Donegal Group Inc. (DGICA; DGICB)

Q4’23 Earnings Call Transcript

Karin Daly – Vice President, The Equity Group Inc.

Good morning and thank you for joining us today. This morning, Donegal Group issued its Fourth Quarter and Full Year 2023 Earnings Release outlining its results. The release and a supplemental investor presentation are available in the Investor Relations section of Donegal’s website at www.donegalgroup.com. Please be advised that today’s conference was pre-recorded and all participants are in listen-only mode. After management’s prepared remarks, there will be a pre-recorded question-and-answer session for responses to several questions submitted ahead of the call. Note that we have incorporated responses for many of the questions we received directly into management’s prepared remarks.

Speaking today will be President and Chief Executive Officer, Kevin Burke; Chief Financial Officer, Jeff Miller; Chief Underwriting Officer, Jeff Hay; Chief Operating Officer, Dan DeLamater; and Chief Investment Officer, Tony Viozzi.

Please be aware that statements made during this call that are not historical facts, are “forward-looking statements” and necessarily involve risks and uncertainties that could cause actual results to vary materially. These factors can be found in Donegal Group’s filings with the Securities and Exchange Commission, including its annual report on Form 10-K and quarterly reports on Form 10-Q. The Company disclaims any obligation to update or publicly announce the results of any revisions that they may make to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

With that, it is my pleasure to turn it over to Mr. Kevin Burke. Kevin?

Kevin Burke – President and Chief Executive Officer

Thank you Karin, and welcome everyone. We are pleased to provide an update today on a number of accomplishments in 2023 as well as our areas of focus for 2024. Our primary objective is to improve our underwriting profitability, and we believe the action plans and rate increases we implemented during 2023 will lead to incremental improvement in our results for 2024 and beyond.

Donegal’s fourth quarter 2023 results did not meet our expectations, nor did they reflect the efforts of our team during the year in executing many initiatives that will lead to better financial performance over the long term. While our commercial lines segment results improved from the prior-year quarter, primarily as the result of lower weather-related and large fire losses, our personal lines segment results came in well below expectations despite the significant premium rate increases we implemented over the past two years. You’ll hear more details about our results and the actions we have taken to generate improved performance going forward.

As discussed in our third quarter earnings commentary, we began non-renewing all commercial policies in the states of Georgia and Alabama during the second half of 2023 due to sustained profit challenges in those states. That process continued during the fourth quarter and contributed to a modest net decrease in commercial lines net premiums compared to the prior-year quarter. We will not have any commercial exposures in those two states after we complete the run-off initiative in the third quarter of 2024.

In early 2024, we kicked off inception activities for our last two major software releases within our systems modernization project. The planning, development, testing and rollout of these releases will run in parallel over the next two years. A major commercial systems release will include a new commercial package policy and modernize the other commercial products remaining on our legacy systems. These products serve middle market and larger commercial accounts for which we already compete effectively. While we are actively writing new personal lines policies on the new platform today at a controlled pace that is essentially offsetting natural policy attrition, the majority of our personal lines renewal policies still reside on the mainframe-based legacy system. Our last major personal lines software release will facilitate the

conversion of those remaining legacy policy renewals to the new operating platform. Both of these releases will require significant efforts and represent critical initiatives that will allow us to decommission all of our legacy systems when their implementation is complete. We are looking forward to the time in the not-too-distant future when we are fully operating on a single, modern technology platform. I want to recognize the ongoing dedicated efforts of our technology and business teams over the past five years that delivered the agency and customer-facing capabilities that we needed to compete effectively for profitable accounts. The remaining project activities will provide additional benefits that largely relate to the operational efficiencies we will gain and the risks we will mitigate by eliminating our legacy systems.

