

# **BLAIS EXCESS & SURPLUS** **AGENCY OF TEXAS, INC.**



## **PRESS RELEASE**

### **FOR IMMEDIATE RELEASE**

#### **KEMPER INSURANCE COMPANIES**

**Moody's & A. M. Best Co. Cut Kemper Insurance Companies Ratings**

**Berkshire Hathaway Subsidiary, National Indemnity Company Backs Kemper with Cut-Through Agreement**

Houston/Dallas/Austin, Texas, December 27, 2002 – It has come to our attention that:

- Moody's investors Service has downgraded its insurance financial strength ratings of members of The Kemper Insurance Companies inter-company pool (Kemper) to Ba1 from Baa1. In the same action, Moody's downgraded the ratings of surplus notes issued by Lumbermens Mutual Casualty Company, the lead company of Kemper's inter-company pool, to B2 from Ba1.
- On 12/24/02 A. M. Best lowered the financial strength rating to B+ (Very Good) for participants in the Kemper Insurance Companies intercompany pool.
- The Kemper Insurance Companies has reached an agreement-in-principle with Berkshire Hathaway Inc. subsidiary National Indemnity Company, whereby National Indemnity will provide a cut-through endorsement on policies issued under the agreement beginning January 1, 2003. These policies will be backed by the A++ rating of National Indemnity.

David Mathis of Kemper has stated; *"The primary reason that we entered into the agreement with Berkshire Hathaway was to help offset the impact of the downgrades we are experiencing from Moody's, S&P and most recently, from A.M. Best. The downgrades are related to the capital challenges we face and the limited financial flexibility we have as a mutual company. The cut-through agreement covers Kemper's standard commercial lines and key specialty offerings. It includes our middle market business, such as workers' compensation, package and commercial auto. Small business, marine, Financial Insurance Solutions/D&O, and Kemper Professional/E&O and excess casualty are also covered, along with Eagle and Greatland. In the coming months, Kemper will be exiting businesses that are not covered by the agreement. The cut-through agreement lasts for 18 months, which provides us with sufficient time to restructure the organization to make it more attractive to investors and execute our demutualization plans. We believe this will ultimately enable us to access the capital we need to improve our balance sheet, enhance our ratings and profitably execute our business plan. As we go through this process, the cut-through agreement should provide stability for our agents and brokers who are concerned with Kemper's ratings. A one-page endorsement will be attached to every Kemper policy that is issued under the agreement. You have the assurance that if Kemper is unable to pay under the terms of a policy covered by the agreement, National Indemnity will pay 100 percent of the amount owed to the claimant. Our strategy going forward will be centered around standard commercial lines and key specialties. We believe these businesses hold the promise of continued strong results and have the potential to attract investors. Attached is a Q&A to help address some of the questions you may have."*

Key points that should be noted:

- The cut-through agreement is applicable to business written after January 1, 2003 and subject to certain closing conditions, including regulatory and board approvals and is expected to close in the first quarter of 2003.
- Kemper has stated that they will not cancel and rewrite policies to capture the cut-through agreement with National Indemnity.
- Most agents/brokers E&O policies today do not cover claims involving insolvency/bankruptcy of insurance carriers or the placement of coverage with carriers with ratings less than A-.

Key suggestions and/or recommendations:

- A complete review of your current placements with Kemper should be undertaken.
- Kemper insured's should be advised of the situation immediately.
- Consideration should be given the establishment of a cut-through rider on business written prior to January 1, 2003.
- If a cut-through rider is not available on business written prior to January 1, 2003, other options should be discussed with the insured.

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# KEMPER Q&A DOCUMENT

**Q. What is a cut-through agreement and what does it mean for Kemper?**

A. By providing a cut-through endorsement, National Indemnity is providing the backing of its "A++" rating for policies Kemper writes under the agreement beginning on Jan. 1, 2003.

The transaction is designed to allow Kemper the opportunity to continue to operate its core businesses while moving toward demutualization, a process that we believe will ultimately enable the company to access the capital it needs to improve its balance sheet, enhance its ratings and profitably execute its business plan.

**Q. When does the cut-through agreement begin?**

A. Jan. 1, 2003. The transaction is subject to certain closing conditions, including regulatory and board approvals, and is expected to close in the first quarter of 2003. Applicable business under the agreement will have the endorsement attached retroactive to January 1, 2003.

