Government of the District of Columbia
Department of Insurance, Securities and Banking

Gennet Purcell
Commissioner

BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA

Re: Report on Examination - **ProBuilders Specialty Insurance Company, RRG**, as of December 31, 2008

ORDER

An Examination of **ProBuilders Specialty Insurance Company, RRG** ("Company"), as of December 31, 2008 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("Department").

It is hereby ordered on this 23rd day of June, 2010, that the attached financial condition examination report be adopted and filed as an official record of this Department.

In addition, it is hereby ordered that the Company comply with the recommendation in the attached financial condition examination report.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

Gennet Purcell
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

ProBuilders Specialty Insurance Company, RRG

AS OF

DECEMBER 31, 2008

NAIC NUMBER 11671

TABLE OF CONTENTS

Salutation 1
Scope of Examination 1
Status of Prior Examination Findings 2
Subsequent Events 2
History 2
General 2
Membership 3
Dividends and Distributions 3
Management 3
Board of Directors 3
Officers 4
Committees 4
Conflicts of Interest 4
Corporate Records 5
Captive Manager 5
Affiliated Parties and Transactions 5
Fidelity Bond and Other Insurance 6
Pension and Insurance Plans 6
Statutory Deposits 6
Territory and Plan of Operation 6
Insurance Products and Related Practices 7
Reinsurance 7
Accounts and Records 8
Financial Statements 9
Balance Sheet 10
Assets 10
Liabilities, Surplus and Other Funds 11
Statement of Income 12
Capital and Surplus Account 13
Analysis of Examination Changes to Surplus 14
Comparative Financial Position of the Company 14
Notes to Financial Statements 15
Comments and Recommendations 17
Conclusion 18
Signatures 19

Washington, D.C.
February 23, 2010

Honorable Gennet Purcell
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Madam:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

ProBuilders Specialty Insurance Company, RRG

hereinafter referred to as the "Company" or "ProBuilders," at the office of its program manager, NBIS Construction and Transport Insurance Services, Inc. ("NBIS-CTIS") located at 2859 Paces Ferry Road SE, Atlanta, Georgia 30339.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2006 through December 31, 2008, including any material transactions and/or events noted occurring subsequent to December 31, 2008, was conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

Our examination was conducted in accordance with examination procedures established by the Department and procedures recommended by the National Association of Insurance Commissioners ("NAIC") and, accordingly, included such tests of the accounting records and such other examination procedures as we considered necessary in the circumstances.

Our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2006 through 2008. We placed substantial reliance on the audited financial statements for calendar years 2006 and 2007, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2008. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2008. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's workpapers.

STATUS OF PRIOR EXAMINATION FINDINGS

A full scope financial examination was conducted by the Department as of December 31, 2005 which covered the period January 1, 2003 through December 31, 2005. In the Report on this examination, dated February 5, 2007, the Department noted two exception conditions. Our examination included a review to determine the current status of the two recommendations in the prior exam report, and determined that the Company had satisfactorily addressed these conditions.

SUBSEQUENT EVENTS

In December 2009, the Department approved changes to the Company’s business plan, including a coinsurance transaction under which the Company ceded 100 percent of its loss and loss adjustment expense reserve liabilities to its affiliate, NationsBuilders Insurance Company (“NBIC”), effective December 31, 2009. In addition, the Company ceased writing new business as of December 31, 2009, and ceased writing renewal business as of March 1, 2010.

Under the Company’s revised business plan, the Company will be in voluntary run-off, and will maintain its Certificate of Authority with the Department, as well as its registrations in all jurisdictions where it is currently registered.

HISTORY

General:

ProBuilders commenced business February 5, 2002 as a Nevada-domiciled RRG using the name Builders and Contractors Insurance Company, RRG (“BCIC”). The Company changed its name to ProBuilders in late 2003 and re-domesticated to the District of Columbia on May 10, 2004. The Company is now organized as an association stock captive insurance company under the captive laws of the District of Columbia, operating as risk retention group.