From a strategic perspective, we continue to view commercial lines as the segment of the market to focus on for profitable growth. This strategy aligns well with our commitment to the independent agency distribution system, and we are actively promoting our new products designed to meet the insurance needs of small businesses in all of the 22 states where we offer commercial lines. We have action plans in place to target specific geographies, industries, market segments and classes we expect will be the primary growth driver for us in the years to come. Conversely, we plan to remain conservative as we manage our personal lines book of business, continuing to limit new business growth until we see our profitability improve. While there are encouraging signs of moderation in loss cost inflation, the cost of labor and prices of repairs and replacement parts remain elevated. Virtually all of our personal lines premium growth in 2023 represents the impact of rate increases, and our 2024 business plan calls for a modest net decrease in personal lines exposures with a continuation of strong rate increases to return that segment to sustained profitability.

I want to welcome Dan DeLamater as a speaker on today's call. Dan has served in various Donegal leadership positions over the past two decades, most recently overseeing field operations and national accounts. We recently promoted Dan to the position of Executive Vice President and Chief Operating Officer. In this elevated role, Dan will oversee key divisions within the Donegal organization, including marketing and field operations, claims, enterprise analytics and other supporting departments. Dan will highlight a few of his current focus areas later in the call.

At this point, I'm going to turn the call over to Jeff Miller for a review of our financial results.

Jeff Miller – Chief Financial Officer

Thanks Kevin. I'll start with a summary of our fourth quarter results and then provide a few comments about the full year results. For the fourth quarter of 2023, net premiums earned increased 6.2% to $226.2 million. Net premiums written increased by 6.1%, following the consistent pattern we experienced throughout 2023 as accelerating premium rate increases and strong retention were offset partially by lower new business volume and planned attrition in states we are exiting or have targeted for profit improvement. Rate increases achieved during the fourth quarter were in double-digit percentages for all major lines of business except workers' compensation, averaging 12% in total and 14% when excluding workers' comp.

The combined ratio was 106.8% for the fourth quarter of 2023, compared to 102.8% for the prior-year quarter, with a lower impact of net favorable prior-year reserve development driving the increase. The core loss ratio decreased modestly from the prior-year quarter, with improvement in our commercial lines core loss ratio largely offset by a higher personal lines core loss ratio compared to the prior-year quarter.

Weather-related losses of $13.4 million, or 5.9 percentage points of the loss ratio for the fourth quarter of 2023, were down from $16.5 million, or 7.7 percentage points for the fourth quarter of 2022. The lower impact was primarily due to lower commercial property losses,

with $3.5 million of losses contributing 7.0 percentage points to the quarterly commercial multi-peril loss ratio. That compared to 14.6 percentage points of the CMP loss ratio for the fourth quarter of 2022, when we incurred losses from Winter Storm Elliott in the last week of the year. The fourth quarter of 2023 weather impact to the homeowners line was $8.3 million, or 24.5 percentage points of the homeowners loss ratio, which was comparable to 24 points in the prior-year quarter. In total, the quarterly weather claim impact was slightly higher than the previous five-year average for the fourth quarter of 5.3 percentage points. Our insurance subsidiaries did not incur losses from any single event during the fourth quarter of 2023 that exceeded their individual $3 million catastrophe reinsurance retention with Donegal Mutual.

Large fire losses (which we define as over $50,000 in damages) contributed 4.8 percentage points to the loss ratio for the fourth quarter of 2023, which was lower than 6.2 percentage points for the prior-year quarter. A decline in the frequency and severity of commercial fire losses was the primary driver of the decrease.

Our insurance subsidiaries experienced a nominal level of net favorable development of reserves for losses incurred in prior accident years, with minimal impact to the loss ratio, for the fourth quarter of 2023, compared to $14.2 million, or a 6.7-point reduction in the loss ratio, for the period-year quarter.

The expense ratio of 34.1% for the fourth quarter of 2023 was in line sequentially with the third quarter of 2023 but increased modestly compared to 32.3% for the prior-year quarter. The increase primarily reflected higher technology costs related to our ongoing systems modernization initiatives.

Turning briefly to the full year of 2023 results, the loss ratio of 69.1% was generally in line with 68.6% for 2022. Weather-related losses contributed 8.3 percentage points of the loss ratio, elevated slightly compared to 7.7 percentage points for 2022, and higher than 7.1 percentage points for the previous five-year average.

Large fire losses contributed 5.2 percentage points to the 2023 loss ratio, down compared to 6.5 percentage points for 2022.

