



For Release: Immediately
Contact: Randy Buckwalter rbuckwalter@harleysvillegroup.com
Phone: 215.256.5288 (office) 267.718.3766 (cell)

CUMMINS: CURRENT FINANCIAL CRISIS IS A BEHAVIOR-CHANGING EVENT FOR INSURANCE COMPANY ASSET MANAGERS

HARLEYSVILLE, PA—"No one alive has managed through an environment like this," noted Mark Cummins, CPA, CFA, CTP, executive vice president, chief investment officer and treasurer of Harleysville Insurance. "So, for insurance companies to successfully navigate our troubled times, your investment decisions need to remain focused on capital, liquidity and asset quality. If you do, you still can provide plenty of support to your insurance operations during the ongoing competitive insurance marketplace and these extremely challenging financial times."

Cummins made those comments during the annual spring conference of the Pennsylvania Association of Mutual Insurance Companies in State College, Pa., on March 5.

During his presentation, he recommended a long-term disciplined approach like the one used by Harleysville to manage its portfolio. "We've built our portfolio to withstand this type of unpredictable, worst-case environment. But, it takes years to build a quality portfolio. So, when tough times arrive, it's too late to reallocate your holdings," Cummins said. "Our investments are managed to support our insurance operations by providing after-tax net investment income, while maintaining a conservative, high-quality portfolio that provides the necessary cash flow to avoid selling in illiquid markets. We've said no to investment products that seem too good to be true. They're the ones that can cause problems years down the road." This strategy has served Harleysville well, as it is one of the few insurance companies with a gain in its fixed income portfolio.

He added that the after-tax return on Harleysville's \$4 billion investment portfolio consistently has provided a solid base for earnings and has helped to drive Harleysville Group Inc.'s return on equity, which was 11.9 percent at the end of 2008. "Our strategy supports the strong capital position we maintain to fulfill the commitments we make to our agency partners and policyholders," Cummins explained.

Cummins told the audience, which was comprised mainly of the leaders of mutual insurance companies based in Pennsylvania, that this environment has reminded everyone to emphasize the fundamentals in making investment decisions: a high quality of earnings; a strong balance sheet; modest leverage; appropriate liquidity; and transparency. He also noted that many insurance companies have gotten hurt in this environment, stretching for additional returns and not understanding the risks they were taking. The result has been a change of behavior to a more conservative investment management philosophy going forward.

(more)

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So, looking ahead, what makes sense? Cummins has four suggestions: “First, diversify, diversify, diversify. Second, invest conservatively. Third, know your risk tolerance and manage your investments to that level. And fourth, prepare for the worst, because it will happen again.”

Cummins, who has been Harleysville’s chief investment officer since 1992, concluded his presentation with a piece of investment purchasing advice that he’s frequently repeated because it has worked well for Harleysville over the years: “Buy them when nobody else wants them.” In this case, he was speaking of municipal bonds, which he describes as “the most attractive they’ve ever been” in terms of relative value, and equity securities, as long as the risk is acceptable and the investment is based on a long-term horizon.

Cummins holds a bachelor’s degree in accounting from Susquehanna University and a master’s degree in business administration from Fairleigh Dickinson University. He is recognized in the insurance industry for his investment management expertise and regularly provides his insights to insurance industry audiences.

(Complete bio and photo are attached)

Harleysville Insurance is a leading regional provider of insurance products and services for small and mid-sized businesses, as well as for individuals, and ranks among the top 60 U.S. property/casualty insurance groups based on net written premiums. Harleysville was listed recently as #30 in the *InformationWeek* 500, the publication’s annual listing of the most innovative information technology organizations in the U.S., and has been ranked on the list in each of the last three years. Harleysville Mutual Insurance Company owns 51 percent of Harleysville Group Inc. (NASDAQ: HGIC), a publicly traded holding company for eight regional property/casualty insurance companies collectively rated A- (Excellent) by A.M. Best Company. Harleysville Group is listed on the NASDAQ Global Select Market, which is comprised of the top third of all NASDAQ member companies and has the highest initial listing standards of any exchange in the world based on financial and liquidity requirements. Harleysville Insurance—which distributes its products exclusively through independent insurance agencies and reflects that commitment to its agency force by being a Trusted Choice® company partner—currently operates in 32 eastern and midwestern states. Further information can be found on the company’s Web site at www.harleysvillegroup.com.

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