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**With a Model that Allows Them to Do Well in Either a High or Low Price Environment, Meadowbrook Insurance Group, Inc. has Been Able to Maintain an ROE in Double Digits – Even During the Recent Economic Downturn**

**Financial  
Property & Casualty Insurance  
(MIG-NYSE)**

**Meadowbrook Insurance Group,  
Inc.**

**26255 American Drive  
Southfield, MI 48034-6112  
Phone: 248-358-1614**



**Robert S. Cubbin  
President and CEO**

**BIO:**

Robert S. Cubbin is President and Chief Executive Officer of Meadowbrook Insurance Group. Mr. Cubbin also serves as a member of the Board of Directors. Prior to this appointment, Mr. Cubbin held the positions of Chief Operating Officer, Executive Vice President, Senior Vice President, and General Counsel for Meadowbrook Insurance Group and its operating

subsidiaries: Star Insurance Company, Savers Property & Casualty Insurance Company, and American Indemnity Insurance Company.

In 1995, Mr. Cubbin was instrumental in the successful completion of an initial public offering that resulted in Meadowbrook being listed on the New York Stock Exchange (NYSE: MIG). In 2002, Mr. Cubbin led a secondary public offering which raised an additional \$66 million in equity for the Company.

Mr. Cubbin has extensive experience in the formation and operation of stock and mutual insurance companies, onshore and offshore captive insurance companies, self-insurance funds, and public entity pools. He is a frequent speaker at industry forums on the Alternative Risk market, captives, rent-a-captives, and specialty program business.

He joined Meadowbrook Insurance Group after practicing law at the Detroit, Michigan offices of Plunkett & Cooney, with a focus on insurance and reinsurance issues, professional liability claims, municipal liability, and products liability.

He is a graduate of Wayne State University and holds a law degree from the Detroit College of Law. He is a licensed attorney in the State of Michigan.

**Company Profile:**

Meadowbrook Insurance Group, Inc. ("Meadowbrook"), based in Southfield, Michigan, is a leader in the specialty insurance program management market. The company specializes in

risk management solutions for agents, professional and trade associations and small to medium-sized insureds. Meadowbrook's services include claims administration, loss prevention and management of self-insured programs. The company is comprised of insurance agencies, third party administration entities, and seven property & casualty underwriting companies. Meadowbrook has 24 locations in the United States and the company's common shares are listed on the New York Stock Exchange under the symbol "MIG." For further information, please visit Meadowbrook's website at [www.meadowbrook.com](http://www.meadowbrook.com).

**Interview conducted by:  
Lynn Fosse, Senior Editor  
CEOCFOinterviews.com**

**CEOCFO:** Mr. Cubbin, Meadowbrook has been around a long time, what is the focus today, and how has it evolved over the years?

**Mr. Cubbin:** The focus today is specialty commercial insurance products. We do both programs and product specialties that really run the gamut from inland marine to workers compensation and everything in between that a business would need. This has evolved from our origin, an insurance agency back in the 1950's and 1960's. So now our focus is really more on the insurance company operations and those specialty products and programs.

**CEOCFO:** Do most companies realize how important insurance and risk management is or is the value under estimated?

**Mr. Cubbin:** Sometimes people look

at insurance as kind of a necessary evil. They do not really understand it that well, but more and more businesses are developing an overall enterprise risk management process that obviously needs to include transferring some of that risk to an appropriate insurance company. More sophisticated businesses today do understand the importance of risk management and therefore have focused more attention on the value that they can derive from a strong relationship with an insurance company.

**CEOCFO:** Meadowbrook has several ways of reaching potential clients; would you give me a sense of the breadth of Meadowbrook?

**Mr. Cubbin:** We use a variety of different distribution systems. Primarily, we operate through independent agents, program administrators, and wholesale insurance brokers. The reason for that is many of our specialty products are delivered to us in a bulk fashion by the distribution system. You will have a specialty retailer who has developed a given expertise say, agricultural products or some specialty within a workers' compensation line of business, and developed that expertise over time and have attracted a lot of customers based on that expertise. The specialty retailer then partners with Meadowbrook to deliver the product to the customer through its operation and Meadowbrook provides the financial transfer of risk. We provide the claims and loss-control services and the agents provide the customer service on the front end of the deal and then during the renewal process. On a broader scope, we partner with a select group of "best-in-breed" wholesale general agencies, through which we distribute more than 2000 different classes of products, primarily on a surplus lines basis, but also selectively with our admitted products. So that is primarily how our products are distributed. We have relationships with different distribution systems that generally are more regional in nature but we do business in all fifty states as required by our customers.

