

**Builders Premier Insurance Company**

Raleigh, North Carolina

**Report on Examination**

As of December 31, 2013

**Builders Premier Insurance Company**  
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**Builders Premier Insurance Company**

Report on Examination

December 31, 2013

**REPORT ON EXAMINATION OF FINANCIAL CONDITION**

Honorable Wayne Goodwin  
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 Premier Insurance Company**

(Hereinafter, referred to as the “Company”), at its main administrative office and the Company’s statutory home office located at 5580 Centerview Drive, Raleigh, NC 27606. The following report on examination is respectfully submitted.

**SCOPE OF EXAMINATION**

This examination covers the period from January 1, 2009 to December 31, 2013, 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 Company was as of December 31, 2008.

This examination was conducted in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (“NAIC”). We examined the Company to evaluate the financial condition and identify prospective risks by obtaining information regarding its corporate governance structure, identifying and assessing inherent risks, and evaluating system controls and other procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with GS Chapter 58.

This examination was risk-focused and consisted of a seven-phase process used to identify and assess risk, assess the adequacy and effectiveness of strategies and controls used to mitigate risk and assist in determining the extent and nature of testing procedures to review the Company’s key activities. This process included a determination of the quality and reliability of the Company’s corporate governance structure and risk management programs, as well as, verification of specific portions of the financial statement. All accounts and activities of the Company were considered; however, the examination focused on areas of high risk and fewer tests were performed on the accounts identified as having a low risk of misstatement.

Our examination was directed specifically to the quality, value and integrity of the admitted assets and liabilities reported by the Company in its 2013 Annual Statement, as those balances are critical to determining financial solvency.

# Builders Premier Insurance Company

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## COMPANY HISTORY

The Company 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, the Company began business by issuing five million shares of common stock to Builders Mutual Insurance Company ("BMIC") in exchange for \$10,000,000, which provided the Company 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 the Company in exchange for 2,500 shares of \$2,000 par value common stock. This exchange had no effect on the Company's stated capital.

The Company is a wholly owned subsidiary of BMIC, a mutual insurance company domiciled in North Carolina, with 2,500 shares of \$2,000 par value common stock authorized, issued and outstanding at December 31, 2013. The Company's gross paid-in and contributed surplus and unassigned funds totaled \$5,000,000, and \$1,175,884, respectively, at December 31, 2013.

## CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board of Directors ("Board") and committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the Board approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. On March 19, 2009, the Company amended its Articles of Incorporation to (1) authorize 5,000 shares of \$2,000 par value common stock, (2) allow BMIC to surrender its five million shares of \$1.00 par value common stock to the Company in exchange for 2,500 shares of \$2,000 par value common stock, and (3) cancel the \$1.00 par value common stock authorized at the Company's inception. On December 6, 2013, the Company further amended its Bylaws to provide reasons for disqualifying directors from serving on the Board.

## MANAGEMENT AND CONTROL

### **Board of Directors**

The business of the Company is managed by its management team and is subject to review by the Board. The bylaws specify that the number of directors shall not be less than 11. Directors are elected at the annual shareholders' meeting and serve for a term of three years.

The following individuals were serving as directors at December 31, 2013:

<u>Name</u>	<u>Address</u>	<u>Principal Business Affiliation</u>
Fredrick D. Judson	Charlotte, NC	Evergreen Home Builders
David N. Stormont IV	Kitty Hawk, NC	Storm Coast Homes, LLC
Donald W. Betsworth	Summerfield, NC	Don Betsworth Homes, Inc.
Erik A. Anderson	Winston-Salem, NC	Anderson-Moore Builders
James A. Betts	Raleigh, NC	Retired
David J. Creech	Raleigh, NC	Creech Construction, Inc.
William G. Daleure II	Charlotte, NC	Avant-Garde Real Estate Consulting, LLC

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Joseph G. Hill	Greensboro, NC	J. Gary Hill, LLC
Willard F. Hughes	Lexington, NC	Insulated Concrete, Inc.
James D. McDonald	Charlotte, NC	JDM Consultants, LLC
Sean D. Sullivan	Black Mountain, NC	Living Stone Construction

## Committees

The Board has the authority to establish committees including, but not limited to, Executive, Governance, Finance and Audit, Compensation, and Marketing. The established committees and the individuals elected and serving at December 31, 2013, were as follows:

### Executive Committee

Fredrick D. Judson  
Donald W. Betsworth  
David N. Stormont IV

### Governance Committee

James D. McDonald  
Erik A. Anderson  
James A. Betts  
David J. Creech  
Willard F. Hughes

### Marketing Committee

Willard F. Hughes  
Erik A. Anderson  
David J. Creech  
Joseph G. Hill

### Finance and Audit Committee

William G. Daleure II  
James A. Betts  
Joseph G. Hill  
Fredrick D. Judson  
James D. McDonald  
David N. Stormont IV

### Compensation Committee

Fredrick D. Judson  
Donald W. Betsworth  
William G. Daleure II  
James D. McDonald  
David N. Stormont IV

## Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices, not inconsistent with each other, may be held by the same person except for the offices of President and Secretary.

The following individuals served as officers at December 31, 2013:

<u>Name</u>	<u>Title</u>
John K. Boggs	President/Chief Executive Officer
Thomas B. Lockard	Vice President/Chief Financial Officer
Michael A. Gerber	Senior Vice President/Chief Marketing Officer
Graeme S. Boddy	Vice President/Chief Information Officer
Ross M. Fowler	Assistant Vice President/Underwriting
Michele B. Hemrick	Assistant Vice President/Human Resources
Lisa A. Hoke	Assistant Vice President/Controller
Bradley H. Mook	Assistant Vice President/Underwriting
Gerald R. Visintine	Assistant Vice President/ Actuarial Services

# Builders Premier Insurance Company

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Lindsay H. Smith

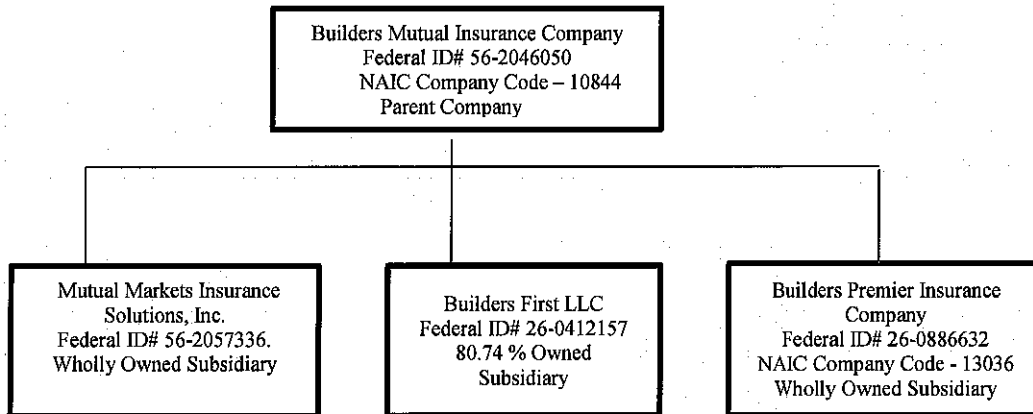
Assistant Secretary

## AFFILIATED COMPANIES

### Holding Company

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is owned and controlled by BMIC.

### Organization Chart



### Affiliated Transactions

The Company has a reinsurance agreement with BMIC, its parent, effective March 1, 2008, under which the Company cedes 100% of its premiums written to BMIC. BMIC pays all expenses associated with the servicing of the insurance contracts reinsured under the agreement in lieu of a ceding commission.

The Company has a management agreement with BMIC, effective September 11, 2007, under which BMIC provides all personnel, materials, facilities and services to the Company. Premium cessions under the reinsurance agreement with BMIC described above constitute full reimbursement for all such services provided to the Company.

The Company is included in a consolidated income tax return in accordance with a tax sharing agreement with BMIC, effective September 11, 2007. The provisions for federal income tax are computed as if the Companies were filing separate income tax returns. Benefits, which arise from tax credits and net operating losses, are allocated to the Company 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 of the subsequent year.

## TERRITORY AND PLAN OF OPERATION

At December 31, 2013, the Company was licensed in the states of Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and the District of Columbia. Statutory deposits are maintained, as required by insurance regulatory agencies for doing business in these jurisdictions. The Company's 2013 Annual Statement, Schedule E, Part 3 contains a complete description and listing, by state, of the Company's statutory deposits.

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The Company primarily writes worker's compensation policies, which provide coverage to residential and commercial construction builders, and also writes the following lines of business: commercial multiple peril, worker's compensation, business owner's policies, commercial package policies, general liability, property, auto, builders risk and umbrella policies. The Company utilizes independent agents 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.

## FIDELITY BONDS

The Company had fidelity bond coverage totaling \$5,000,000, which exceeds the minimum amount recommended by the NAIC.

## BENEFIT PLANS

The Company has no employees.

## TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department and from the last report on examination, illustrates the trends of the Company for the five (5) year period ended 2013:

	<b>Net Admitted</b>	<b>Capital and</b>	<b>Gross</b>	<b>Net Earned</b>	<b>Net</b>
<b>Year</b>	<b>Assets</b>	<b>Surplus</b>	<b>Premiums</b>	<b>Premiums</b>	<b>Income</b>
			<b>Written</b>		
2013	\$11,396,924	\$11,175,884	\$29,374,261	0	\$180,912
2012	11,020,414	10,972,983	26,071,389	0	175,175
2011	10,831,200	10,797,807	21,596,901	0	192,960
2010	10,700,608	10,604,847	11,052,171	0	175,080
2009	10,564,565	10,429,767	2,083,168	0	148,237

## 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 2013 were reviewed and certified by the Company's Appointed Actuary, Richard Engelhuber, FCAS, MAAA, who is associated with the firm of Oliver Wyman Actuarial Consulting Inc. An actuarial opinion, regarding the Company's reserves for loss and loss adjustment expenses, was issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserves. According to the actuarial opinion, the Company's reserves on 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 Company.

# **Builders Premier Insurance Company**

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## **REINSURANCE**

### **Reinsurance Ceded**

The Company has a reinsurance contract with BMIC, its parent, effective March 1, 2008, whereby the Company cedes 100% of its premiums written to BMIC. BMIC provides all policyholder services for the Company in lieu of a ceding commission. In 2013 and 2012, the Company ceded premiums totaling \$29,374,261 and \$26,071,389, respectively, to BMIC under this contract

## **ACCOUNTS AND RECORDS**

The Company's books and records are maintained at 5580 Centerview Drive, Raleigh, NC 27606.

### **Independent Auditor**

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Johnson Lambert of Raleigh, NC, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2013.

### **Information System**

The Company's significant applications are hosted at the primary data center located at the Company's headquarters in Raleigh, NC. The Company's accounting information systems include three main applications utilized for processing premiums and policyholder information, claims, and for financial reporting. All of these applications were purchased from outside vendors.

## **STATUTORY DEPOSITS**

Statutory deposits are maintained by the Company, as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2013 Annual Statement Schedule E, Part 3 contains a complete description and listing, by state, of the Company's statutory deposits. As of December 31, 2013, the statutory deposits were sufficient to meet the capital deposit requirements for the states where the Company does business.

## **FINANCIAL STATEMENTS**

The accompanying financial statement presents the Company's statutory financial position as of December 31, 2013, and statutory results of operations for the period then ended as reported by the Company to the Department in its 2013 Annual Statement and adjusted, as necessary, based on the results of our examination. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the GS. The financial statement and supporting schedules as of December 31, 2012 are unexamined and are presented for comparative purposes only.



**Builders Premier Insurance Company**  
 Statutory Statement of Admitted Assets

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
		<i>(unexamined)</i>
<b><u>Admitted Assets</u></b>		
Bonds	\$ 10,666,891	8,061,964
Cash and short-term investments	<u>613,970</u>	<u>2,855,410</u>
Total cash and invested assets	<b>11,280,861</b>	<b>10,917,374</b>
 Investment income due and accrued	 <u>116,063</u>	 <u>103,040</u>
Total admitted assets	<b><u>\$ 11,396,924</u></b>	<b><u>11,020,414</u></b>

See accompanying notes to the statutory financial statement

**Builders Premier Insurance Company**  
Statutory Statement of Liabilities, Capital and Surplus

	December 31,	
	2013	2012
	<i>(unexamined)</i>	
<b><u>Liabilities</u></b>		
Other expenses	1,553	347
Federal income tax liability	6,853	15,993
Payable to parent, subsidiaries and affiliates	212,634	31,091
Total liabilities	221,040	47,431
 <b><u>Capital and Surplus</u></b>		
Common capital stock	5,000,000	5,000,000
Gross paid in and contributed surplus	5,000,000	5,000,000
Unassigned funds	1,175,884	972,983
Total capital and surplus	11,175,884	10,972,983
Total liabilities, capital and surplus	\$ 11,396,924	11,020,414

See accompanying notes to the statutory financial statement

**Builders Premier Insurance Company**  
Statutory Statement of Operations

	Year Ended December 31,	
	2013	2012
		<i>(unexamined)</i>
<hr/>		
<b><u>Investment Income</u></b>		
Net investment income earned	<u>\$ 191,698</u>	191,168
Net investment gain	<u>191,698</u>	191,168
Federal income tax incurred	<u>10,786</u>	15,993
Net income	<u>\$ 180,912</u>	175,175

See accompanying notes to the statutory financial statement

**Builders Premier Insurance Company**  
 Statutory Statement of Capital and Surplus

	December 31,	
	2013	2012
	<i>(unexamined)</i>	
Capital and surplus, beginning of year	<b>\$ 10,972,983</b>	10,797,807
Capital and surplus increases:		
Net income	180,912	175,176
Change in net unrealized capital gains	21,989	
Change in surplus as regards policyholders for the year	<b>202,901</b>	175,176
Capital and surplus, end of year	<b>\$ 11,175,884</b>	10,972,983

See accompanying notes to the statutory financial statement

## Builders Premier Insurance Company

### Statutory Statement of Cash Flow

	Year ended December 31,	
	2013	2012
<b>Cash From Operations</b>		
		<i>(unexamined)</i>
Net investment income	\$ 335,044	343,418
Totals	<u>335,044</u>	<u>343,418</u>
Commissions, expenses paid and aggregate write-ins for deductions	(1,206)	818
Federal income taxes paid net of tax on capital gains	<u>19,926</u>	<u>31,923</u>
Totals	<u>18,720</u>	<u>32,741</u>
<b>Net cash from operations</b>	<u>316,324</u>	<u>310,677</u>
<b>Cash Used by Investments</b>		
Proceeds from investments sold, matured or repaid	-	300,000
Cost of investments acquired	<u>2,739,307</u>	<u>604,344</u>
<b>Net cash used by investments</b>	<u>(2,739,307)</u>	<u>(304,344)</u>
<b>Cash From Financing and Miscellaneous Sources</b>		
Other cash provided	<u>181,543</u>	<u>30,787</u>
<b>Net cash from financing and miscellaneous sources</b>	<u>181,543</u>	<u>30,787</u>
<b>Reconciliation of Cash and Short-Term Investments</b>		
Net change in cash and short-term investments	(2,241,440)	37,120
Cash and short-term investments, beginning of year	<u>2,855,410</u>	<u>2,818,290</u>
<b>Cash and short-term investments, end of year</b>	<u>\$ 613,970</u>	<u>2,855,410</u>

See accompanying notes to the statutory financial statement

# Builders Premier Insurance Company

Notes to the Statutory Financial Statement

December 31, 2013

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

The accompanying financial statement has been prepared in conformity with the accounting practices prescribed by the GS. The more significant accounting policies followed by the Company are as follows:

**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 reported 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 as reductions of those items.

## 2. Analysis of Assets

There were no assets which were not admitted at December 31, 2013.

## 3. Reinsurance

The Company has a quota share reinsurance agreement with its parent, BMIC, under which the Company cedes 100% of its premiums written. The reinsurance contract does not relieve the Company of its primary obligation to policyholders. Failure of the reinsurer to discharge its obligations could result in losses to the Company.

Direct and ceded premiums written are as follows:

	December 31,	
	2013	2012
Direct written	\$ 29,374,261	26,071,389
Ceded written	29,374,261	26,071,389
Net written	-	-

## 4. Reserves

The Company had no reserves for losses at December 31, 2013, due to its reinsurance agreement with BMIC.

## Builders Premier Insurance Company

Notes to the Statutory Financial Statement

December 31, 2013

### 5. Capital and Surplus

The following, in conjunction with the Statutory Statement of Capital and Surplus (see page 12), represents the changes in the Company's capital and surplus since the Department's last examination:

	December 31,		
	2011	2010	2009
	<i>(unexamined)</i>	<i>(unexamined)</i>	<i>(unexamined)</i>
Capital and surplus, beginning of year	<u>\$ 10,604,847</u>	<u>10,429,767</u>	<u>10,281,531</u>
Capital and surplus increases :			
Net income	192,960	175,080	148,236
Change in surplus as regards policyholders for the year	<u>192,960</u>	<u>175,080</u>	<u>148,236</u>
Capital and surplus, end of year	<u>\$ 10,797,807</u>	<u>10,604,847</u>	<u>10,429,767</u>

### 6. Contingencies and Commitments

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. The Company is of the opinion that these proceedings will not have a material effect on the financial position of the Company.

**Builders Premier Insurance Company**

Appendix A – Report Distribution

December 31, 2013 and 2012

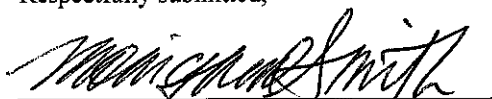
John K. Boggs, CPA  
President and Chief Executive Officer  
5580 Centerview Drive, Suite 400  
Raleigh, NC 27606

Thomas B. Lockard, CPA  
Vice President and Chief Financial Officer  
5580 Centerview Drive, Suite 400  
Raleigh, NC 27606



We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$2,250,000.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Monique D. Smith", written over a horizontal line.

Monique D. Smith, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

February 13, 2015

STATE OF NORTH CAROLINA  
COUNTY OF WAKE

William G. Keely, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: William G. Keely Date: 3/25/15  
William G. Keely

Sworn and subscribed before me this 25 day of March, 2015.

Notary Public Signature: Thomas Smith Notary Public Seal:

