

TNCRRG: The Ownership Difference

By Michael J. Bemis, President & CEO, TNCRRG

Occasionally I run across marketing pieces or print media advertisements touting the “privileges of ownership.” In some instances, I find the content within these ads to be reasonable and compelling. In other cases, it strikes me as “sales fluff” with little or no substance. Ironically, I myself have used similar “ownership” arguments and analogies to describe the benefits that can be derived as a shareholder of The National Catholic Risk Retention Group, Inc. (TNCRRG). So, one might ask, are these suggested benefits real and demonstrable, or are they simply marketing “fluff” from yet another insurance company?

I believe many solid arguments can be made that TNCRRG has indeed produced substantial and significant benefits for its insured shareholders—benefits that go far beyond the mere provision of good insurance. These benefits derive from several circumstances, including: (1) the fact that TNCRRG’s Board and management recognize their fiduciary duties as stewards of the patrimony of the Church; (2) the fact that TNCRRG is 100 percent owned by and exclusively devoted to satisfying the needs of Roman Catholic organizations; and (3) the fact that the TNCRRG Board and its management perceive their roles on behalf of the Church as a ministry of risk management and insurance, ultimately designed to assist TNCRRG shareholder entities with the accomplishment of their spiritual ministries.

So what does the TNCRRG “track record” display in this regard? Does it support the existence of the circumstances just enumerated and the related contention of the benefits of ownership? Please consider the following and decide for yourself. In its very brief 16-year history, TNCRRG has:

- Demonstrated leadership in the creation and provision of insurance coverage elements needed to properly cover Church ministries. Some examples (now widely adopted by other insurers) include: Teaching and Research Laboratory Pollution Coverage; Chemical and Agricultural Drift Pollution Coverage; Fungal Pathogen Coverage; Limited Professional Health Care Services Coverage; Diocesan Review Board Coverage; and Sexual Misconduct Limited Coverage (which no one was underwriting when TNCRRG first offered its full policy limits for this exposure).
- Through its VIRTUS® programs, TNCRRG has again demonstrated leadership on behalf of the Church—in this case, in the prevention of child sexual abuse and in other risk control related areas. TNCRRG’s *Protecting God’s Children*® program has established itself as the “gold standard” in the Church’s efforts to eliminate the scourge of child sexual abuse. More dioceses—by a huge margin—are actively engaged in the *Protecting God’s Children* program, than in any similar program. No major industry insurer has any comparable risk control program.
- TNCRRG developed and has presented its “Legal Defense Practice Workshops” to dozens of dioceses around the country. Representatives of the USCCB Office of General Counsel participate in this free series of workshops, and have complimented TNCRRG for its leadership on behalf of the Church in developing this very useful learning platform. Attendees, including many who are not TNCRRG shareholders, regularly and consistently evaluate the program as “excellent” and “highly valuable.” No major industry insurer has developed and offered any comparable claims management program.
- TNCRRG has, for over 10 years, provided Litigation Planning and Management Program development and implementation assistance to its shareholders—free of charge.
- TNCRRG has hosted, organized and presented 13 consecutive annual Winter Meetings, which are open to anyone in the Church, and which always incorporate several workshop presentations by recognized experts on insurance and risk management topics of critical importance in the Church.
- TNCRRG has already returned \$6,654,947 of originally contributed capital to its shareholders, through stock repurchases.
- TNCRRG has already declared \$9,436,676 of stock and cash dividends to its shareholders.

All in all, not a bad track record for a still relatively “fledgling” Church insurer. If you are not already a TNCRRG shareholder, why not investigate the “ownership difference” today? You won’t be disappointed. Call us toll-free at 877-486-2774 or visit our websites at www.nationalcatholic.org and www.virtus.org.

From the Office of the President

Enclosed is our mid-year unaudited financial report reflecting TNCRRG results through June 30, 2004, and comparatively year-over-year. I am indeed grateful that I am able to immediately highlight for you the very significant improvement in TNCRRG results from 2003 to 2004. More specifically, you will note that we produced a \$608,156 operating profit through six months of our fiscal year, compared to an \$849,925 operating loss for this same period last year. So what has changed? Let me analyze that for you now.



