



2017 ANNUAL REPORT

FROM THE CHAIRMAN



Charles M. Chamness
Chairman of the Board

In increasingly complex and uncertain times, professional liability insurance is one of the most important risk management instruments available to you as an insurance company leader. It protects your board, your employees, and your company surplus.

Equally important as the coverage is having a professional liability insurance partner that you know and trust. A claim may be a relatively rare event – we certainly hope so. But when you are facing an allegation of professional liability, you want to really know the insurance claim professionals handling your case - not deal with an unknown claims office barely familiar with you and your company. Confidence and competence are two important reasons more than 85 percent of NAMIC member companies choose NAMICO to handle their professional liability insurance needs.

Speaking of claims, 2017 brought several large ones – an experience similar to 2016. After successive years of high severity claims we have been asking ourselves if this is a “new normal” of higher losses or mere “blips” on the long-term track?

I spoke last year at NAMIC’s annual meeting in Denver about a phenomenon known as “social inflation.” It rationalizes that increases in insurance losses are the result of higher jury awards, new concepts of tort and negligence, and other socio/cultural factors. Whether it is real or not, it does appear to us that juries across the country seem significantly more prone to punishing insurance companies deemed to be slow or suspicious about resolving serious, even if difficult to understand, bodily injury claims.

Others have also noted how outraged judges and juries make for bad verdicts. Justice Holmes wrote, a very long time ago, the following:

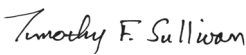
“Great cases like hard cases make bad law. For great cases are called great, not by reason of their importance in shaping the law of the future, but because of some accident of immediate overwhelming interest which appeals to the feelings and distorts the judgement.”

Maybe there is an even simpler explanation: that a million dollars doesn’t seem as much to jurors as it once did. Perhaps too many famous people spend \$1 million too openly, on seemingly inconsequential things, and this contributes to a sense of the diminution of the value of a dollar.

The large claims we’ve seen over the years, and especially these past two years, suggest it may be both factors at work. Regardless, the verdicts and settlements in which NAMICO has participated should serve as a warning – be ever more careful in handling claims.

In the meantime, your insurance company, NAMICO, stands by to help you and your team when bad things happen to good companies. It’s why we’re here, and why NAMIC and its members created NAMICO 30 years ago.

FROM THE PRESIDENT AND CEO



Timothy F. Sullivan
President & CEO

2017 was a challenging year for NAMICO, though not as challenging as 2016. Claim severity continued to drag at results, with a relative handful of claims once again combining to cause an underwriting loss. Unlike 2016, however, the loss was measured not in seven figures, but just under \$150,000. Strong investment results (nice to have those again) created a pre-tax income of just under \$1.2 million, and Net Income came to about \$758,000.

Surplus increased to just a bit less than \$29 million, and assets increased to more than \$52 million. The value of NAMICO stock increased to \$299 per share for 2017, continuing an upward trend that has seen the value increase by 30% over the past few years. More detailed financial information is shown on the following pages of this report. A.M. Best again recognized NAMICO’s strength by affirming the A, stable rating, a rating earned by NAMICO every year since 2007.

The Chairman’s letter features some thoughts on the claims trends that have had such an impact on NAMICO these past two years. The drivers of those trends should be of concern not just to NAMICO’s management, but to management throughout the insurance industry. While NAMIC member companies generally enjoy a reputation for prompt, courteous claims handling, and pay all but the most complex claims very quickly, fair treatment of policyholders and claimants as a way of doing business across the industry will help prevent the bias and prejudice that have such an impact on how judges and juries value damages and award judgments.

2017 saw the 30th anniversary of NAMICO’s first policy issuance. Now well into the 31st year, a look back shows the tremendous growth in both the quality of the NAMICO products and services, as well as the substantially improved financial soundness of the company. Success has many parents, and NAMICO is no exception. To the many NAMIC member company executives both currently and in the past who have given their time to serve on NAMICO’s Board, thank you. Your involvement and guidance has made NAMICO a better company, and a better value to the hundreds of NAMIC member companies which have purchased policies.

And to those hundreds of policyholders, shareholders, and to all the companies that make up the Pool, thank you for your support, trust, and confidence. Literally, it wouldn’t be happening without you.

Finally, a tip of the hat to the NAMICO and NAMIC Agency staffs, together NAMIC Insurance Solutions. Though the faces have changed and will continue to change, what doesn’t change is the dedication of the team to the success of NAMICO and our policyholders. Onward to the next 30 years...

FINANCIAL REPORT

FINANCIAL SUMMARY

	2017	2016
ASSETS		
Cash in Bank	\$741,447	\$484,294
Bonds	25,441,955	26,177,296
Stocks	13,784,410	12,450,911
Short Term Investments	1,584,242	359,721
Agent Balances	2,154,659	2,114,944
Funds Held by Reinsured Companies	8,265,784	8,092,257
Reinsurance Recoverables	71,848	87,619
Federal Income Tax - Current	262,973	1,017,926
Accrued Investment Income	272,748	263,972
TOTAL ASSETS	\$52,580,066	\$51,048,940

LIABILITIES AND SHAREHOLDERS EQUITY

Reserve for Unearned Premium	\$2,521,467	\$2,475,260
Reserve for Losses/Loss Adjustment Expenses	5,866,808	6,188,674
Accrued Expenses and Other Liabilities	1,021,084	981,551
Reinsurance Premiums Payable	208,206	70,148
Federal Income Tax - Deferred	318,638	336,655
Funds Held Under Reinsurance Treaties	13,650,395	13,601,654
TOTAL LIABILITIES	\$23,586,598	\$23,653,942

COMMON STOCK:

Class A Stock	\$102,000	\$102,000
Class B Stock	4,557,309	4,557,309
Unassigned Surplus	24,334,159	22,735,689
TOTAL SHAREHOLDERS' EQUITY	28,993,468	27,394,998
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$52,580,066	\$51,048,940

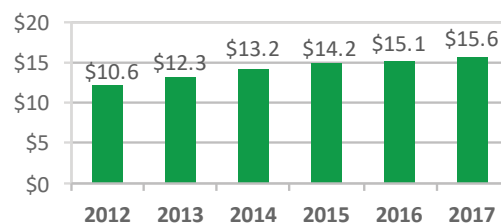
OPERATING RESULTS

	2017	2016
PREMIUMS EARNED	\$5,236,086	\$5,103,983
DEDUCTIONS		
Losses and Loss Expenses Incurred	(3,022,219)	(3,856,903)
Underwriting Expenses Incurred	(2,361,383)	(2,352,787)
UNDERWRITING GAIN (LOSS)	(147,516)	(1,105,707)
NET INVESTMENT INCOME	485,219	539,950
REALIZED CAPITAL GAINS (LOSS)	858,311	628,958
FEDERAL INCOME TAX EXPENSE (INCOME)	437,673	(751,931)
NET INCOME (LOSS)	\$758,341	\$815,132

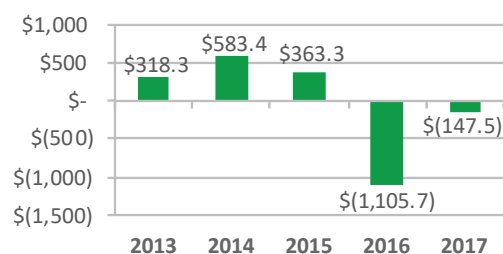
SUMMARY OF CAPITAL AND SURPLUS

	2017	2016
SHAREHOLDERS' EQUITY - BEGINNING OF YEAR	\$27,394,998	\$26,245,571
Net Income	758,341	815,132
Change in Unrealized Capital Gains	625,250	662,481
Change in Net Deferred Federal Income Tax	184,224	(555,377)
Change in Non-Admitted Assets	70,130	184,603
Change in Minimum Pension Liability	(39,475)	51,232
Other	-	(8,644)
Change in Shareholders' Equity	1,598,470	1,149,427
SHAREHOLDERS' EQUITY - END OF YEAR	\$28,993,468	\$27,394,998

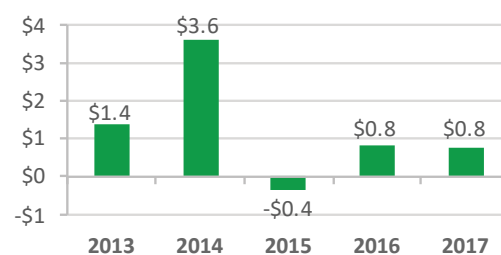
GWP (Millions)



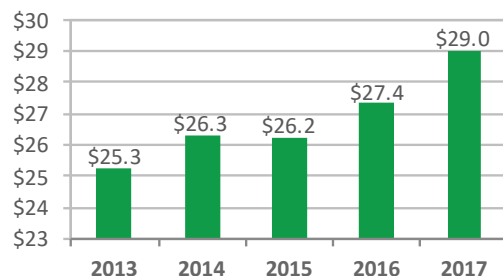
Net UW Income (Thousands)



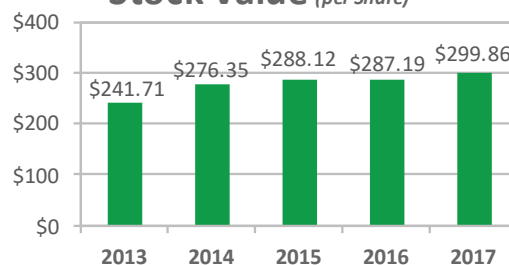
Net Income (Millions)



Surplus (Millions)



Stock Value (per Share)



BOARD OF DIRECTORS

DIRECTORS

Charles M. Chamness
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Indianapolis, Indiana

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Bear River Mutual Insurance Company
Salt Lake City, Utah

Tod J. Carmony, CPCU
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Douglas P. Fincannon, PFMM
Alamance Farmers' Mutual Insurance Company
Graham, North Carolina

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Cameron Mutual Insurance Company
Cameron, Missouri

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Bay of Quinte Mutual Insurance Company
Picton, Ontario, Canada

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Frontier-Mt. Carrol Mutual Insurance Company
Mt. Carrol, Illinois

Sandra G. Parrillo, CPCU
Providence Mutual Fire Insurance Company
Providence, Rhode Island

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Norfolk & Dedham Group
Dedham, Mass.

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NAMIC

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Vice President-Information Technology

Brian J. Stanek, C | CISCO
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