



REDEFINING PARTNERSHIP

2011 ANNUAL REPORT



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Insurance®

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On the cover

The photos on the cover demonstrate Integrity's brand drivers – elements of what our brand represents now and in the future.



- With our anchor set firmly in the **Midwest**, our Appleton, Wisconsin headquarters serves our agents and policyholders in Wisconsin, Minnesota and Iowa. Our Midwest roots mean we share the same values, concerns and aspirations as our agents and policyholders.



- At Integrity Insurance, we believe in providing **straight answers** and we communicate with **professional warmth**. We want to get to know our agents like Steven Schreiber from Ansay & Associates personally to deliver the ultimate customer experience.



- Using the latest **technology**, Integrity is facilitating new ways for policyholders like Diane Cross to gain information and interact with the company and agency. Regardless of the medium, the same Integrity team is supporting these new channels.



- Integrity partnership means **deep relationships** are formed with our agents and policyholders. Offering high-quality loss control assessments and evaluations protects our insureds and enhances our coverage.



- Integrity remains committed to our **consumer driven, agent based** model. Our marketing department offers traditional and electronic advertising with promotion tools to help agents identify and engage policyholders.



President's Message

Our strategic focus in 2011 helped to further strengthen our already stable financial foundation at Integrity Insurance. In last year's low investment return and extreme weather environment, I am pleased to report our policy holder surplus increased by \$2.1 million to a record \$35.8 million at the close of 2011. Our Net Combined Ratio finished at 102.5%, above our plan but below the weather plagued industry average of 107.5%. We were pleased to outperform the industry in 2011. These results are a reflection of the financial pooling of our results with Grange Mutual Casualty Company, our affiliation partner for over ten years.

We are proud to report 2011 was the third consecutive year Integrity experienced Direct Written Premium growth, increasing by 1.7% to over \$107 million. Our Commercial Lines business was a strong contributor to growth, outperforming plan and growing year over year by 8.8%. This was fueled by our increased investment in our Commercial Field Underwriting team that facilitated deeper relationships and drove informed decision-making closer to the insured. In addition, growing market penetration of our XPanded Premier® product drove growth of over \$1 million.

Our Personal Lines business declined slightly in 2011 as soft market conditions and the moderate pace of the economic recovery impacted our planned growth. We did establish a process for precision rate changes and provided substantial Personal Lines pricing stability, which improved retention significantly with an over 3% increase in loyalty among our renewal policyholders.

We enhanced our Executive Leadership Team with several key additions in 2011. Our talented team is very capable of continuing to improve profitability, effectively growing our business and enhancing Integrity's enterprise value proposition for independent agents and policyholders. We have reinforced our company-wide, performance driven culture, increasing accountability across the organization through associates who are committed to delivering the highest level of service. We appreciate the contributions our associates have made to our strong service culture.

Financial Strength Rating



A.M. Best Rated “A” (Excellent)

This year, and for the last ten, Integrity’s rating is “A” (Excellent) according to A.M. Best, based on the pooled results of Integrity and our affiliation partner Grange Mutual Casualty Company. The enterprise operates within a geographic footprint of 13 states, with revenues reaching over \$1 billion.

Strategically in 2011 we successfully engaged our associates in strengthening our business by establishing consistent underwriting returns while investing in long-term market expansion opportunities. During the year we defined an ownable market position for our company that reflects both our regional brand and the affiliation advantages through our partnership with Grange – relationship-based service built on trust with Ease of Doing Business® (EODB®) technology, product innovation and financial stability. This positioning statement is the basis for how we differentiate Integrity for our agency partners and policyholders. The 2011 launch of My Integrity Account is providing policyholders with a web-based, self-service information and interaction tool. This is one example of how we are building our ownable market position.

The year 2011 brought us closer to our recently launched brand as we began to realize the benefits from alignment of our initiatives to the elements that mean the most to our agents and policyholders – Service, Trust and Relationships. The implementation of “Partner of Choice” service standards, development of our Voice of the Customer Program and enhancements to our Leadership Circle Program were all direct reflections of our brand.

You will learn more in the following pages about how we are strategically committed to **Redefining Partnership** at Integrity. This vision was established in 2011 to help articulate and drive our focus on differentiating Integrity in the market, taking partnerships to a higher level of collaboration and success. All of our strategic initiatives are aligned to contribute to Redefining Partnership by providing mutually beneficial value-added services to our agency partners and their clients.