ProBuilders provides liability insurance coverage to contractors, subcontractors, developers and other members of the construction industry.

Membership:

The Company is authorized to issue two classes of stock in accordance with the Company's articles of incorporation: common stock with $1 par value per share, and preferred stock with $1 par value per share. All common stock shares are entitled to one vote per outstanding share and have rights to dividends and distributions. As of December 31, 2008, 1,000,000 common shares were authorized and 25,104 were issued and outstanding. No preferred shares were issued and outstanding as of December 31, 2008.

As of July 1, 2005, the Company's amended subscription and shareholder agreement requires all new policyholders to pay a subscription fee of $250 if the original gross premium for their policy is $10,000 or less, or $500 if the original gross premium for their policy is more than $10,000. The subscription fees are due concurrently with the initial premium payment for the policy. The number of shares issued is determined by dividing the subscription fee paid by the adjusted book value per share as of the last day of the calendar quarter immediately preceding the policy's inception date. As of July 1, 2005, new shareholders have no redemption rights, however the Company maintains the right to redeem shares at its discretion.

Prior to July 1, 2005, policyholders were assessed subscription fees equal to 10 percent of their annual premium. Shareholders were entitled to redeem their shares based on a stated redemption formula. During 2008 and 2007, the Company redeemed 17,217 and 17,130 shares of common stock, respectively. In 2008, the Company paid out $5,401,843 related to these share redemptions, and reported a liability for $10,472,048 for accrued shareholder redemptions as of December 31, 2008.

The Company requested guidance from the Department in 2009 regarding payment and recording of these redemptions. In a letter dated May 12, 2009 from the Department, the Company was notified that it does not have authority to further redeem any policyholder shares until approved by the Department in writing. Since prior approval must be obtained from the Department before ProBuilders can redeem policyholder shares, the Company has no liability to its former shareholders until such time as the Company receives written approval from the Department to redeem the shares. Per the Department's instructions, ProBuilders ceased redeeming shares in 2009. In addition, during 2009, the Company ceased recording a liability for shareholder redemptions.

Dividends and Distributions:

Except for the above-mentioned shareholder redemptions, the Company did not declare or pay any dividends or other distributions during the period under examination.

MANAGEMENT

The following persons were serving as the Company's directors as of December 31, 2008:

Name and State of Residence	Principal Occupation
Ned N. Fleming, III, Chairman Texas	President/CEO SunTx Capital Partners Chairman, Board of Directors NationsBuilders Insurance Services, Inc.
Mark Heald California	President/CEO JKB Homes
Chuck Spinelli Alaska	President Spinelli Homes
Deborah White California	Vice President A & W Concrete Construction

The following persons were serving as the Company's officers as of December 31, 2008:

Name	Title
Ned N. Fleming, III	President/Chief Executive Officer
Ronald E. Smith	CFO/Senior Vice President-Finance/Treasurer
Robert C. Moore	Chief Legal Officer/Secretary
Michael Leamanczyk	Sr. Vice President/Chief Underwriting Officer
Timothy J. Conlon	Vice President - Claims

Committees:

As of December 31, 2008, the Company's board of directors has established the following committees:

Audit Committee:	Investment Committee:
Mark Heald, Chairman	Philip Halpern, Chairman
Chuck Spinelli	Jason Jelen
	Andrew Rudd
	Ronald Smith

Conflicts of Interest:

Our review of the conflict of interest statements signed by the Company's directors and officers for the period under examination disclosed that there were no conflicts of interest reported that would adversely impact the Company. Furthermore, no additional conflicts of interest were identified during our examination.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and shareholders for the period under examination. Based on our review, it appears that the minutes documented the board's review and approval of the Company's significant transactions and events.

CAPTIVE MANAGER

NBIS Construction and Transportation Insurance Services, Inc. ("NBIS-CTIS") is the Company's captive manager and program manager, managing the Company's daily business operations and providing all services including regulatory compliance and financial reporting services, underwriting support, policyholder and administrative services, reinsurance services, claim administration, investment and accounting services.

