

ANNUAL REPORT (Revised)

2019

DATE: June 23, 2020
TO: NAMICO Class B Shareholders
FROM: Timothy F. Sullivan, President & CEO
Charles M. Chamness, Chairman of the Board
RE: Revised Annual Report - 2019

In March your company received NAMICO's 2019 Shareholders' Report. As you may recall, the report indicated certain performance metrics were handily met, but the key metrics of Underwriting Profit and Net Income were missed.

After the Yellow Book and Shareholders' Report were finished but before the annual audit was completed, a claim suddenly settled, in no small part due to COVID and the plaintiffs' desire to receive their money now and not at some time in the uncertain future. The settlement was a large one; approximately \$3 million, of which NAMICO was responsible for about \$2 million.

These numbers, while substantially lower than plaintiffs' prior indicated settlement range, were nevertheless significantly higher than anticipated. Because the claim was open at December 31, 2019, this development was recorded against the 2019 financials. The impact of this claim resulted in a substantial increase in the Underwriting Loss and Net Loss for 2019. The Underwriting Loss grew to approximately \$2.4 million, and the Net Loss to approximately \$1 million. The revised numbers are shown in the charts on the back.

The Indiana Department of Insurance required a revision of the 2019 Yellow Book. This development also led to an adverse action by AM Best regarding NAMICO's rating outlook – though not the A rating itself. NAMICO's rating outlook changed from "Stable" to "Negative," and a comment was made in the new outlook regarding management of the claim and settlement process. As AM Best noted, this is the third year in the past five in which NAMICO has suffered an Underwriting Loss.

The reasons for this are relatively straightforward: a relatively small number of very severe claims with settlements in the millions of dollars, or high six figure amounts. In our 25 years in and around NAMICO we have not experienced a similar run of such severe claims.

NAMICO's management is committed to improving these results. But we need help from our policyholder's claims professionals and defense attorneys, as these large payments arise from claims handling decisions which inflame jurors acting with the expectation the "justice" to be extracted from the tortfeasor will be borne by an insurer that failed to settle.

Fortunately, we're well capitalized and with a seasoned staff able to take on the challenges facing the company – a company dedicated to providing solutions to the NAMIC membership and its business partners. We appreciate the support of our shareholders, policyholders, Pool members, and the membership of NAMIC generally. The support of our stakeholders is what makes this company possible. Thank you.

If you have any questions regarding the revised financial report, the AM Best action, or NAMICO generally, please contact either of us.

Tim and Chuck



3601 Vincennes Road | Indianapolis, IN 46268
(0) 317-875-5250 | www.NAMICINSURANCE.com
cchamness@namic.org; tsullivan@namicinsurance.com

FINANCIAL REPORT (2019 AUDITED)

ASSETS	2019	2018	% Change
Bonds	26,967,248	26,004,368	
Bonds - held in trust	8,228,888	8,528,901	
Common stocks and mutual funds	18,760,745	15,079,400	
Cash and short term investments	5,358,206	2,796,072	
Receivables for securities	-	4,090	
Total cash and invested assets	59,315,087	52,412,831	
Accrued investment income	267,231	282,483	
Premiums and agents balances due from affiliated agency	2,335,290	2,193,798	
Reinsurance recoverable	-	11,686	
Other assets	-	11,770	
Federal income tax recoverable	758,154	285,196	
Net deferred tax asset	-	248,216	
Total Assets	62,675,762	55,445,980	13%

LIABILITIES AND SHAREHOLDERS' EQUITY

Loss and loss adjustment expense reserves	9,100,999	6,374,000	
Unearned premiums	2,666,079	2,521,568	
Ceded reinsurance premiums payable	204,668	42,209	
Funds held under reinsurance treaties	19,153,570	16,694,478	
Payable to affiliate	428,263	347,020	
Other liabilities	2,164,557	495,167	
Net deferred tax liability	350,308	-	
Total Liabilities	34,068,444	26,474,442	29%

COMMON STOCK:

Class A stock	102,000	102,000	
Class B stock	4,533,849	4,557,309	
Unassigned surplus	23,971,469	24,312,229	
Total Shareholders Equity	28,607,318	28,971,538	-1%
Total Liabilities & Shareholders Equity	62,675,762	55,445,980	13%

OPERATING RESULTS

	2019	2018	% Change
Net premiums earned	5,623,836	5,682,530	
Losses and loss adjustment expenses incurred	(5,970,097)	(2,855,106)	
Other underwriting expenses	(2,037,468)	(2,316,966)	
Total losses and expenses	(8,007,565)	(5,172,072)	
Net underwriting gain (loss)	(2,383,729)	510,458	
Net Investment Income	1,282,087	1,141,574	
Investment return credited to funds held under reinsurance treaties	(492,288)	(737,514)	
(Loss) income from operations before income taxes	(1,593,930)	914,518	
(Benefit provision for income taxes)	(494,510)	291,494	
(Loss) income from operations	(1,099,420)	623,024	
Net realized gain on investments	81,078	1,114,589	
Net (Loss) Income	(1,018,342)	1,737,613	NA

SUMMARY OF CAPITAL AND SURPLUS

	2019	2018	% Change
Capital and Surplus, Beginning of Year	28,971,538	28,993,468	
Net (loss) income	(1,018,342)	1,737,613	
Change in deferred income taxes	43,230	131,007	
Change in non admitted assets	6,772	(5,690)	
Change in unrealized capital gains/losses	2,806,972	(2,032,360)	
Repurchase of Class B common stock	(148,743)	-	
Change in provision for reinsurance	(1,874,000)	-	
Change in pension liability	(180,109)	147,500	
Capital and Surplus, End of Year	28,607,318	28,971,538	-1%

