

**Builders Group**

Raleigh, North Carolina

**Report on Examination**

As of December 31, 2018

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January 16, 2020

Honorable Mike Causey  
Commissioner of Insurance  
State of North Carolina  
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

**Builders Mutual Insurance Company (“BMIC”)**  
**Builders Premier Insurance Company (“BPIC”)**

(hereinafter referred to as the “Builders Group”, at its main administrative and statutory home office located at 5580 Centerview Drive, Raleigh, North Carolina.

## **SCOPE OF THE EXAMINATION**

We performed a full-scope statutory examination of each company within the Builders Group. This examination covers the period from January 1, 2014, to December 31, 2018, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Builders Group was as of December 31, 2013.

The purpose of this examination is to review and evaluate the Builders Group business processes and controls to assist in accessing and monitoring its current financial condition and prospective solvency. Pursuant to GS § 58-2-132, this Report on Examination comprises only facts appearing in the books, records, or other documents of the Builders Group (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Builders Group, 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 Builders Group were considered in accordance with the Handbook risk-focused surveillance process and the following key functional activities were identified:

Investments  
Claims and Reserves  
Premiums  
Reinsurance (Assuming)  
Reinsurance (Ceding)

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to the Builders Group.

The Builders Group's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. Trial balance reconciliations of the Annual Statements ("AS") were performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Builders Group's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from the Builders Group management.

The books and records of the Builders Group are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Johnson Lambert, LLC of Raleigh, North Carolina, the designated independent public accountant of the Builders Group, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2018, for the companies within the Builders Group.



## REPORT ABBREVIATIONS

Argonaut Insurance Company Argonaut	“Argonaut”
Financial Condition Examiners Handbook	“Handbook”
General Statutes of North Carolina	“GS”
Board of Directors	“Board”
BMIC Real Estate LLC	“BMICRE”
Builders First LLC	“BFLLC”
Builders Mutual Insurance Company	“BMIC”
Builders Premier Insurance Company	“BPIC”
Mutual Markets Insurance Solutions, Inc.	“MMIS”
National Association of Insurance Commissioners	“NAIC”
National Council on Compensation Insurance, Inc.	“NCCI”
National Workers’ Compensation Reinsurance Pool	“Pool”
North Carolina Department of Insurance	“Department”
North Carolina Home Builders Association, Inc.	“Association”
North Carolina Home Builders Self Insurers Fund, Inc.	“Fund”
Third Party Administrator	“TPA”

## SUMMARY OF SIGNIFICANT FINDINGS

### COMMENTS, RECOMMENDATIONS AND DIRECTIVES

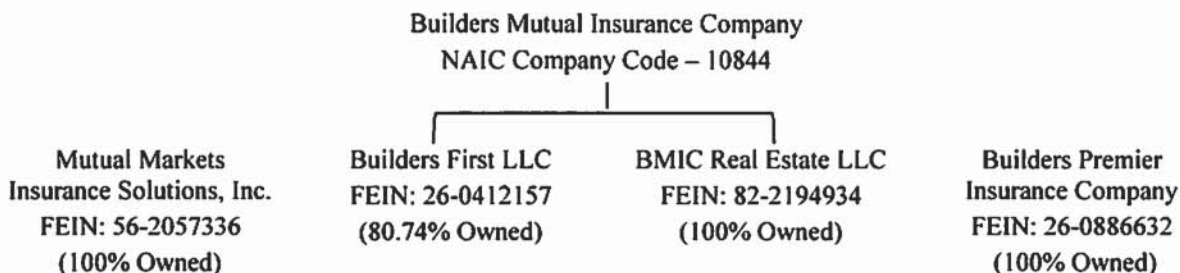
1. Conflict of interest forms were not properly executed by all officers and directors of the Builders Group for the years 2014 through 2018. The Builders Group is directed to require all officers and directors to disclose any conflicts to the board of directors (“Board”) for a determination of its acceptability or the remedial disposition of the conflict in accordance with North Carolina Administrative Code 11 NCAC 11C .0117.
2. The Builders Group did not submit changes to its bylaws to the Department promptly in accordance with GS § 58-7-45(b). The Builders Group is directed to comply with GS § 58-7-45(b) for any future changes to its bylaws.

## ORGANIZATIONAL STRUCTURE

The companies within the Builders Group are part of an insurance holding company system as defined in GS § 58-19 and are either wholly owned and partially owned subsidiaries of BMIC, a North Carolina corporation. BMIC owns all outstanding shares of BPIC.

## ORGANIZATIONAL CHART

The following is a summarized organizational chart of the Builders Group within the holding company group as of December 31, 2018:



## INDIVIDUAL COMPANY HISTORY

### **BMIC**

BMIC was incorporated on September 4, 1997, under the laws of the State of North Carolina as a non-assessable multiple line mutual insurance company. All North Carolina policyholders insured shall be members of the North Carolina Home Builders Association, Inc. (“Association”). For certain other policies, the Board may require that a person or entity must be a member in good standing of a state or local affiliate of the National Association of Home Builders in order to be eligible for membership in the corporation or to be a policyholder of the corporation. On September 10, 1997, BMIC received \$1.8 million in guaranty capital from the North Carolina Home Builders Self Insurers Fund, Inc. (“Fund”). The Fund was established on May 1, 1984, as a self-insured workers compensation group fund to provide workers compensation insurance to members of the Association. Effective January 1, 1998, BMIC merged with the Fund.