Net favorable development of reserves for losses incurred in prior accident years reduced the 2023 loss ratio by 1.9 percentage points, compared to a 5.4 percentage-point reduction in the 2022 loss ratio.

For the full year of 2023, the core loss ratio decreased by 2.3 percentage points, with a 4.6 percentage-point improvement in the commercial lines core loss ratio offset partially by a 1.3 percentage-point increase in the personal lines core loss ratio.

The expense ratio was 34.7% for the full year of 2023, compared to 34.1% for the full year of 2022. An increase in technology systems-related expenses was partially offset by decreased underwriting-based incentive costs for our employees for 2023 compared to 2022. In an effort to offset the higher costs related to our technology and data-related investments, we have launched an expense-reduction initiative that we expect will reduce our expense ratio in the future. Dan will provide more details related to this initiative in a moment.

The modest increases in our loss and expense ratios contributed to a combined ratio of 104.4% for 2023, compared to 103.3% for 2022. While we saw measurable improvement in our commercial lines results for 2023, our personal lines results demonstrated the need for additional rate increases to offset higher impacts of weather as well as higher average severity of liability claims. While economic inflation trends appear to be moderating, loss costs remain elevated due to labor shortages and increased prices to repair and replace damaged autos and properties. We are also monitoring social inflation trends and their industry-wide impact on liability loss settlements. While we believe we have made

significant strides in addressing those trends, we will remain vigilant as we continue to refine and execute strategies we expect will yield improved results in future periods.

To provide more details about our commercial and personal lines segment results and an update on rate activity and other profit improvement initiatives, I will turn the call over to our Chief Underwriting Officer, Jeff Hay.

Jeff Hay – Chief Underwriting Officer

Thank you, Jeff. While we have seen some stabilization in the macro-economic environment, loss trends remain elevated, and we are actively driving improvements in our underlying loss ratio by diligently executing on a number of initiatives to enhance our underwriting, risk selection and pricing. We have continued to execute our initiative to non-renew and exit commercial lines in Georgia and Alabama due to profit concerns, in addition to targeted non-renewals in selected classes in other states. That planned attrition more than offset growth from new business and strong rate increases and led to an overall commercial lines net premium decrease of 1% in the fourth quarter. We continue to make data-driven decisions with respect to individual risks and classes, utilizing analytics to inform us of risk characteristics that are more susceptible to loss. We are also providing detailed renewal pricing guidance to our underwriters and taking actions to increase margins on the business we wish to stay on. For example, we are intentionally increasing both property values and deductible levels in reaction to recent economic trends that have driven increases in repair costs. Our commercial premium retention has remained strong despite these intentional actions, largely due to overall rate & exposure increases of 12.7% for the quarter and 11% for the full year, excluding workers' compensation. We continue to emphasize higher rate increases in the areas where the intersections of class, line of business, and geography are the most challenged.

For commercial lines, we saw a 37% reduction in large fire losses from the prior-year quarter. As I have discussed in previous quarters, we believe the specific underwriting actions we have been executing to reduce the likelihood and frequency of these events are now beginning to show in our results. Weather-related loss activity was also down in quarter compared to the prior-year period, with particular favorable impact within our Commercial Property line of business compared to the fourth quarter of 2022, where we experienced Winter Storm Elliott freeze losses. In spite of the absence of any major event in the fourth quarter of 2023, weather-related losses remained elevated compared to our 5-year fourth quarter average. For the full year 2023, weather-related losses were 15% higher than full-year 2022. We are proactively diversifying the geographic footprint of our property book to optimize our mix of business and reduce the overall risk of losses from severe weather events, and we will continue to expand those diversification efforts throughout 2024.

Moving on to other lines of business, we saw Commercial Auto claim frequency beginning to show signs of a declining trend, but liability loss severity continues to be volatile. Increases in commercial auto liability reserves on a handful of claims in the quarter resulted in a lower level of net favorable prior-year loss reserve development compared to the prior-year quarter. In light of ongoing social inflation trends, we have maintained a relatively conservative reserving posture. We are closely monitoring and continuing to take appropriate rate actions to mitigate potential impacts of these trends on our business. Workers compensation continued to perform favorably with declining claim frequency.

