2020 Financial Highlights—Constellation Insurance Companies

Constellation, Inc. is a growing portfolio of medical professional liability (MPL) insurance companies, which currently includes MMIC Insurance, Inc. in the Midwest, UMIA Insurance, Inc. in the Mountain States and Arkansas Mutual Insurance Company. Together, these organizations collaborate throughout much of the country to offer our health care and long-term care clients a market-leading blend of financial stability, highly responsive customer service, and innovative approaches to liability risk management. Our dedication to care teams informs all we do, as we believe that **what's good for care teams is good for business.** In 2020, we worked "together for the common good" to support our policyholders and achieve another year of impressive results, as well as strong positioning for our future.

"A" rated by A.M. Best

A.M. Best, the most widely recognized insurance rating agency, affirmed our financial stability with an "A" ("Excellent") rating. Our ongoing financial strength enables us to deliver superior service to our policyholders while continuing to invest in opportunities that will drive future growth. Ultimately, our solid financial position fuels our purpose to help physicians and all those who devote their lives to health care attain their dream—to help, heal and serve.

Excellent customer retention

In 2020, 95.7% of our clients chose to continue their policies with one of our Constellation insurance companies rather than switching to a competitor. We take pride in the trust our clients place in us, and we are committed to providing personalized service and innovative offerings that will continue to earn their business.

Innovation

We continue to find new and innovative ways to better serve our policyholders, including these new programs implemented in 2020.

- **Constellation's HEAL program**, which equips our customers with tools to prepare for and respond when a harm event occurs, is in its inaugural year. Encouraging our customers to report harm events early is a key component of the HEAL program. Data shows that early reporting can significantly reduce claim and suit expenses and shorten the life cycle of a case. Recognizing and accounting for the variability of region, allegation categories, close year, and clinical severity, a 25% decrease in average expense cost was reported. Additionally, on average cases closed 111 days earlier if reported within 90 days of the event versus cases reported after 90 days.
- With high-cost verdicts on the rise, many Constellation customers are looking to purchase higher policy limits for unexpectedly high verdicts. Unfortunately, traditional policy limits (available for settlement outside of court and verdicts rendered within a court) are often a target for plaintiff attorneys who focus on policy limits instead of patient/resident injuries.

This can become an issue when trying to settle a case outside of a trial. Our response was a new exclusive product called **Excess Judgment Liability (XJL),** additional coverage that protects policy limits from exaggerated settlement demands. With XJL, plaintiff attorneys are only able to access the full policy limits if they win at trial. Constellation's XJL reduces unrealistic demands by encouraging a reasonable settlement and helps ensure policy limits are available for customers in the face of an unexpectedly high verdict.

Growth in a competitive market

Premiums grew again in 2020 as more customers confidently placed their business with us and rates increased on average. Rate changes varied depending on risk and market factors. As a result, we reached $183.5 million in written premiums—an increase of $5.0 million compared to 2019 and the highest level in our 42-year history.

Challenging claim environment and uncertainty due to COVID-19 pandemic

Jury verdicts continued a recent upward trend early in 2020 and the COVID-19 pandemic resulted in uncertainty on MPL claim outcomes and trends. Due to these factors we believed it was prudent to increase our loss cost estimates during 2020 even though it drove an underwriting loss for the year. We continue to implement strategies to combat these increasing costs, including:

- Utilizing the HEAL program, which provides early standard of care reviews to enable better-informed decisions on next steps. This may include an offer of compensation, if warranted, to help patients/residents and their families move on while limiting financial liabilities for policyholders' businesses.
- Implementing a new innovative technology into the case review process to more quickly and effectively evaluate MPL claims and lawsuits.
- Partnering with select national defense firms that are proficient at addressing potential large exposure cases.

Solid bottom line results despite future claims uncertainty

Constellation insurance companies collectively reported net income of $5.7 million[1] in 2020, as strong investment performance offset the challenging claim environment and uncertainty due to the COVID-19 pandemic. Although our companies, along with most others in the MPL industry, incurred an underwriting loss for the year, our invested assets performed well through volatile financial markets. Benefiting from a long-term investment approach and despite persistent low interest rates, our invested assets continued to provide significant investment income that helps to support our operations and build our financial strength to better serve our policyholders.

Policyholder surplus remains strong

Policyholder surplus at the end of 2020 was $343.9 million[1]. We continue to be in a strong financial position as highlighted by AM Best re-affirming our "A" rating. This means your company is going to be here for you now and in the future.

We look forward to another year of providing exceptional service to our policyholders and the organizations—and people—they serve. Thank you for placing your trust in us.

[1]From the combined annual statement prepared based on statutory accounting practices prescribed or permitted by insurance regulatory authorities.

2020 Highlights:

Policyholder surplus	$343.9 million
Direct written premium	$183.5 million
Policyholder retention	95.7%