

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

The Navigators Group, Inc. (NAVG)



STANLEY A. GALANSKI joined The Navigators Group, Inc., in March 2001 as President and Chief Operating Officer. He became Chief Executive Officer of the company on January 1, 2003. He was Chief Executive Officer of Intercargo Corporation from July 1997 to March 2001. He formerly was President of XL Insurance Company of NY and XL Specialty Insurance Company, as well as New Hampshire Insurance Company, an AIG subsidiary. He spent the first 15 years of his career with the Chubb Group of Insurance Companies.

(WAB607) TWST: Could we begin with a brief historical sketch of The Navigators Group and a picture of the things you're doing at the present time?

Mr. Galanski: The Navigators Group, Inc., is an international property casualty specialty insurance holding company traded on the NASDAQ under ticker symbol NAVG. We operate two insurance companies, which are rated A by both A.M. Best and S&P, and manage a syndicate at Lloyds of London. Navigators is one of the largest ocean marine insurers in the US, which is our largest and most long-standing area of specialization. Our other specialty products include general liability and surety bonds for contractors, directors and officers liability, professional liability and personal umbrella liability.

TWST: Could you give us a general sense of the industry as it is now and an outlook for the industry overall?

Mr. Galanski: The property casualty industry experienced a dramatic improvement in pricing and tightening of policy forms in 2001 as a result of a number of events, including adverse historical loss development, major directors and officers liability and surety losses generated by the well documented financial problems of several large multi-national companies, and the World Trade Center losses. These events resulted in a dramatic hardening of the market over a three to six-month period.

Currently, market conditions remain quite firm, although the dramatic double and triple digit rate increases achieved in 2001 and 2002 have moderated. The pricing environment varies by product line. Navigators' business is focused on specialty niches, most of which continue to experience strong pricing.

TWST: What do you hope to accomplish over the next 18-24 months?

Mr. Galanski: Our primary objective is continued achievement of an underwriting profit. We are optimistic that expected market conditions will allow us to continue to expand our book of business. In 2001 we implemented a strategy to expand upon our core franchise in ocean marine insurance. Our specialty property casualty business largely consisted of general liability for California contractors, which has grown substantially in response to market conditions. We've been able to expand geographically into the Midwest and have also introduced two new product lines that we're very excited about, surety and personal umbrella.

Navigators Pro, our professional liability business, was launched in September 2001 and has clearly exceeded our expectations both in terms of market acceptance and underwriting results. The ongoing development of those two units is a key part of our strategy for the next 18 months. We are excited about the upcoming

launch of a new marine product in the London branch of Navigators Insurance Company, providing protection and indemnity insurance for non-US vessels.

TWST: Is there anything that will be of concern to you in the next couple of years?

Mr. Galanski: Of the many headline grabbing issues of the day, one major issue is the financial strength of the reinsurance industry. Clearly, if one or more major reinsurers went out of business or ceased paying claims, it would be a very difficult situation for the industry. Navigators is very aggressive and proactive in managing its reinsurance receivables. We have not observed an appreciable slowdown in claims payments and are very careful about who we are doing business with.

A second concern is that the new capacity generated in Bermuda could somehow destabilize the market. While that is a possibility, it just doesn't seem to be the case in our niches. A case in point is the directors and officers liability market. We expect there will be considerable loss development for the major D&O insurers who were active in the late 1990s. While many class action securities suits have been filed, most of those judgments have not made their way through the courts and into the financial results of the major D&O insurers and reinsurers. We expect this will reinforce the importance of conservative underwriting and disciplined pricing, despite new capacity attracted to the market.

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TWST: You mentioned taking prudent steps to manage the risk of reinsurers going out of business. What would those prudent steps be?

Mr. Galanski: As a relatively small company, reinsurance receivables receive the attention of our senior executives, who don't hesitate to get involved in specific recoveries or in resolving a dispute. We are also proactive in managing relationships. We recently commuted a relationship with Trenwick, a long term participant in our marine pool. We had fully collateralized their obligations about a year ago, which resulted in a more positive outcome in negotiating the commutation than if we had been passive.

TWST: What are your thoughts on mergers and acquisitions?

Mr. Galanski: We have succeeded by attracting intellectual talent rather than by purchasing assets. We acquired our Lloyd's managing agency, formerly known as Mander Thomas &

Cooper, in 1998. It is a terrific underwriting agency and has become an integral part of our company's international operations. Our Lloyd's operations allow us to compete with much larger companies on a global basis. Another example is our acquisition of Anfield Insurance Services in 1999. We had done business together since 1995. Anfield is now known as Navigators Specialty and has evolved into our major property casualty profit center. Acquiring underwriting agencies has worked for us, which really gets down to the quality of the intellectual capital and the ability of the people to fit with our culture, which emphasizes profit over production. We see significant downside risk in acquiring companies, particularly in the area of adequacy of the target's loss reserves. This can cause the acquiring company to feel as though they're paying on an installment basis.

TWST: What do you reasonably expect Navigators Group to look like three years from now and what are some of the milestones you'll be passing along the way?

Mr. Galanski: Our first priority is to continue to make an underwriting profit in all of our active businesses. Our company is all about a strong underwriting culture and our emphasis is always on underwriting and not market share. Second, our vision is to grow shareholders value and expand our market capitalization beyond its current \$400 million. Third, while we expect our marine business to continue to be the anchor of our specialty franchises,

we plan to have at least three additional profitable specialty units to balance our customer portfolio. Fourth, we intend to be the employer of choice for the finest underwriting and claims talent in our areas of specialization. If you're an underwriting or a claims professional with demonstrated expertise in one of our product lines, there is no better environment in which to work than Navigators.