Now turning to Personal Lines, we have continued to limit exposure growth and have taken aggressive rate increases on our premium renewals. Net premiums written for the fourth quarter of 2023 increased 18.1% compared to the prior year period, entirely driven by rate increases that averaged 13.1% for Personal Auto and 20.5% for Homeowners. For the full year, net premiums written increased 17.5% from 2022, with policies in force down 1% at year-end 2023 compared to year-end 2022.

Premium retention continued to remain very strong across our 10-state personal lines footprint at 106.2% for the fourth quarter. Our real retention rate (excluding rate and exposure change) was also strong at 88.0%, which suggests that most customers are accepting the higher renewal premiums. In addition to higher renewal rates, we are ensuring property values are accurately reflected and inclusive of inflationary impacts.

In the homeowners line for the fourth quarter, large fire losses increased 20% from the prior-year quarter, driven by higher frequency and severity, but for the full-year, we saw significant improvement as large fire losses were down 18%. Weather-related losses in the fourth quarter for homeowners increased 18% compared to the prior year period. Similar to our strategy in Commercial Lines, we are actively diversifying our geographic footprint to optimize our mix of business and reduce our overall risk of losses from severe weather events. We have modeled weather risk and evaluated our insured homeowners property concentrations down to the county level, which led to strategies to grow, maintain or shrink exposures in those counties to proactively mitigate the increasing occurrence of severe weather events.

We also recently began implementing several other underwriting actions to mitigate weather losses. We have tightened our underwriting guidelines for roof coverages in general, but effective in the first quarter of 2024, we are also mandating a limited loss settlement roof endorsement and increasing wind/hail deductibles on new homeowners policies in all of our states. Additionally, we will be applying similar requirements on our renewal policies on a state-by-state basis, and over time, we expect these measures will reduce our overall impact from roof damage claims.

As we move forward in 2024, our teams are fully engaged, aligned, and continue to work diligently to executive on strategies and action plans to drive incremental improvement in our underwriting results over time. We are confident in those strategies and optimistic that our actions will soon show the results we expect. With that, I will turn the call over to Dan DeLamater. Dan?

Dan Delamater – Chief Operating Officer

Thank you, Jeff. In addition to the underwriting actions that Jeff mentioned, I would like to discuss several operational initiatives that support those efforts:

As we closed out 2023, we completed the realignment of our regional structure and solidified the leadership for our regional operations. We have historically managed our business in distinct regions, with each of them having their own marketing, underwriting and claims functions. We entered 2023 with six operating regions and decided, in an effort to achieve further operating efficiencies, increased effectiveness, and greater economies of scale, to consolidate from six to four operating regions. Leaders in these four regions are now collaboratively working together with cohesive and overlapping marketing, underwriting, product development and claims resources to drive a consistent strategy and working environment. This productive operating structure will also ensure a greater degree of consistency in our operating routines and controls.

I'd like to highlight a few teams who are working tirelessly to move Donegal forward:

- First, our product development team members are continuing to work closely with both the underwriting staff and marketing teams to closely manage each regional product portfolio.
- Secondly, our analytics team provides visibility into business drivers by refining our data production and visualization to provide quick and easy access to key metrics at a regional, state, sub-state, and agency level.

- And lastly, our marketing team actively engages in profitability initiatives to earn the best quality new business in the specific classes and lines of business that we are targeting, and they hold our independent agency partners accountable to their commitments in delivering this focused new business production.

Along with home office and regional leaders, representatives from all of these dedicated teams participate in monthly portfolio management meetings to ensure excellent, transparent reporting and accountability for successful execution of the strategies and action plans underway.

As Jeff Miller mentioned earlier, to further support our underwriting improvement efforts, we have also launched a targeted expense reduction effort. As we reach the peak expense impact of our multi-year systems modernization project in 2024, we recognize the challenge our expense ratio poses to our profitability. While not yet reflected in our fourth quarter results, we are actively working to reduce our expenses, and we expect to achieve meaningful costs reductions throughout 2024 and beyond.