**CEOCFO:** Does the end customer care that Meadowbrook is behind the product and service they use?

**Mr. Cubbin:** Yes. They understand that when they buy insurance, really they are buying a promise to pay. So they are aware of the financial strength behind the insurance product. Most of the time though, if you ask policy holders who their insurance is with, they will tell you the name of their agent, but they do want to make sure that they have a good strong insurance company behind it. That is why they look to the rating that A.M. Best places on a company. Meadowbrook has an A- (Excellent) rating, and a long track record of being a strong financial partner. Therefore, they are aware of it. Smaller clients are probably less concerned about that. Larger policy holders would have more interest in making sure who the carrier is and that they are strong financially.

**It is the diverse revenue sources, diverse geographic resources, and local touch that does a lot to maintain profitability in these very difficult times. - Robert S. Cubbin**

**CEOCFO:** Are their products and services that you are not providing now that you would like to add to the mix?

**Mr. Cubbin:** We don't do personal lines for example, which is homeowners and personal auto. That is an area we have looked at, but haven't yet found the right entry point into that side of the business. We are also expanding our capabilities in the errors and omissions and miscellaneous professional liability side of the business. Those are a couple of areas that we have looked at and while we do not have immediate plans on the personal line side, we have looked at opportunities for an entry point there. In the future, if the right acquisition comes along, then we would want to enter that side of the business as well.

**CEOCFO:** Is that typically the way you expand?

**Mr. Cubbin:** We have had both organic growth within our existing operations and growth through acquisitions. Our business development team works on identifying and creat-

ing relationships with new partners who are basically specialty program administrators. We have made acquisitions in the past and do expect to continue to be an acquisitive company as we move forward, but we are not only relying on acquisitions to grow.

**CEOCFO:** Regarding your strategy, what do you look for, how do you find potential partners and are there geographic areas that you are not as strong in where you would like to be?

**Mr. Cubbin:** We have a lot of opportunity for growth. We use our regional managers, as well as, corporate resources to attend conferences where agents, general agents, wholesalers and program administrators attend. We meet with them on a regular basis at industry conventions, but we are also very well known in this area. The program business and specialty business we have been doing more than thirty years, so we have brand recognition just by the fact that we have been in it for a long time. So we get a look at a lot of different program opportunities by the brokers or the wholesaler or

the administrator coming to us just knowing our reputation and knowing our history in that business. In terms of geographic growth, we are really more opportunistic when it comes to that, but there are areas like the northwest where we do think that we can get stronger. Even some of the Midwestern states we do have expansion goals there, and pretty much everywhere else around the country we have some presence. Therefore, it is really a matter of expanding that presence and developing a broader range of products and production in existing locations.

**CEOCFO:** What sets Meadowbrook apart from the competition?

**Mr. Cubbin:** We have been in this specialty program and products area for a long time, so consistency of management and high quality responsive service really sets us apart from a lot of other people. We have very good technical capabilities through the use of the Internet to make the relationship with our production source and our policy holders very

seamless and quick. Therefore, it is that high quality responsive and consistent service that makes us different from a lot of other people. We also have a wide ranging appetite for risk because we have a broad range of expertise in the Company, so we can be responsive to just about any need in any type of commercial product that a policy holder or a an agent might need.

**CEOCFO:** Can you give me an example of something that you might offer that is a little bit different or something you have a way of doing that really is different than others?

**Mr. Cubbin:** Yes, in a couple of areas particularly in the small account workers compensation, which means policies under \$10,000. We have a very good Internet based rate, quote and policy issuance system that allows our agents with whom we have contracts the ability to enter the policy holders' information and get an immediate quote. We also have the same sort of capability on small excess and surplus lines business through wholesalers, so that speed through the Internet is definitely something that gives our agents an advantage over other agents and other production sources. We do very unique and unusual types of accumulation of risk that other people don't even necessarily look at because they require unique underwriting expertise. That kind of thing really sets us apart.

**CEOCFO:** What has changed over the last couple of years?

**Mr. Cubbin:** It has been tough as you know across the country with high unemployment and the recession. There has obviously been a decrease in the number of people who are employed and many of the insureds that we cover have seen their payrolls go down and seen their revenues decrease. So, that has created a downward pressure on premium volumes in the property & casualty insurance industry. Also, the low interest rates have hurt the insurance industry because the industry as a whole relies on investment income, as well as, underwriting profits to meet their return on equity targets. Therefore, with depressed interest rates, low prices in the insurance business, high unem-

ployment and recessionary pressures, that has put a lot of both top line and bottom line pressure on insurance companies in general. Fortunately, for us, we have built a model around our business that allows us to do well in either high prices or low price environments and throughout these cycles. So we have been able to maintain an ROE in double digits, even in this difficult economic time. As the markets start to normalize, we should start to see an expansion of our return on equity and therefore an expansion in the multiple that our stock receives in the market place.

**CEOCFO:** What does Meadowbrook understand that maybe others do not?

**Mr. Cubbin:** Well I do not know if it is a secret sauce, it is certainly not, it is fairly basic block and tackling. We have created a very diverse revenue stream, so we have a lot of different programs, a lot of different lines of business in many different states, but we still deliver those products on a local basis. We are not trying to be a national writer and compete with the large insurance companies. We have developed a niche product in very specific geographic locations where it makes sense to write that business. Our distribution system is sort of semi-exclusive, so they do a lot of their business with us and they are not causing competition at that level within their agency operations. Therefore, it is the diverse revenue sources, diverse geographic resources, and local touch that does a lot to maintain profitability in these very difficult times.

**CEOCFO:** As agents that are representing Meadowbrook are across the country and they are not employees, how do you ensure the quality of people that are at the end of the chain for Meadowbrook?

**Mr. Cubbin:** That is a good question. That is derived from extensive due diligence before we enter into a relationship with someone. We conduct thorough background checks, analyze their book of business and their financials, and make sure they are the kind of partner that we want to have out there long term representing Meadowbrook. After we enter into the relationship, we do not delegate a lot of authority until there has been a long

period of time where they have earned that authority and then we audit. Like Ronald Reagan always said, "you can trust, but you need to verify" and that is certainly true in our business.

**CEOCFO:** What is the financial picture like for Meadowbrook Insurance Group today?

**Mr. Cubbin:** We had another very good year in 2010. We are maintaining strong underwriting results. We have seen growth this year top line and bottom line. So, in general, we have had exceptionally good results. Over the next few years we are going to see a period of strong growth as we emerge from the economic quagmire we have been in over the last three or four years. Therefore, we are going to continue to see not only organic growth, but we also do believe we will be able to execute on an acquisition over the next twelve to eighteen months.

**CEOCFO:** Is the investment community paying attention?

**Mr. Cubbin:** Oh definitely! Right now, however, I think investors who are focused on the financial service industry tend to be more focused on banks that have seen their stock prices pummeled because of the poor economic conditions and the housing market. They see at this point a greater upside to the companies that survive. Usually insurance companies are considered a safe haven for investors and, as there has been more and more dislocation in the bond market, the fixed income market and the equity market, they do look at insurance company investments as a safe haven. Therefore, you are going to see more and more of them coming back to looking at and wanting to own good quality, well managed insurance companies.

**CEOCFO:** In closing, why should potential investors be paying attention to Meadowbrook Insurance Group, and what might they miss that they should understand?

**Mr. Cubbin:** Right now as I have said, we have developed a business model that allows us to produce a dependable double digit return on equity through difficult and good times; we

can get up to a high teens returns on equity. We anticipate between a 10% and a 17% ROE and predictability across market cycles, as well as, across any kind of economic conditions. We have consistent profitable

underwriting results, investment income comes from low-risk and high quality fixed income portfolio, strong cash flows in our insurance company subsidiaries and, as we emerge from this economic downturn and pricing in

the property & casualty sector increases, we should see market multiples expand and good growth opportunities.

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