent with our expectations as we pursued additional rate increases and pruned underperforming accounts from our portfolio. Our underwriters remain focused on evaluating individual risk selection, pricing, terms and conditions and are empowered to walk away from risks that no longer meet our expectations.

Core commercial new business was $27 million in the third quarter of 2023 compared to $15 million of new business in the third quarter of 2022. I remain pleased with the quality; line of business and industry segment mix we're adding to the portfolio.

Net written premium in our specialty excess and surplus lines business declined from a year ago, as we perform targeted actions on underperforming segments to improve portfolio composition. Our alternative distribution portfolio grew net written premium 25% in the third quarter, as we continue to execute our strategy to deliver diversifying profitable growth to the organization.

Similar to last quarter, we experienced a few large losses in surety impacted by broader economic conditions affecting the construction industry. Surety premiums declined compared to the third quarter of 2022 because of increased reinsurance reinstatement premiums, as well as short-term staffing challenges in a highly competitive market for surety underwriting expertise. While these large surety losses and associated reinsurance reinstatement premiums added approximately two points to our total third quarter underlying loss ratio, we're seeing incremental profit improvement in other lines of business, namely standard umbrella, where enhanced metrics have increased visibility into historic rate levels and profit outlook.

Turning to catastrophe losses, in the third quarter, we experienced 5.9 points of catastrophe loss impact on the combined ratio. While we experienced the lowest third quarter catastrophe loss ratio in five years, we continue to take a broad range of actions, such as improving our property risk profiles, raising deductibles and driving pricing increases in high risk geographies to reduce and optimize catastrophe exposure across our portfolio.

I will now turn the call over to Eric Martin to discuss the rest of our financial results.

Eric Martin
Thank you, Julie. I will first provide some additional commentary on the third quarter expense ratio of 35.5%, which increased four-tenths of a point from a year ago. As you know, we have been intensely focused on reducing the expense ratio as part of our broader corporate strategies to deliver sustainable profitable growth. The most significant of these impacts is a 10% decline in headcount since the beginning of the fourth quarter of 2022. In the third quarter, the impact of the surety reinsurance reinstatement premium added seven-tenths of a point to the expense ratio. In addition, earlier this year, we mentioned the benefits to our 2022 expense ratio from a change in design of employee post-retirement benefits that have since dissipated and are impacting the year-over-year comparison. These items have outweighed the growing benefits of our actions to sustainably reduce the expense ratio on a year-over-year basis.

In the third quarter, we accelerated our expense reduction efforts by offering an early retirement package that will deliver additional benefits to the expense ratio beginning in 2024. Combined with the ongoing thoughtful management of attrition, we expect the net impact of these actions to further reduce enterprise headcount taking us from approximately 1,100 people in Q3 2022 when expense management actions started to below 900 people at the beginning of 2024. We also restructured our paid time off policy and will be moving to a discretionary time off policy in 2024.

Turning to investment results, invested assets ended the third quarter at $1.8 billion, 90% of which is allocated to a high quality fixed income book. Within our portfolio, we continued reducing our exposure to public equities, which shrank to 3% of assets in the third quarter. This strategic reallocation of public equities to high quality fixed income is an attractive way to reduce capital requirements and earnings volatility. We intend to continue executing on this trade as long as these attractive conditions exist.

Net investment income was $16.5 million in the third quarter, up 42% compared to the third quarter of 2022. We continue to realize the benefits of investing in a higher interest rate environment, with new money yields exceeding 5.5%, helping increase fixed maturity income relative to a year ago. We also experienced positive valuation impacts on our limited partnership portfolio of $1 million in the third quarter. Realized losses of $2 million, driven by changes in the valuation of our reduced core equity portfolio, rounded out third quarter investment results.

Third quarter underwriting and investment returns resulted in net income of $0.25 per diluted share and non-GAAP adjusted operating income of $0.31 per diluted share. Annualized year-to-date return on

equity in the third quarter was negative 9.5% and we saw deterioration in our unrealized loss position that decreased book value per common share to $25.53.

During the quarter, we declared and paid a $0.16 per share cash dividend to shareholders of record as of September 1, 2023, continuing our 55-year history of paying dividends dating back to March 1968.

This concludes our prepared remarks. I will now open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then one. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we'll pause momentarily to assemble our roster.

Again, if you have a question, please press star then one.

Again, if you have a question, please press star then one.

It appears there are no questions.

CONCLUSION

Operator
This concludes our question and answer session. I would like to turn the conference back over to Kevin Leidwinger for any closing remarks.

Kevin Leidwinger
Thank you and we look forward to seeing you next quarter.

Operator
The conference is now concluded. Thank you for joining today's presentation. You may now disconnect.