Our senior leadership team has worked collaboratively to identify tangible expense savings in several areas where we can improve our operational efficiency while also still making significant investments in developing our people, enhancing our products and capabilities, improving customer experience, and making other investments that will facilitate achievement of our long-term strategic objectives. Areas we have identified for expense savings include:

- Managing quote activity on the front end to eliminate expensive underwriting reports for accounts that are unlikely to lead to quality policy acquisitions;
- Agency incentive compensation plan adjustments to further align compensation with desired results;
- Implementing policyholder credit card surcharges for premium payments to pass along the increased costs related to that payment option; and
- A thorough review of all external vendors and consulting expenses to eliminate any services not deemed critical for the core operations of the organization.

We project that these actions and others will generate savings approximating a full point of our expense ratio in 2024, with a target of achieving two full points of expense ratio reduction by the end of 2025. Coupled with gradual decreases in the impact of depreciation expense allocations related to Donegal Mutual's technology modernization that will be winding down after 2026, we believe these expense savings initiatives will complement the underwriting actions Jeff Hay has outlined, and further help us to achieve our strategic goal of sustained excellent financial performance.

Our action plans are not only defensive in nature – we are also playing offense in a number of areas. For instance, our dedicated national accounts team is fully engaged with a number of our agency partners in consideration of the fast-changing independent agency landscape. We are following an intentional and targeted approach with these national accounts that contributed a substantial portion of new business volume in 2023 and account for an increased percentage of our total premium base. I am extremely pleased with the level of engagement we are seeing at the main street level all the way to regular interactions with the national leadership teams of these groups. I especially look forward to the profitable growth opportunities these groups will provide to us in the future, particularly as we seek to grow in the small commercial market segment.

All told, we are continuing to expand our focus and operational excellence. And with that, I’ll turn it over to Tony for an investment update. Tony?

Tony Viozzi – Chief Investment Officer

Thank you, Dan. Throughout 2023, we made strategic asset allocation shifts that allowed us to take full advantage of historically high market rates, which contributed to net investment income of $10.7 million for the fourth quarter of 2023 and represented our seventh consecutive quarter of higher investment income. For the full year of 2023, we achieved a record level of net investment income with 20% growth year-over-year to $40.9 million.

For the fourth quarter of 2023, the average tax-equivalent yield was 3.34%, up from 3.00% for the same period in 2022. This ranks as the highest quarterly average portfolio yield we have achieved since 2012, reflecting the favorable impact of higher market rates on reinvested cash flow. Portfolio reinvestments in the fourth quarter resulted in an incremental gain in the yield on those funds of approximately 225 basis points. Reinvestment spreads peaked during the fourth quarter and are trending downward toward 100 basis points of improvement on new bond purchases in 2024, where we are currently projecting approximately $120 million of bond reinvestment cash flow. The average short-term cash rate of 5.25% for the fourth quarter of 2023 was higher than we achieved in both the preceding quarter and the fourth quarter of 2022. We expect short-term rates will begin to trend lower as the year progresses.

Net investment gains were $2.2 million for the fourth quarter of 2023, compared to $600,000 for the fourth quarter of 2022. For full-year 2023, net investment gains were $3.2 million compared to net investment losses of $10.2 million for the prior-year period. Those gains and losses largely mirrored the S&P 500 Index performance in both periods. While we reduced our equity holdings in 2023 to take full advantage of strong fixed-income rates, we will consider increasing our investment allocation to equities as the market dynamics shift in the future.

December 31, 2023 book value per share was $14.39, compared to $14.79 as of December 31, 2022, for a 40 cent per share decrease year-over-year. Increases in book value from investment income, equity investment gains, and unrealized gains within our available-for-sale fixed-income portfolio during 2023, were more than offset by our underwriting loss and stockholder dividends declared during the year. As in the past, we will continue to maintain a conservative investment approach to preserve and increase capital, limit volatility, and support our operations.

With that, I will now turn it back to Kevin for closing remarks.

