

# League Board Report

## 4<sup>th</sup> Quarter – 2009



Common Purpose. Uncommon Commitment.

### Financial Strength

#### Proud of Financial Strength in Difficult Economic Times

The economic recession is impacting countries, companies, and individuals around the world. Naturally, the current economic turmoil raises questions about financial integrity and strength. At CUNA Mutual, we strive for transparency in our financial reporting.

Like nearly all organizations – CUNA Mutual has been impacted by the negative economy. We incurred a net loss in 2008 and have seen our capital position decline through investment losses and declines in asset values.

However, we entered this economic downturn with a strong, excess capital position and, since late in 2007, we have taken steps to maintain a strong capital position and solid operating results. These actions have resulted in:

- Our capital ratios remaining strong – our required risk-based capital is more than two times the level required by insurance regulators.
- A diverse and highly liquid investment portfolio. We have run thousands of scenarios, modeling the portfolio into a depression and we remain a solvent company.
- "A" (Excellent) rating from A.M. Best.
- Positive operating results that help offset 2008 and 2009 investment losses.

In short, we have the ability to manage through this difficult economy and fulfill our promises to our policyholders. It's precisely for these economic times that CUNA Mutual was founded by pioneers of the credit union movement nearly 75 years ago.

We're also maintaining support of credit union organizations and the credit union movement – even in these difficult times. By the end of 2009, we will have contributed more than \$30 million in support of the credit union system. While the majority of our competitors align around bankers' interests, CUNA Mutual fights on your behalf. For example, our efforts around Reg Z in 2008 helped credit unions retain 65 percent of their open-end lending options. In 2009, we continue to help credit unions understand and respond to the regulation changes. Our employees supported credit union legislative efforts around the corporate stabilization plan. We've also made it easier for credit unions to submit claims, we're prepared to grow products like MemberCONNECT that help credit unions increase non-interest income, and we have highly regarded risk managers who help credit unions *avoid* losses.

We are proud of our ability to maintain financial strength in these difficult times – and proud to be the leading provider of insurance and financial services to America's credit unions. As always, we greatly appreciate the trust and confidence you place in us. We will do all we can to retain that trust now and long into the future.



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## Business Updates

### **CO-OP Financial Services to Acquire The LoanLink Center from CUNA Mutual**

To reinforce its commitment to the success of credit unions and their members, CUNA Mutual Group is announcing CO-OP Financial Services will acquire The LoanLink Center. Under the agreement, effective Oct. 31, 2009, CUNA Mutual and CO-OP will work together to strengthen The LoanLink Center's lending and member services product lines.

The acquisition will give CO-OP another way to offer members 24x7 access to their credit union accounts and will help sustain and expand credit union call center support. The transition will remain transparent to existing customers of The LoanLink Center, with no immediate changes planned for the business.

Our agreement with CO-OP brings together two companies equally committed to the success of the credit union market. Our agreement maximizes the strengths of both companies. CO-OP offers expertise in building innovative access and channel support, while CUNA Mutual is able focus on its core insurance products.

Under the terms of the agreement, CO-OP will assume operations and employees for The LoanLink Center, which will continue to operate at its present location in Ft. Worth, Texas. The companies will partner in the sales and remarketing process, and CO-OP will rely upon CUNA Mutual's loanliner.com and Lender Development Program to enable the cross sale of insurance on lending transactions.

### **CUNA Mutual Group Sells Ownership Share in Canadian Affiliate**

CUNA Mutual Group announced it is selling the majority ownership of its independently managed affiliate, The CUMIS Group Ltd. (CUMIS), to a longtime business partner of the Canadian company and a Canadian credit union central. CUMIS's Board of Directors decided to enter into an agreement with Co-operators Life Insurance Co., and Central 1 credit union, who will assume full ownership of CUMIS by the end of the year.

CUNA Mutual has been approached on numerous occasions by companies interested in obtaining an ownership interest in CUMIS. The time is right for both organizations to make this move. While improving our financial strength, this decision also simplifies CUNA Mutual's business, enhancing our ability to become more competitive in our core insurance products and provides us flexibility to prudently pursue new avenues for growth. Selling CUMIS to our long-term partner in Canada and a (credit union) central allows our Canadian friends to once again own the financial pillars of the Canadian credit union system.

CUMIS became an affiliate of CUNA Mutual in 1977. It provides a diverse portfolio of insurance and financial solutions to the Canadian credit union system. Its principal companies are CUMIS Life Insurance Company and CUMIS General Insurance Company.

The Co-operators is a cooperative based in Canada that focuses on insurance and investment products for consumers – from home and auto to life and group. It is owned by a group of Canadian co-operatives and credit union centrals. Central 1 is a Canadian

corporate credit union based in Vancouver, B.C. It serves as a central financial facility, payments clearinghouse and trade association for its member credit unions.

### **CUNA Mutual Debuts Management and Professional Liability Insurance**

CUNA Mutual Group has introduced Management and Professional Liability (MPL) insurance, a new policy designed to protect credit unions and the personal assets of their directors, officers, volunteers and employees from a growing number of litigation exposures related to operating a credit union.

Credit unions and their directors and officers face new risks in today's economic environment that can ultimately lead to increased lawsuits and significant losses. Legal defense costs can often exceed \$100,000 before a trial even begins – an expense that could be devastating to an uninsured credit union in today's economy, not to mention the financial impact to those who could be personally named in the lawsuit.

