

Colorado legislative hearing Compensation testimony and Q and A

Good afternoon,

My name is Kristy Ledgerwood and I work in human resources at American Family Insurance at our Denver regional office building. I am an employee relations specialist and I've worked for American Family since XXXX. I started with the company as a claim adjuster and I've worked in the human resources area for the last XX years.

I want to provide you accurate information about American Family and our employee compensation practices.

American Family is a successful, growing company ... due to our ability to attract, satisfy and retain our customers. Our employee evaluation and compensation programs are a big part of our success in those areas.

- Our employee evaluations and compensation programs are designed to encourage outstanding customer service. And one part of outstanding customer service is the fairness aspect ... paying what we owe in claims.
- We evaluate our claims adjusters on a number of customer-focused competencies ... like providing value to the customer ... being accountable for their actions and commitments ... being thorough in gathering information ... and having solid technical expertise.
- We survey our customers to assess their satisfaction with the claim process and their adjuster ... and we use those survey results as part of the adjuster's performance evaluation. Positive customer feedback helps the employees in the evaluation process. Negative comments can result in the opposite.

In addition to our base compensation program, American Family offers a corporate incentive program to its employees. The program provides an annual award payment based on whether the company meets certain corporate-wide performance goals ... including customer satisfaction and customer retention.

- The program uses a **balanced approach** to encourage employee behaviors that create the service and financial strength our customers expect from American Family. Along with measures on customer satisfaction and customer retention ... the program rewards achievement of other goals related to policy growth, operational efficiency and overall financial performance.
- **The program applies the same way to all our employees.** It does not matter if you are a claim adjuster ... an underwriter ... a human resources employee ... an information technology employee ... or any other type of employee. All of our

employees play a role in helping our customers and contributing to our other company goals ... so the rules are the same.

- We provide additional recognition and rewards to our Claim Division employees for outstanding customer service. The program recognizes and provides gift certificate rewards to employees in claim offices and other customer-facing claim areas that achieve short- and long-term customer satisfaction goals. Achievement is based on results of our customer surveys.

Our employee review and compensation programs are aligned with the right priority – which is to provide great service and value to our customers. American Family wants to become the No. 1 insurance company in customer satisfaction ... and we think these programs will help us get there.

Q&A

Do your employees get rewarded for not paying claims?

No they do not. We are very careful to make sure our compensation programs are designed to recognize and reward the right behaviors – and that's paying what we owe in claims and providing outstanding customer service.

So what happened in the Peressini case? Wasn't one of the reasons you lost that case was that there were allegations that American Family's compensation practices actually discouraged adjusters from paying what they owe?

My expertise is in human resources at American Family. I am not aware of all the details of the case you mentioned, but I can reassure you the allegation that we discourage paying what we owe or that we reward claim employees for not paying claims is absolutely not true.

Can you tell more about your corporate incentive program? What are your specific goals and payout categories?

Our program uses a **balanced approach** with payments based on achievement in five categories, two of which are customer satisfaction and customer retention. The other three categories focus on big-picture measures for growth, operational efficiency and overall financial performance in the insurance industry. Those categories are premium growth, return on equity and combined ratio.

We believe that striking a balance among these five categories allows us to provide the great service and financial strength that our customers value from American Family. Our goals are aligned with what our customers want and expect from us. All five categories are weighted equally.