Kevin Burke – President and Chief Executive Officer

Thanks, Tony. Before we move into our question and answer session, I want to take a moment to express my appreciation for the tireless efforts from our Donegal team. Their unwavering commitment and exceptional teamwork makes a significant difference in our organization. Of course, to our stockholders, we reflect on the challenges of this past year and look forward to reaping the results of the many strategic initiatives we are executing to increase the value of your investment, I want to express my gratitude for your ongoing support.

In summary, we have all of the building blocks in place to execute our intentional strategies. We expect our financial results will soon begin to reflect the incredible amount of work our team has put into building a solid foundation for prudent growth and consistent underwriting profitability. I look forward to sharing the details of our progress in future calls. I’ll now turn it back to Karin.

Karin Daly – Vice President, The Equity Group Inc.

Thank you, Kevin. We will now move into our Question-and-Answer session. In advance of today's call, we requested and received a number of questions from interested parties, and while we have answered some of these questions within management's prepared remarks, we will address several questions directly. The first question is relating to reinsurance. Can you provide a summary of the renewal of your reinsurance program for 2024 and highlight any changes to the structure or reinsurance coverage?

ANSWER (Jeff Miller): This is Jeff Miller. As a reminder, Donegal Mutual and the insurance subsidiaries of Donegal Group purchase reinsurance together to achieve economies of scale. Compared to the challenging environment we faced a year ago, the reinsurance market for January 1, 2024 renewals was more orderly. We were able to successfully renew our program for 2024 with generally the same structure. We made no changes to our external catastrophe reinsurance program or the intercompany catastrophe reinsurance agreement with Donegal Mutual. For several of the per-risk programs, we increased retention amounts to limit pricing increases driven by utilization of those programs in recent years. In total, we expect our reinsurance premium spend for 2024 will increase approximately $5 million compared to 2023.

QUESTION (Karin): Thank you. The next question relates to rate increases and pricing for commercial auto and commercial property. Can you comment on the trajectory of those rates in the fourth quarter of 2023 compared to past quarters?

ANSWER (Jeff Hay): This is Jeff Hay – I can take that one, Karin. We began pushing for rate and margin expansion in commercial auto several years ago and have been averaging just over double-digit written rate increases in this line for the past two years. The fourth quarter rate increase of 12.7% for commercial auto was consistent with that recent trend. Commercial Property has been an area of focus for us in 2023, with average written rate and exposure change entering double-digits at the beginning of the year and growing to 13.9% in the fourth quarter. This rate and exposure change, coupled with the underwriting actions that I previously talked about, are expected to bring this line of business back to profitability.

QUESTION (Karin): OK. While we are on the topic of rate increases, we also received several questions about the trajectory of personal lines rate increases and a related inquiry about the higher rate of premium growth in personal lines relative to commercial lines, considering the underperformance of personal lines in the industry and your own book of business. Jeff Hay, you touched on this topic in your prepared remarks, can you elaborate further?

ANSWER (Jeff Hay): Sure. We have been talking about our focus on personal lines rate achievement since the beginning of 2022 and throughout 2023. Full year 2023 rate achievement in Personal Lines was 16.2% for Homeowners and 9.9% for Personal Auto. The level of rate achievement accelerated in the second half of 2023, with Homeowners rate achievement of 17.9% in the third quarter and 20.5% for the fourth quarter. For Personal Auto, rate achievement was 10.0% for the third quarter and 13.1% for the fourth quarter. We expect to earn the majority of these rate changes in 2024, which will drive margin expansion as those earned rate amounts exceed moderating loss cost trends.

Now in response to the higher personal lines premium growth relative to commercial lines, I will reiterate my earlier comments. Because of the underperformance of personal lines for us and the industry, we are carefully controlling true exposure growth as demonstrated by our policies in-force actually being down by 1% year over year. Our premium growth in Personal Lines is coming almost exclusively from rate achievement needed to drive margin expansion. In alignment with our strategy shift to emphasize commercial lines, we do continue to grow commercial lines exposure when adjusting for the impact of our exit from the states of Georgia and Alabama and the pullback from more

challenging classes of business during 2023. We expect commercial lines growth will begin to accelerate after we complete those corrective initiatives.