Our experience has shown that even a small mistake or oversight can result in legal action against the credit union or its staff. The new MPL policy is credit union-specific and flexible enough to fit a credit union's unique set of litigation exposures and risk philosophy.

### **CUNA Mutual Introduces Fraudulent Mortgage Loan Documentation Insurance**

CUNA Mutual Group is introducing the credit union industry's first fraudulent mortgage loan documentation coverage as part of a new release of its Bond policy. This brand new coverage will help credit unions manage losses from increasing fraudulent acts committed by residential mortgage borrowers.

Fraudulent Mortgage Loan Documentation (FMLD) coverage applies to material misrepresentations, through alterations by the borrowers, on certain residential mortgage lending documents used by credit unions to make lending decisions. These include verifications of income and employment, offers to purchase and/or appraisal reports.

According to the FBI, U.S. mortgage fraud is escalating. A recent report by the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) indicates mortgage fraud reached an all-time high in 2008, with more than 64,000 reported incidents.

### **CUNA Mutual Group, State National Companies Form Alliance**

CUNA Mutual Group and State National Companies are forming an alliance to provide tracked collateral protection insurance to credit unions. The combination maximizes CUNA Mutual's expertise in serving credit unions with State National's specialization in CPI. State National is the only company that provides CPI as its core focus. The alliance with CUNA Mutual creates the largest consumer CPI affiliation serving credit unions in the collateral protection industry – one that will deliver both immediate and long-term benefits to credit unions and their members nationwide.

State National is assuming the insurance tracking, underwriting, claims processing and customer service for CUNA Mutual's tracked consumer CPI business. CUNA Mutual will continue to offer its other collateral protection products, including blanket, immediate

issue, real estate, title tracking and several optional coverages.

Equally committed to the product's future growth, both companies will collaborate in sales efforts. CUNA Mutual will continue as credit unions' single point of contact, while State National will provide product expertise to the sales process.

### **CUNA Mutual Adds MEMBERS® Wealth Protector Whole Life Product**

CUNA Mutual Group is adding a new whole life product to its life insurance product suite. MEMBERS® Wealth Protector is a single premium whole life policy that provides an immediate increase to the policy owner's legacy with a death benefit guaranteed by CUNA Mutual Insurance Society. It also provides a guaranteed amount of cash value available for policy loans.

The MEMBERS® Wealth Protector whole life policy is ideal for:

- Transferring assets from one generation to the next
- Leaving more to children, grandchildren and charities
- Reducing taxes for policy owners and their beneficiaries
- Providing funds to cover funeral and related expenses

We're excited about offering this product, because it's an easy and secure way for people to transfer assets to the next generation. It also simplifies inheritances for beneficiaries as they receive the tax-free death benefit with the ability to bypass probate.

### **CUNA Mutual Group and CO-OP Financial Services Join Forces to Automate Credit Union Card Fraud Claims**

CO-OP Financial Services, the nation's largest credit union service organization, is collaborating with CUNA Mutual Group, the leading provider of insurance for credit unions, on CUNA Mutual's Claims Automation Service that eliminates the need to manually submit card fraud claims.

The partnership between CUNA Mutual and CO-OP is focused on helping credit union customers overcome the time-consuming hassle of submitting card fraud claims. In addition to operational efficiencies, this new service represents an advanced tool in the industry-wide fight against fraud. With better data, delivered faster, both organizations will be better positioned to identify fraud trends and activate fraud prevention programs earlier.

### **CUNA Mutual Group Acquires Full Ownership of Crop Insurer ProAg**

CUNA Mutual Group has reached agreement with Producers Ag Insurance Group (ProAg) to become sole owner of the multi-peril crop insurer, serving farmers and agricultural producers nationwide. ProAg will operate as a stand alone subsidiary of CUNA Mutual. The acquisition supports CUNA Mutual's need to identify new growth opportunities and diversify the risks it insures. The agreement with the Amarillo, Texas-based insurer will also enhance CUNA Mutual's flexibility and financial strength while enabling ProAg to continue to expand its business.

This acquisition builds on the initial investment we made in ProAg in 2007. It in no way affects our commitment to credit unions. For us to continue to strengthen and diversify our financial position, we need to identify new avenues for growth.

In looking for new opportunities to build on our expertise and continue to strengthen our financial position, crop insurance and our recent acquisition of CPI Qualified Benefit Plan Consultants were natural fits. These acquisitions build off our core competencies, help diversify our business, and provide revenue streams that give us flexibility to invest and grow in the future.

CUNA Mutual's relationship with ProAg began in 2006 when it began serving as the lead reinsurer for ProAg as a direct writer of crop insurance. In 2007, CUNA Mutual acquired a minority ownership position in ProAg. Since its partnership was formed with CUNA Mutual in 2006, ProAg has grown from a 70-employee company doing business in 25 states to a 400-employee company serving more than 40 states. ProAg is on pace to generate more than \$530 million in premium in 2009.

### **Conclusion**

As we prepare to celebrate our 75<sup>th</sup> anniversary in 2010, we are proud of the support we have delivered – throughout our history – to the credit union movement. We value the partnerships we have in the credit union movement who support both our business results and our contributions to the movement. As we work to help credit unions navigate through these challenging economic times, we value and appreciate the partnership we have with credit union leagues across the U.S.