To begin, one significant development benefiting our company was the reduction in losses and loss adjustment expenses year-over-year. This may be surprising in light of the recent and persistent crisis in the Church. However, the actual number of sexual misconduct incident and claim reports to TNCRRG has continued to decline substantially in 2004, from its peak in 2002. Further, it is a fact that the majority of these reports will never generate a loss to TNCRRG. The reason is that they relate to activities/victimization that pre-dates the existence of TNCRRG, and therefore occurred prior to the applicable retroactive dates of our claims-made coverage for sexual misconduct. In any event, we experienced a \$304,905 improvement in loss results for the period, year-over-year.

An additional highly significant factor in our improved results is the dramatic increase (\$1,334,922 or 48.7 percent) in our underwriting income. This increase was produced by several concurrent circumstances. These are:

- 1) Our 8 percent rate increase in 2004;
- 2) Our addition of a new shareholder, the Diocese of Erie, Pennsylvania, on May 1, 2004;
- 3) Our considerable success in writing new excess coverage layer placement business so far in 2004;
- 4) Premiums that TNCRRG earned in the first half of 2004, that were generated by the addition of two new shareholders (the Archdiocese of Denver and the Archdiocese of Philadelphia) in the second half of 2003; and finally,
- 5) Our major reduction in reinsurance expenses, itself a function of our reinsurance program restructuring effective January 1, 2004.

Another positively contributing factor to the improvement in our results was our ability to "hold the line" on overall non-loss expenses, even in light of consistent, and in some cases sizable, increases in the costs of goods, services, and supplies that we require to undertake our operations, and also, in the impact of operational costs over which we have little or no control (e.g., premium taxes and regulatory fees).

On a slightly negative note, our net investment income was somewhat reduced year-over-year, resulting in \$30,473 (4.5 percent) less investment income generated by TNCRRG through June 30, 2004, than through June 30, 2003. This was not the result of any alteration in our investment philosophy, our investment strategies, or our investment managers/adviser. The outcome was primarily the effect of reduced interest rates available in the market and slight increases in asset management and trustee costs.

Nevertheless, our ability to substantially grow underwriting revenue year-over-year, while controlling G & A expenses, combined with the major "lift" provided by reduced loss experience, all contributed to our operating profit of \$608,156, which represents a \$1,458,081 improvement in results year-over-year.

In closing, while I am very happy to report these results, I also need to remind you that by far the single most important element "driving" TNCRRG results, is loss experience. Certainly we can significantly and positively affect that experience through our risk control efforts with our extremely successful VIRTUS[®] programs, but much of these results is simply random and beyond our control. That is why we are always thankful when we experience improvement in our loss results. Looking "down the road," if we continue to have favorable loss results in 2004, TNCRRG should be able to generate a sizable operating profit.

A handwritten signature in cursive script that reads "Michael J. Bemis".

Michael J. Bemis, President and CEO
The National Catholic Risk Retention Group, Inc.

Balance Sheet

	Six Months Ended June 30,2004 <u>(Unaudited)</u>	Six Months Ended June 30,2003 <u>(Unaudited)</u>
ASSETS		
Cash and investments	50,399,078	44,036,798
Accrued interest/Investment income	296,673	335,589
Premiums receivable	577,216	527,709
Reinsurance recoverable on paid losses	2,192,516	1,648,596
Reinsurance recoverable on unpaid losses	9,888,904	10,469,217
Prepaid reinsurance premiums	1,299,088	1,553,325
Other assets	192,549	233,734
TOTAL ASSETS	64,846,024	58,804,968
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Loss and loss adjustment reserves	26,179,408	25,564,943
Unearned premiums	3,131,903	2,539,452
Reinsurance balances payable	213,952	854,053
Premium taxes payable	(33,552)	(31,000)
Unearned ceding commissions	136,887	110,274
Other liabilities	141,979	108,153
TOTAL LIABILITIES	29,770,577	29,145,875
SHAREHOLDERS' EQUITY		
Capital stock:		
Class A	1,280	1,220
Class B	298,610	298,152
Additional paid-in capital - cash	452,958	408,901
Additional paid-in capital - policyholder dividend	8,879,436	8,879,436
Unrealized gain (loss) on investment	3,043,274	(1,124,892)
Retained earnings	21,791,733	22,046,201
Net Operating Income/(Loss)	608,156	(849,925)
TOTAL SHAREHOLDERS' EQUITY	35,075,447	29,659,093
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	64,846,024	58,804,968

Income Statement

	Six Months Ended June 30,2004 <u>(Unaudited)</u>	Six Months Ended June 30, 2003 <u>(Unaudited)</u>
REVENUES		
Underwriting income	\$ 4,078,544	\$ 2,743,622
Net investment income	652,027	682,500
Net realized gains (losses) on sales of investments	92,396	196,641
Ceding commission income	359,976	273,215
TOTAL REVENUES	\$ 5,182,943	\$ 3,895,978
EXPENSES		
Losses and loss adjustment expenses	\$ 3,340,180	\$ 3,645,085
Premium taxes	211,466	148,330
VIRTUS® expenses	1,560	(86,712)
Management and regulatory fees	242,063	221,730
Professional fees	102,668	131,950
Salary and fringe benefits expense	433,858	415,928
Travel expenses	107,931	138,707
Other expenses	135,061	130,885
TOTAL EXPENSES	\$ 4,574,787	\$ 4,745,903
NET INCOME	\$ 608,156	\$ (849,925)

Save the Dates and Plan Now to Attend National Catholic's 2005 Winter Meeting

January 30 to February 1, 2005, Scottsdale, Arizona

Our 2005 Winter Meeting will be January 30 to February 1, at the Renaissance Scottsdale Resort in Scottsdale, Arizona. More information about the 2005 Winter Meeting will be sent out later this summer to shareholders and other friends.

As we have consistently done in the past, we plan on providing timely and highly relevant workshops, presented by expert practitioners. We will also host our first annual golf tournament for meeting attendees.

Detailed information about the meeting and related social events will also be available on our company website over the next few months. Keep an eye on our calendar of events at: www.nationalcatholic.org



Plus, by September 15, you'll be able to download both conference and hotel registration information. To make your reservation, please print all the pages, then complete the two attached forms and return them by mail or fax—each according to its respective instructions. And, please check our online calendar often for the latest meeting information.



For additional details about the hotel and the Scottsdale area, visit the Renaissance Scottsdale Resort website at: <http://marriott.com/property/propertyPage/PHXSR>

VIRTUS[®] Programs Help Broaden the Safe Environment Net

By Jeffrey T. Lester, Managing Editor, VIRTUS Online™ Website

More and more dioceses continue to implement the *Protecting God's Children*[®] program for adults, with 80 dioceses currently using the program. Meanwhile, dioceses are now beginning to implement the new *Protecting God's Children* program for parents and guardians, as well as the *Touching Safety* program, our new school-based curriculum that teaches child sex abuse prevention to children. Both of the new programs are based on the Church's longstanding and well-documented position that parents are the primary educators of their children, especially on critical issues related to love, marriage, human sexuality, and appropriate boundaries in all human relationships—the latter being the primary focus of the two new programs.

While the new *Touching Safety* program and the program for parents and guardians are being launched, development continues on the *Bullying Prevention* program, along with an array of other services and activities designed to support our program users.

National Conference for VIRTUS Program Coordinators

To help facilitate the nationwide learning experience regarding safe environment programs, National Catholic Services, LLC, will host our *First Annual Conference for VIRTUS Program Coordinators* on September 16 and 17, 2004, at the Embassy Suites Hotel, Downtown Lakefront in Chicago, just two blocks from the popular Navy Pier. This conference is a convenient way for program coordinators to discuss common problems and solutions, learn the latest news regarding additions and modifications to the program, and to both preview and provide feedback on some of our new programs that are under development. Three of the highlighted presentations from the conference include:



Child Sexual Predators: Protecting God's Children Online

Robert Hugh Farley, M.S.
Consultant in Crimes Against Children

How easy is it for a child molester to meet a child over the Internet? What is the profile of a typical Internet sexual predator? And, what can parents and others do to protect children from these people? The answers may surprise you. Law enforcement agencies from across the country—including the federal government—call on Bob Farley for his advice and expertise in how to identify online sexual predators, stop the abuse, and protect children who have access to this high-risk environment. Bob's presentation is an eye-opening experience, and participants will have ample opportunities to ask questions.



Providing a Culture of Support and Healing

Sharon Womack Doty, Esq., M.S.
Senior Child Sex Abuse Prevention Consultant to The VIRTUS Programs

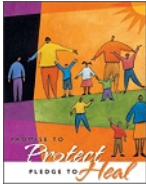


Paul J. Ashton, M.A.
Consultant on Adult Education



Michael J. Bland, Psy. D., D. Min.
Clinical Professional Counselor and Member of the USCCB National Review Board

While response and prevention programs are a vital first step in the battle to rid the faith community of child sexual abuse, an equally necessary and longer-term commitment is required in the area of support and healing—both of victims and others who are directly affected, and extending to everyone throughout the faith community. Sharon Doty, Paul Ashton, and Dr. Michael Bland bring their combined wealth of experience—as both lifelong Catholics and as professionals with specific expertise in working with victims—to this discussion on support and healing of the faith community. *(Continued on next page)*



Overview and Commentary on the USCCB Audit Process

Sheila Horan
Deputy Executive Director
USCCB Office of Child and Youth Protection

With the second round of USCCB audits now under way, dioceses are busy evaluating their safe environment programs and looking for ways to improve their individual programs—both in terms of benefits to the faith community and efficiency for the diocese. The USCCB Office of Child and Youth Protection will discuss the audit process and take questions from participants about the bishops' long-term vision for safe environment programs.

Other conference topics will include:

- A presentation on how to maximize the use and value of the VIRTUS *Online*™ system.
- A comprehensive demonstration of the new *Touching Safety* program—our school-based curriculum to prevent child sexual abuse, and of the *Protecting God's Children* program for parents and guardians.
- An overview of the state of the VIRTUS programs and our vision for further developing this risk control structure as a support for more and more of National Catholic's offerings.

For more information on the Conference, call us toll-free at 1-888-847-8870 or send an email message to pneal@virtus.org.

Final Work on the Bullying Prevention Program

In addition to the conference, development is now in high gear on the *Bullying Prevention* program. The *Bullying Prevention* program will provide Catholic schools, religious education programs, and parents with information, resources, and training to help prevent bullying and other violent behaviors in schools and other group settings. The program will include awareness information for educators and others who interact with students, as well as continuing education (monthly training bulletins) via VIRTUS *Online*.

Schools will be provided with a planning process to help administrators and parents work together to develop a protocol for creating and maintaining safe school environments for students. Plus, educators will be provided with a curriculum to both *teach and empower* the silent majority of students to become an active and caring majority—in helping to thwart not only bullying, but also the kinds of precursory behaviors that lead to bullying and to other forms of violence.

Our lead expert consultant for the *Bullying Prevention* program is Philip J. Lazarus, Ph.D. Dr. Lazarus is no stranger to the VIRTUS programs, having authored several articles for our websites and conducted presentations for some dioceses. Dr. Lazarus serves as chairperson of the National Emergency Assistance Team (NEAT) of the National Association of School Psychologists. Members of NEAT have led crisis response teams following the tragic school killings in West Paducah, Kentucky; Jonesboro, Arkansas; Edinboro, Pennsylvania; Springfield, Oregon; Littleton, Colorado; Flint, Michigan; Lake Worth, Florida; Santee, California; and El Cajon, California. He is an associate professor and director of the School Psychology Training Program at Florida International University in Miami, Florida. And, he is co-editor of the text, *Best Practices in School Crisis Prevention and Intervention*.



The VIRTUS *Bullying Prevention* program is currently under development with an anticipated availability date of February 2005—in time for implementation during the spring semester of the current school year. Initial program components will include:

1. Facilitator's manual—used to facilitate awareness sessions for school staff and volunteers, parents, and students
2. (Flash Technology) awareness video, *part 1*, DVD and VHS versions—used to generate awareness about the problems/risks associated with bullying, the various forms of bullying, and warning signs that someone is a bully/victim. Approximate length is 15 to 20 minutes.
3. (Flash Technology) awareness video, *part 2*, DVD and VHS versions—used to illustrate appropriate responses to bullying, including a strong message about the urgency for reporting suspected bullying, and suggested reporting procedures—even for organizations that have no established procedures. Approximate length is 15 to 20 minutes.
4. Handouts for use in awareness sessions:
 - Warning signs that someone is a bully.
 - Warning signs that someone is a victim.
 - Appropriate responses by a victim, parent, teacher, school staff, or bystander.
5. Monthly training bulletin for teachers/school staff.

For details on the *Bullying Prevention* program or any of the VIRTUS programs, send an email message to pneal@virtus.org.

Our Shareholders

National Catholic is extremely pleased to announce that the Diocese of Erie, Pennsylvania, has joined us as our newest shareholder. National Catholic now consists of 62 archdioceses and dioceses and one risk pooling trust.

Our current shareholders include:

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

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