A great example of how Integrity **Redefined Partnership** in 2011 is the development and execution of our program and association business model. This approach allows us to grow niche markets with qualified agency partners through a disciplined process. When we can work together with an agency that has significant, special class experience, we are able to develop a program that meets those specific needs and adds value for the agency and policyholder.

As we move through 2012, our focus will be on fully developing our strategy to **Redefine Partnership**. Our goal is to develop even more productive agency partnerships and implement initiatives in support of the strategy that will drive agency development. Our eye is on the five-year company financial plan which includes the goal of exceeding \$150 million in Direct Written Premium by 2015. The basis of this plan includes detailed Commercial and Personal Lines business strategies that improve profitability and identify growth opportunities to fully leverage our market potential.

Dedicated to delivering our services in a cost effective manner, our associates are assessing productivity company-wide and identifying opportunities for improved efficiency and reduced expense. Our ongoing diligence will ensure our expenses align properly with growth and customer satisfaction objectives. Our disciplined management will benefit associates, agents and policyholders alike.

Integrity will continue to improve policyholder and agent satisfaction through our ongoing brand development initiatives related to Service, Trust and Relationships. You can expect Integrity to continue to live our brand promise in 2012 and own our market position. Our renewed business strength and strategic focus on **Redefining Partnership** will drive profitable growth for our independent agencies, create value for our policyholders and enhance our position as your “Partner of Choice.”

Sincerely,

A handwritten signature in black ink that reads 'Joseph DiMartino'.

Joseph F. DiMartino, Ph.D.
President & CEO

The logo for 'REDEFINING PARTNERSHIP'. The words 'REDEFINING' and 'PARTNERSHIP' are stacked in a bold, sans-serif font. 'REDEFINING' is in orange and 'PARTNERSHIP' is in green. A green arrow points upwards from the right side of the word 'PARTNERSHIP'.



Julie Walker
VP of Strategic Planning

“Our focus on service leadership provides a great example of how we are Redefining Partnership, creating distinct advantages for our agents in the marketplace.”



My Integrity Account – Integrity launched Web-based access to account information, allowing 24/7 access to critical information for policyholders. Most of our customer contact continues through personal communication; however, we now also provide policyholders with the option to connect electronically. Customers are using this user-friendly option to send messages to agents, print documents and review their policy or claim details.

REDEFINING PARTNERSHIP

Our focus on **Redefining Partnership** is being used to shape strategy, set priorities and challenge the status quo.

Redefining Partnership is defined by Integrity setting the industry standard for independent agent/carrier partnerships through the depth, strength of commitment, innovation and return on investment of our relationships.

Let's break the definition down:

- Industry standard – Integrity doesn't want to just align with the industry standard; we are leading it with new tools and techniques for agent/carrier collaboration.
- Depth and strength of commitment – Integrity believes the more we know and understand about the agency business, their team and market dynamics, the better equipped we will be to add value to our relationship. We remain committed to providing the process and resources to achieve that agency connection.
- Innovation – we understand that in order to separate ourselves in the market for agents and policyholders, we have to blaze a trail with new offerings or business strategies, leveraging the agent entrepreneurial approach.
- Return on investment – Integrity works hard to bring all of these unique services to bear by being as efficient as possible and delivering the highest rate of return for our agency partners. We balance these benefits with tangible, measurable results which help to ensure we are the “Partner of Choice.”

Examples of how Integrity is **Redefining Partnership** are found on almost every page of this report. Whether it is our Commercial Field Underwriter team, My Integrity Account online access, or the Voice of the Customer program, all of these activities and initiatives are aimed at differentiating Integrity in the marketplace. We are providing our independent agents and policyholders distinct advantages to make sure we establish a firm position as their “Partner of Choice.”

Relationship-based Service Foundation

We are committed to providing our valued partners with service that distinguishes Integrity. Our agency partners and their policyholders deserve our time and attention, and we work with them to provide superior customer service, stability and relevant communication. Our focus on “Relationship-based Service” is prevalent in everything we do from how we answer the phone, adjust a claim, or make changes to a policy.

A great example of the impact of our “Relationship-based Service” model is the development of our “Partner of Choice” service standards. Clearly defining and monitoring the service expectations of our Integrity team so that our stakeholders know what they can count on, demonstrates our commitment to the relationship. We listen to what our customers tell us and continue to raise the bar on our service levels by providing the elements that are most important to our agents and policyholders.

Voice of the Customer

Observations and feedback from our customers are critical in shaping what and how we deliver insurance solutions for our agents and policyholders. Daily interaction with our customers generates ideas and perspectives that are shared with leadership and associates; however, we also put significant weight in our more formal Voice of the Customer (VOC) process. This survey-based program is intended to gather feedback from policyholders and agents. We use this information to better understand customer perceptions of our strengths and where we have opportunities for improvement. In order for Integrity to remain a “Partner of Choice”, we need to know from our stakeholders what is most important to them and the VOC process is a great vehicle for that feedback.

One of the key elements of the VOC program is to measure satisfaction and identify key elements of our customer loyalty. The feedback we receive allows us to make operational and structural improvements that will result in improved satisfaction, retention and growth. Information from VOC helps us focus on the drivers that influence customer satisfaction, fueling our “Relationship-based Service” model.

In 2011 the primary measurement from the process remained steady throughout the course of the year for policyholders demonstrating stability with our relationships. In 2012 we plan to offer online access at the agency level for policyholder VOC feedback, providing a direct link to policyholder satisfaction factors. This information will help agencies facilitate improvements, add continued value to the relationship with their insured and will be another differentiator supporting our **Redefining Partnership** vision.



United Way
American Cancer Society
The American Heart Association
Big Brothers and Sisters
Community Blood Center
and more

Investing in our Community

One of the foundational elements of our brand is service. Integrity’s market position and brand are both strengthened when as a company we serve our community. In 2011 Integrity leadership and associates served our community in many ways, continuing to build on our reputation as a charitable community partner.

In 2011 we were recognized for supporting the United Way at the Platinum award level for the 20th consecutive year. As a company and individual associates combined, we exceeded the \$600,000 mark in contributions since 1998 – a milestone that supports our strong Midwestern values.

Our associates also served our community in countless other ways including primary support for the 2011 “Scouting for Food” drive that helped to collect over 471,000 food containers that filled over 100 food pantries in the region. Associates contributed to the American Cancer Society, the American Heart Association, Big Brothers and Sisters, Community Blood Center along with many other charities. We are proud of the investments we make in our community.

“Investing in our community is a testament to the values this company was founded on and the character of the associates who work here.”



Cindy Heindel
VP of Human Resources
and Administration



Donya Wilson at an agent training session.



Donya Wilson
VP of Personal Lines

“Integrity associates’ passion to fully understand our customer needs is at the core of our service leadership position.”

Building on Personal Lines Strengths

In 2011 we leveraged our strengths and at the same time we addressed some of the opportunities we saw for Integrity in the marketplace. After considerable analysis and agent feedback, we strategically adjusted targeted areas of pricing aimed at improving our growth prospects. We saw a significant impact from rate stabilization with retention increasing by over 3% in this highly competitive market.

In 2011 we completed our final rollout of the Passport Auto® product in Iowa. We are now seeing momentum build for this product across all three Integrity states. The Integrity team took a strategic look at our personal lines business in the past year, aligning target markets and pricing to reinforce our sweet spot. The industry as a whole struggled with the impact of weather and profitability in 2011. At Integrity, early in the year we took a proactive and innovative approach that consisted of both rate and non-rate homeowner actions that provided agents and policyholders more options, driving profit and retention improvements. We were also pleased with the results from the realignment of our underwriting territories and strengthening of our team to better serve the needs of our agency partners.

We gained a commitment from several agency partners for over \$1 million in personal lines book rolls. This result is attributable to changes we initiated to improve processing of book rolls and concentrated business development efforts. Our 2011 book roll performance was an all-time record high for Integrity Personal Lines. All of these accomplishments were fueled by a dedicated management team and associates who are focused on **Redefining Partnership** for our agents.

Our agents asked for a Personal Lines Package Policy and we spent much of 2011 developing, refining and testing this new product. That hard work will pay off in 2012 as we roll out the Package Policy in Wisconsin. We are confident this new product will drive growth while elevating our overall personal lines product offering.

We are looking forward to leveraging the structure and strategy that is in place as we head into 2012. We are working on several specific initiatives that will drive an even higher level of retention and growth. As our Integrity team uses new tools from our “Relationship-based Service” model, we will deepen the value provided to our agents and in-turn our policyholders.

In 2012 we expect to continue strong growth associated with book roll activities as we leverage the speed and process improvements that have been put in place. Our “Relationship-based Service” model, enhanced accountabilities and service standards will all contribute to our continued success. In 2012 Integrity will also benefit from a strong, cross-functional team focused on sharing best practices and working together to be the “Partner of Choice.”

