

EXAMINATION REPORT
OF THE
NATIONAL BUILDERS INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Office of the
Commissioner




Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
NATIONAL BUILDERS INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.


Trinidad Navarro
Insurance Commissioner

Dated this 14 day of June, 2021

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May 11, 2021

Honorable Trinidad Navarro
Insurance Commissioner
Delaware Department of Insurance
1351 W. North Street, Suite 101
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 20.030, dated December 16, 2020, an examination has been made of the affairs, financial condition and management of the

NATIONAL BUILDERS INSURANCE COMPANY

hereinafter referred to as NBIC or the Company. The Company was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 160 Greentree Drive, Suite 101, Dover, Delaware 19904. The administrative offices of the Company are located at 2410 Paces Ferry Road, Suite 300, Atlanta, Georgia 30339. The examination was conducted remotely given office closures and travel restrictions in connection with the COVID-19 pandemic. The report of examination is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination was conducted as of December 31, 2014, by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2015 through December 31, 2019. Our examination was performed as part of the coordinated examination of the Builders Insurance Group (Group) of regulated entities wherein the State of Delaware is the lead state, and the State of Georgia is a

participating state. To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the *General Corporation Laws* of the State of Delaware as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external auditing firm, Dixon Hughes Goodman LLP (DHG). Certain work papers for DHG's 2019 audit of the Company and certain of its affiliates have been incorporated into the work

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papers of the examiners. The work papers were utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material adjustments to the Company's Financial Statements as a result of this examination.

COMPANY HISTORY

The Company was originally incorporated as Archdale Mutual Insurance Company on November 26, 1982 under the laws of the State of North Carolina. The Company's name was changed to Belk Stores Mutual Insurance Company on November 24, 1992 and its name was changed again to Tyvola Insurance Company in 2000. The Company was acquired by Builders Insurance Group, Inc. (BIGI) on May 31, 2003. On July 8, 2004, the Company was redomesticated to South Carolina and its name was changed to Vinings Insurance Company. On December 15, 2010, the Company was redomesticated to the State of Delaware. On January 20, 2015, the Company changed its name to National Builders Insurance Company.

Common Capital Stock

The Company's Certificate of Incorporation authorizes the issue of 10,000 shares of common stock with a \$500 par value. As of December 31, 2019, the Company had 5,000 common shares issued and outstanding totaling \$2.5 million. All outstanding shares of the Company are owned by BIGI. As of December 31, 2019, the Company reported gross paid in and contributed surplus of \$5 million.

Dividends

No stockholder dividends were declared or paid during the examination period.

MANAGEMENT AND CONTROL

Directors

Pursuant to the *General Corporation Laws* of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and affairs of the Company must be managed by or under the direction of, its Board of Directors (Board). The Company's bylaws require its Board consist of not less than three individuals. Directors are elected by the shareholder and hold office until successors are elected and qualified or until resignation or removal. Directors duly elected and serving as of December 31, 2019, were as follows:

| <u>Name</u> | <u>Principal Business Affiliation</u> |
|------------------------------------|---|
| Patrick John Mitchell ¹ | President and Chief Executive Officer Builders Insurance (A Mutual Insurance Company) |
| Mark Gromek | Senior Vice President, Marketing and Underwriting Builders Insurance (A Mutual Insurance Company) |
| Shawn Andrew Stinson | Senior Vice President, Claims and Medical Management Builders Insurance (A Mutual Insurance Company) |

¹Subsequent to the examination period, Patrick John Mitchell, departed the Company effective October 9, 2020.

Officers

Officers were elected in accordance with the Company's bylaws during the period under examination. The bylaws require election of a President and Chief Executive Officer, a Secretary, and a Treasurer. Other officers may be appointed by the Board or by a designated officer. The primary officers serving as of December 31, 2019, were as follows:

| | |
|--------------------------------------|--|
| Patrick John Mitchell ¹ | President and Chief Executive Officer |
| Ellen Graham Smith ² | Senior Vice President, Chief Financial Officer & Treasurer |
| John Stephen Berry | Senior Vice President, General Counsel & Secretary |
| Mark Gromek | Senior Vice President, Marketing & Underwriting |
| Andrew Clinton Dunn | Senior Vice President & Chief Information Officer |
| Shawn Andrew Stinson | Senior Vice President, Claims & Medical Management |
| Clyde Graham Barber ³ | Assistant Vice President and Assistant Treasurer |
| Clark McLendon Johnston ⁴ | Assistant Vice President and Assistant Secretary |

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¹ Subsequent to the examination period, Patrick John Mitchell departed the Company effective October 9, 2020.

² Subsequent to the examination period, Ellen Graham Smith resigned effective March 1, 2021.

³ Subsequent to the examination period, Clyde Graham Barber retired effective April 9, 2021.

⁴ Subsequent to the examination period, Clark McLendon Johnston retired effective April 3, 2020.

Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including approval of investment transactions as required by 18 *Del. C.* § 1304. In addition, review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination as required by 18 *Del. C.* § 4919.

Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. The Company is ultimately owned and controlled by the eligible policyholders/members of Builders Insurance (BI). The following is a complete organizational chart of the insurance holding company system as of December 31, 2019:

| <u>Company</u> | <u>Domicile</u> |
|--|-----------------|
| Builders Insurance (A Mutual Captive Company) ¹ | Georgia |
| Builders Insurance Group, Inc. | Georgia |
| American Builders Insurance Company | Delaware |
| National Builders Insurance Company | Delaware |
| Association Services, Inc. | Georgia |

¹ Subsequent to the examination, BI incorporated two new companies, Specialty Builders Insurance Company and BGA Solutions, Inc. under the BIGI umbrella.

The following is a description of the legal entities in the insurance holding company system with significant affiliated relationships with the Company followed by a summary of the significant agreements:

- BI was organized on July 1, 1996 to provide workers' compensation coverage to members of the Home Builders Association of Georgia. Subsequently, BI began writing general liability

coverage in 2002, builders risk coverage in 2006, commercial package coverage in late 2010 and umbrella coverage in 2011. BI is an Association Captive under the laws of the State of Georgia and is licensed to underwrite various forms of property and casualty insurance only in the State of Georgia. BI is restricted to writing to eligible members of sponsoring associations.

- BIGI serves as a downstream holding company for BI's insurance and non-insurance subsidiaries. BIGI performs all administrative functions for the Company including claims administration, loss control and safety services, underwriting and policy administration services, and sales and marketing.
- American Builders Insurance Company (ABIC) is a property and casualty insurance company domiciled in the State of Delaware. ABIC is licensed to underwrite various forms of property and/or casualty insurance in seventeen states and the District of Columbia.
- Association Services, Inc. (ASI) is an inactive Managing General Agent/Third Party Administrator.
- Specialty Builders Insurance Company (SBIC) is a newly incorporated surplus lines carrier domiciled in Georgia.
- BGA Solutions, Inc. (BGA) is a general agency incorporated to solicit business for SBIC.

Agreements with Affiliates

The following is a summary of the Company's significant affiliated agreements in force as of December 31, 2019:

- Administrative Services Agreement – Effective January 1, 2006 and amended January 1, 2008, the Company entered into an Administrative Services Agreement with BI, ABIC and BIGI. In accordance with the agreement, BIGI performs all administrative functions for the Company, ABIC and BI including claims administration, loss control and safety services, underwriting and policy administrative services, and sales and marketing. The costs incurred by BIGI in

performing its obligations are allocated between the Company, ABIC and BI based on their respective net earned premium.

- Tax Allocation Agreement – Effective December 31, 2005, the Company became party to a Tax Allocation Agreement with BIGI, BI, ABIC and ASI. The agreement allocates income taxes using a separate entity basis at the highest marginal tax rate. Allocations are invoiced and paid quarterly.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed to underwrite various forms of property and casualty insurance in eighteen states and the District of Columbia. The Company operates to further the strategic plans of BI and BIGI, which focuses primarily on insurance needs of the home building industry in targeted Southeast, Mid-Atlantic and Midwest markets. The Company, BI and ABIC share a network of independent insurance agents for the retail distribution of workers' compensation, general liability, commercial package, umbrella and builders risk business.

On a direct basis, the Company provides multi-state workers' compensation coverage to homebuilders insured by BI who also have exposure in states outside of Georgia where the Company is licensed. Additionally, the Company writes construction and non-construction workers' compensation insurance. Non-construction markets include retail, wholesale, service, office, professional and light manufacturing industry categories. The Company also writes general liability, commercial package, umbrella and builders' risk for the construction industry.

On an indirect basis, the Company primarily assumes business under the affiliated reinsurance pooling agreement with BI and ABIC. BI operates only in Georgia offering products only to members of its sponsoring associations. ABIC markets to industries and with product offerings substantially similar to the Company's in the territories where it is licensed.

REINSURANCE

The Company’s primary reinsurance programs consist of an intercompany reinsurance pooling arrangement and a third party ceded reinsurance program designed to limit the Company’s exposure to certain levels of risk. The following is a summary of each program.

Affiliated Reinsurance Pooling Agreement

The Company is a participant in an inter-company reinsurance pooling arrangement with its affiliates including BI and ABIC. Under the terms of the arrangement, the property-casualty underwriting risks for substantially all lines of business for each intercompany pool participant is reinsured with BI. The pool of net underwriting risks before reinsurance is transacted with third parties is then retroceded to the pool participants based on the following pool participation percentages:

| <u>Company Name</u> | <u>NAIC Company Code</u> | <u>Pool Participation</u> |
|---|----------------------------------|-------------------------------|
| Builders Insurance (A Mutual Captive Company) | 10704 | 80% |
| American Builders Insurance Company | 11240 | 10% |
| National Builders Insurance Company | 16632 | 10% |

Ceded Reinsurance - Non-Affiliates

The Company, BI and ABIC maintain casualty excess of loss reinsurance coverage in three layers above a \$2 million per occurrence retention up to \$35 million per occurrence. Additionally, the Group purchases excess of loss reinsurance for property exposures that provides coverage of \$4.5 million excess of \$500,000 with catastrophe coverage providing \$4.5 million excess of \$1 million. Lastly, the Group has a commercial umbrella quota share treaty with 65% cession covering policies classified as Casualty Umbrella or Excess Liability.

FINANCIAL STATEMENTS

Financial Statements as reported and filed by the Company with the Department are reflected in the following as of December 31, 2019:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities, Surplus and Other Funds as of December 31, 2019
- Statement of Income for the Year Ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2016 to December 31, 2019

Statement of Assets
As of December 31, 2019

| | <u>Assets</u> | <u>Non-Admitted Assets</u> | <u>Admitted Assets</u> |
|---|------------------------------|--------------------------------|-----------------------------|
| Bonds | \$ 85,252,560 | \$ - | \$ 85,252,560 |
| Cash and short-term investments | 1,358,951 | - | 1,358,951 |
| Subtotals, cash and invested assets | <u>\$ 86,611,511</u> | <u>\$ -</u> | <u>\$ 86,611,511</u> |
| Investment income due and accrued | 699,913 | - | 699,913 |
| Uncollected premiums, agents' balances in the course of collection | 3,146,952 | 296,270 | 2,850,682 |
| Deferred premiums and agents' balances and installments booked but deferred and not yet due | 5,096,371 | - | 5,096,371 |
| Amounts recoverable from reinsurers | 2,180,777 | - | 2,180,777 |
| Current federal and foreign income tax recoverable and interest thereon | 659,639 | - | 659,639 |
| Net deferred tax asset | 1,511,993 | 321,172 | 1,190,821 |
| Receivables from parent, subsidiaries and affiliates | 180,692 | - | 180,692 |
| Aggregate write-ins for other-than-invested assets | <u>65,661</u> | <u>27,103</u> | <u>38,558</u> |
| Totals | <u><u>\$ 100,153,509</u></u> | <u><u>\$ 644,545</u></u> | <u><u>\$ 99,508,964</u></u> |

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2019

| | | <u>Notes</u> |
|---|-----------------------------|--------------|
| Losses | \$ 30,378,506 | 1 |
| Reinsurance payable on paid losses and loss adjustment expenses | 1,141,442 | |
| Loss adjustment expenses | 15,270,314 | 1 |
| Commissions payable, contingent commissions and other similar charges | 1,244,980 | |
| Other expenses | 730,159 | |
| Taxes, licenses and fees | 310,186 | |
| Unearned premiums | 11,921,817 | |
| Advanced premium | 70,432 | |
| Dividends declared and unpaid: Policyholders | 93,010 | |
| Ceded reinsurance premiums payable | 2,335,451 | |
| Payable to parent, subsidiaries and affiliates | 660,813 | |
| Aggregate write-ins for liabilities | 247,523 | |
| Total Liabilities | <u><u>\$ 64,404,633</u></u> | |
| Common capital stock | \$ 2,500,000 | |
| Gross paid in and contributed surplus | 5,000,000 | |
| Unassigned funds (surplus) | 27,604,331 | |
| Surplus as regards policyholders | <u><u>\$ 35,104,331</u></u> | |
| Totals | <u><u>\$ 99,508,964</u></u> | |

Statement of Income
For the Year Ended December 31, 2019

| | |
|--|----------------------------|
| Premiums earned | \$ 20,887,043 |
| DEDUCTIONS: | |
| Losses incurred | 10,605,199 |
| Loss adjustment expenses incurred | 8,269,252 |
| Other underwriting expenses incurred | 2,901,601 |
| Total underwriting deductions | <u>\$ 21,776,052</u> |
| Net underwriting gain or (loss) | <u>\$ (889,009)</u> |
| INVESTMENT INCOME: | |
| Net investment income earned | \$ 2,735,906 |
| Net realized capital gains or (losses) | 41,249 |
| Net investment gain or (loss) | <u>\$ 2,777,155</u> |
| OTHER INCOME: | |
| Net gain from agents' or premium balances charged off | \$ (193,563) |
| Finance and service charges not included in premiums | 49,562 |
| Aggregate write-ins for miscellaneous income | 2 |
| Total other income | <u>\$ (143,999)</u> |
| Net income before dividends to policyholders and before federal income taxes | \$ 1,744,147 |
| Dividends to policyholders | <u>56,092</u> |
| Net income after dividends to policyholders and before federal income taxes | \$ 1,688,055 |
| Federal and foreign income taxes incurred | <u>(178,044)</u> |
| Net income | <u><u>\$ 1,866,099</u></u> |

**Reconciliation of Capital and Surplus
For the Period from the Prior Examination
As of December 31, 2014 to December 31, 2019**

| | <u>Common Capital Stock</u> | <u>Gross Paid In & Contributed Surplus</u> | <u>Unassigned Funds (Surplus)</u> | <u>Total</u> |
|---------------------------------|---------------------------------|--|---------------------------------------|-----------------------------|
| December 31, 2014 | \$ 2,500,000 | \$ 5,000,000 | \$ 15,482,506 | \$ 22,982,506 |
| 2015 Net Income | - | - | 3,321,395 | 3,321,395 |
| 2015 Other Changes ¹ | - | - | 71,389 | 71,389 |
| December 31, 2015 | <u>\$ 2,500,000</u> | <u>\$ 5,000,000</u> | <u>\$ 18,875,290</u> | <u>\$ 26,375,290</u> |
| 2016 Net Income | - | - | 2,450,250 | 2,450,250 |
| 2016 Other Changes ¹ | - | - | 146,536 | 146,536 |
| December 31, 2016 | <u>\$ 2,500,000</u> | <u>\$ 5,000,000</u> | <u>\$ 21,472,076</u> | <u>\$ 28,972,076</u> |
| 2017 Net Income | - | - | 2,258,908 | 2,258,908 |
| 2017 Other Changes ¹ | - | - | (650,393) | (650,393) |
| December 31, 2017 | <u>\$ 2,500,000</u> | <u>\$ 5,000,000</u> | <u>\$ 23,080,591</u> | <u>\$ 30,580,591</u> |
| 2018 Net Income | - | - | 2,668,463 | 2,668,463 |
| 2018 Other Changes ¹ | - | - | 476,523 | 476,523 |
| December 31, 2018 | <u>\$ 2,500,000</u> | <u>\$ 5,000,000</u> | <u>\$ 26,225,577</u> | <u>\$ 33,725,577</u> |
| 2019 Net Income | - | - | 1,866,099 | 1,866,099 |
| 2019 Other Changes ¹ | - | - | \$ (487,345) | (487,345) |
| December 31, 2019 | <u><u>\$ 2,500,000</u></u> | <u><u>\$ 5,000,000</u></u> | <u><u>\$ 27,604,331</u></u> | <u><u>\$ 35,104,331</u></u> |

¹Other Changes in Unassigned Funds (Surplus) for each year include change in net deferred income taxes and change in non-admitted assets.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE
EXAMINATION**

There were no changes made to the Company's Financial Statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Losses

\$ 30,378,506

Loss Adjustment Expenses

15,270,314

The Department retained the actuarial services of INS Consultants Inc. (Consulting Actuary) to perform a risk-focused review of the Company's significant reserving and pricing activities. The

National Builders Insurance Company

Consulting Actuary assisted in review of the inherent risks, management oversight and other mitigating controls over the Company's actuarial processes and procedures. The Consulting Actuary performed an independent reserve analysis including an assessment of the Company's reserves for compliance with applicable *Actuarial Standards of Practice* and the NAIC *Accounting Practices and Procedures Manual*.

SUBSEQUENT EVENTS

The following significant transaction was deemed material for disclosure in this examination report.

Significant Affiliated Transaction

Subsequent to the examination, BI incorporated two new companies, SBIC and BGA, both domiciled in the State of Georgia. SBIC is a non-admitted carrier and BGA is a general agency created to solicit business for SBIC.

Changes in Officers and Directors

Subsequent to the examination period, Patrick John Mitchell departed the Company as the President and Chief Executive Officer effective October 9, 2020. The General Counsel served as interim President and CEO. Todd Campbell has been hired as the new CEO and President effective April 5, 2021.

Subsequent to the examination period, Ellen Graham Smith resigned as the Senior Vice President, Chief Financial Officer and Treasurer of the Company effective March 1, 2021. The Director of Finance/Controller has been appointed interim CFO and Treasurer, until the Company identifies a replacement.

Subsequent to the examination period, Clyde Graham Barber retired as Assistant Vice President and Assistant Treasurer of the Company effective April 9, 2021.

Subsequent to the examination period, Clark McLendon Johnston retired as Assistant Vice President and Assistant Secretary of the Company effective April 3, 2020.

Other Significant Events

Beginning in March of 2020, the World experienced, and continues to experience, a pandemic related to the COVID-19 virus. As of the date of this examination report, the Company's operations and financial condition had not been materially impacted.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

CONCLUSION

The assistance of the Delaware Insurance Department's consulting actuarial and IT firms, INS Consultants, Inc. and INS Services, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's external audit firm, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Lu Ann D. Therrell, CFE
Examiner In-Charge
Delaware Department of Insurance



Richard E. Palmatary, CPA, CFE
Supervisor In-Charge
Delaware Department of Insurance

I, Lu Ann D. Therrell, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to Exam Authority No. 20.030.


Lu Ann D. Therrell, CFE