

DATE: May 15, 2020
TO: NAMICO Shareholders, Policyholders, and other Stakeholders
FROM: Timothy F. Sullivan, President
RE: Change in NAMICO's Outlook

On the afternoon of Wednesday, May 13, 2020, AM Best announced a change in NAMICO's Outlook from Stable to Negative, while affirming the A rating NAMICO has earned for the past 17 years. This action followed a telephonic meeting CFO, Tom Kaehr, and I had with our AM Best team on Wednesday, May 6, 2020. I want to assure all our stakeholders: shareholders, policyholders, pool members, and business partners, that NAMICO continues as a very viable market for professional liability insurance as well as a strong business partner.

The AM Best review and action arose from the poor financial results of the company over the past four years, as well as an issue with a large claim reserve increase/ payment in early April 2020, which drove the 2019 losses even higher. While the late arising loss was large (in the vicinity of \$2 million), the claim handling issue noted by AM Best did not increase the size of the loss. The error delayed the posting of the appropriate loss reserve in a timely fashion, resulting in a material change in the company's financial position from that reflected in the previously filed 2019 Annual Financial Statement.

Over the past four years, NAMICO's underwriting fortunes have been on a bit of a rollercoaster. With the April 2020 additions to the 2019 results (a Type 1 Subsequent Event arising from the large increase in reserves on a claim open at December 31, 2019, requiring the refiling of the Yellow Book) the Underwriting Loss reached approximately \$2.4 million, and a Net Loss of slightly more than \$1 million.

NAMICO management advised AM Best of these developments in early May, after the revised numbers were calculated, and this led to their action. Management has taken, and continues to take, steps to avoid the claim handling error so that reserves are posted in a prompt fashion and the financials reflect the true state of NAMICO's liabilities.

NAMICO's management will meet with the AM Best team at the NAMIC Convention in September, and at that time will report on changes in the Claim Department, which should allay that concern. It is the financial results that are and will be the focus.

The financial results are driven by low frequency but high severity claims arising from excess judgments in liability claims. When presented to NAMICO, there is often little or nothing to be discussed, litigated, or otherwise fixed. NAMICO will be working to advise

policyholders on the risks inherent in today's litigation environment, in an effort to avoid such results.

The current financials are an aberration in what has otherwise been a more than 30- year success story for NAMIC and its members. NAMICO remains a financially strong entity, with surplus approximately five times annual net premium. Like the insurance companies NAMICO insures, we will weather these storms and continue the mission to serve the NAMIC membership and their business partners. Thank you for your support now and in the future.

Please contact me if you have any questions; I can be reached at 317.875.5250 or via email at tsullivan@namicinsurance.com.