Focused Commercial Lines Strategy

Our team worked hard in 2011 to execute the strategy that had been carefully developed with the input of agents, associates and the leadership team at Integrity. One of our primary goals was to deploy a long-term, consistent and sustainable solution in the marketplace and in 2011 we realized that objective.

We understand that to remain a “Partner of Choice,” Integrity must continue to innovate – enhancing existing products and meeting customer needs. In 2011, we took one of our strongest performers, XPanded Premier®, and added two more classes that help our agents provide a product that is uniquely customized for a particular category of business. This means fewer endorsements are required to provide the policyholder with a solution that fits their needs right out of the gate. Also helping with both new business development and retention, our AutoAccel® product allowed us to write the hard-to-place commercial auto risks as well as an option for non-standard drivers. It is a balanced, option-filled approach that helps demonstrate how Integrity is **Redefining Partnership** every day.

Integrity has always provided solid commercial lines solutions – represented in the marketplace as a great generalist. Our position was enhanced in 2011 with the launch of our Programs and Associations division. This approach allows us to develop customized, best-in-class programs where there is agency specific class knowledge and connections to that niche market while also assisting with diversification within the agency book. With several successful programs launched in 2011, we have our eyes on expanding opportunities in 2012.

Our Loss Control programs are a great tool that attracts new business, drives retention and increases client satisfaction. Our highly talented team worked to target accounts that were having profitability challenges so a plan could be put in place proactively – engaging the policyholder and improving profitability before the renewal. Loss Control services will continue to serve as our differentiator to assist our agency partners in writing and renewing business, another example of **Redefining Partnership**.

We believe one of the best ways we **Redefined Partnership** in 2011 was through the expansion of our Commercial Field Underwriter (CFU) program. Expanded to include four seasoned and talented underwriters, the CFU serves as the quarterback to align our services to the specific needs of the agency and policyholder – customizing our approach to fit their requirements. We expect additional growth in 2012 as a result of our CFU program as we continue to be the independent agent’s “Partner of Choice.”



Jill Stache
VP of Commercial Lines

“A true partnership is created when all parties work together toward clearly defined, mutual goals and objectives.”



From left to right, Brian Brummel, Heidi Morse, Jill Stache, Steven Schomaker and Jen Urbanek meeting on Commercial Lines opportunities.



The Appleton-based portion of Integrity's claims team.

Total # of Claims

2008	13,559
2009	13,100
2010	15,154
2011	15,286

Claimants can now access information 24/7 via My Integrity Account

- Report claims
- Links to adjuster email
- Check status of a claim
- Track claim history



Christian Martin
VP of Claims

Measurable Success – Satisfying Customers with Integrity

When someone has a claim it is often referred to as “the moment of truth.” At the end of the day, the Claims department exists to deliver on a promise - a promise to help individuals and businesses in putting their lives and livelihood back together after a loss. Our “Voice of the Customer” (VOC) survey program provides the Claims team with continuous feedback allowing us to ensure that our focus remains on delivering on our promise in a caring, professional, empathetic and efficient manner. On a ten point scale, our customers rated their likelihood of renewing their policy with Integrity at a 9.1, supporting their high level of satisfaction with the claims experience. We continue to review the feedback we receive and adjust our processes to make sure we continue to deliver our service in a fast, fair and friendly manner that exceeds our customers’ expectations and ensures that Integrity remains our agents’ and policyholders’ “Partner of Choice.”

As we continue **Redefining Partnership** with our independent agents, we are communicating our VOC results in order to share meaningful feedback from their clients that will assist agents in selling the value of Integrity claims service and retaining customers. We have made clear our expectations of timely communication with customers through publishing our “Partner of Choice” service standards and 2011 provided plenty of opportunity for us to deliver on our promises.

Despite 2010 and 2011 bringing a 16% increase in total claim volume, the Claims team continued to deliver efficient and customer focused service. We realized the benefits from a number of process improvements. For example, the Auto Claims unit specialized their damage evaluation and processing to further reduce the claims cycle time and provide faster payment processing. This resulted in a 5% increase in the number of customers’ claims paid within five days of being reported.

In partnership with Commercial Lines and Loss Control, the Claims team is dedicated to meeting the needs of qualifying businesses through our Key Account Service Program. The Loss Control and Claims teams identify specific needs of the business and develop a program that assists the business in identifying loss trends, minimizing future losses and streamlining communication to a single claims point of contact. Having a clear call path for our policyholders accelerates their process and aligns directly with our “Relationship-based Service” model.

“Our Integrity team is dedicated to continually raising the bar on all aspects of our relationship, ensuring we prevail as the “Partner of Choice.”

Board of Agents Help Shape Strategy

Being and remaining a “Partner of Choice” isn’t easy in today’s competitive market. One way Integrity separates itself from the pack is through our active Board of Agents. Board members themselves indicate the Integrity team comes to the table ready to listen and understand the dynamics impacting agencies today. Our leadership team converts the feedback we receive into tangible, measurable action. Our Board of Agents plays a critical role in the strategic planning process as they help to validate our strategies and bring alternate perspectives to the table. We appreciate the service of our 2011 board members:

COMMERCIAL

Wisconsin Commercial Lines

Mike Ansay, Ansay & Associates, LLC
 Jerry Couri, Couri Insurance Agency
 Tim Rusch, Ansay & Associates, LLC

Minnesota Commercial Lines

Steve Micke, Reliable Agency, Inc.
 Lori Malavsky, Winona Agency
 Steve Carey, Martin-Financial Services, Inc.

Iowa Commercial Lines

Tom Christianson, Jaspersen Insurance & Real Estate
 Steve Schomaker, Brummel, Madsen & Associates, Inc.

PERSONAL

Wisconsin Personal Lines

Brian Hottmann, Schwarz Insurance Agency, Inc.
 Mary Jo Roesch, TRICOR Insurance & Financial Services
 Brian Schmitz, CRW Insurance & Financial Services
 Mike Alderman, Jensen-Sundquist Insurance Agency

Minnesota Personal Lines

Al Bier, The Gladwin Agency
 Rob Owens, Owens Agency, Inc.

Iowa Personal Lines

Paul Kern, Paul Kern Insurance Agency

Leadership Circle

Integrity Insurance is represented by independent agents throughout Wisconsin, Minnesota and Iowa. All of our agents are critical to our ongoing success. There are multiple agencies that achieved significant success in the delivery of Integrity Insurance solutions to their customers and that group of partners is recognized through our Leadership Circle Program. We hold those relationships up as the model for collaboration and strive to elevate all agencies to that level of partnership. Congratulations to these agencies whose 2011 results qualified them for our 2012 Leadership Circle program:

Wisconsin

Ansay & Associates, LLC
 Couri Insurance Agency
 CRW Insurance & Financial Services
 De Smet Agency, Inc.
 First Associated Insurance Agencies, Inc.
 Holden Insurance Agency
 Jensen-Sundquist Insurance Agency
 Nolan Insurance Agency
 Novak Agency, Inc.
 R&R Insurance Services
 Schwarz Insurance Agency, Inc.
 Smith & Hatch Insurance Agency, Inc.
 TRICOR Insurance & Financial Services
 Westland Insurance Services

Minnesota

Insurance Advisors, Inc.
 Reliable Agency, Inc.

Iowa

Brummel, Madsen & Associates, Inc.
 The Dana Company
 Mel Foster Company Insurance
 Swanson Insurance

“Our shared commitment to the independent agent channel is evident by the energy, opportunity and action generated by our Board of Agents and Leadership Circle members.”



Brad Kelly
 VP of Sales and Marketing

Financial Results

Balance Sheet

(Dollars in Thousands)

Admitted Assets

	Dec. 31, 2011	Dec. 31, 2010
Bonds	\$ 51,032	\$ 51,402
Stocks	9,778	9,225
Real Estate	1,764	1,856
Cash and Short-Term Investments	4,068	3,612
Agents' Balances/Premium Due*	7,341	7,768
Accrued Investment Income	442	439
Other Assets*	4,764	7,374
Total Admitted Assets	<u>\$ 79,189</u>	<u>\$ 81,675</u>

Liabilities & Policyholders' Surplus

	Dec. 31, 2011	Dec. 31, 2010
Reserve for Losses and Loss Expenses*	\$ 20,305	\$ 21,040
Unearned Premiums*	15,635	16,237
Accrued Expenses, Accounts Payable and Other Liabilities*	7,373	10,661
Total Liabilities	<u>43,313</u>	<u>47,938</u>
Policyholders' Surplus*	<u>35,876</u>	<u>33,737</u>
Total Liabilities and Policyholders' Surplus	<u>\$ 79,189</u>	<u>\$ 81,675</u>