BMIC has three wholly-owned subsidiaries, BPIC, Mutual Markets Insurance Solutions, Inc. (“MMIS”) and BMIC Real Estate, LLC (“BMICRE”). BPIC was incorporated on September 10, 2007 and became licensed to write business on October 31, 2007. MMIS was incorporated on November 21, 1997, under the original name of Builders Insurance Agency, Inc., which was established to compensate certain insurance agents that sold workers compensation insurance on behalf of BMIC. Subsequently, the name was changed to MMIS and the charter was changed to reflect the possibility of providing alternative insurance services and solutions for BMIC. BMICRE was formed on May 25, 2017, for the sole purpose of acquiring the property at 5540 Centerview Drive, Raleigh, North Carolina.

BMIC has an 80.74% ownership interest in Builders First LLC (“BFLLC”), which was organized on May 17, 2007. BFLLC owns an office building located at 5580 Centerview Drive, Raleigh, NC, a portion of which is leased by BMIC as its headquarters. The Association and the Home Builders Association of Raleigh Wake County, Inc. own the remaining 19.26%.

### **BPIC**

BPIC is a stock insurance company, which was incorporated on September 10, 2007, under the laws of the State of North Carolina. With ten million shares of \$1.00 par value capital common stock authorized, BPIC began business by issuing five million shares of common stock to BMIC in exchange for \$10,000,000,



which provided BPIC an initial capital totaling \$5,000,000 and gross paid-in and contributed surplus totaling \$5,000,000.

On March 19, 2009, BMIC surrendered its five million shares of \$1.00 par value common stock to BPIC in exchange for 2,500 shares of \$2,000 par value common stock. This exchange had no effect on BPIC's stated capital.

BPIC is a wholly owned subsidiary of BMIC with 2,500 shares of \$2,000 par value common stock authorized, issued and outstanding at December 31, 2018.

## **CAPITAL STOCK**

As of December 31, 2018, capitalization of BPIC consisted of the following:

### **BPIC**

<b>Description</b>	<b>Value</b>
Number of authorized common capital shares	2,500
Number of shares issued and outstanding	2,500
Total common capital stock	\$5,000,000
Par value per share	\$2,000

No additional shares of BPIC were issued during the period under examination. As of December 31, 2018, all outstanding shares of BPIC were owned by BMIC.

At December 31, 2018, BPIC reported \$5,000,000 in gross paid in and contributed surplus and unassigned funds totaling \$2,247,284.

## **DIVIDENDS TO POLICYHOLDERS**

Dividends on common stock are paid as declared by the Board of the Builders Group. Under the insurance regulations of North Carolina, the maximum amount of dividends which the Builders Group may pay to policyholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. BMIC declared dividends totaling \$2,500,000 and \$2,100,000 in 2018 and 2017, respectively, to the workers' compensation policyholders of both BMIC and BPIC. The Board approved a contractual dividend to Florida policyholders of \$578,660 and \$61,241 in 2018 and 2017, respectively.

## **MANAGEMENT AND CONTROL**

### **CORPORATE GOVERNANCE**

The companies within the Builders Group have the same directors and principal officers.

## **Members**

The bylaws of BMIC provide that any person or entity that is a policyholder of BMIC shall be a member of BMIC and that an annual meeting of the members shall be held at such time and place as the Board may appoint. Special meetings of the members may be called at any time by the president whenever 10% or more of the members or a majority of the Board request a special meeting in writing.

## **Shareholders**

The bylaws of BPIC provide that an annual meeting of the shareholder be held immediately following the annual meeting of the members of BMIC. Special meetings of the shareholder may be called at any time by the chairman of the Board, the shareholder, or by a majority of the Board, who request in writing. BMIC is the only shareholder of BPIC.

## **Board of Directors**

The business of the Builders Group is conducted by its management team and is subject to review by the Board. The bylaws for BMIC and BPIC specify that the number of directors shall be eleven. Directors are elected at the annual meetings of the members of BMIC and the shareholder of BPIC or by their written consent, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors of the Builders Group as of December 31, 2018:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
Fredrick Judson	Charlotte, NC	President, Evergreen Group, LLC & Chairman
David Stormont, IV	Kitty Hawk, NC	Owner, Storm Coast Homes, LLC & Vice Chairman
Erik Anderson	Winston Salem, NC	President and Co-Owner, Anderson-Moore Builders & Secretary
Alan Banks	Charlotte, NC	President, Evans Coghill Homes
James Betts	Raleigh, NC	Self-employed Consultant
Gary Embler	Concord, NC	Vice President of Operations, Niblock Development Corp
Jerry Hartsell	Midland, NC	Retired
Willard Hughes	Lexington, NC	Sales Representative, Insulated Concrete, Inc.
Mark Martin	Southern Shores, NC	President, Sandmark Custom Homes, Inc.
Brian Pace	Charlotte, NC	Principal Manager, Pace Development Group
Charles Warrick	Greensboro, NC	Owner, Piedmont Wholesale

The Board of BMIC has the authority to establish committees including, but not limited to an executive committee, a governance committee, a finance and audit committee, a compensation and succession committee and a marketing committee. The Board of BPIC has the authority to establish an executive committee and other committees.



