Michigan Homeowner Rate Change

Thank you for your continued support of Frankenmuth Insurance and our mutual goal of achieving profitable growth.

Our Michigan Homeowner line of business has historically performed well. In fact, its strong performance has enabled us to hold rate increases to just 2% since April, 2012.

However, beginning in November 2013 and throughout 2014, we have experienced weather events that have been both frequent and significant. We're all familiar with the polar vortex which brought persistent sub-zero winter temperatures, and this past summer's high winds, hail storms, and the historic, destructive rains which hit southeast Michigan.

As a result, Frankenmuth Insurance is experiencing the greatest impact from catastrophic (CAT) events in its history. Through October, Michigan Homeowner CAT losses totaled $25.5 million, resulting in a loss ratio of 107.6%. This compares unfavorably with October 2013 when MI Home CAT activity totaled just $4.7 million and our loss ratio was 53.0%.

To prudently manage this line of business, we need to take the necessary measures to assure continued profitability and stable performance for our mutual success. Accordingly, we are taking an overall rate increase of 6.8%, effective February 1, 2015.

Based on the additional changes below, the actual rate change will vary for each policyholder. These changes include:

- **Insurance Score**: We are increasing rates 15% on Low Insurance Score tiers. These are tiers #101 – 103.

- **Amount of Insurance**: We are increasing rates 5% on homes with Coverage A of $500,000 to $750,000, and by 2.5% for homes with Coverage A of over $750,000.

- **Age of Home**: We are decreasing rates on homes built in the last 10 years, and slightly increasing rates on homes built prior to 1995.

- **Protection Class**: We are increasing rates 5% for Protection Class 8A and 9 risks, and 10% for Protection Class 10.

- **Water Sewer Back-up Coverage**: We are increasing rates 20% for all limits on Water Sewer Back-up coverage.

- **Territory Changes**: We are adjusting rates in some areas based on overall profitability, which means rates in some geographic areas will increase while others decrease. Please consult your Personal Lines Field Manager to understand the total impact in your area.

Our plan is to address the challenges brought by the significant weather events without causing disruption for you and your customers. Additional rate is necessary, but it is equally important we don't send policyholders shopping. For that reason, we did all we could to keep the increase to a moderate level. If there is additional information you believe would be helpful to communicate this rate change to your customers, please let us know. We are striving for improved homeowner results in 2015, and with your support and a reprieve from Mother Nature, we are confident we'll experience a better outcome. We want to be your steady, stable, profitable market.

If you have any questions on the above changes, please contact your Personal Lines Field Manager, Underwriter, or me.

Thank you for your continued support of Frankenmuth Insurance.