**Q. How will the cut-through agreement affect Kemper's ratings?**

A. It won't. Cut-through agreements in and of themselves don't affect ratings. In our case, the cut-through agreement is a mechanism to address potential customer concerns about the rating pressure Kemper is under by putting the strength of National Indemnity behind us.

**Q. Does Kemper have the capital it needs to pay claims?**

A. Kemper has the capital to honor all of its obligations.

**Q. Why is Kemper repurchasing Berkshire Hathaway's minority interest in the company?**

A. Kemper is repurchasing for \$125 million Berkshire's 15 percent minority equity interest in a Kemper subsidiary, Kemper Insurance Group. This allows Kemper to regain 100 percent ownership of the company and to streamline our organizational structure, which will help simplify the demutualization process. The bottom line is that we believe the cut-through is more valuable to us at this time than the \$125 million.

**Q. What should I tell my clients who are concerned about the recent rating action taken?**

A. The National Indemnity agreement addresses the concern by putting the "A++" strength of the largest member of Berkshire Hathaway's group of insurance companies behind Kemper.

**Q. Why is the cut-through agreement necessary and what does Kemper hope to achieve with it?**

A. The cut-through is necessary because Kemper is experiencing rating pressure. The cut-through agreement helps Kemper bridge through this difficult period as we work to streamline and restructure the company and prepare to demutualize.

**Q. How long does the cut-through agreement last? Why did you select the time frame for the contract that you did?**

A. The cut-through agreement is for 18 months, which provides us with sufficient time to restructure the organization to make it more attractive to investors and execute our demutualization plans. We believe this will ultimately enable us to access the capital we need to improve our balance sheet, enhance our ratings and profitably execute our business plan.

**What Kemper businesses will have the cut-through endorsement?**

A. Middle market workers' compensation, commercial package, commercial auto, marine, small business, Financial Insurance Solutions/D&O, excess casualty, Kemper Professional/E&O, GreatLand, and Eagle.

**Q. What Kemper businesses are not part of the National Indemnity arrangement and what will happen to them?**

A. Kemper Risk Management, Kemper Alternative Risk, KEMPES, Kemper Surety and Kemper Environmental are not part of the agreement. We will be exiting those lines of business in the coming months.

**Q. Can I get a copy of the cut-through endorsement?**

A. Yes. Keep in mind that this agreement has not yet been approved by regulators. We will provide you with a summary of the endorsement in laymen's terms as soon as possible, and will provide you with a copy of the endorsement itself before we begin attaching it to policies.

**Q. Will the endorsement be filed in my state?**

A. Kemper will initially file the endorsement in Illinois, the state in which Kemper is domiciled. Eventually, Kemper may have to file the endorsement in additional states.

**Q. What's the end result?**

A. The end result is a smaller, less volatile, more stable and more consistently profitable company. Kemper's strategy is centered around standard commercial lines and key specialties. In addition to having some of the best talent in the industry, Kemper will continue to differentiate itself from the competition by its attractive product portfolio, its highly regarded service capability and the quality of the agents and brokers who distribute them. We believe Kemper's new organization will be attractive to investors and will ultimately enable Kemper to access the capital needed to improve its balance sheet, enhance its ratings and profitably execute its business plans.

**Q. Why was Kemper downgraded by Moody's, S&P and A.M. Best?**

A. The primary drivers behind these rating downgrades are Kemper's strained capital position and Kemper's lack of flexibility in raising capital due to its status as a mutual insurer.

**Q. What is demutualization?**

A. Demutualization is a process through which mutual companies convert to stockholder ownership.

**Q. What will happen to the business I just placed with Kemper?**

A. We will not cancel and rewrite policies. We have the capital necessary to meet our obligations for policy years 2002 and prior. The cut-through agreement provides security for the accounts we write as of January 1, 2003 and going forward.

**Q. Does the National Indemnity agreement signal any change in Kemper's appetite?**

A. Over the last several years Kemper business units have worked with you to make sure there is a clear understanding of what business we prefer. We do not see any need at this time to change our appetite for specific classes of business for our go-forward businesses.

**Q. Does the agreement with National Indemnity mean that Berkshire Hathaway might own Kemper in the future?**

A. No.

**Q. What happens to my contingency I earned on business I placed with Kemper in 2002?**

A. Kemper will honor all contingency bonuses and will compensate you according to the prescribed agreement.

**Q. How are Kemper's profit centers performing?**

A. The current accident year performance of Kemper's go forward businesses is strong.