The following individuals served on Board committees of Builders Group as of December 31, 2018:

**Executive Committee**

Fredrick Judson, Chair  
David Stormont, IV  
Erik Anderson

**Compensation and Succession Committee**

Fredrick Judson, Chair  
David Stormont, IV  
Erik Anderson  
James Betts  
Gary Embler

**Finance and Audit Committee**

Gary Embler, Chair  
Alan Banks  
James Betts  
David Creech  
Jerry Hartsell  
Willard Hughes

**Governance and Nominating Committee**

James Betts, Chair  
Alan Banks  
Brian Pace  
David Stormont, IV  
Erik Anderson  
Fredrick Judson  
Charles Warrick

**Marketing Committee**

David Creech, Chair  
Brian Pace  
Gary Embler  
Jerry Hartsell  
Willard Hughes  
Charles Warrick

**Officers**

The bylaws provide that the Board will elect the officers, which shall consist of a President/Chief Executive Officer, Executive Vice-President(s), Senior Vice-President(s), Vice President(s), and Assistant Vice-President(s), Secretary(ies), Assistant Secretaries and any other officers deemed necessary. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices may be held by the same person, except the offices of President/Chief Executive Officer and Secretary.

The following individuals served as officers of the Builders Group as of December 31, 2018:

<b>Name</b>	<b>Title</b>
John Boggs	President, Chief Executive Officer
Michael Gerber	Senior Vice President, Chief Marketing Officer
Thomas Lockard	Vice President, Chief Financial Officer
Alan Mercaldo	Vice President, Chief Information Officer
Ross Fowler	Assistant Vice President, Underwriting
Kenneth Bunn	Assistant Vice President, Claims
Michele Hemric	Assistant Vice President, Human Resources
Lisa Hoke	Assistant Vice President, Controller
Bradley Mook	Assistant Vice President, Business Development
Gerald Visintine	Assistant Vice President, Actuarial Services

## **CODE OF CONDUCT AND CONFLICT OF INTEREST**

The Builders Group has established policies and procedures to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Builders Group requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Builders Group did not act in accordance with its policy and procedures for disclosure of conflicts of interest. (Refer to Summary of Significant Findings)

## **CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the significant transactions and events related to the Builders Group, and that the directors approved these transactions and events.

The articles of incorporation and bylaws were reviewed for any changes during the period under examination. On December 4, 2015, BMIC amended its bylaws to modify Article 4 regarding the categories of director nominees. On December 8, 2017, BMIC amended its bylaws to modify Article 5 regarding company officers and officers of the Board. On December 4, 2015, BPIC amended its bylaws to modify Article 4 regarding the number and term of Directors. On March 8, 2018, BPIC amended its bylaws to modify Article 5 regarding company officers and officers of the Board in order to be consistent with the bylaws of the other companies within the Builders Group. There have been no other changes to the articles of incorporation within the Builders Group during the period under examination. (Refer to Summary of Significant Findings)

## **STATUTORY DEPOSITS**

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The 2018 AS Schedule E, Part 3 contains a complete description and listing of the statutory deposits by state.

## **ACCOUNTS AND RECORDS**

The companies occupy the same home office space and share accounting systems and personnel. The Builders Group's books and records are maintained at its main administrative office located at 5580 Centerview Drive, Raleigh, North Carolina.

The Builders Group utilizes information systems to sell products to customers, to establish service and maintain customer policies, as well as to gather and report financial data. The environment for internal controls over financial reporting is highly automated and includes application controls and system generated reports supporting its financial reporting functions. Significant applications are hosted on multiple servers at the data center located in Raleigh, North Carolina. The majority of the Builders Group's financially significant applications were purchased from external vendors.

## **FIDELITY BONDS AND OTHER INSURANCE**

The companies in the Builders Group are named insureds under a fidelity bond which provides the Builders Group and its affiliates with coverage totaling \$5,000,000 in aggregate. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for the Builders Group on a



consolidated basis.

In addition, the Builders Group is covered by various corporate property and liability policies issued to the Builders Group, which appeared to be adequate to cover risks in the normal course of business.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

All employees of the Builders Group are employees of BMIC. All eligible employees are covered by a qualified defined contribution pension plan sponsored by BMIC. BMIC provides matching contributions to the plan equal to 100% of employee salary deferrals which do not exceed 5% of compensation each year. BMIC's matching contributions totaled \$1,126,311 and \$933,042 in 2018 and 2017, respectively. In addition, a year-end non-elective discretionary contribution may be made for all eligible employees. BMIC's discretionary contributions of 3.0% totaled \$714,047 and \$641,003 in 2018 and 2017, respectively.

## **THIRD PARTY ADMINISTRATOR**

BMIC utilizes Travelers Indemnity Company, a Third-Party Administrator ("TPA"), to provide services to BMIC insureds in the workers compensation residual market plans in the states where BMIC writes workers compensation coverage. The TPA services and responsibilities include underwriting, premium auditing, engineering, claims handling, reporting, actuarial services, premium or claim fraud, 1099 filings, and regulatory complaints and inquiries. BMIC incurred service fees of \$2,763,206 and \$2,408,093 in 2018 and 2017, respectively.

## **RELATED PARTY AGREEMENTS**

Pursuant to various agreements, services such as financial management, operational management, accounting, payroll, human resources management, investment advisory, and data processing are provided for or by the Builders Group and its affiliates as follows:

- a. BMIC has a reinsurance contract with its subsidiary BPIC, effective March 1, 2008, under which BMIC assumes 100% of the premiums written by BPIC. In lieu of a ceding commission, BMIC pays all expenses associated with the servicing of the insurance contracts reinsured under the agreement. (Refer to Reinsurance Program Overview)
- b. BMIC has a management agreement with BPIC, effective September 11, 2007, under which BMIC provides all personnel, materials, facilities, and services to BPIC. Premium cessions under the reinsurance agreement with BPIC, described above, constitute full reimbursement for all such services provided by BMIC. (Refer to Reinsurance Program Overview)
- c. BMIC is included in a consolidated income tax return in accordance with a tax sharing agreement with BPIC, effective September 11, 2007. The provisions for federal income tax are computed as if BMIC and BPIC were filing separate income tax returns. Benefits, which arise from tax credits and net operating losses, are allocated to the companies producing such results to the extent they are utilized in the consolidated income tax provisions. Intercompany tax balances are to be settled no later than December 15<sup>th</sup> of the subsequent year.



## TERRITORY AND PLAN OF OPERATION

The Builders Group primarily writes workers compensation policies which provide coverage to residential and commercial construction builders. The Builders Group also writes the following lines of business: commercial multiple peril, business owners policies, commercial package policies, general liability, property, auto, builders risk and umbrella policies. Independent agents are utilized for the distribution of its product and solicitation of business. All policies are issued annually, and insureds may elect to pay on an installment basis.

At December 31, 2018, BMIC was licensed in ten (10) jurisdictions:

District of Columbia	Florida	Georgia	Maryland	Mississippi
North Carolina	South Carolina	Tennessee	Virginia	Wisconsin

At December 31, 2018, BPIC was licensed in six (6) jurisdictions:

District of Columbia	Maryland	North Carolina	South Carolina	Tennessee
Virginia				

## GROWTH OF THE COMPANIES

The data obtained from annual statements filed with the Department, as reflected in Appendix B, illustrates the growth of the companies within the Builders Group for the five-year period ended December 31, 2018. (Refer to Appendix B)

## ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2018 were reviewed and certified by the Builders Group's Appointed Actuary, Richard Engelhuber, FCAS, MAAA, who is associated with the Actuarial firm of Oliver Wyman Actuarial Consulting, Inc. Actuarial opinions regarding the reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Builders Group for reasonableness and consistency of the loss and loss adjustment expense reserve. According to the actuarial opinions, the reserves on the loss and loss adjustment expense met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss expense obligations of the Builders Group.

## REINSURANCE PROGRAM OVERVIEW

The following table provides a summarized overview of each individual company and the reinsurance contracts in effect as of December 31, 2018.

<b><u>BMIC</u></b>		
<b>Company Operations:</b>	<b>Ceded Contracts:</b>	<b>Assumed Contracts:</b>
<p>Licensed in North Carolina, South Carolina, Virginia, Tennessee, Georgia, Florida, Maryland, Mississippi, Wisconsin, and the District of Columbia</p> <p>Writes Workers' Compensation, General Liability, Product Liability and Commercial Property</p> <p>Reinsurer of BPIC's risk</p>	<ol style="list-style-type: none"> <li>1. Workers' Compensation – various reinsurers for 1<sup>st</sup> - 3<sup>rd</sup> Layer</li> <li>2. Casualty (Non-Workers' Compensation) – various reinsurers for 1<sup>st</sup> &amp; 2<sup>nd</sup> Layer</li> <li>3. Property Per Risk – various reinsurers</li> <li>4. Property Facultative Pro Rata – various reinsurers</li> <li>5. Property Catastrophe – various reinsurers for 1<sup>st</sup> - 3<sup>rd</sup> Layer</li> <li>6. Umbrella Liability Quota Share and XOL – various reinsurers</li> <li>7. Equipment Breakdown - Factory Mutual Insurance Company</li> </ol>	<ol style="list-style-type: none"> <li>1. Intercompany Reinsurance with BPIC Assumes 100% of business</li> <li>2. Workers' Compensation Pool – NCCI</li> <li>3. Argonaut Insurance Company</li> </ol>

<b><u>BPIC</u></b>		
<b>Company Operations:</b>	<b>Ceded Contracts:</b>	<b>Assumed Contracts:</b>
<p>Licensed in North Carolina, South Carolina, Virginia, Tennessee, Maryland and the District of Columbia</p> <p>Writes Workers' Compensation, General Liability, Product Liability and Commercial Property</p>	<ol style="list-style-type: none"> <li>1. Intercompany Reinsurance – BMIC Cedes 100% of business</li> </ol>	None

### INTERNAL REINSURANCE CEDED AND ASSUMED

BMIC has an intercompany reinsurance agreement, effective March 1, 2018, whereby BMIC assumes 100% of all premiums and liabilities written by BPIC, its wholly owned subsidiary. BMIC assumed premiums from BPIC totaling approximately \$65 million and \$54 million in 2018 and 2017, respectively, under this contract.



## **EXTERNAL REINSURANCE ASSUMED**

### **Workers' Compensation Pool**

BMIC participates in the National Workers' Compensation Reinsurance Pool ("Pool"), a residual market reinsurance mechanism for servicing carriers of worker's compensation assigned risk plans administered by the National Council on Compensation Insurance, Inc. ("NCCI"). As a participant, BMIC assumes premiums, losses, costs, and other expenses arising from coverage provided under authorized insurance plans written through a servicing carrier. The business assumed from the Pool is BMIC's proportionate share of the total voluntary market for workers' compensation in the State. BMIC assumed premiums totaling approximately \$253,000 and \$2.25 million in 2018 and 2017, respectively, from the Pool.

The Company cedes these assumed premiums to a group of subscribing reinsurers. In 2018 and 2017, the Company ceded pooled premiums totaling \$12,780,706 and \$11,414,508, respectively, to the subscribing reinsurers.

### **Argonaut**

BMIC has a Workers' Compensation and Employer's Liability policy with Argonaut Insurance Company ("Argonaut"), effective January 1, 2012, whereby BMIC assumes business written by Argonaut on behalf of Argonaut in states where they are not authorized. BMIC assumed premiums of approximately \$935,000 and (\$26,000) in 2018 and 2017, respectively from Argonaut.

## **EXTERNAL REINSURANCE CEDED**

### **Excess of Loss Coverage - Workers' Compensation**

BMIC has an excess of loss contract with multiple subscribing reinsurers, effective January 1, 2018, which provides coverage up to \$3.25 million per occurrence and \$7 million in aggregate in excess of \$1.75 million on its workers compensation and employers liability insurance policies. BMIC ceded premiums totaling \$6,486,134 and \$6,610,341 in 2018 and 2017, respectively, to the subscribing reinsurers under this contract.

BMIC has a second excess of loss contract with multiple subscribing reinsurers, effective January 1, 2018, which provides coverage up to \$7.5 million per occurrence and \$15 million in aggregate in excess of \$5 million on its workers compensation and employers liability insurance policies. BMIC ceded premiums totaling \$1,871,018 and \$1,386,061 in 2018 and 2017, respectively, to the subscribing reinsurers under this contract.

BMIC has a third excess of loss contract with multiple subscribing reinsurers, effective January 1, 2018, which provides up to \$15 million of coverage in excess of \$12.5 million on its workers compensation and employers liability insurance policies. BMIC ceded premiums totaling \$374,256 and \$444,777 in 2018 and 2017, respectively, to the subscribing reinsurers under this contract.

### **Excess of Loss - Casualty**

BMIC has an excess of loss contract with multiple subscribing reinsurers, effective January 1, 2018, which provides coverage up to \$750,000 per occurrence in excess of \$750,000 on its casualty insurance policies. BMIC ceded premiums totaling \$2,827,242 and \$3,340,449 in 2018 and 2017, respectively, to the subscribing reinsurers under this contract.

BMIC has a second excess of loss contract with multiple subscribing reinsurers, effective January 1, 2018, which provides coverage up to \$4 million per occurrence in excess of \$1.5 million on its casualty insurance



policies. BMIC ceded premiums totaling \$918,819 and \$854,033 in 2018 and 2017, respectively, to the subscribing reinsurers under this contract.

#### **Excess of Loss - Property**

BMIC has an excess of loss contract with multiple subscribing reinsurers, effective January 1, 2018, which provides coverage up to \$500,000 per occurrence in excess of \$500,000 on its property insurance policies. BMIC ceded premiums totaling \$232,854 and \$213,339 in 2018 and 2017, respectively, to the subscribing reinsurers under this contract.

BMIC has a second excess of loss contract with multiple subscribing reinsurers, effective January 1, 2018, which provides coverage up to \$2 million per occurrence in excess of \$1 million on its property insurance policies. BMIC ceded premiums totaling \$117,263 and \$113,356 in 2018 and 2017, respectively, to the subscribing reinsurers under this contract.

#### **Excess of Loss - Facultative**

BMIC has a Property Facultative Pro Rata contract with multiple subscribing reinsurers, effective January 1, 2018, whereby BMIC cedes any one risk with a retention not less than \$3 million. The reinsurers shall be limited to an amount equal to \$2 million on any one risk. BMIC ceded premiums totaling \$132,533 and \$115,676 in 2018 and 2017, respectively, to the subscribing reinsurers under this contract.

#### **Property Catastrophe Coverage**

BMIC has a has an excess of loss catastrophe contract with multiple subscribing reinsurers, effective January 1, 2018, which provides three layers of catastrophe coverage for its property insurance policies. The first layer provides coverage of up to \$3.5 million of BMIC's net loss in excess of \$1.5 million per occurrence; the second layer provides coverage of up to \$5 million of BMIC's net loss in excess of \$5 million per occurrence; the third layer provides coverage of up to \$15 million of BMIC's net loss in excess of \$10 million per occurrence. BMIC pays deposit premiums quarterly, which are adjusted to no less than \$768,880 at the contract expiration based on a percentage of net earned premiums. BMIC ceded premiums totaling \$1,054,617 and \$876,749 in 2018 and 2017, respectively, to the subscribing reinsurers under this contract.

#### **Umbrella Coverage**

BMIC has an Umbrella Liability Quota Share and Excess of Loss contract with multiple subscribing reinsurers, effective January 1, 2018, whereby BMIC cedes 50% quota share of losses up to \$1 million each loss, each policy in excess of \$1 million on its umbrella liability insurance policies. BMIC ceded premiums totaling \$5,865,959 and \$4,611,024 in 2018 and 2017, respectively, to the subscribing reinsurers under this contract.

#### **Quota Share - Equipment Breakdown**

BMIC has an Equipment Breakdown quota share contract with Factory Mutual Insurance Company, effective January 1, 2018, which provides 100% of coverage for its equipment breakdown insurance policies. BMIC ceded premiums totaling \$63,952 and \$22,013 in 2018 and 2017, respectively, under this contract.

## FINANCIAL STATEMENTS

The financial statements in the Appendix A are based on the statutory financial statements filed with the Department and present the financial condition of each company in the Builders Group for the period ending December 31, 2018. The supporting tables and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statement information related to the prior year is unexamined and is presented for comparative purposes only.

## COMMENTS ON FINANCIAL STATEMENTS

### Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department. The more significant accounting policies followed by the Builders Group are as follows:

**Bonds:** Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or fair value.

**Common stocks:** Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under the equity method.

**Real estate held for the production of income:** BMIC accounts for the investment in BMICRE in accordance with statutory-basis methods with the real estate investment carried at fair value.

**Cash and short-term investments:** Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

**Premiums:** Earned over the policy period and reduced for reinsurance ceded.

**Reinsurance:** Premiums, commissions, expense reimbursements, and reserves are accounted for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported net of balances ceded to reinsurers. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

**Non-admitted assets:** Certain assets, such as uncollected premiums, uncollected agents' balances, deferred premiums, deferred installments, furniture, equipment, prepaid expenses, electronic data processing equipment and software, are "non-admitted" and are charged against surplus.

**Unpaid loss & loss adjustment expense:** Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.



### Analysis of Assets

BMIC reported the following assets as non-admitted at December 31, 2018: Uncollected premiums and agent's balances totaling \$7,138,218, deferred premiums and installments totaling \$6,307,249, electronic data processing equipment and software totaling \$2,144,423, furniture and equipment totaling \$3,500,383 and amounts receivable totaling \$804,312.

BPIC did not report any assets as not admitted at December 31, 2018.

### Reinsurance Activity

The companies in the Builders Group have excess of loss, property facultative, and quota share contracts to minimize their exposure to losses. Reinsurance contracts do not relieve the companies of their primary obligation to policyholders, and failure of the reinsurers to discharge their obligations could result in losses to the companies. The Builders Group utilizes Guy Carpenter as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct, assumed, and ceded premiums written and earned were as follows:

<b>BMIC</b>	<b>2018</b>
Direct and assumed written	\$374,470,601
Ceded written	32,770,229
<b>Net written</b>	<b>\$341,700,372</b>
Direct and assumed earned	\$366,084,319
Ceded earned	31,762,713
<b>Net earned</b>	<b>\$334,321,606</b>

<b>BPIC</b>	<b>2018</b>
Direct written	\$65,750,375
Ceded written	65,750,375
<b>Net written</b>	<b>\$-</b>
Direct earned	62,392,473
Ceded earned	62,392,473
<b>Net earned</b>	<b>\$-</b>

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described in the Reinsurance Program Overview.



## Summary of Reserves

The following provides a reconciliation of the reserves for losses and loss adjustment expenses:

<b>BMIC</b>	<b>2018</b>
Reserve for losses and loss adjustment expenses, beginning of year	\$374,697,984
<b>Add:</b>	
Provision for losses and loss adjustment expenses, current year	214,341,000
Change in estimated losses and loss adjustment expenses, prior years	<u>(25,619,026)</u>
<b>Total incurred</b>	188,721,974
<b>Deduct:</b>	
Losses and loss adjustment expenses paid, current year	58,106,000
Losses and loss adjustment expenses paid, prior year	<u>98,983,291</u>
<b>Total paid</b>	152,089,291
Reserve for losses and loss adjustment expenses, end of year	<u>411,330,667</u>
Increase in reserve for losses and loss adjustment expenses	<u>\$36,632,683</u>

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under BMIC's reinsurance contracts. At December 31, 2018, the liability for losses and loss adjustment expenses was reduced by approximately \$66.1 million for amounts to be recovered from reinsurers.

## **Capital and Surplus**

The following, in conjunction with the Statutory Statement Capital and Surplus in Appendix A, represents the changes in capital and surplus since the Department's last examination as of December 31, 2013:

<b>BMIC</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Surplus, beginning of year	\$310,032,430	\$281,631,734	\$262,575,909	\$242,036,824
Surplus increases (decreases):				
Net income	41,831,311	19,573,243	19,907,387	18,260,498
Change in net unrealized capital gain (loss)	16,691,155	6,373,420	(3,451,978)	2,362,245
Change in net deferred income tax	(8,709,813)	632,779	873,641	(918,453)
Change in non-admitted assets	(1,651,064)	740,826	1,686,157	642,746
Change in provision for reinsurance		(1,100)	40,618	192,049
Adjustment to prior year receivable balances		1,081,528		
Adjustment for historical tax effect on net unrealized (loss)	(11,963)			
Change in surplus as regards policyholders for the year	48,149,626	28,400,696	19,055,825	20,539,085
Surplus, end of year	\$358,182,056	\$310,032,430	\$281,631,734	\$262,575,909

<b>BPIC</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Capital and surplus, beginning of year	\$ 11,831,049	\$11,614,522	\$11,411,841	\$11,175,884
Capital and surplus increases (decreases):				
Net income	191,645	193,836	210,090	160,930
Change in net unrealized capital gain (loss)	30,749	14,017	(7,426)	69,967
Change in net deferred income tax	(4,968)	8,674	17	5,060
Change in surplus as regards policyholders for the year	217,426	216,527	202,681	235,957
Capital and surplus, end of year	\$12,048,475	\$11,831,049	\$11,614,522	\$11,411,841

## **Lease Commitments**

The Company has various non-cancelable operating leases for office space, automobiles, software and equipment which expire over the next twenty-one years. The Company incurred rental expenses totaling \$2,064,789 and \$1,939,082 for years ended December 31, 2018 and 2017, respectively. Future minimum annual lease payments under the noncancelable operating leases subsequent to December 31, 2018 are as follows:

<b><u>Year</u></b>	<b><u>Amount</u></b>
2019	\$2,161,446
2020	\$2,103,752
2021	\$1,979,075
2022	\$1,701,282
2023	\$1,619,590

## **Contingencies**

The Builders Group has accrued liabilities for state specific injury funds and guaranty fund assessments totaling \$5,590,948 and \$5,422,786 as of December 31, 2018 and 2017 respectively. BMIC is contingently liable for structured settlements in the amounts of \$2,668,468 and \$3,404,127 as of December 31, 2018 and 2017 respectively.

## **SUBSEQUENT EVENTS**

On August 13, 2019, BMIC submitted to the Department a cost sharing agreement between BMIC and BFLLC, under which BMIC provides personnel to perform property management services for BFLLC. BFLLC will reimburse BMIC for the costs of the services under the agreement. The cost sharing agreement was approved by the Department and became effective on October 15, 2019.

On August 23, 2019, the Builders Group submitted amendments to the bylaws of BMIC and BPIC to the Department for approval. The amended bylaws were approved on September 17, 2019.

Christopher Wetzel serves as Assistant Vice President, Actuarial Services, of the Builders Group, in replacement of Gerald Visintine, retired in 2019.



**Builders Group  
REPORT DISTRIBUTION  
December 31, 2018**

**John Boggs  
President and Chief Executive Officer  
5580 Centerview Drive  
Raleigh, North Carolina 27606**

**Thomas Lockard  
Vice President and Chief Financial Officer  
5580 Centerview Drive  
Raleigh, North Carolina 27606**

**Lisa Hoke  
Assistant Vice President and Controller  
5580 Centerview Drive  
Raleigh, North Carolina 27606**

## CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the companies within the Builders Group are in compliance with the minimum capital and surplus requirements of GS § 58-7-75 for the kind of insurance that they have been authorized to write. The requirements pursuant to that statute are a combined minimum capital and surplus of \$1,800,000 for BMIC and \$2,250,000 for BPIC, respectively.

The courteous cooperation and assistance extended by the officers and employees of the companies during the examination is hereby acknowledged.

Respectfully submitted,



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Ke Xu, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

January 16, 2020



STATE OF NORTH CAROLINA

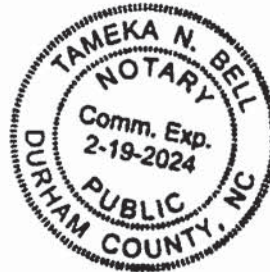
COUNTY OF WAKE

Bill Keely, Examination Supervisor, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this multi-entity report on examination, subscribed by him is true and correct to the best of his knowledge and belief.

Signature: Bill Keely Date: 1/16/20

Sworn and subscribed before me this 16<sup>th</sup> day of January, 2020.

Notary Public Signature: Jameka N Bell Notary Public Seal:



**Builders Group  
Appendix A  
December 31, 2018**

**2018 Statutory Statement of Admitted Assets**

	<b>BMIC</b>	<b>BPIC</b>
Bonds	\$579,156,454	\$10,789,801
Common stocks	180,853,306	-
Properties held for the production of income	13,200,771	-
Cash, cash equivalents, and short-term investments	32,183,799	1,402,171
Other invested assets	8,287,725	-
<b>Total cash and invested assets</b>	<b>813,682,055</b>	<b>12,191,971</b>
Investment income due and accrued	4,459,338	94,301
Uncollected premiums and agents' balances in the course of collection	13,584,391	-
Deferred premiums, agents' balances and installments booked but deferred and not yet due	89,389,511	-
Amounts recoverable from reinsures	2,418,151	-
Net deferred tax asset	9,477,935	-
Guaranty funds receivable or on deposit	4,856,402	-
Electronic data processing equipment and software	37,361	-
Receivables from parent, subsidiaries and affiliates	360,733	-
Other assets	3,237,255	-
State tax credit	2,317,079	-
<b>Total admitted assets</b>	<b>\$943,820,211</b>	<b>\$12,286,272</b>



**2018 Statement of Liabilities, Surplus and Other Funds**

	<b>BMIC</b>	<b>BPIC</b>
Losses	\$326,819,829	\$-
Reinsurance payable on paid losses and loss adjustment expenses	326,851	-
Loss adjustment expenses	84,510,838	-
Commissions payable, contingent commissions and other similar charges	21,334,180	-
Other expenses	8,376,036	7,728
Taxes, licenses and fees	7,659,448	-
Current federal and foreign income taxes	2,301,929	31,260
Unearned premiums	84,956,957	-
Advance premium	3,036,022	-
Dividends declared and unpaid: Policyholders	3,078,660	-
Ceded reinsurance premiums payable	804,237	-
Remittances and items not allocated	55,625	-
Provision for reinsurance	661,548	-
Policyholder deposits	2,204,918	-
Vacation and management bonus accrual	6,560,834	-
National workers compensation reinsurance payable	56,963	-
Other liabilities	307,737	-
<b>Total liabilities</b>	<b>553,052,342</b>	<b>38,988</b>
Common capital stock	-	5,000,000
Gross paid in and contributed surplus	-	5,000,000
Unassigned funds	390,767,869	2,247,284
Total capital and surplus	390,767,869	12,247,284
<b>Total liabilities, capital and surplus</b>	<b>\$943,820,211</b>	<b>\$12,286,272</b>

**2018 Statutory Statement of Income**

	<b>BMIC</b>	<b>BPIC</b>
<b>Underwriting Income</b>		
Premiums earned	\$334,321,606	\$-
<b>Deductions</b>		
Losses incurred	153,635,139	-
Loss adjustment expenses incurred	35,086,835	-
Other underwriting expenses incurred	103,306,057	-
<b>Total underwriting deductions</b>	<b>292,028,031</b>	<b>-</b>
<b>Net underwriting gain</b>	<b>42,293,575</b>	<b>-</b>
<b>Investment Income</b>		
Net investment income earned	21,925,514	242,759
Net realized capital gains	1,216,827	(60,501)
<b>Net investment gain</b>	<b>23,142,341</b>	<b>182,258</b>
<b>Other Income</b>		
Net gain or (loss) from agents' or premium balances charged off	(1,679,902)	-
Finance and service charges not included in premiums	8,338	-
Other Income	7,007	-
<b>Total other income</b>	<b>(1,664,557)</b>	<b>-</b>
<b>Net income before dividends to policyholders</b>	<b>63,771,359</b>	<b>182,258</b>
Dividends to policyholders	4,517,707	-
<b>Net income after dividends to policyholders</b>	<b>59,253,652</b>	<b>182,258</b>
Federal income taxes incurred	13,115,706	36,512
<b>Net Income</b>	<b>\$46,137,946</b>	<b>\$145,746</b>



**2018 Statutory Statement of Capital and Surplus**

	<b>BMIC</b>	<b>BPIC</b>
<b>Capital and surplus, beginning of year</b>	\$358,182,056	\$12,048,475
<b>Capital and surplus increases(decreases):</b>		
Net Income	46,137,946	145,746
Change in net unrealized capital gains	(13,671,029)	(11,915)
Change in net deferred income tax	2,517,661	64,156
Change in non-admitted assets	(1,738,316)	-
Change in provision for reinsurance	(660,448)	-
Change in capital and surplus as regards policyholders for the year	32,585,814	197,987
<b>Capital and surplus, end of year</b>	<b>\$390,767,869</b>	<b>\$12,246,461</b>

**2018 Statutory Statement of Cash Flow**

	BMIC	BPIC
<b>Cash From Operations</b>		
Premiums collected net of reinsurance	\$329,353,174	\$-
Net investment income	26,039,641	371,178
Miscellaneous income	(1,664,557)	-
<b>Total</b>	<b>353,728,258</b>	<b>371,178</b>
Benefit and loss related payments	127,535,352	-
Commissions, expenses paid and aggregate write-ins for deductions	127,273,550	(4,774)
Dividends paid to policyholders	3,600,288	-
Federal taxes paid	10,299,999	(1)
<b>Total</b>	<b>268,709,189</b>	<b>(4,775)</b>
<b>Net cash from operations</b>	<b>85,019,069</b>	<b>375,953</b>
<b>Cash from Investments</b>		
Proceeds from investments sold, matured, or repaid	287,980,284	6,582,752
Cost of investments acquired	368,554,639	7,336,158
<b>Net cash from investments</b>	<b>(80,574,355)</b>	<b>(753,406)</b>
<b>Cash from Financing and Miscellaneous Sources</b>		
Other cash provided (applied)	2,247,635	(44,716)
<b>Net cash from financing and miscellaneous sources</b>	<b>2,247,635</b>	<b>(44,716)</b>
<b>Reconciliation of Cash, Cash Equivalents and Short-Term Investments</b>		
Net change in cash, cash equivalents and short-term investments	6,692,350	(422,169)
<b>Cash and short-term investments, beginning of year</b>	<b>25,491,449</b>	<b>1,824,340</b>
<b>Cash and short-term investments, end of year</b>	<b>\$32,183,799</b>	<b>\$1,402,171</b>



**Builders Group  
Appendix B  
December 31, 2018**

**Growth of the Company**

The following data, obtained from annual statements filed with the Department, illustrates the trends of the companies for the five-year period ended 2018:

**BMIC**

<b>Year</b>	<b>Net Admitted Assets</b>	<b>Capital and Surplus</b>	<b>Gross Premiums Written</b>	<b>Net Earned Premiums</b>	<b>Net Income</b>
<b>2018</b>	\$943,820,211	\$390,767,869	\$374,470,601	\$341,700,372	\$46,137,946
<b>2017</b>	\$859,630,745	\$358,182,056	\$337,558,147	\$307,172,589	\$41,831,311
<b>2016</b>	\$779,790,484	\$310,032,430	\$316,322,758	\$284,342,094	\$19,573,243
<b>2015</b>	\$701,655,127	\$281,631,734	\$273,481,022	\$246,754,916	\$19,907,387
<b>2014</b>	\$638,663,273	\$262,575,909	\$240,022,742	\$215,520,242	\$18,260,498

**BPIC**

<b>Year</b>	<b>Net Admitted Assets</b>	<b>Capital and Surplus</b>	<b>Gross Premiums Written</b>	<b>Net Earned Premiums</b>	<b>Net Income</b>
<b>2018</b>	\$12,286,272	\$12,247,284	\$65,750,375	\$-	\$145,746
<b>2017</b>	\$12,715,120	\$12,048,475	\$54,569,827	\$-	\$191,645
<b>2016</b>	\$11,914,048	\$11,831,049	\$54,451,346	\$-	\$193,836
<b>2015</b>	\$11,673,685	\$11,614,522	\$39,035,270	\$-	\$210,090
<b>2014</b>	\$11,463,104	\$11,411,841	\$34,006,010	\$-	\$160,930