AFFILIATED PARTIES AND TRANSACTIONS

The Company's daily business operations are managed by NBIS-CTIS, which acts as the Company's captive manager and program manager and is responsible for all operating, administrative, financial, investment, and underwriting activities of the Company. Under a separate contract, NBIS-CTIS also provides claims management services. NBIS-CTIS and the Company's reinsurance affiliate, NBIC, are both wholly owned subsidiaries of NationsBuilders Insurance Services, Inc. ("NBIS"). A majority of the outstanding stock of NBIS is ultimately owned by SunTx Capital Partners, a private equity investment company. The officers of ProBuilders include the Chairman of the Board of NBIS, as well as other employees of NBIS.

Effective February 1, 2002 the Company entered into a management and underwriting agreement with NBIS. The agreement was assigned to NBIS-CTIS as of April 1, 2007. The agreement is continuous until terminated. Under the terms of the agreement, NBIS-CTIS acts as the Company's operating, administrative, financial, investment and underwriting manager. The agreement specifies a management fee equal to the sum of (i) the actual commissions paid and allowed to producers and sub-producers retained by NBIS-CTIS on business produced by them for and actually remitted to the Company plus (ii) 15 percent of the gross written premiums of the Company (net of return premiums and adjustments). Fees are payable as premiums are received by the Company. During 2008, the Company incurred direct management fees of $3,835,453.

Effective February 1, 2002 the Company also entered into a claim service agreement with Claims Adjusting Services, Inc. The agreement was assigned to NBIS-CTIS and approved by the Department in December 2008. The agreement is continuous until terminated. Under the terms of the agreement, NBIS-CTIS is delegated claims adjustment authority for all claims on Company policies. Fees for these services are charged to the Company based on contractual rates that increase 2 percent per year. During 2008, the Company paid claim service fees of $1,989,416 to NBIS-CTIS.

In addition, the Company cedes business to NBIC which is an affiliated company. See the "Reinsurance" section of this report for further comments regarding the Company's reinsurance arrangements.

FIDELITY BOND AND OTHER INSURANCE

ProBuilders has no employees and maintains directors and officers liability coverage with a $10,000,000 aggregate limit. The Company's captive manager and program manager, NBIS-CTIS is insured through its parent company, NBIS. This policy also includes fiduciary liability and employment practices liability coverages. Professional liability was included for a sublimit of $5,000,000 until April 30, 2009 when the limit was increased to $10,000,000. In addition, NBIS maintains $1,000,000 in employee dishonesty coverage and $1,000,000 in premises, in-transit, forgery and computer fraud coverages. These above limits exceed the NAIC minimum fidelity bond guidelines.

PENSION AND INSURANCE PLANS

The Company has no employees and therefore has no employee pension or insurance plans.

STATUTORY DEPOSITS

As of December 31, 2008, the Company did not have any statutory deposits in the District of Columbia and was not required to maintain any such deposits. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as an association captive insurance company in the District of Columbia, operating as risk retention group. As of December 31, 2008, the Company was registered in all fifty states. During 2008, the Company wrote $25,569,601 in premiums in 39 states. $11,603,248 (45 percent) of this amount was in California; $4,531,614 (18 percent) in Colorado; $2,555,620 (10 percent) in Nevada; $2,135,686 (8 percent) in Washington; $973,175 (4 percent) in Oregon; $900,352 (4 percent) in Alaska; $462,054 (2 percent) in Arizona; and 1 percent or less in Alabama, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Montana, New Hampshire, New Jersey, New Mexico, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Virginia, West Virginia and Wyoming. As of December 31, 2008, the Company has approximately 3,400 policies in force.

The Company provides comprehensive general liability insurance to small to medium size builders and sub-contractors, primarily involved in residential construction and predominately in the western states. The Company offers comprehensive general liability and completed operations coverage on a limited proprietary form which includes a claims sunset provision. The policy includes basic coverage for limits up to $2,000,000 each occurrence and $2,000,000 in the aggregate. Defense costs are in addition to the limits. During the examination we noted several policies where the Company wrote limits in excess of those approved by the Department. See the “Comments and Recommendations” section of this report under the caption “Policies Written in Excess of Approved Limits” for further comments regarding this condition.

The Company has no employees and its daily business operations are managed by its affiliate, NBIS-CTIS. During the examination period and as of the date of this report, NBIS-CTIS (and prior to April 1, 2007, its parent NBIS) has acted as the Company’s captive manager and program manager, performing regulatory compliance and financial reporting services, as well as underwriting, policyholder and administrative services, accounting services, claims adjusting services, and limited reinsurance services from offices in Atlanta, Georgia.

INSURANCE PRODUCTS AND RELATED PRACTICES

This examination was a financial examination, and generally did not include market conduct procedures. An examination of the market conduct affairs of the Company has never been conducted. A market conduct examination would include detailed reviews of the Company’s sales and advertising, agent licensing, timeliness of claims processing, and complaint handling practices and procedures.

The scope of our examination did not include market conduct procedures, including, but not limited to, market conduct procedures in the following areas:

- Policy Forms
- Fair Underwriting Practices
- Advertising and Sales Materials
- Treatment of Policyholders:
    - Claims Processing (Timeliness)
    - Complaints

REINSURANCE

The Company had various reinsurance treaties in place through June 30, 2007. Effective July 1, 2007 the Company entered into a quota share reinsurance agreement with its affiliate, NBIC. Under this agreement, ProBuilders cedes 80 percent of its gross written premium and receives a commission equal to the pro rata share of net commissions paid to producers plus actual management fees. ProBuilders is entitled to recover 80 percent of the first $4,000,000 ultimate net liability for each policy written or renewed between July 1, 2007 and December 31, 2008.

In addition, effective January 1, 2008 to January 1, 2009, the Company obtained liability excess of loss reinsurance coverage from underwriters at Lloyds, ACE, AXIS, and Motors. Coverage is in the amount of $1,500,000 excess of $500,000 each occurrence subject to a policy aggregate of the greater of $25,000,000 or 200 percent of ceded written premium gross of ceding commission. A ceding commission of 30 percent is allowed.

We noted several instances where the Company wrote limits above those approved by the Department. In two of these instances, the Company also failed to obtain facultative reinsurance to cover the entire limit. See the “Comments and Recommendations” section of this Report, under the caption “Policies Written in Excess of Approved Limits,” for further comments regarding this condition.

In 2008 the ceded reinsurance premium written under all reinsurance agreements totaled $22,074,179. As of December 31, 2008, the Company reported “Amounts recoverable from reinsurers” totaling $1,298,882 (representing amounts recoverable on paid losses), “Other amounts receivable under reinsurance contracts” totaling $115,346,212 (representing estimated amounts recoverable on unpaid losses), and “Prepaid reinsurance” totaling $9,984,835 (representing prepaid reinsurance premiums - i.e., ceded unearned premiums). If the reinsurers were not able to meet their obligations under the treaties, the Company would be liable for any defaulted amounts. Our review of the Company’s ceded reinsurance contracts did not disclose any unusual provisions.

ACCOUNTS AND RECORDS

The primary location of the Company’s books and records is at the offices of its captive and program manager, NBIS-CTIS, in Atlanta, Georgia.

The Company’s general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination did not disclose any significant issues with these records.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States ("GAAP"), reflect the financial condition of the Company as of December 31, 2008, as determined by this examination:

STATEMENT	PAGE
Balance Sheet:	
Assets	10
Liabilities, Surplus and Other Funds	11
Statement of Income	12
Capital and Surplus Account	13
Analysis of Examination Changes to Surplus	14
Comparative Financial Position of the Company	14

The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

BALANCE SHEET

ASSETS

		December 31, 2008
Bonds	$	70,171,303
Cash ($1,617,142), cash equivalents ($0) and short-term investments ($2,155,267)		3,772,409
Subtotals, cash and invested assets	$	73,943,712
Investment income due and accrued		768,120
Uncollected premiums and agents' balances in the course of collection		1,885,861
Reinsurance:		
Amounts recoverable from reinsurers		1,298,882
Other amounts receivable under reinsurance contracts		115,346,212
Current federal and foreign income tax recoverable		614,531
Net deferred tax asset		3,231,441
Aggregate write-ins for other than invested assets:		
Deferred acquisition costs	$	959,556
Claims deductible receivable		747,396
Other assets		23,386
Accrued state premium tax		343,517
Prepaid reinsurance		9,984,835
	$	12,058,690
Total	$	209,147,449

LIABILITIES, SURPLUS AND OTHER FUNDS

		December 31, 2008
Losses (**NOTE 1)**	$	114,320,291
Loss adjustment expenses (**NOTE 1**)		51,124,451
Other expenses (excluding taxes, licenses and fees)		151,525
Unearned premiums		11,467,062
Advance premium		167,783
Ceded reinsurance premiums payable (net of ceding commissions)		1,165,400
Funds held by company under reinsurance treaties		5,329,464
Payable to parent, subsidiaries and affiliates		519,639
Accrued shareholder redemptions		10,472,048
Total liabilities	$	194,717,663
Common capital stock	$	7,000,114
Unassigned funds (surplus)		7,429,672
Surplus as regards policyholders	$	14,429,786
Total liabilities and surplus as regards policyholders	$	209,147,449

STATEMENT OF INCOME

		2008
UNDERWRITING INCOME		
Premiums earned	$	6,291,130
DEDUCTIONS		
Losses incurred	$	863,292
Loss adjustment expenses incurred		3,561,588
Other underwriting expenses incurred		3,563,521
Aggregate write-ins for underwriting deductions		
Contractual reinsurance underwriting expense		264,776
Recovery of impaired securities		(181,874)
	$	82,902
Total underwriting deductions	$	8,071,303
Net underwriting loss	$	(1,780,173)
INVESTMENT INCOME		
Net investment income earned	$	3,382,456
Net realized capital losses		(970,269)
Net investment gain	$	2,412,187
OTHER INCOME		
Net loss from agents' or premium balances charged off	$	(100,952)
Finance and service charges not included in premiums		(12)
Federal and foreign income taxes incurred	$	(95,273)
Net income	$	626,323

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2005	$	17,046,182
Net income, 2006		2,652,584
Change in net unrealized capital gains or (losses)		(353,154)
Capital changes: Paid in		354,939
Discontinued operations of BCIC Premium Finance Co		100,748
2005 examination adjustment **(NOTE 2)**		807,497
Net change in surplus as regards policyholders, 2006		3,562,614
Surplus as regards policyholders, December 31, 2006	$	20,608,796
Net income, 2007		1,257,940
Change in net unrealized capital gains or (losses)		147,004
Capital changes: Paid in		(2,737,317)
Audit adjustment		171,745
Prior year adjustment		(970)
Net change in surplus as regards policyholders, 2007		(1,161,598)
Surplus as regards policyholders, December 31, 2007	$	19,447,198
Net income, 2008		626,323
Change in net unrealized capital gains or (losses)		(1,176,761)
Capital changes: Paid in		(4,466,974)
Net change in surplus as regards policyholders, 2008		(5,017,412)
Surplus as regards policyholders, December 31, 2008	$	14,429,786

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company's surplus as a result of our examination.

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial position of the Company for the periods since January 1, 2004 is as follows:

	2008	2007	2006	2005	2004
Assets	$209,147,449	$227,675,528	$230,399,965	$105,438,608	$90,695,245
Liabilities	194,717,663	208,228,330	209,791,169	88,392,426	78,471,766
Capital and surplus	14,429,786	19,447,198	20,608,796	17,046,182	12,223,479
Gross written premium **(NOTE 3)**	25,569,601	62,677,232	103,794,468	103,124,980	70,473,501
Net earned premium	6,291,130	9,242,172	21,057,547	28,149,698	18,410,436
Net investment gain	2,412,187	2,964,853	3,169,116	1,385,531	429,010
Net income	$ 626,323	$ 1,257,940	$ 2,652,584	$ 2,480,338	$ 805,041

Note:

Amounts in the preceding financial statements for the years ended December 31, 2004, 2006 and 2007 were taken from the Company's Annual Statements as filed with the Department. Amounts for the years ended December 31, 2005 and 2008 are amounts per examination.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Losses and Loss Adjustment Expense Reserves:

The Company reported "Losses and loss adjustment expenses" reserves of $165,444,742, which represent management's best estimate of the amount necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2008. The Company does not discount its loss reserves.

Reserve credits taken as of December 31, 2008 for loss reserve cessions to the Company's reinsurers totaled $115,346,212, which was reported as "Other amounts receivable under reinsurance contracts" in the Company's assets. If the reinsurers are unable to meet their obligations under the reinsurance treaties, the Company would be liable for any defaulted amounts. The Company's net undiscounted loss reserves totaled approximately $50 million as of December 31, 2008.

The methodologies utilized by the Company to compute reserves, and the adequacy of the losses and loss adjustment expenses reserves as of December 31, 2008, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary, who concluded that the Company's reserves appeared to be sufficient. In addition, as part of our review of the Company's reserves, we engaged an independent actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's actuary.

The independent actuary utilized in our examination concluded that the methodologies and assumptions utilized by the Company's independent actuary to compute these reserves, and the amount of the reserves as of December 31, 2008, were reasonable and adequate.

NOTE 2 – 2005 Examination Adjustment:

The 2005 financial examination included an adjustment to re-state the Company's investment portfolio at fair value. The adjustment, net of the related tax effect of $415,983, reduced stockholders' equity as of December 31, 2005 by $807,497. The surplus as regards policyholders' as of December 31, 2005 ($17,046,182) shown in the "Capital and Surplus Account" section of this report includes this adjustment. The Company reclassified its investment portfolio to fair market value in 2006 and to properly account for the surplus reduction included in the "Surplus as regards policyholders, December 31, 2005" as stated in the "Capital and Surplus Account" section of this report, the 2005 examination adjustment was added back to the Company's December 31, 2006 surplus.

NOTE 3 –Decline in Premiums Written:

As indicated in the "Comparative Financial Position of the Company" section of this Report, the Company's written premiums have declined significantly since 2006. Management attributes this decline to a severe downturn in residential construction as a result of economic conditions, and to increased availability from other insurance carriers of products similar to those offered by the Company.

As indicated in the “Subsequent Events” section of this report, the Company ceased writing all business as of March 1, 2010.

COMMENTS AND RECOMMENDATIONS

Policies Written in Excess of Approved Limits:

During the examination, we noted the Company had issued several policies with limits higher than the maximum authorized in the Company's underwriting guidelines and approved by the Department. These approved limits are $2,000,000 each occurrence and $2,000,000 in the aggregate. Specifically, the Company wrote three policies with limits of $3,000,000 each occurrence and in the aggregate. These policies were reinsured on a facultative basis for the layer $1,000,000 excess of $2,000,000.

The Company also wrote two policies with limits of $4,000,000 each occurrence and in the aggregate. These policies were reinsured on a facultative basis only for the layer $1,000,000 excess of $3,000,000 which did not cover the full exposure over the Company's approved limits.

Writing policies with limits above those approved by the Department represents a material change from the Company's business plan and requires advance approval from the Department. **We recommend that the Company only write policies with limits as approved by the Department. In addition, we recommend that the Company secure sufficient facultative reinsurance on the above-mentioned policies with limits of $4 million, retroactive to the effective date of the policies. Evidence of such coverage shall be provided to the Department by July 31, 2010.**

CONCLUSION

Our examination disclosed that as of December 31, 2008 the Company had:

Admitted Assets	$	209,147,449
Liabilities and Reserves		194,717,663
Common Capital Stock		7,000,114
Unassigned Funds (Surplus)		7,429,672
Total Surplus		14,429,786
Total Liabilities, Capital and Surplus	$	209,147,449

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2008, and the accompanying statement of income properly presents the results of operations for the period then ended.

Chapter 39 ("CAPTIVE INSURANCE COMPANIES") of Title 31 ("Insurance and Securities") of the D.C. Official Code specifies the level of capital and surplus required for the Company. We concluded that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Christina M. Bonney, Collins Consulting, Inc.
Terry Corlett, CFE, CIE, FLMI, Collins Consulting, Inc.
John G. Gantz, Collins Consulting, Inc.
Peter Toy, Collins Consulting, Inc.

The actuarial portion of this examination was completed by N. Terry Godbold, ACAS, MAAA, FCA, President & Senior Actuary, Godbold, Malpere & Co.

Respectfully submitted,

Pamela C Woodroffe

Pamela C. Woodroffe
Examiner-In-Charge
Collins Consulting, Inc.

Under the Supervision of,

Xiangchun Li

Xiangchun (Jessie) Li, CFE
Supervising Examiner
District of Columbia Department of Insurance, Securities and Banking

Government of the District of Columbia
Department of Insurance, Securities and Banking

Gennet Purcell
Commissioner

June 3, 2010

Ned N. Fleming, III
President
ProBuilders Specialty Insurance Company, RRG
2859 Paces Ferry Road, Suite 1900
Atlanta, GA 30339

Dear Mr. Fleming:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of **ProBuilders Specialty Insurance Company, RRG**, as of December 31, 2008.

Please submit, to my attention, a written response calling attention to any errors or omissions in the draft Report. In addition, the Company's response shall include responses to each of the recommendations included in the "Comments and Recommendations" section of this Report. These responses should indicate the Company's agreement or disagreement with each recommendation, as well as a summary of the corrective measures which will be taken by the Company for each recommendation. If the Company disagrees with any of these recommendations, the response shall indicate the reason(s) for the disagreement, as well as an explanation of alternative measures to be taken by the Company to address the conditions which lead to the recommendations.

The response must be in writing and shall be furnished to this Department by June 17, 2010**.** In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to sean.odonnell@dc.gov.

Sincerely,

Sean O'Donnell

Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau

Enclosure

PRO BUILDERS
Specialty Insurance Company, RRG

June 18, 2010

P. Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
D. C. Department of Insurance, Securities and Banking
1400 L Street, NW, Suite 400
Washington, DC 20005

Dear Mr. O'Donnell,

In response to the recommendation that the Company only write policies with limits as approved by the Department, ProBuilders ceased writing new or renewing existing business in February of 2010. From 2008 to the cessation of writing business, ProBuilders has not written any policies in excess of limits approved by the Department. In addition, PBSIC has secured facultative cover for the policies with an exposure layer retroactive to the effective date of the policies. Evidence of such coverage will be provided to the Department by July 31, 2010.

Regards,

Ned. N. Fleming, III
President
ProBuilders Specialty Insurance Company, RRG

Government of the District of Columbia
Department of Insurance, Securities and Banking

Gennet Purcell
Commissioner

June 23, 2010

Ned N. Fleming, III
President
ProBuilders Specialty Insurance Company, RRG
2859 Paces Ferry Road, Suite 1900
Atlanta, GA 30339

Dear Mr. Fleming:

We are in receipt of your response, dated June 18, 2010 for **ProBuilders Specialty Insurance Company, RRG** ("Company"), regarding the Report on Examination of the Company as of December 31, 2008. The response is deemed adequate.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available. The Department of Insurance, Securities and Banking will forward the adopted Report electronically to each Commissioner whose name is set forth on Page 1 of the Report, as well as to the National Association of Insurance Commissioners.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-535-1169 if you have any questions.

Sincerely,

Sean O'Donnell

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures