



DONEGAL INSURANCE Group moved into its current headquarters in downtown Marietta, Pa., in 1961.

What Donegal Does Right

One hundred and twenty five years of slow and steady growth has turned a farmers' mutual into a regional insurance powerhouse.

BY KATIE SIEGEL

The town of Marietta, Pa., sits in Lancaster County, about 100 miles west of Philadelphia, right on the banks of the Susquehanna River. The town is less than a square mile in size and has a population of roughly 2,600. The borough's website dubs the community "a quintessential small town."

You'll find no Starbucks on Market Street, and the nearest Dunkin' Donuts is a 10-minute drive away in the town of Mt. Joy. The most impressive structure in town may be the Donegal Insurance Group's corporate campus, a multi-wing building that in 1961 became home to one of the region's leading providers of both commercial and personal lines of property and casualty insurance.

On May 13, 1889, the Governor of the Commonwealth of Pennsylvania, James A. Beaver, issued Letters of Patent to the

Donegal and Conoy Mutual Fire Insurance Co. The fledgling insurer was formed by a small group of farmers in Lancaster County who joined forces to protect their property and crops. Its first policy was issued to a local farmer for dwelling coverage for \$4,300, with an annual premium of \$3.90.

Now in its 125th year, Donegal boasts \$700 million in direct premium writings, with assets of more than \$1 billion. It has 800 employees, nine offices in 22 states, and a ranking among Forbes' 100 Most Trustworthy Cos. in America.

SLOW AND STEADY

"A significant part of it has to do with a strong, long-term business strategy," said President and CEO Don Nikolaus. A conservative approach, he said, is the name of the game.

The company just doesn't take on risky classes of business that many larger companies write.

"We don't write in jurisdictions that have high susceptibility to catastrophic losses," said CFO Jeff Miller.

That includes "municipalities, large industrial risk, taxi cabs in New York, for example," Nikolaus said. The company's strategy has been to stick to safer classes where it has developed expertise.

"In a very price-sensitive cycle where there's a lot of competitiveness, if you're committed to a long-term business strategy focused on underwriting profitability, you invoke the discipline not to chase after business at inadequate premiums," Nikolaus said.

The commitment to be unswayed by competitors' strategies sometimes keeps the company from pursuing fast-growth opportunities that provide short-term reward. But keeping its mind on its own knitting has protected Donegal from devastating losses.

Choosing new geographic regions to move into follows the same logic. States prone to hurricanes and tornadoes are out; ditto coastal regions at risk for flooding. That worked to Donegal's benefit especially after Superstorm Sandy, from which it emerged without heavy losses due to its decision to avoid New Jersey and coastal New York.

The legislative, judicial and regulatory environment in any state eyed for expansion also goes under a microscope. With strategic moves into the South and Midwest, Donegal has been able to grow without jeopardizing its stability.

DIVERSIFICATION AND EXPANSION

Donegal and Conoy purchased its first office in downtown Marietta in 1919, expanding it in 1949, when the company changed its name to Donegal Mutual Insurance Co. In that year, premium writings had risen to more than \$600,000.

Donegal has been able to grow by diversifying its offerings, adding automobile and homeowners insurance among other property/casualty lines, and by branching off onto the commercial side.

Numerous acquisitions of personal lines companies over the years have helped the company edge into new states.

Donegal capitalized on those expansions by introducing commercial products into those branches, using existing channels to distribute commercial policies for property, liability, inland marine, auto and workers' compensation.

"Over the last three to four years, we've begun to concentrate on building up the commercial lines side to get closer to that 50/50 mix," Miller said. "We've also been appointing some commercially focused agencies to try to bolster the production of our commercial business."

While organic growth has continued steadily, acquisitions have been key in transforming Donegal into a leading regional provider. Since its first acquisition in 1976, Donegal has added 10 more companies into the fold, eventually merging some of those together. Three stand out as critical moves that helped Donegal get a foot in the door of new markets.

First was the incorporation of Atlantic States Insurance Co. as a wholly owned subsidiary in 1986. Originally formed to write workers' compensation insurance, it eventually served as a launching pad for other commercial products.

Donegal merged other acquired companies into Atlantic States in 2001 and in 2006, including Delaware Atlantic States Insurance and Pioneer Mutual in Ohio and New York. Rolling these companies into one corporate structure increased regional market competitiveness and gave Donegal the platform it needed to deliver commercial products on a wider level.

A second critical move was made in 2002, with the acquisition of the LeMars Insurance Co. in Iowa, which provided an entrée into four additional Midwestern states: Iowa, South Dakota, Nebraska and Oklahoma.

The LeMars deal paved the way for future acquisitions in Wisconsin and Michigan, and kicked off the westward phase of Donegal's expansion strategy. With a mix of 48.1 percent personal and 51.9 percent commercial business, it also moved them closer to achieving that 50/50 mix. By 2005, the company was seeing written premiums of \$423 million,

with combined assets of \$872 million.

Donegal then made a big push into the South in 2009, entering into an affiliation agreement with Southern Mutual Insurance Co. This agreement added business in Georgia and South Carolina, building on previous acquisitions in Virginia and Maryland in the 1990s.

The company's latest acquisitions could prove to be the next major step forward.

"The most recent acquisition is the largest we've done, which is Michigan Insurance Co., a \$100 million company," Nikolaus said.

Nikolaus said the company's agency distribution system was attractive and the acquisition strengthens Donegal's Midwestern presence.

Moving into the Midwest has helped reinvigorate the product that got Donegal started in the first place: farm owners' insurance. While most of that business has been focused in Pennsylvania, where farms are typically 100 acres or less, Midwestern farms five times that size offer an opportunity to write coverage for larger and more complex operations.

BUILDING AGENCY RELATIONSHIPS

According to Dave Krenkel, vice president, marketing and advertising, a key to Donegal's success has been making it easy for their agents to do business with them, which means maintaining open lines of communication.

Donegal hosts agencies in their headquarters in "spring meetings" where Donegal's officers and agents get a chance to discuss progress made and problems encountered.

"We distribute only through the independent agency system," Nikolaus said. Agents are expected to be "first line underwriters" with keen knowledge of the risks they are working with. The meetings therefore provide a venue for agents to make recommendations based on the risk environments they're seeing.

Agents might also be drawn to Donegal because of the resources invested in talent and technology development. A training facility was built on Donegal's campus in 1998 to prep new employees and provide continuing education courses for veterans.

"Agents really take advantage of that to come see our campus, meet our people and interact with the underwriters they're

dealing with," Miller said.

Always with an eye on the future, the company takes in college graduates with an interest in the insurance industry and starts them as trainees, working with underwriting management in both commercial and personal lines on a daily basis.

Individual trainees that stand out for leadership qualities are fast-tracked in a leaders' program, which provides them with extra training, conferences, and more hands-on participation opportunities.

"It's been very helpful to identify and help provide additional resources to people so they can develop and take the next step in their careers," Nikolaus said. All that investment has paid off; Donegal's employee turnover rate has held steady at under 3 percent.

"We provide an environment where employees can grow in their profession. If you want to be successful in the long term, employees have to feel that they work in an environment that has interest and concern for them and their families, and how they might succeed over time," Nikolaus said.

AHEAD OF THE GAME

Keeping up on technology, while an ongoing process, has helped Donegal position itself as a carrier that agents and policyholders want to work with. A technology wing built in 2004 houses massive database servers that are crucial to the success of the company's mobile apps, WritePro and WriteBiz.

For personal and commercial underwriters, respectively, the apps draw from the database to prefill information and underwrite a risk in real time, producing quotes in as little as five minutes.

While the latest editions of each app were released in 2006, they are under constant review.

"Your technology is never a completed project," Nikolaus said. "If you're not continually looking for ways to enhance it, you'll fall behind."

If Donegal's long history proves anything, it's that continually looking ahead, with patience and diligence, pays off in a big way.

KATIE SIEGEL is a staff writer with *Risk & Insurance*®. She can be reached at ksiegel@lrp.com.