

The Wausau - Liberty Affiliation: A Bright, New Chapter in “The Wausau Story”

Jim VanEyck

**Executive Vice President -- Customer Service
Wausau Insurance Companies**

I want to thank you for inviting me to speak today. At Wausau Insurance, we value our role as a corporate citizen in central Wisconsin, and it is an honor to address this important group here today.

I'd like to begin my remarks by putting them in historical context. In the 1950s a historic new advertising campaign was launched by Wausau Insurance, which came to be known simply as “The Wausau Story.” As time has gone on, those words have come to symbolize the 88-year history and vision of our company: to be the very best in our niche of the commercial insurance and risk management services industry.

On January 1, 1999, Wausau Insurance officially embarked on a bright, new chapter of The Wausau Story as a member of the Boston-based Liberty Mutual Group. That day also marked the end of Wausau's 13-year affiliation with the Nationwide Insurance Enterprise.

In the wake of this momentous change, I've been asked to address three things today:

- First, I'll provide a brief assessment of Wausau's current operations and our role in the central Wisconsin economy.
- Second, I'll briefly discuss how Wausau is faring in a competitive marketplace and highlight some of our key strategic initiatives.
- Finally, I'll give an overview of the Liberty Mutual Group and how we fit within Liberty's family of companies.

How we're doing ... and where we're going

Wausau Insurance is a sophisticated all-lines commercial insurance company, offering insurance and services for property, workers compensation and other casualty, surety, and a full range of employee benefits such as group health, retirement and short- and long-term disability. Workers compensation is the company's major line of insurance, representing 45% of our revenue. Our employee benefits business generates 25% of the company's revenue. Other lines such as property, surety, general liability, and commercial auto are other significant sources of revenue. Our products and services are distributed through employed sales representatives, independent agents and brokers.

Wausau Insurance operates through a national network of 96 offices with 5,320 employees. More than 3,400 of the company's employees are based in Wisconsin. As the accompanying graphs A and B show, our total national employee count decreased by 800 between 1985 and 1998. During the same period of time, our Wausau-area

employment increased by 1,200. These contrasting graphs are a testament to our company's commitment to Central Wisconsin and the value we place on the local labor force.

Community impact

The community impact of Wausau Insurance is felt in many ways. For example, the company:

- Added \$174 million in payroll and benefits to the central Wisconsin economy in 1998.
- Paid \$1.5 million in property taxes in the Wausau area.
- Contributed \$660,000 to the United Way of Marathon County (including employee contributions and the company's dollar-for-dollar match) in 1998.
- Expanded offices at the Westwood Center, First Avenue Building, and the Home Office during the 1990s.
- Provided major sponsorships of many events, ranging from the Badger State Winter Games, to downtown kayak races, to the arts.

Wisconsin impact

Wausau Insurance also has a significant presence in Wisconsin. For example, the company:

- Maintains its long-held position as Wisconsin's top workers compensation carrier, with 10% of the market share.
- Ranks among the "top five" in HMO enrollment with a major stake in several community-based health plans around the state.
- Serves 3,000 customers in Wisconsin.
- Insures two-thirds of the state's school districts and three-fourths of the state's cities and villages.
- Sponsors a variety of events, ranging from the Badger State Summer Games, to the Greater Milwaukee Open, to the WIAA Scholar-Athlete program.

Performance highlights

At Wausau Insurance, an important measure of our financial performance is comparing our "combined ratio" with our top competitors. Combined ratio is the ratio of losses plus expenses to our premium base.

When benchmarked against our top 10 competitors, our average combined ratio for our property and casualty lines over a five-year period ranks in the top five in the industry. Likewise, our average workers compensation combined ratio over a five-year period ranks among the best in the industry.

The combination of these positive results with high business retention rates tells us that our company is on the right track.

Major initiatives

As we look to the future, we're especially excited about the following major business initiatives, which position our company for profitable growth:

Workers compensation strategy

Wausau CareManaged WorkersCompSM is our comprehensive care management strategy for workers compensation. This strategy is based upon a "sports medicine" philosophy:

- 24-hour reporting and early medical intervention.
- Loss prevention and ongoing case management aimed at return-to-work.
- A national panel of proven occupational medicine providers.
- A focus on helping customers improve their productivity.

Integrated Disability Management

Wausau is a leader in providing integrated disability management (IDM), a product which combines short- and long-term disability, workers compensation and perhaps eventually, group health benefits. The key appeal of IDM is our ability to provide one claims administrator, whether a medical claim is work-related or not. This simplifies the return-to-work process by allowing us to apply a sports medicine philosophy regardless of where an injury occurs. Wausau currently provides IDM services to more than 60 accounts, including Steelcase, the state of Indiana, and Florida Power & Light.

International ventures

Wausau has a variety of international ventures which help us to meet our customers' needs beyond U.S. borders. These ventures include:

- Wausau U.K. Ltd., a London office which serves 17 European countries.
- Wausau Bermuda Ltd., a company based in Bermuda which may be "rented" by our insured or self-insured clients. This is a relatively new risk management tool which provides our customers with regulatory and tax benefits in the international marketplace.
- Wausau also works through a network of foreign insurers to provide reciprocal coverage for U.S. based and foreign clients.

Technological innovations

Wausau Insurance is constantly developing and refining technology which allows us to provide our business partners and clients with instant access to the information they need. For example, Wausau has developed:

- An electronic producer interface which provides a paperless link with brokers, agents and the Wausau sales force via the Internet.
- A customer information system which uses the Internet to provide secure computer access to vital customer-specific information to manage assets and control expenses and losses.

The Liberty affiliation

As a member of the Liberty Mutual Group, Wausau continues to benefit from the financial strength of a large, well known, highly regarded and growing international insurance organization. With \$12 billion in consolidated revenue, Liberty Mutual is 132nd among Fortune 500 companies. The organization has assets of \$51 billion and a surplus of \$7.2 billion. This global group of companies employs more than 35,000 people in 12 countries.

Best of all, we speak the same language. Like Wausau, Liberty is in the commercial insurance, risk management, and services business. While Wausau is exclusively in the commercial insurance and services business, the Liberty Mutual Group also includes personal insurance, financial services, individual life insurance, group life and disability, and international holdings.

For years, Liberty Mutual has been our respected competitor. We have a common “mutual” structure, similar cultures, and have worked side by side within industry trade groups. With Liberty’s support, we expect to grow Wausau profitably and contribute to strengthening the group’s market-leading position in workers compensation.

Why did Liberty want this affiliation?

Liberty Mutual has identified several factors for pursuing this affiliation:

- We share a mutual commitment to having a significant presence in commercial insurance, particularly workers compensation.
- The affiliation enhances Liberty’s ability to remain the leading provider of workers compensation and helps grow their commercial insurance franchise.
- Wausau has an outstanding reputation within the industry.
- We have a common loss management philosophy and share a commitment to workplace safety and health.
- Wausau and Liberty have complementary strengths in our distribution systems and geographic presence.

What will be the effect on our operations?

Liberty officials have made firm commitments to grow Wausau and to support our strong role in the central Wisconsin community. Liberty will build on and invest in our solid brand name and operations. The intention is to give commercial customers a choice of two strong brand names and to capitalize on these respective brand names in the markets where they are strongest.

As such, Wausau Insurance will operate as a relatively independent entity. Our headquarters will remain in Wausau and our executive team will remain essentially intact. Yes, we’ll look for opportunities to share capabilities and certain services, but in ways that do not adversely affect our brands.

What does this mean for our customers and producers?

Our current relationships with customers and producers will continue and in many ways be enhanced. Wausau will be a stronger company financially because Nationwide

Insurance retained the liability for the “long tail” of old Wausau loss exposures for pollution, asbestos, and discontinued operations.

Wausau will also continue expanding and improving capabilities -- separately and, when appropriate, in partnership with Liberty Mutual. For example, we are exploring opportunities to acquire technology from one another or to jointly develop technology.

What does this mean for Wausau employees?

It means the continuation of our values and culture rooted in the fact that we are a mutual carrier headquartered in Wausau. Pay and benefit levels are as good as, and in some case better than, they had been under Nationwide. Moreover, employees will continue to have the security of a financially strong business partner and the new opportunities that it will provide.

What does this mean for central Wisconsin?

The Liberty Mutual affiliation means good things for our community and region. Liberty Mutual is committed to help us grow our business and that could result in growing workforce opportunities. Moreover, Liberty shares Wausau’s long-held commitment to charitable giving and employee volunteerism.

Our bright future together

Together, Liberty Mutual and Wausau Insurance will offer an expanded range of distinctive products and services to the commercial insurance marketplace. It is indeed a bright, new chapter in “The Wausau Story.”

I’m especially pleased to be here today to share the good news with you ... because we appreciate the strong relationships we’ve been able to develop with many local businesses and institutions. And we’re proud of the financial support we add to those organizations that also add so much to our central Wisconsin economy and quality of life. Thank you.