



National Catholic Announces Michael Bemi New President and Chief Executive Officer

Officers & Directors of The National Catholic Risk Retention Group, Inc.

Episcopal Moderator

Most Rev. Raymond J. Boland

Officers/Directors

Rev. Edward J. Arsenault
Chairman/Director
Diocese of Manchester

William H. Hinkes
Vice Chairman/Director
Diocese of Paterson

Michael J. Bemi, CPCU, ARM, ARe
President & CEO

Joseph Frank
Vice President/Director
Archdiocese of Newark

Rev. Jay C. Haskin
Secretary/Director
Diocese of Burlington

Maryellen Connor
Treasurer/Director
Diocese of Kansas City/St. Joseph

Directors

David Furlow
Diocese of Dallas

John J. Maxwell
Diocese of Springfield, Illinois

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Anthony E. Silva
Diocese of Portland, Maine

Larry R. Sutton
Diocese of Altoona-Johnstown

Bro. William Walz, F.S.C.
Christian Brothers Services

Managing Director
Henry P. Devlin, CPCU, CLU

Director of Underwriting
Sandra M. Barutha

Director of Claims/Reinsurance
Douglas W. Grund

Administrative Assistant
Mary E. Gross

Capping his 25 years in the insurance industry, Michael J. Bemi, CPCU, ARM, ARe, has left his position as division executive vice president with Arthur J. Gallagher & Company (AJG) to become president and chief executive officer of The National Catholic Risk Retention Group, Inc. (National Catholic). National Catholic is owned and managed by its 55 member shareholders, consisting of a risk pooling trust and 54 Roman Catholic archdioceses and dioceses across the United States.

The National Catholic Board of Directors unanimously elected Bemi at a meeting in July. He takes the torch from National Catholic's William H. Hinkes, following the recent announcement of Hinkes' impending retirement from his local Diocese of Paterson, New Jersey. Hinkes was unanimously elected vice chairman of the board and will continue to serve as a National Catholic board member through September 2001. Joining Bemi at National Catholic, as the executive responsible for underwriting, is longtime AJG associate, Sandra M. Barutha, who also brings a wealth of insurance and risk management experience.

"This marks a significant transition for our company," said Rev. Edward J. Arsenault, chairman of the



Fr. Arsenault

National Catholic Board of Directors. "This is the next logical progression in our growth as a risk management organization that serves the Church." National Catholic's membership is at an all-time high, with the announcement

of eight new shareholders in a three-month period.

Hinkes, who has known Bemi for almost 20 years, said Bemi's pedigree as an insurance professional and churchman is unchallenged.

Bemi, who has devoted his career to non-profit and religious entities, became involved with National Catholic's founding members in the mid 1980s through AJG's National Bishops' Program for Roman Catholic Entities. At AJG, Bemi assisted religious entities in surviving the hardships of the hard insurance market. He managed and remained significantly involved with the Bishops' program, and for the past 15 years acted as an AJG advisor for Catholic, Mennonite, United Methodist, and Evangelical Lutheran entities.

Bemi's additional responsibilities included the design, formation, implementation, and management of captive insurance companies and risk retention groups. Bemi has volunteered a great deal of his time to their growth and success. Illustrative of his ongoing commitment in this area, he is a charter member and current chairman-elect of the board of the National Risk Retention Association and, most recently, served National Catholic as executive vice president of marketing and regulatory affairs and as underwriting manager.



Michael J. Bemi

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From the Office of the President

By Bill Hinkes, outgoing President & CEO

Enclosed is our financial report, which shows net income of \$598,655 for the six-month period ending June 30, 1999. Shareholders' equity is \$30,231,393, which is a slight reduction because we returned \$1,459,574 in capital to our shareholders in June. In general, our finances are operating in line with expectations.

We are very happy to welcome two additional shareholders—the Diocese of Buffalo and the Diocese of Beaumont. We previously announced that the six dioceses of Florida—Archdiocese of Miami, and the Dioceses of Orlando, Palm Beach, Pensacola-Tallahassee, Saint Augustine, and Venice—joined on April 1, 1999. The introduction of eight new shareholders in a three-month period is a new high! We appreciate their confidence and expect that our

relationship will be long and mutually beneficial.