TWST: Could you tell us about the background of one or two of the key people?

Mr. Galanski: Terry Deeks is the Founder and continues to serve as Chairman of our company. Terry has over 45 years of experience in marine underwriting and insurance company management. He continues to be active in our operation, and we have a very effective relationship.

My personal background is 23 years of property casualty underwriting and underwriting management expertise, primarily with Chubb and AIG.

David Hope, who is responsible for our global marine and liability business, has over 20 years of experience in marine underwriting, all in the London market, with a particular expertise in marine and energy liability. He is ably assisted in the United States by Mike Civisca, an 18-year veteran of Navigators, who manages the US marine business. Mike is recognized as one of the leading blue-water hull underwriters in the country.

Noel Higgitt runs our specialty property casualty business and has over 47 years of experience. He is well versed in the California excess and surplus lines business.

Mr. Galanski: We recently completed a secondary offering and believe that the proceeds of the offering will provide adequate capital for Navigators to execute its business plan over the next 18-24 months.

TWST: What are your feelings about dividends?

Mr. Galanski: The company has never declared a dividend. We've attempted to retain profit in the Group and to grow shareholder value through earnings growth. We understand that some investors are attracted to a dividend as a result of recent tax law changes. It's a subject which we will continue to evaluate in the future.

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Chris Duca has more than 12 years of experience in professional liability, the last two of which have been with Navigators. Chris is recognized by his peers as one of the top-notch young underwriting executives in professional liability.

TWST: Do you have to add people or are there any areas to strengthen?

Mr. Galanski: We have focused on strengthening our back office. We are pleased to have announced in October that Paul Malvasio joined the company as Executive Vice President for Finance and Planning. Paul has over 30 years experience in property casualty financial management, including stints as CFO of NAC Re and Risk Capital Re. Paul will help promote a culture of best practices in the areas of financial management and planning.

Last December we were pleased to add Doug Poetzsch as Chief Claims Officer and General Counsel. Doug has a terrific background as a claims executive, and is both a JD and CPA. We filled new positions in the company for Chief Actuary and Internal Auditor. Our Chief Information Officer, Scott Eisdorfer, has done a great job in building our data warehouse, which enables us to evaluate more granular detail in our management reports. So, over the last 12 months, we've made important investments in the area of "corporate services" to support our high-performing underwriting units. We think we have a world-class underwriting team and we want to support them with a world-class back office.

TWST: Do you see any need to improve your capital structure?

TWST: How active or proactive are you about investor relations?

Mr. Galanski: We've become increasingly proactive over the last two years, culminating in the recent secondary offering. With the increased number of shares outstanding, Navigators is viewed as a more liquid investment and, hence, we believe will attract a greater degree of investor interest than it has in prior years.

TWST: Would you be willing to say that the Street may almost understand you?

Mr. Galanski: I think we've worked harder at telling our story in the last two years and it has certainly been a better story to tell. There is a tendency to paint the property casualty industry with a broad brush, but we're quite unique, in that there are very few companies that do the things that we do. We're not content to be perceived as another property casualty stock. We believe that the quality of a small-cap property casualty insurer reflects the quality of your intellectual capital, the profit potential segments you select to specialize in, and the quality of your underwriting and claims performance. These three variables separate the winners from the also rans.

TWST: With these efforts that you've made in the last year or two, have you increased the number of analysts looking at you?

Mr. Galanski: Yes.

TWST: How many do you have now?

Mr. Galanski: Six.

TWST: Could you give us the two or three best reasons why long-term investors should take a serious look at The Navigators Group?

Mr. Galanski: First is the caliber of intellectual capital. We believe that people are the only true sustainable competitive advantage.

Second, our culture emphasizes underwriting profit over premium production. In the current investment environment, most carriers are waking up to realize that they can't live on investment income and that they need to make an underwriting profit. We've made an underwriting profit in our core marine business for 29 consecutive years. We understand the importance of underwriting profit and are oriented to profit over production.

Third, we have a strong and very leveragable platform. This company does not have the legacy balance sheet issues that some of our competitors have. We maintain a strong balance sheet, a very conservative investment portfolio and disciplined management.

TWST: Would you make a summary statement about your vision?

Mr. Galanski: Our vision for the company is to be perceived as the insurer of choice and the employer of choice for the specialty niches that we serve. We aim to achieve an underwriting profit in all of our active businesses. We intend to deploy our capital in businesses that will generate good returns throughout the insurance cycle. If we are successful in doing this, we expect to achieve our ROE objectives and growth in shareholder value.

TWST: How long have you been with Navigators?

Mr. Galanski: I joined Navigators in March 2001 as President and COO and became CEO of the company on January 1, 2003. I spent the first 15 years of my career with the Chubb Group of Insurance Companies in a variety of underwriting and management roles. In the mid-1990s I was President of an AIG subsidiary, the New Hampshire Insurance Company, from which I was recruited to become CEO of Intercargo Corporation, a publicly traded insurance company which was acquired by XL Capital in May 1999.

TWST: What was the main reason you came over to Navigators and what was the main thing that appealed to you there?

Mr. Galanski: It is a great culture with enormously talented people and is well positioned to become a significantly stronger, bigger and better company in the future.

TWST: Thank you.

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