QUESTION (Karin): The next two questions relate to prior-period reserve development. First, can you provide line of business details for the fourth quarter and full year of 2023? And second, can you elaborate on your view of the reserve adequacy for past accident years, considering the mix of market conditions over that timeframe? Jeff Miller, do you want to take those?

ANSWER (Jeff Miller): Sure. First of all, specific line of business detail for the fourth quarter of 2023 included favorable development of $1.6 million for personal auto, $1.3 million for workers' comp and $1.1 million across other lines. That favorable development was partially offset by unfavorable development of $1.7 million for commercial multi-peril and $1.5 million in other commercial (which is primarily commercial umbrella). We attribute the unfavorable development in those two lines to higher-than-expected severity for a relatively small number of previously reported losses in accident years 2019 through 2022.

For the full year 2023, we had favorable development of $9.5 million in commercial auto, $4.8 million for personal auto, $2.7 million for workers' comp and $2.2 million for homeowners. That favorable development was partially offset by relatively modest unfavorable development of $2.6 million spread across commercial multi-peril and other commercial and personal lines.

Shifting to our view on reserve adequacy across various accident years, I would first point out that most of our lines of business have a relatively short reserve development tail – generally five years or less for the vast majority of our claims. In early 2018, we significantly strengthened reserves for accident years prior to 2018 and then began following a more conservative reserving philosophy from that point forward. The effect of the pandemic introduced significant uncertainty for accident years 2020 and 2021, but we maintained our conservative approach and ended up releasing some reserves for those years during 2022 after revisiting our assumptions when more data became available. During 2023, we maintained and in some cases moderately strengthened reserve levels to respond to some signs of potentially increasing ultimate claim costs for both bodily injury liability and auto physical damage claims. Our reserve position relative to underlying exposures at the end of 2023 was as strong as it has ever been, and we will continue to keep a close eye on loss trends to maintain an expected level of reserve adequacy.

QUESTION (Karin): Thank you. The next question relates to the workers' compensation market. Can you provide an update from the competitive perspective as well as your own view on loss costs as you pursue growth in that line moving forward? We'll go back to Jeff Hay for this response.

ANSWER (Jeff Hay): Thanks, Karin. The workers' comp market continues to be the most profitable line of business for Donegal and for the industry. We believe this favorable performance will drive continued downward pressure on pricing due to rating bureau actions. Despite this pressure, the continued downward claim frequency trends, expected moderate medical severity and increasing premium trend from higher wages, we continue to believe this line will deliver returns that meet or exceed our targets. We are planning for outsized growth in this line, which dovetails with our plans to emphasize growth in the Small Commercial segment I previously mentioned.

QUESTION (Karin): Somewhat related to workers' compensation trends, here's a follow-up question for you on medical inflation – anything specific to those trends that you are seeing?

ANSWER (Jeff Hay): Yes, as we continue to monitor inflation trends at a fairly granular level, we are pleased that medical inflation in our workers' comp experience continues to remain in check. Across our auto liability book in both personal and commercial lines, we do have

our eyes on some recent increases in bodily injury severity trends that we believe are more social inflation related than medical inflation related. We do plan to monitor those trends closely in 2024 and respond as needed.

QUESTION (Karin): The final question is on the topic of capital management. Can you provide an update on the Company's approach to capital management and priorities for 2024?

ANSWER (Kevin Burke): This Kevin Burke. On the capital management front, our approach has remained consistent over many years. While you heard comments in the call today about profit-improvement actions that limited premium growth in 2023, we expect to capitalize on opportunities for profitable commercial lines growth in the years ahead. We are keenly focused on improving our underwriting profit margin in order to grow surplus to support future growth and to continue returning capital to our stockholders in the form of regular quarterly cash dividends.

Karin Daly – Vice President, The Equity Group Inc.

Thank you all for those responses. If there are any additional questions, please feel free to reach out to us. This now concludes the Donegal Group fourth quarter and full year 2023 earnings webcast. Thank you and have a great day.