As you will note elsewhere in this issue of *National Catholic Report*, our company has engaged Michael J. Bemi, CPCU, ARM, ARe to succeed me as president and chief executive officer effective September 1, 1999. I have known Michael for almost 20 years. His pedigree as an insurance professional and churchman is unchallenged, and I am personally delighted that he is willing to accept this opportunity to serve our company and the Church.

I will be retiring as finance officer of the Diocese of Paterson early next year—so this transition works out beautifully for me. My wife and I are building a home in the foothills of the Blue Ridge Mountains, in Virginia, and we will move there when it is completed. My present term as a director of National Catholic runs through September 2001 and I will be happy to serve out that term.

Income Statement

| | Six Months Ended June 30, 1999 (Unaudited) | Six Months Ended June 30, 1998 (Unaudited) |
|---|--|--|
| REVENUES | | |
| Premiums earned | \$ 1,872,232 | \$ 1,679,042 |
| Net Investment income | 1,099,558 | 1,025,657 |
| Net realized gains (losses) on sales of investments | 11,867 | (3,551) |
| Ceding commission income | 106,248 | 95,581 |
| TOTAL REVENUES | \$ 3,089,905 | \$ 2,796,729 |
| EXPENSES | | |
| Losses and loss adjustment expenses | \$ 1,679,763 | \$ 1,281,486 |
| Premium Taxes | 96,069 | 90,590 |
| VIRTUS expenses | 121,249 | 21,128 |
| Management fees | 131,291 | 118,805 |
| Professional fees | 105,562 | 113,780 |
| Salary expense | 110,397 | 113,296 |
| Travel expenses | 123,539 | 121,045 |
| Other expenses | 123,380 | 79,764 |
| TOTAL EXPENSES | \$ 2,491,250 | \$ 1,939,894 |
| NET INCOME | \$ 598,655 | \$ 856,835 |

Balance Sheet

| | Six months ended June 30, 1999 (Unaudited) | As of December 31, 1998 (Audited) |
|--|--|---|
| ASSETS | | |
| Cash and investments | \$ 41,302,144 | \$ 42,244,970 |
| Accrued interest/Investment income | 545,229 | 515,266 |
| Premiums receivable | 165,328 | 122,874 |
| Reinsurance recoverable on paid losses | 576,991 | 0 |
| Reinsurance recoverable on unpaid losses | 10,031,882 | 10,410,873 |
| Prepaid reinsurance premiums | 412,100 | 1,262,563 |
| Other assets | 89,967 | 135,947 |
| | <u>\$ 53,123,641</u> | <u>\$ 54,692,493</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Losses and loss adjustment reserves | \$ 20,733,894 | \$ 19,183,824 |
| Unearned premiums | 1,362,552 | 3,065,012 |
| Reinsurance balances payable | 699,853 | 855,931 |
| Premium taxes payable | 25,785 | 114,023 |
| Unearned ceding commissions | 41,210 | 106,256 |
| Other liabilities | 28,954 | 34,165 |
| | <u>\$ 22,892,248</u> | <u>\$ 23,359,211</u> |
| SHAREHOLDERS' EQUITY | | |
| Capital stock: | | |
| Class A | \$ 1,100 | \$ 940 |
| Class B | 308,297 | 322,385 |
| Additional paid-in capital – cash | 1,409,388 | 2,725,784 |
| Additional paid-in capital – policyholder dividend | 8,879,436 | 8,879,437 |
| Unrealized gain (loss) on Investment | 5,195,660 | 5,565,876 |
| Retained earnings | 14,437,512 | 13,838,860 |
| | <u>\$ 30,231,393</u> | <u>\$ 31,333,282</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>\$ 53,123,641</u> | <u>\$ 54,692,493</u> |

New Coverage Enhancements and Underwriting Determinations

In conjunction with its 1999-renewal season, The National Catholic Risk Retention Group, Inc. (National Catholic) undertook the development and implementation of a number of significant coverage/policy form enhancements. On behalf of its shareholders, it also investigated and resolved a particularly difficult underwriting issue that arose originally in the context of a National Catholic winter meeting. Let's examine these developments, beginning with the coverage/policy form enhancements.

National Catholic has, from the very beginning of its operation in June 1988, utilized a notification of claims condition, which has been particularly challenging for our shareholders for two reasons:

1. It required that written notice of 10 specific claim/loss situations be reported to the company as soon as practicable, but no more than 30 days after receiving notice of these events; and
2. It further required, as a condition precedent for the maintenance of coverage, that the written notice provided to the company provide certain specific information.

National Catholic has, for quite some time, studied the implications of relaxing this notification of claims condition verbiage, to allow our shareholders more time to investigate and assess claim/loss scenarios, while simultaneously expanding the ability to compile the very information that we believe should accompany claim/loss notices. Upon recommendation from the company's management to the board of directors, the following changes have been made, which we expect will accomplish the goals of both National Catholic and its shareholders. First, the 30-day reporting requirement has been changed to a 120-day requirement while, simultaneously, the condition precedent language regarding the information required to be reported with a claim/loss notice has been changed so that the new wording simply requests the information on a to-the-extent-that-it-is-available basis.

This same change to the condition precedent language has been made in another section of the policy; more specifically, the discovery clause claims-made coverage condition, where the former stringent requirement has again been altered to reflect a request for information "to the extent that it is available."

Another policy expansion that the board of directors felt would allow National Catholic to operate more consistently according to insurance industry standards, was that the termination of policy condition was amended so that shareholders are no longer required to provide written notice to the company of their intent to terminate coverage with National Catholic fully one year and one day

prior to the intended termination date. The new language now specifies only that any such notice be sent to National Catholic 90 days prior to the desired date of termination.

Two other coverage expansions relate to exposures for claims/losses created by toxic solutions, compounds, elements, chemicals, etc. More specifically, every shareholder's policy will be endorsed to reflect the presence of teaching and research laboratory coverage, while every shareholder has the option of obtaining lead hazard coverage from National Catholic. Relative to the former, this coverage clarifies that it is the company's intent to cover loss incidents created by the type of solutions, compounds, elements, chemicals, etc. commonly used within teaching and research laboratories, by not treating these referenced materials as pollutants. Had this coverage extension not been produced, there was the potential for an exclusion of coverage under the absolute pollution exclusion. A misinterpretation of such a nature can no longer occur. The latter coverage, lead hazard, relates to an exposure sometimes experienced or contemplated by shareholders. When this is the case, coverage can be obtained by submitting a written request to National Catholic, via your agent/broker, or by directly contacting the company.

Finally, and in relation to a distressing and complex issue that has troubled both National Catholic and, also, some of its shareholders—for some time, the board of directors has made the formal determination that claims/losses that emanate from circumstances involving adult consensual sex will not be treated as sexual misconduct, sexual abuse, or sexual molestation. In other words, National Catholic is committed to providing defense and coverage for claims/losses of this nature, **but it will not do so via the sexual misconduct limited coverage section of your policy.** Accordingly, when you have a circumstance involving such a claim allegation, it is not necessary to contact National Catholic to request reinstatement of coverage for the individual against whom the allegation has been made. This is because coverage reinstatement is only necessary in relation to alleged claims of sexual misconduct, sexual abuse, and/or sexual molestation.

It is a significant note that the majority of these coverage enhancements and expanded underwriting interpretations have been made simply because National Catholic shareholders contacted the company with their questions and/or concerns. Consequently, we encourage you, and recommend to you, that you contact us with any issue that has you confused or concerned regarding the availability of coverage from your company, National Catholic. We thank you for such interactions with us, because it helps us to perform our roles more effectively and efficiently in service to our National Catholic shareholders.

Notification of Change Regarding Claims Reporting Requirement

When The National Catholic Risk Retention Group, Inc. (National Catholic), Board of Directors met on April 16, 1999, in Chicago, Illinois, the 30-day reporting requirement policy condition precedent was changed to 120 days and became effective with the June 1999 policy renewals.

While this change in the time to report is in response to a need expressed by shareholders for more time in which to gather injury information involving sexual misconduct claims, it also applies to the nine other claim injury coverage reporting triggers:

1. Death,
2. Brain damage,
3. An injury(ies) requiring hospitalization for more than 30 days,
4. Injuries resulting in paraplegia or quadriplegia,
5. Partial or total loss of eyesight,
6. Third degree burns covering 25 percent or more of the body,
7. Any loss for which the underlying insurer has established a reserve (including expense) of \$125,000 or more,
8. Any traumatic loss of or surgical amputation of any limb,
9. Any suit or claim first made where the damages alleged are likely to equal or exceed the limits of liability of the underlying insurance,
10. Any suit or claim, or the commencement of any criminal prosecution, alleging sexual misconduct, sexual abuse or sexual molestation.

Although the time to report these claims has been lengthened to 120 days, Douglas W. Grund, director of claims/reinsurance, urges all shareholders to ensure the prompt and timely reporting of these 10 claim situations as soon as the company-requested information is known. The company-requested information includes:

1. Specific conduct or breach of duty,
2. Date of such conduct,
3. Injury or damage which has or may result from such conduct,
4. Identity of the Insured who may be the subject of the claim,
5. Identity of the potential claimants,
6. Anticipated location of the claim to be made,

7. Circumstances by which the insured first became aware of the circumstance of the potential claim.

Because National Catholic is an excess liability insurer, timely reporting of claims is important to our company as we need to record and register potential losses for both underwriting and claim operations, as well as report these same 10 claim coverage triggers to our reinsurers.

From a claim operation perspective, prompt claim reporting to National Catholic provides the company with the opportunity to become associated with our shareholder early in the management of those claims that may involve our coverage layer. This provides the shareholder and their claim service provider with the additional claim experience of not only our staff, but of our reinsurers.

National Catholic Announces Mike Bemi New President & CEO

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Bemi said he has many plans for leading National Catholic into the next millennium and for growing National Catholic's membership and increasing services provided to member and sister entities. "The measure of a good insurance company is not simply the amassing of capital, but more importantly, how that capital is allocated," he said.

Bemi also said he plans to continue the implementation of the company's strategic action plan, including the formation of a management company as a wholly-owned subsidiary of National Catholic—bringing more full-time, experienced industry leaders into key positions at the company. As a part of its long-term planning, National Catholic will relocate its headquarters to Lisle, Illinois in October 1999.

Before joining AJG, Bemi was a property and casualty underwriter in the Chicago office of Aetna Casualty and Surety. He holds three professional designations including CPCU (Chartered Property and Casualty Underwriter), ARM (Associate in Risk Management), and ARE (Associate in Reinsurance). Bemi, a graduate of the University of Illinois, Champaign-Urbana, is a native of Chicago and has been married for 20 years to wife, Jeanne. They have a 14-year-old daughter, Claire.

National Catholic News Briefs—National Catholic News Briefs

1999 Annual Shareholders Meeting and Breakfast

September 29, 1999, Phoenix, Arizona

The 1999 annual breakfast and meeting of shareholders of The National Catholic Risk Retention Group, Inc. (National Catholic), will be from 7:30 to 8:30 a.m. on Wednesday, September 29, in the Phoenix Ballroom East, mezzanine level, at the Hyatt Regency Phoenix, 122 North Second Avenue, in Phoenix, Arizona. The agenda will include the election of four (4) directors to three-year terms.

Shareholders who wish to attend may complete and return the breakfast reservation forms that were mailed to them with their proxy materials, or call Hank Devlin at 810-465-3335 to confirm their reservation.

Diocesan Fiscal Management Conference (DFMC) Exhibit

September 26 to 28, Phoenix, Arizona

National Catholic will again have an exhibit booth at the Diocesan Fiscal Management Conference (DFMC), which will be held at the Hyatt Regency Phoenix. Our exhibit will be in booth 32, which will be along the west wall of the hotel's atrium level.

We encourage you to stop by the booth and visit with Hank Devlin, Doug Grund, Mike Bemis and Sandy Barutha. The booth will be open from 3 to 5:30 p.m. and 7 to 9:30 p.m. on Sunday, September 26; 7 a.m. to 4 p.m. on Monday, September 27; and 7 a.m. to 4 p.m. on Tuesday, September 28.

As usual, we plan to have available materials related to our products and services together with some unusual souvenirs.

Eight (Arch)Dioceses Become National Catholic Shareholders

As outgoing President and CEO Bill Hinkes noted in his introductory comments to this summer issue of *National Catholic Report*, we are delighted to welcome eight (arch)dioceses into the company as shareholders during the first six months of 1999. Our new shareholders include:

- Archdiocese of Miami, Florida
- Diocese of Beaumont, Texas
- Diocese of Buffalo, New York
- Diocese of Orlando, Florida
- Diocese of Palm Beach, Florida
- Diocese of Pensacola-Tallahassee, Florida
- Diocese of Saint Augustine, Florida
- Diocese of Venice, Florida

We are certain that our future relationships with these new shareholders will prove to be as mutually beneficial as those we have enjoyed with our other (arch)dioceses and risk pooling trust.

National Catholic Relocates Its Michigan Office

Due to planned asbestos abatement at National Catholic's former Bloomfield Hills, Michigan, location, we have relocated National Catholic's Michigan office to a building in Mt. Clemens. Our new address information, telephone, and fax numbers are:

Mailing Address:

P.O. Box 686, Mt. Clemens, MI 48046-0686

Street Address:

7 North Main Street, Suite 202
Mt. Clemens, MI 48043

Phone:

1-810-465-3335

Fax:

1-810-465-3365

Nationwide, Toll-Free:

1-877-4TNCRRG or 1-877-486-2774

Email:

tncrrg@aol.com

Web Site:

www.nationalcatholic.org

National Catholic News Briefs—National Catholic News Briefs

Plan Now for Year 2000 Winter Meeting

**January 30 to February 1, 2000
Fort Lauderdale, Florida**

The upcoming 2000 winter meeting will be Sunday, January 30, through Tuesday, February 1, 2000, at the Sheraton Yankee Trader Hotel & Resort in Fort Lauderdale, Florida. We are making final arrangements regarding seminars and speakers and expect to mail our preliminary meeting agenda and events schedule no later than September 30, 1999.

We are told that millennium-related festivities may draw unusually large crowds to Florida during the coming winter season. Hence, we mailed announcements and registration materials to shareholders and friends during July, which was somewhat earlier than in past years. We encourage you to plan to attend and to make your reservations early. If you haven't yet received your registration materials, or would like to register by phone, contact Hank Devlin, managing director, at 810-465-3335.

2001 Winter Meeting Plans Announced

**January 14 to 16, 2001
Key West, Florida**

The National Catholic Board of Directors has selected the Hilton Key West Resort and Marina (Key West, Florida) as the site for its 2001 winter meeting. The decision was made following extensive on-site review of a number of hotel properties—in Key West, Key Largo, West Palm Beach, Boca Raton and Ft. Lauderdale—and is in accordance with the expressed wishes of shareholders who voted at the 1999 winter meeting. To learn more about the location and facilities, visit the Hilton Key West web address at www.keywestresort.hilton.com.

Unlike past years, when our winter meetings began the last Sunday in January, our 2001 meeting will begin on Sunday, January 14, and conclude on Tuesday, January 16. This change permits us to negotiate more favorable room rates with the hotel and to obtain a sufficiently sized room block to accommodate the increased attendance we anticipate at the 2001 winter meeting. As many of you are aware, Key West is a unique location in Florida with unique factors that affect travel to and

from the location by both air and surface transportation. We will address and clarify those travel considerations at our 2000 winter meeting and in announcements, registration materials, and other ongoing communications to our shareholders and friends.

Ad Hoc Committee Announces Progress on VIRTUS™ Endeavor

VIRTUS™ is the program of National Catholic designed to strengthen communities through awareness, education and training. Developed to its maximum potential, VIRTUS™ will provide a framework of appropriate interpersonal relationships within the organizational structure of the Catholic Church at the diocesan, parochial, and institutional levels. VIRTUS™ will establish a proactive structure to promote and reinforce appropriate behavior. Further, VIRTUS™ will establish a reactive structure that addresses sensitive issues and facilitates healing for the entire community.

In Phase I, VIRTUS™ will focus specifically on relationships with children, young adults, and other vulnerable persons. By establishing a clear understanding of what constitutes an appropriate supervisory relationship in ministry, Phase I endeavors to help the community avoid situations where a relationship with a child or other vulnerable person becomes inappropriate. Peer relationships in ministry will be addressed in later phases of VIRTUS™, along with other broad areas of concern, such as employment-related best practices risk management issues.

The content for the primary educational components of Phase I is under construction and should be ready for review by the Expert Consulting Team and the Ad Hoc Committee by the end of September 1999. Once the raw content is developed, training programs, awareness and training videos, and other necessary tools for implementation will be developed.

Meanwhile, with the generous assistance and cooperation of the Archdioceses of Milwaukee and St. Paul/Minneapolis, Phase I is moving forward to draft a program to support and assist victims and faith communities in dealing with the consequences of inappropriate behavior. In addition, programs and tools are being developed to assist (arch)bishops as they work to provide a structure of policies, procedures, and programs that are designed to eliminate the problems of inappropriate relationships in ministry.

Shareholders of The National Catholic Risk Retention Group, Inc.

| | |
|---|---|
| Archdiocese of Boston, Massachusetts | Diocese of Ogdensburg, New York |
| Archdiocese of Cincinnati, Ohio | Diocese of Orlando, Florida |
| Archdiocese of Miami, Florida | Diocese of Palm Beach, Florida |
| Archdiocese of the Military Services, USA | Diocese of Paterson, New Jersey |
| Archdiocese of Newark, New Jersey | Diocese of Pensacola-Tallahassee, Florida |
| Archdiocese of Oklahoma City, Oklahoma | Diocese of Peoria, Illinois |
| Diocese of Albany, New York | Diocese of Pittsburgh, Pennsylvania |
| Diocese of Allentown, Pennsylvania | Diocese of Portland, Maine |
| Diocese of Altoona-Johnstown, Pennsylvania | Diocese of Richmond, Virginia |
| Diocese of Beaumont, Texas | Diocese of Rochester, New York |
| Diocese of Brownsville, Texas | Diocese of Rockford, Illinois |
| Diocese of Buffalo, New York | Diocese of Saint Augustine, Florida |
| Diocese of Burlington, Vermont | Diocese of Scranton, Pennsylvania |
| Diocese of Camden, New Jersey | Diocese of Shreveport, Louisiana |
| Diocese of Charlotte, North Carolina | Diocese of Sioux City, Iowa |
| Diocese of Columbus, Ohio | Diocese of Springfield, Illinois |
| Diocese of Dallas, Texas | Diocese of Springfield, Massachusetts |
| Diocese of El Paso, Texas | Diocese of Syracuse, New York |
| Diocese of Evansville, Indiana | Diocese of Trenton, New Jersey |
| Diocese of Gary, Indiana | Diocese of Tulsa, Oklahoma |
| Diocese of Greensburg, Pennsylvania | Diocese of Tyler, Texas |
| Diocese of Harrisburg, Pennsylvania | Diocese of Venice, Florida |
| Diocese of Kansas City-St. Joseph, Missouri | Diocese of Victoria, Texas |
| Diocese of Lafayette, Louisiana | Diocese of Winona, Minnesota |
| Diocese of Las Cruces, New Mexico | Diocese of Youngstown, Ohio |
| Diocese of Little Rock, Arkansas | Ukrainian Catholic Metropolitan Archdiocese of Philadelphia |
| Diocese of Manchester, New Hampshire | Christian Brothers Risk Pooling Trust |
| Diocese of Metuchen, New Jersey | |

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