Statements of Income

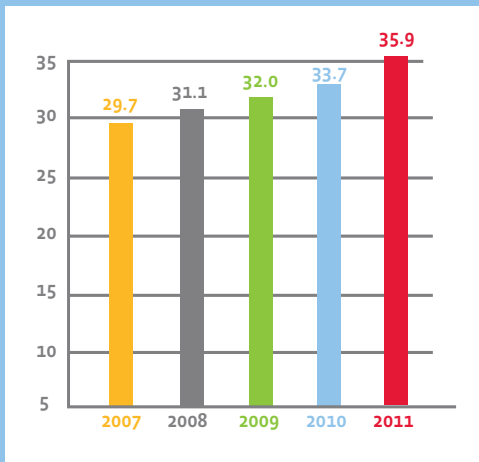
	Dec. 31, 2011	Dec. 31, 2010
Premiums Earned*	\$ 41,740	\$ 44,817
Losses*	(25,082)	(27,402)
Loss Adjustment Expenses*	(4,342)	(4,754)
Other Underwriting Expenses*	(13,046)	(14,231)
Net Underwriting Gain (Loss)	<u>(730)</u>	<u>(1,570)</u>
Net Investment and Other Income*	3,212	3,103
Dividends to Policyholders*	(122)	(129)
Federal Income Taxes	(399)	(238)
Net Income	<u>\$ 1,961</u>	<u>\$ 1,166</u>

Statements of Change in Surplus

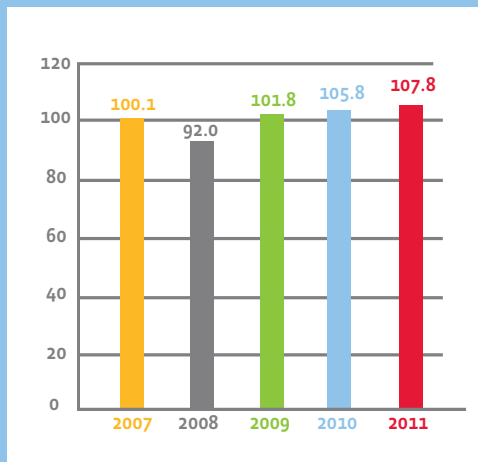
	Dec. 31, 2011	Dec. 31, 2010
Policyholders' Surplus, Beginning of Year	\$ 33,737	\$ 31,990
Net Income*	1,961	1,166
Change in Unrealized Gains	487	478
Change in Net Deferred Income Tax	(197)	63
Change in Non-Admitted Assets*	579	371
Change in Minimum Pension Liability	(690)	(331)
Policyholders' Surplus, End of Year	<u>\$ 35,876</u>	<u>\$ 33,737</u>



Integrity Executive Leadership Team and Officers (l. to r.): Brad Kelly, VP of Sales and Marketing; Donya Wilson, VP of Personal Lines; Cindy Heindel, VP of Human Resources and Administration; Julie Walker, VP of Strategic Planning; Christian Martin, VP of Claims; Joseph DiMartino, President & CEO; Jill Stache, VP of Commercial Lines



Surplus*
Dollars in Millions



Direct Written Premium
Dollars in Millions



Combined Ratio*

“Even though I have been an insurance agent for almost thirty years, I have been an Independent Insurance Agent for only a few years. Having competitive rates is important, but even more important to me is being able to provide top notch service when a catastrophe hits such as the recent hail storm in Dubuque. I am happy to say that Integrity has done an excellent job of adjusting the claims fairly and also explaining the claims process to my insureds in a way that was understandable to them. I have had several calls to my office from my Integrity clients expressing their great satisfaction and gratitude for the way their claim was handled and I wanted to pass that on to you. Also, thanks for making my job easier!”

*Rick Hollander
Hollander Insurance Agency*

“After 14 years in the business, I have never seen a company with outstanding customers service that shines in every area, from personal lines , commercial , claims and billing. I applaud Integrity and the employees that make the Company so great to work with! Thank you!”

*Rondi Wright
Gilbert Financial Services*

“WOW.....I was in shock yesterday. Our insurance adjuster came over and assessed the wind damages. He then went to his car and printed out the sheets showing how our loss was calculated (\$4000) and then handed us our check!!!! Totally floored. I figured we'd get it in the mail in about a week. Integrity is awesome.”

Policyholder Facebook Post



Integrity
Insurance®

The way it should be.®

integrityinsurance.com