



**NC** DEPARTMENT  
*of* INSURANCE  
**MIKE CAUSEY, COMMISSIONER**

COMPANY SERVICES GROUP  
FINANCIAL EXAMINATION DIVISION

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I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina, do hereby certify that: I have caused to Stonewood Insurance Company, as of December 31, 2019, with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 30<sup>th</sup> day of June 2021.



Mike Causey  
Commissioner of Insurance

Ke Xu, CPA, CFE  
Chief Financial Examiner  
Financial Examination Division

**Stonewood Insurance Company**

Raleigh, NC

**Report on Examination**

As of December 31, 2019

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May 27, 2021

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

### **Stonewood Insurance Company**

(hereinafter referred to as the “Company”), at its main administrative office located at 6131 Falls of Neuse Road, Raleigh, North Carolina. The Company’s statutory home office is located at 1414 Raleigh Road, Chapel Hill, North Carolina. The following report on examination is respectfully submitted.

## **SCOPE OF THE EXAMINATION**

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2015 to December 31, 2019, 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, 2014.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

This was a multi-state coordinated financial examination of five (5) insurance company subsidiaries of James River Group, Inc. Ohio served as the Facilitating State, and Participating States included California, North Carolina, and Virginia.

We conducted our examination in accordance with auditing 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 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 and the following key functional activities were identified:

Investing  
Reinsurance Ceding  
Related Parties  
Reserves and Claims Handling  
Underwriting  
Capital and Surplus

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. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

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 separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was 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 Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Ernst & Young LLP of Pittsburgh Pennsylvania, the designated independent public accountant of the Company, issued an unmodified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2019.

## REPORT ACRONYMS

Board of Directors	“Board”
Falls Lake Fire and Casualty Insurance Company	“FLFCC”
Falls Lake Insurance Management Company	“FLIMC”
Falls Lake National Insurance Company	“FLNIC”
Financial Condition Examiners Handbook	“Handbook”
Franklin Holdings Bermuda, Ltd.	“Franklin”
General Statutes of North Carolina	“GS”
James River Group, Inc.	“JRG”
James River Group Holdings, Ltd.	“JRGH”
James River Insurance Company	“JRIC”
James River Management Company, Inc.	“JRMCC”
National Association of Insurance Commissioners	“NAIC”
National Workers’ Compensation Reinsurance Pool	“NWCRC Pool”
North Carolina Department of Insurance	“Department”
North Carolina Reinsurance Facility	“NCRF”
Potomac Risk Services, Inc.	“Potomac”
Stonewood Insurance Company	“Company” or “SWIC”

## SUMMARY OF SIGNIFICANT FINDINGS

### COMMENTS, RECOMMENDATIONS AND DIRECTIVES

1. The Company does not have a conflict-of-interest form, which provides explicit responses or statements from its employees regarding specific questions intended to identify potential conflicts of interest on an annual basis as required by the North Carolina Administrative Code (“NCAC”) 11C.0117. The Company has a Corporate Governance Manual, which includes the Company’s conflict of interest policy, which requires employees to report potential conflicts of interest to their supervisor at the time the conflict is identified by the employee; however, the Company’s Corporate Governance Manual only requires employees to acknowledge that they are aware of the policy and comply with the policy. The Company is directed to comply with NCAC 11C.0117, which requires conflict of interest statements to be executed annually by all Company officers, directors, trustees, attorney’s-in-fact, and administrative personnel. (Refer to Subsequent Events)

## ORGANIZATIONAL STRUCTURE

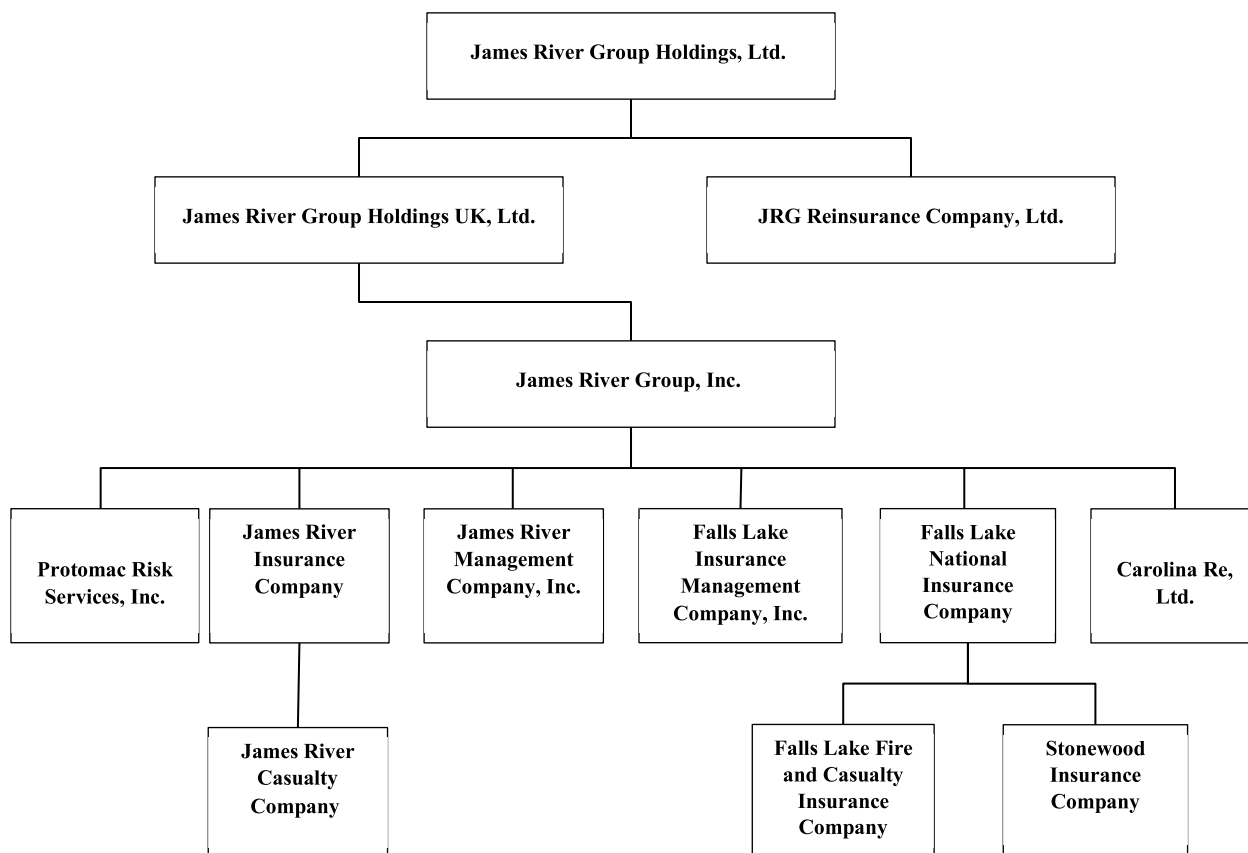
### HOLDING COMPANY

The Company is part of an insurance holding company system as defined in GS 58-19. The Company is a wholly owned subsidiary of Falls Lake National Insurance Company (“FLNIC”), which is wholly owned by James River Group, Inc. (“JRG”), and controlled by its ultimate parent company, James River Group Holdings, Ltd. (“JRGH”), a publicly traded company. Other insurance carriers wholly-owned by JRG are James River Insurance Company (“JRIC”), James River Casualty Company, and Falls Lake Fire and

Casualty Insurance Company (“FLFCC”). The five insurance carriers, collectively known as James River Insurance Group, share common information technology systems, procedures/policies, reinsurance coverages and executive management.

## ORGANIZATIONAL CHART

The Company’s 2019 Annual Statement Schedule Y contains a complete organizational chart. The following is a summarized organizational chart of the holding company group as of December 31, 2019:



There are three operating segments based on the authorized lines of business associated with the five insurance entities and the two affiliated Bermuda domiciled reinsurers within JRHG as follows:

### Excess and Surplus

- James River Insurance Company (Ohio)
- James River Casualty Company (Virginia)

### Specialty Admitted

- Falls Lake National Insurance Company (Ohio)
- Falls Lake Fire and Casualty Company (California)
- Stonewood Insurance Company (North Carolina)

### Casualty Reinsurance

- JRГ Reinsurance Company, Ltd. (Bermuda)
- Carolina Re, Ltd. (Bermuda)

## COMPANY HISTORY

The Company was incorporated on October 16, 2003, under the laws of the state of North Carolina as a workers' compensation insurance company. The Company commenced business on January 1, 2004, with 50,000 shares of \$100 par value capital common stock authorized. The Company issued 20,000 shares of common stock at \$100 per share, providing the Company with initial capital of \$2 million. The Company also received capital contributions of \$18 million and \$3 million in 2003 and 2004, respectively, from JRG, its sole shareholder.

The Company became a wholly owned subsidiary of Franklin Holdings Bermuda, Ltd. ("Franklin"), on December 11, 2007, when Franklin acquired its sole shareholder, JRG. All operations of the Company are performed by Stonewood Insurance Management Company, Inc. which is also a wholly owned subsidiary of Franklin and an affiliate of the Company.

Prior to January 3, 2012, JRG owned 100% of the issued and outstanding common stock of the Company. On January 3, 2012, upon receipt of all regulatory approvals, JRG contributed all the issued and outstanding common shares of the Company to Stonewood National Insurance Company, an Ohio domiciled property and casualty company.

On August 1, 2014, the immediate parent company, Stonewood National Insurance Company changed its name to FLNIC. Franklin, the Company's ultimate parent, changed its name to JRGH on September 18, 2014, prior to an initial public offering. JRGH stock is now listed on the Nasdaq Stock Exchange under the ticker JRVR.

## CAPITAL STOCK

As of December 31, 2019, the Company's capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	50,000
Number of shares issued and outstanding	20,000
Total common capital stock	\$4,200,000
Par value per share	\$210.00

No additional shares were issued during the period under examination. As of December 31, 2019, all outstanding shares are owned by FLNIC, which is wholly owned by JRG, an insurance holding company incorporated in the state of Virginia, with its principal office in Virginia.

On December 31, 2019, the Company reported \$21,800,000 in gross paid-in and contributed surplus and \$6,350,200 in unassigned funds.



## DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of Directors (“Board”) of the Company. Under the insurance regulations of North Carolina, the maximum amount of ordinary dividends which the Company may pay to shareholders 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. Any amounts in excess of this are considered extraordinary. On March 23, 2015, the Company paid an extraordinary distribution payable to FLNIC in the amount of \$12,500,000. The Company paid no dividends in 2016, 2017, 2018 and 2019.

## MANAGEMENT AND CONTROL

### CORPORATE GOVERNANCE

#### Shareholders

The bylaws of the Company provide that an annual meeting of the shareholders be held at such time and place as designated by the Board or agreed by a majority of the shareholders. Special meetings of the shareholders may be called at any time by the President, the Secretary, or the Board.

#### Board of Directors

The business of the Company is conducted by its management team, and subject to review by the Board. The bylaws specify that the number of directors shall not be more than 10 nor less than two. Directors are elected annually, at the meeting of shareholders or by the written consent of the stockholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors as of December 31, 2019:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
Sarah Doran	Chapel Hill, NC	Chair of the Board and Chief Financial Officer - JRGH
Terence McCafferty	Raleigh, NC	Chief Executive Officer - FLNIC, FLNIC, FLIMC, SWIC
Michael Crow	Cary, NC	Treasurer and Chief Accounting Officer - JRGH
Courtenay Warren	Moseley, VA	Senior Vice President, Chief Claims Officer - JRGH
Jennifer Kish	New Hope, PA	Senior Vice President, Chief Actuary - JRGH
Timothy MacAleese	Glen Allen, VA	Senior Vice President, Chief Financial Officer - JRIC, JRCC, JRMC, FLFCC, FLNIC, FLIMC, SWIC
Thomas Peach	Raleigh, NC	Chief Information Officer – JRGH

JRGH’s Board established several committees including the Audit, Compensation, Investment, and Nominating & Corporate Governance Committees to act on behalf of the Company.

The following individuals served on committees as of December 31, 2019:

**Audit Committee**

Jerry Masters, Chair  
 Ollie Sherman Jr.  
 Janet Cowell  
 Christopher Harris

**Compensation Committee**

Jerry Masters, Chair  
 David Zwilling  
 Patricia Roberts  
 Bryan Martin

**Investment Committee**

Michael Oakes, Chair  
 J. Adam Abram  
 Janet Cowell  
 Bryan Martin  
 Robert Myron  
 Sundar Srinivasan

**Nominating & Corporate Governance Committee**

Michael Oakes, Chair  
 Christopher Harris  
 Patricia Roberts  
 Ollie Sherman  
 Sundar Srinivasan

**Officers**

The bylaws provide that the Board will elect the officers of the Company which 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, except President and Secretary, may be held by the same person.

The following individuals served as officers of the Company as of December 31, 2019:

<b>Name</b>	<b>Title</b>
Terence McCafferty	President and Chief Executive Officer
Eric Liland	Secretary
Timothy MacAleese	Senior Vice President and Chief Financial Officer
Michael Crow	Treasurer and Chief Accounting Officer
Sarah Doran	Chair of the Board
David Zoffer	Senior Vice President and General Counsel
Jennifer Kish	Senior Vice President and Group Chief Actuary
Courtenay Warren	Senior Vice President and Chief Claims Officer
Thomas Fauerbach	Assistant Secretary and Deputy Chief Actuary
Joseph Raia	Assistant Secretary
Daniel Shultis	Controller

**CODE OF CONDUCT AND CONFLICT OF INTEREST**

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. The Company’s Corporate Governance Manual contains conflict of interest provisions and provides employees with definitions of a conflict of interest, specific restricted actions an employee shall not take, and a requirement for the employee to notify their direct supervisor when any real or potential conflict of interest arise.

On an annual basis, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed certifications for the examination period revealed that the Company acted in accordance with its policy and procedures; however, the Company does not have employees execute a separate conflict of interest form annually to explicitly disclose potential conflicts of interest in compliance with 11 NCAC 11C.0117. (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 Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. On October 2, 2017, the Company amended its articles of incorporation to increase the par value of its authorized common stock from \$100 to \$210 per share. The amended articles of incorporation were approved by the Department on October 14, 2017.

## **STATUTORY DEPOSITS**

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2019 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state.

## **FIDELITY BONDS AND OTHER INSURANCE**

JRGH and its affiliates are covered under fidelity bond coverage totaling \$5,000,000 in aggregate, which exceeds the minimum amount of fidelity bond coverage recommended by the Handbook.

In addition, the Company is a named insured on various corporate property and liability policies issued to JRGH which appeared to be adequate to cover risks in the normal course of business.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company has no employees. However, Falls Lake Insurance Management Company ("FLIMC") sponsors a 401(k) plan for its employees. The terms of the 401(k) plan allow employees to contribute the maximum allowed by the U.S. government. One hundred percent (100%) of this contribution, up to a maximum of 6% of salary, is matched by FLIMC. All expenses associated with the plan are allocated to the Company in accordance with the terms of its management services agreement. The Company has no legal obligation for benefits under the plan. The Company's allocation of 401(k) plan expenses totaled \$281,080 in 2019 and \$200,153 in 2018.

## **RELATED PARTY AGREEMENTS**

### **Management Services Agreement**

The Company entered into a Management Service Agreement with FLIMC, effective January 1, 2012, whereby FLIMC provides various services to the Company including, but not limited to, management, administration, underwriting, premium collection, claims, operations, accounting, actuarial, information technology, and human resources. The Company reimburses FLIMC for actual expenses incurred. Under this agreement, the Company incurred expenses totaling \$9,735,708 and \$8,318,213 in 2019 and 2018, respectively.

### **Claims Management Agreement**

The Company entered into a Claims Management Agreement with Potomac Risk Services, Inc. (“Potomac”), effective May 11, 2018, whereby Potomac may provide claim handling and processing services to the Company. As of December 31, 2019, no claims management activities were performed by Potomac. No fees were incurred by the Company in 2019 or 2018, respectively.

### **Tax Allocation Agreement**

The Company is included in a consolidated income tax return in accordance with a tax allocation agreement between the JRG and subsidiaries, effective December 29, 2003. The provisions for federal income tax are computed as if the Company were filing a separate income tax return. Intercompany tax balances are to be settled within 90 days of filing the consolidated income tax return.

## **TERRITORY AND PLAN OF OPERATION**

The Company writes business within JRHG’s Specialty Admitted Segment which has two areas of focus. First, the Company writes a select book of workers’ compensation coverage for building trades, healthcare employees and light manufacturing, among other light to medium hazard risks in select U.S. states. Second, the Company writes fronting business, which has become a significant element of its revenues and profits in this segment. In the fronting business, the Company retains a small percentage of the risk, generally 10% or less, and seeks to earn fee income. The Specialty Admitted Segment accepts applications for insurance from a variety of sources, including independent retail agents, program administrators and managing general agents.

On December 31, 2019, the Company was licensed in the following twelve (12) states:

Alabama	Florida	Georgia	Kansas	Louisiana
Mississippi	Missouri	North Carolina	South Carolina	Tennessee
Texas	Virginia			

## TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended 2019:

<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>
2019	\$131,287,308	\$32,350,200	\$95,971,587	\$15,193,216	\$1,921,371
2018	\$113,007,249	\$28,676,422	\$90,366,214	\$12,838,690	\$2,964,186
2017	\$105,033,873	\$25,172,125	\$82,768,035	\$12,300,572	\$483,105
2016	\$107,575,720	\$25,334,479	\$78,439,607	\$14,931,283	\$397,572
2015	\$72,872,936	\$24,874,332	\$41,936,562	\$5,100,008	\$1,473,008

## 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 2019 were reviewed and certified by the Company's Appointed Actuary, Sean P. McDermott, FCAS, CERA, MAAA of Willis Towers Watson. Actuarial opinions regarding the Company's reserves for losses 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 Company for reasonableness and consistency of the losses and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserve on the losses and loss adjustment expenses 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 losses and loss expense obligations of the Company.

## REINSURANCE PROGRAM OVERVIEW

### INTERNAL REINSURANCE CEDED

#### Intercompany Reinsurance Pooling Arrangement

The Company entered into an intercompany reinsurance pooling arrangement with its affiliated United States insurance carriers, effective January 1, 2013, and amended January 1, 2017, whereby the Company cedes its business, net of other reinsurance, to the pool and then assumes a 14% proportional share from the pool. All lines of business are subject to the pooling arrangement, with exception of JRIC Commercial Auto business. The pooling arrangement provides for proportionate sharing of premiums earned, losses and loss adjustment expenses incurred, and underwriting expenses incurred. The Company ceded premiums totaling approximately \$8.5 million and \$8.0 million under this pooling arrangement in 2019 and 2018, respectively.

## Affiliated Quota Share Coverage

The Company entered into a quota share reinsurance contract with Carolina Re, Ltd., effective January 1, 2018, whereby the Company cedes 70% of its net premiums written to Carolina Re, Ltd. for the coverage of 70% of all expenses in connection with the policies written or renewed under this contract. This contract remains continuously in force until terminated. The contract allows the Company a 25% flat ceding commission on gross net written premiums income. Under this contract, the Company ceded premiums totaling approximately \$19.8 million and \$16.3 million in 2019 and 2018, respectively.

For the policies effective prior to January 1, 2018, the Company ceded 70% of premiums to JRG Reinsurance Company, Ltd, under a quota share reinsurance contract, effective January 1, 2015. Under this contract, the Company ceded premiums or (credits) totaling approximately \$(78,000) and \$2.3 million in 2019 and 2018, respectively.

## EXTERNAL REINSURANCE CEDED

### Quota Share Coverage

The Company entered into a quota share contract with Swiss Reinsurance America Corporation, a subscribing reinsurer, effective October 1, 2015, and renewed January 1, 2019, whereby the Company cedes 50% of the Company's net retained liability on all statutory workers' compensation and employers' liability business reinsured, subject to a maximum limit of \$600,000 each loss occurrence.

### Excess of Loss Coverage

The Company entered into an excess of loss contract with a group of subscribing reinsurers, effective January 1, 2019, which provides five layers of excess coverage for policies classified by the Company as statutory workers' compensation and employers' liability. The Company's retention and the reinsurer's liability limits for each excess layer of reinsurance coverage is as follows:

Layer	Company Retention	Reinsurer's Limit of Liability	
	Ultimate Net Loss for each Loss Occurrence	Ultimate Net Loss for each Loss Occurrence	Ultimate Net Loss for all Loss Occurrences subject to this Contract
First Layer	\$600,000	\$400,000	Unlimited
Second Layer	\$1,000,000	\$4,000,000	\$28,000,000
Third Layer	\$5,000,000	\$5,000,000	\$30,000,000
Fourth Layer	\$10,000,000	\$10,000,000	\$40,000,000
Fifth Layer	\$20,000,000	\$10,000,000	\$40,000,000

### Clash Coverage

The Company entered into a contingency clash excess of loss reinsurance contract with a group of subscribing reinsurers, effective July 1, 2014, which provides excess of loss coverage for the policies

classified as casualty business. The subscribing reinsurers are liable for the ultimate net loss up to \$10 million in excess of \$2 million per occurrence.

The Company ceded approximately \$32.9 million and \$29.2 million in premiums under the above external reinsurance contracts in 2019 and 2018, respectively.

### **Private Passenger and Commercial Auto Quota Shares**

The Company participates in the North Carolina Reinsurance Facility (“NCRF”), a voluntary automobile liability pool, and cedes premiums and losses for all private passenger auto liability and commercial auto liability up to limits of \$750,000. The Company ceded approximately \$16.4 million and \$21.2 million in premiums to NCRF in 2019 and 2018, respectively.

## **INTERNAL REINSURANCE ASSUMED**

Under the intercompany reinsurance pooling arrangement, the Company assumes 14% of all direct and other assumed business written by both the reinsurer, FLNIC, and the other cedents after deduction for any reinsurance ceded to third party reinsurers and quota share cession to its affiliates JRG Reinsurance Company Ltd., and Carolina Re Ltd. The Company assumed premiums of \$18.2 million and \$13.4 million for the years of 2019 and 2018, respectively.

## **EXTERNAL REINSURANCE ASSUMED**

The Company participates in the National Workers’ Compensation Reinsurance Pool (“NWCR Pool”), a residual market reinsurance mechanism for servicing carriers of workers’ compensation assigned risk plans administered by the National Council on Compensation Insurance, Inc. As a participant, the Company 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 NWCR Pool is the Company’s proportionate share of the total mandatory market for workers’ compensation in the states where the Company writes business. The Company assumed premiums totaling approximately \$3.0 million and \$2.8 million in 2019 and 2018, respectively, from the NWCR Pool.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2018, are unexamined and are presented for comparative purposes only.

**Stonewood Insurance Company**  
**Statutory Statement of Admitted Assets**  
**December 31, 2019**

	<b>2019</b>	<b>2018</b> <i>(unexamined)</i>
Bonds	\$ 37,206,418	\$33,567,839
Preferred stocks	8,171,678	7,950,589
Common stocks	2,851,875	2,577,574
Cash and short-term investments	9,849,915	6,702,790
<b>Total cash and invested assets</b>	<b>58,079,886</b>	<b>50,798,792</b>
Investment income due and accrued	399,207	405,296
Premiums and agents' balances in course of collection	7,554,070	6,752,765
Premiums and agents' balances booked but deferred and not yet due	14,177,780	13,755,698
Reinsurance recoverable	7,622,559	5,265,906
Funds held by reinsured companies	41,039,300	33,827,944
Federal income tax recoverable	48,219	178,225
Net deferred tax asset	2,131,441	1,900,282
Guaranty funds receivable	122,341	122,341
Receivable from parent, subsidiaries, and affiliates	101,978	-
Claims expense receivable	4,254	-
Excise tax payable	5,902	-
Escheat receivable	371	-
<b>Total admitted assets</b>	<b>\$131,287,308</b>	<b>\$113,007,249</b>



**Stonewood Insurance Company**  
**Statutory Statement of Liabilities, Capital and Surplus**  
**December 31, 2019**

	<b>2019</b>	<b>2018</b> <i>(unexamined)</i>
Losses	\$20,039,089	\$17,811,501
Reinsurance payable on paid losses and loss adjustment expenses	3,702,817	2,672,187
Loss adjustment expenses	12,643,159	10,695,118
Commissions payable, contingent commissions and other similar charges	3,522,284	3,893,440
Other expenses	84,784	54,634
Taxes, licenses, and fees	2,676,366	2,408,684
Unearned premiums	8,357,052	5,321,267
Advance premium	927,346	1,104,621
Ceded reinsurance premiums payable	21,357,266	16,746,053
Funds held by company under reinsurance treaties	21,857,927	20,783,761
Amounts withheld or retained by Company for account of others	-	13,857
Provision for reinsurance	13,000	8,224
Payable to parent, subsidiaries, and affiliates	198,550	231,833
Policyholder deposits	1,472,641	1,396,467
Deferred ceding commission	2,084,827	1,182,200
Escheat liability	-	6,979
<b>Total Liabilities</b>	<b>98,937,108</b>	<b>84,330,827</b>
Common capital stock	4,200,000	4,200,000
Gross paid in and contributed surplus	21,800,000	21,800,000
Unassigned funds	6,350,200	2,676,422
<b>Total capital and surplus</b>	<b>32,350,200</b>	<b>28,676,422</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>\$131,287,308</b>	<b>\$113,007,249</b>

**Stonewood Insurance Company**  
**Statutory Statement of Operations**  
**December 31, 2019**

	<b>2019</b>	<b>2018</b> <i>(unexamined)</i>
<b>Underwriting Income</b>		
Premiums Earned	\$15,193,216	\$12,838,690
<b>Deductions</b>		
Losses incurred	6,659,322	5,931,981
Loss adjustment expenses incurred	5,146,098	3,605,273
Other underwriting expenses incurred	2,628,085	2,606,743
Total underwriting deductions	14,433,505	12,143,997
Net underwriting gain	759,711	694,693
<b>Investment Income</b>		
Net investment income earned	1,953,616	2,202,799
Net realized capital gains	(44,606)	(196,340)
Net investment gain	1,909,010	2,006,459
<b>Other Income</b>		
Net loss from agents' or premium balances charged off	(62,531)	(82,774)
Finance and service charges not included in premiums	265,941	184,527
Other income	6,037	1,150,133
Total other income	209,447	1,251,887
Federal income taxes incurred	956,797	988,852
<b>Net Income</b>	<b>\$1,921,371</b>	<b>\$2,964,186</b>

**Stonewood Insurance Company**  
**Statutory Statement of Capital and Surplus**  
**December 31, 2019**

	<b>2019</b>	<b>2018</b> <i>(unexamined)</i>
Capital and surplus, beginning of year	\$28,676,422	\$25,172,125
Capital and surplus increases(decreases):		
Net Income	1,921,371	2,964,186
Change in net unrealized capital gains or (losses)	1,395,233	(828,537)
Change in net deferred income tax	494,040	99,784
Change in non-admitted assets	(132,090)	281,687
Change in provision for reinsurance	(4,776)	(3,224)
Cumulative effect of changes in accounting principal	-	990,402
Change in capital and surplus as regards policyholders for the year	3,673,778	3,504,296
<b>Capital and surplus, end of year</b>	<b>\$32,350,200</b>	<b>\$28,676,422</b>

**Stonewood Insurance Company**  
**Statutory Statement of Cash Flow**  
**December 31,**

	<b>2019</b>	<b>2018</b> <i>(unexamined)</i>
<b>Cash From (Used By) Operations</b>		
Premiums collected net of reinsurance	\$21,205,478	\$8,829,787
Net investment income	2,108,739	2,407,295
Miscellaneous income	209,447	1,251,887
Total	23,523,664	12,448,969
Benefit and loss related payments	12,969,113	8,549,348
Commissions, expenses paid and aggregate write-ins	5,901,222	4,066,988
Federal income taxes paid	825,229	1,697,034
Total	19,695,564	14,313,370
<b>Net cash from (used by) operations</b>	<b>3,828,100</b>	<b>(1,824,401)</b>
<b>Cash From (Used By) Investments</b>		
Proceeds from investments sold, matured, or repaid	7,057,593	15,215,125
Net gains or (losses) on cash, cash equivalents and short-term investments	-	(400)
Cost of investments acquired bonds	9,618,691	9,343,858
Cost of investments acquired stocks	-	2,988,426
<b>Net cash (used by) from investments</b>	<b>(2,561,098)</b>	<b>2,882,441</b>
<b>Cash From (Used By) Financing and Miscellaneous Sources</b>		
Other cash provided	1,880,122	1,092,583
<b>Net cash from financing and miscellaneous sources</b>	<b>1,880,122</b>	<b>1,092,583</b>
<b>Reconciliation of Cash and Short-Term Investment</b>		
Net change in cash and short-term investments	3,147,125	2,150,624
Cash and short-term investments, beginning of year	6,702,790	4,552,166
Cash and short-term investments, end of year	<b>\$9,849,915</b>	<b>\$6,702,790</b>

## COMMENTS ON FINANCIAL STATEMENTS

There were no proposed adjustments to the Company's financial statements filed with the Department as a result of this examination.

### **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 Company are as follows:

**Bonds:** Carried at amortized cost using the interest method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

**Preferred stocks:** Investment grade perpetual preferred stocks are stated at amortized cost. Investment grade redeemable preferred stocks are stated at cost. Preferred stock at non-investment grade is stated at the lower cost or fair value.

**Common stocks:** 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:** Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

**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. 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.

**Business acquisition costs:** Charged to income as incurred.

**Nonadmitted assets:** Certain assets, such as premiums over 90 days past due and prepaid expenses, are "nonadmitted" and are charges against surplus.

**Loan-backed securities:** Stated at either amortized cost or the lower of amortized cost or fair market value. The retrospective adjustment method is used to value all securities.

**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.

**Analysis of Assets:**

The following represents an analysis of the Company's net admitted assets:

	<b>Assets</b>	<b>Assets not Admitted</b>	<b>Net Admitted Assets</b>
Bonds	\$37,206,418	-	\$37,206,418
Preferred stocks	8,171,678	-	8,171,678
Common stocks	2,851,875	-	2,851,875
Cash and short-term investments	9,849,915	-	9,849,915
<b>Total cash and invested assets</b>	<b>58,079,886</b>	<b>-</b>	<b>58,079,886</b>
Investment income due and accrued	399,207	-	399,207
Premiums and agents' balances in course of collection	8,874,742	\$1,320,672	7,554,070
Premiums and agents' balances booked but not yet due	14,373,863	196,083	14,177,780
Reinsurance recoverable	7,622,559	-	7,622,559
Funds held by or deposited with reinsured companies	41,039,300	-	41,039,300
Federal income tax recoverable	48,219	-	48,219
Net deferred tax assets	2,303,219	171,778	2,131,441
Guaranty funds receivable or on deposit	122,341	-	122,341
Receivable from parent, subsidiaries, and affiliates	101,978	-	101,978
Receivable for policy surcharges	20,729	20,729	-
Claims expense receivable	4,254	-	4,254
Excise tax payable	5,902	-	5,902
Escheat receivable	371	-	371
<b>Total admitted assets</b>	<b>\$132,996,570</b>	<b>\$1,709,262</b>	<b>\$131,287,308</b>

### **Reinsurance Activity:**

The Company has reinsurance contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company 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, net of the affiliated pooling arrangement, are as follows:

	<b>2019</b>	<b>2018</b>
Direct and assumed written	\$95,791,587	\$90,366,214
Ceded written	77,562,586	76,986,821
<b>Net written</b>	<b>18,229,001</b>	<b>13,379,392</b>
Direct and assumed earned	92,210,838	86,677,846
Ceded earned	77,017,622	73,839,156
<b>Net earned</b>	<b>\$15,193,216</b>	<b>\$12,838,690</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 under the Reinsurance Program Overview.

### **Summary of Reserves:**

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

	<b>Current Year</b>	<b>Prior Year</b>
Reserve for losses and loss adjustment expenses, beginning of year	\$28,506,619	\$25,133,609
<b>Add:</b>		
Provision for losses and loss adjustment expenses, current year	13,202,148	10,361,906
Change in estimated losses and loss adjustment expenses, prior years	(1,396,728)	(824,652)
<b>Total incurred</b>	<b>11,805,420</b>	<b>9,537,254</b>
<b>Deduct:</b>		
Losses and loss adjustment expenses paid, current year	1,398,415	603,295
Losses and loss adjustment expenses paid, prior year	6,231,376	5,560,949
<b>Total paid</b>	<b>7,629,791</b>	<b>6,164,244</b>
Reserve for losses and loss adjustment expenses, end of year	\$32,682,248	\$28,506,619
Increase in reserve for losses and loss adjustment expenses	\$4,176,629	\$3,373,010

The Company does not consider anticipated subrogation recoveries in its reserves. Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. On December 31, 2019 and 2018, the liability for losses and loss adjustment

expenses was decreased by approximately \$100,792,000 and \$90,260,000, respectively, for amounts to be recovered from reinsurers.

### **Capital and Surplus:**

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

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Capital and surplus, beginning of year	\$25,334,480	\$24,874,332	\$36,155,836
Capital and surplus increases (decreases):			
Net income(loss)	483,105	397,572	1,473,008
Change in net unrealized capital gain (loss)	376,041	(31,723)	(47,495)
Change in net deferred income tax	(646,475)	954,825	471,120
Change in nonadmitted assets	(379,640)	(863,912)	(665,137)
Change in provision for reinsurance	4,614	3,386	(13,000)
Capital Changes to paid in capital	2,200,000	-	-
Surplus adjustments to paid-in surplus	(2,200,000)	-	(12,500,000)
Change in surplus as regards policyholders for the year	(162,355)	460,148	(11,281,504)
Capital and surplus, end of year	\$25,172,125	\$25,334,480	\$24,874,332

### **Contingencies and Commitments:**

In 2013, the Company entered into contingent commission agency contracts, whereby an additional commission would be calculated based on production factors and development thresholds. The Company accrued a contingent commission liability totaling \$1,361,819 and \$1,539,637 at yearend 2019 and 2018, respectively.

The Company has accrued liabilities for guaranty fund and other assessments by the states in which it writes business to cover losses to policyholders of insolvent or rehabilitated insurance companies. The Company's accrued liability for guaranty fund assessments totaled \$1,263,332 and \$935,332 at yearend 2019 and 2018, respectively.

FLIMC entered into a non-cancelable lease agreement for office space that expires May 2023. The Company is jointly obligated as guarantor. The Company incurred rental expense totaling \$396,882 for years ended December 31, 2019 and 2018, respectively. Future minimum annual lease payments under the noncancelable operating leases subsequent to December 31, 2019, are as follows:

<b><u>Year</u></b>	<b><u>Amount</u></b>
2020	\$418,721
2021	\$429,557
2022	\$440,643
2023	\$166,240
	<u>\$1,455,161</u>



The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

## **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, President Donald J. Trump declared COVID-19 a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the global supply chain as well as the demand for labor, products, and services in the U.S. The economic disruptions caused by COVID-19 and the increased uncertainty about its magnitude has also caused extreme volatility in the financial markets. While the full effect of COVID-19 is still unknown at the time of this report, the Department, and all insurance regulators, with the assistance of the NAIC, are monitoring the situation through a coordinated effort and will continue to assess the impacts of COVID-19 on U.S. insurers.

On September 1, 2020, Daniel Shultis replaced Michael Crow as Treasurer.

On May 10, 2021, the Company's ultimate controlling party, JRGH, closed a public offering of 6,497,500 common shares at a price of \$31.00 per share. The net proceeds of \$192,000,000 will be used for general corporate purposes.

On June 7, 2021, it was noted that the Company subsequently developed and submitted revised conflict-of-interest forms for all officers and directors.

**Stonewood Insurance Company**  
**DISTRIBUTION OF REPORT ON EXAMINATION**  
**December 31, 2019**

Timothy MacAleese, Chief Financial Officer  
6641 W Broad St #300  
Richmond, Virginia 23230

Morgan Bauserman, Assistant Controller  
6131 Falls of Neuse Rd.  
Raleigh, North Carolina 27609

## CONCLUSION

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

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.

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

Respectfully submitted,



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

May 27, 2021

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 report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Bill Keely Date: 5/27/21  
Bill Keely

Sworn and subscribed before me this 27<sup>th</sup> day of May, 2021.

Notary Public Signature: Jennifer Ishihara Notary Public Seal:

