



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

Stephen C. Taylor
Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – **ProBuilders Specialty Insurance Company, RRG** as of
December 31, 2018

ORDER

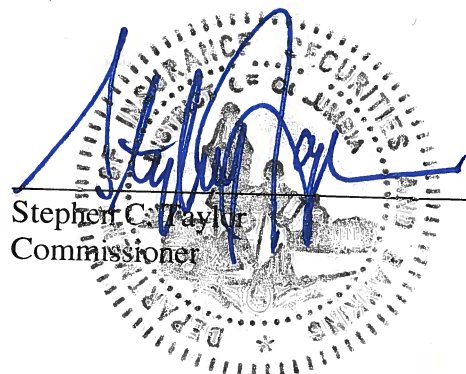
In accord with the authority established by D.C. Official Code § 31-1402, an examination of **ProBuilders Specialty Insurance Company, RRG** (the “Company”), as of December 31, 2018 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“Department”). The Department reported on the financial condition of the Company in the attached Report on Examination (“Financial Condition Examination Report”).

In accord with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 24th day of October, 2019, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

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

Pursuant to D.C. Official Code § 31-1404(d)(1), the Company shall, within 30 days of the issuance of the adopted Financial Condition Examination Report, file affidavits executed by each of the Directors of the Company wherein each of the Directors shall state under oath that they have received a copy of the adopted Financial Condition Examination Report and this order.

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


Stephen C. Taylor
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, 2018

NAIC COMPANY CODE 11671

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Washington, D.C.
September 11, 2019

Honorable Stephen C. Taylor
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, D.C. 20002

Dear Commissioner Taylor:

In accordance with Section 31-3931.14 of the District of Columbia Official Code (“Code”), and with Chapter 14 of Title 31 of the Code, we have examined the financial condition and activities of

ProBuilders Specialty Insurance Company, RRG

hereinafter referred to as the “Company” or “ProBuilders”.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2014 through December 31, 2018, including any material transactions and/or events noted occurring subsequent to December 31, 2018, was conducted by the District of Columbia Department of Insurance, Securities and Banking (the “Department”).

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”) and policies and standards established by the Department. 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. This may include assessing significant estimates made by management and evaluating management’s compliance with Generally Accepted Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, pursuant to Section 31-1404(a) of the District of Columbia Official Code and general information about the insurer and its financial

condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the company.

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 2014 through 2018. We placed substantial reliance on the audited financial statements for the calendar years 2014 through 2017, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2018. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2018. 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 work papers.

SUMMARY OF SIGNIFICANT FINDINGS

The results of this examination disclosed no material adverse findings, significant findings of non-compliance, or material changes in financial statements.

STATUS OF PRIOR EXAMINATION FINDINGS

A full scope financial examination was conducted by the Department as of December 31, 2013, which covered the period January 1, 2009 through December 31, 2013 ("prior examination"). There were no material adverse findings, significant findings of non-compliance, or material changes in financial statements noted in the prior examination.

HISTORY

General:

ProBuilders commenced business February 5, 2002 as a Nevada-domiciled RRG using the name Builders and Contractors Insurance Company, RRG. 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 a risk retention group.

ProBuilders ceased writing new business on December 31, 2009 and ceased writing renewal business as of March 1, 2010. The Company provided liability insurance coverage to contractors, subcontractors, developers and other members of the construction industry. The Company is currently in voluntary run-off since 2010.

The Company currently maintains a home office in the District of Columbia and maintains an administrative office in Aurora, Colorado. ProBuilders operations are managed by Residential Loss Control Holdings, Inc. ("RLCH") at the administrative office in Aurora, Colorado.

Membership:

The Company's articles of incorporation authorize the issuance of 1,000,000 shares of common stock with \$1 par value per share and 1,000,000 shares of preferred stock with \$1 par value per share. As of December 31, 2018, 97,651 shares of common stock were issued and outstanding. No preferred shares were issued and outstanding as of December 31, 2018.

The Company's outstanding common stock shares are owned by its member-policyholders. All common stockholders are entitled to one vote per outstanding share, have rights to dividends and distributions, and are entitled to redeem their shares upon cancellation or expiration of continuous coverage based on a stated redemption formula. Through December 31, 2008, upon cancellation or expiration of continuous coverage, policyholder shares were cancelled, and the vested value was recorded as a liability by the Company and as a reduction in paid in capital. As cancelled or expired shares of common stock became eligible for redemption, eligible shareholders were paid for their stock. As of December 31, 2008, the Company reported a liability totaling \$10,472,048 for accrued shareholder redemptions pending.

ProBuilders suspended all redemption payments in 2009 after requesting guidance from the Department 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 and the existing redemption liability was transferred to surplus at the direction of the Department.

Dividends and Distributions:

The Company did not declare or pay any dividends or other distributions during the period under examination.

MANAGEMENT AND CONTROL

Board of Directors and Officers:

The Company's directors serving as of December 31, 2018 were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
Hugh B. McCreery, Colorado	President & Treasurer of Residential Loss Control Holdings, LLC
Charles L. Spinelli, Alaska	President & Founder of Spinelli Homes
Mark C. Heald, California	Chief Financial Officer of JKB Development, Inc.

Deborah J. White, California

Chief Operating Officer of Elite Concrete

The following persons were serving as ProBuilders' officers as of December 31, 2018:

<u>Name</u>	<u>Position</u>
Hugh B. McCreery	President & Chief Financial Officer
Glenn G. Cleek*	Secretary

* Mr. Cleek resigned as Secretary effective May 31, 2019 with Amy Gallent replacing him as of the same date.

Committees:

As of December 31, 2018, the Company's board of directors had not established any committees. The Company has designated its full board of directors to serve as the audit committee.

Conflicts of Interest:

The Company has an established procedure for the disclosure of any material interest or affiliation on the part of its officers and key management personnel. Specifically, officers and directors of the Company annually executed conflict of interest statements which were completed under the name of the Company. Our review of the Company's 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 review and approval of the Company's significant transactions and events.

Captive Manager:

NBIS Construction and Transport Insurance Services, Inc. ("CTIS") acted as the Company's captive manager until February 2015, at which time RLCH became the captive manager.

Affiliated Parties and Transactions:

The Company's policyholders are the owners of the Company but through common control with other companies in the NationsBuilders Insurance Services, Inc. ("NBIS") group, the Company was a member of the NBIS holding company group until February 2015. Effective February 2015, the Company became a member of the Catalina Holdings (Bermuda) Ltd., ("Catalina") group. Control was acquired by Catalina through a series of transactions approved by the Department, including the approval of RLCH, which is a member of the Catalina group, as the captive manager of the Company.

Catalina, a Bermuda registered and domiciled company, is majority owned by Apollo Global Management, LLC (“AGM”). AGM is a publicly traded company that is managed, operated and controlled by AGM Management, LLC, a Delaware limited liability company (“AGM Management”). AGM Management is owned and controlled by BRH Holdings GP, Ltd., a Cayman Islands company (“BRH”). AGM Management and BRH are wholly-owned and controlled, directly or indirectly, by three controlling individuals, Leon Black, Joshua Harris and Marc Rowan, who are the ultimate controlling parties of ProBuilders.

There are no employees of the Company. All personnel, management and administrative services are provided to the Company by affiliates of Catalina under various intercompany agreements. In addition, Catalina is the sole reinsurer of the business ceded by the Company pursuant to a loss portfolio transfer. See the “Reinsurance” section of this report for further comments regarding the Company’s reinsurance arrangements with Catalina.

During the period under examination and up to the date of this Report, the Company has the following transactions with various affiliates in the Catalina group:

Management and Underwriting Agreement

In February 2015, RLCH, the Company’s captive manager, entered in to a management and underwriting agreement with the Company. Under the terms of the agreement, RLCH was appointed as the Company’s operations, administrative, financial, investment and underwriting manager. In return for the services provided by RLCH, the agreement required the Company to pay RLCH an annual fee of \$275,000 for the first and second years, \$250,000 for the third year and \$200,000 for the fourth year and for each year thereafter. The agreement was submitted to and approved by the Department.

Claims Service Agreement

Effective February 2015, the Company entered into a claims service agreement with Catalina U.S. Insurance Services, LLC (“CUSIS”). Under the terms of the agreement, CUSIS was delegated claims adjustment authority for all claims. Fees for these services are charged to the Company based on contractual rates. The agreement was submitted to and approved by the Department.

TERRITORY AND PLAN OF OPERATION

ProBuilders ceased writing new business on December 31, 2009 and ceased writing renewal business as of March 1, 2010. The Company provided 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 is licensed as an association captive insurance company in the District of Columbia, operating as a risk retention group. As of December 31, 2018, the Company was licensed in the District of Columbia and registered to write business in all 50 states except for Alaska, Hawaii, Maryland, Nebraska, North Carolina, North Dakota, and Utah. As of December 31, 2018, the Company is in voluntary run-off.

The Company has no employees and its daily business operations are managed by its affiliate, RLCH, in Aurora, Colorado.

REINSURANCE

From inception through December 31, 2010, the Company was party to a number of ceded reinsurance treaties. As of December 31, 2018, the Company was not actively writing business and had no ceded premiums during 2018.

Effective December 31, 2009, the Company ceded 100 percent of its then remaining net loss and loss adjustment expense reserve liabilities to its then affiliate, NationsBuilders Insurance Company (“NBIC”), under a loss portfolio transfer (“LPT”) agreement. As a result of the transaction, the Company transferred \$46.7 million in loss reserves and \$64.3 million in investments to NBIC. Effective February 1, 2015, pursuant to a “Reinsurance Novation Agreement” (“Novation Agreement”) approved by the Department, NBIC transferred one-hundred percent (100%) of the ProBuilders’ reserves previously assumed by NBIC to Catalina General Insurance Ltd. (“CatGen”), a Bermuda domiciled insurance company. As a result of this transaction, CatGen replaced NBIC as the assuming reinsurer under the aforementioned LPT agreement. Under terms of the Novation Agreement, CatGen is required to provide collateral to ProBuilders totaling one hundred ten percent (110%) of the ProBuilders reserves assumed by CatGen. As of December 31, 2018, the ceded loss reserves were \$11,497,806 and the reported collateral, in the form of a reinsurance trust fund, totaled \$14,589,592.

FINANCIAL STATEMENTS

The following financial statements are based on the Annual Statement filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2018. The financial statements were prepared in accordance with Generally Accepted Accounting Principles ("GAAP") prescribed or permitted by the Department. Management is responsible for the preparation and fair presentation of these financial statements. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

<u>STATEMENT</u>	<u>PAGE</u>
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BALANCE SHEET

ASSETS

	<i>December 31, 2018</i>
Bonds	\$ 7,760,820
Cash (\$2,116,357) and short-term investments (\$1,573,402) (Note 1)	<u>3,689,759</u>
Subtotals, cash and invested assets	\$ 11,450,579
Investment income due and accrued	44,721
Amounts recoverable from reinsurers	573,804
Prepaid insurance	<u>1,754</u>
Total	<u>\$ 12,070,858</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2018</i>
Losses (Note 2)	\$ 3,000
Loss adjustment expenses (Note 2)	3,000
Other expenses (excluding taxes, and foreign income taxes)	113,552
Payable to parent, subsidiaries and affiliates	<u>82,179</u>
Total liabilities	<u>\$ 201,731</u>
Common capital stock	97,651
Gross paid in and contributed surplus	17,880,123
Unassigned funds (surplus)	<u>(6,108,647)</u>
Surplus as regards policyholders	\$ 11,869,127
Total	<u><u>\$ 12,070,858</u></u>

STATEMENT OF INCOME

	<i>2018</i>
UNDERWRITING INCOME	
Premiums earned	\$ 0
DEDUCTIONS	
Losses incurred	
Loss adjustment expenses incurred	\$ (4,999)
	(7,697)
Other underwriting expenses	389,838
Total underwriting expenses	<u>\$ 377,142</u>
Net underwriting (loss)	\$ (377,142)
INVESTMENT INCOME	
Net investment income earned	\$ 169,635
Net realized capital loss	(1,492)
Net investment gain	<u>\$ 168,143</u>
Income before dividends and taxes	\$ (208,999)
Federal taxes	0
Net loss	<u><u>\$ (208,999)</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as of December 31, 2013	\$ 13,619,703
Net loss, 2014	(542,678)
Net unrealized capital gains	11,762
Net change in surplus for the period ended December 31, 2014	<u>(530,916)</u>
Surplus as of December 31, 2014	\$ <u>13,088,787</u>
Net loss, 2015	(1,175,094)
Net unrealized capital losses	(73,215)
Net change in surplus for the period ended December 31, 2015	<u>(1,248,309)</u>
Surplus as of December 31, 2015	\$ <u>11,840,478</u>
Net income, 2016	620,959
Net unrealized capital gains	(16,771)
Net change in surplus for the period ended December 31, 2016	<u>604,188</u>
Surplus as of December 31, 2016	\$ <u>12,444,666</u>
Net loss, 2017	(296,241)
Net unrealized capital gains	(14,011)
Net change in surplus for the period ended December 31, 2017	<u>(310,252)</u>
Surplus as of December 31, 2017	\$ <u>12,134,414</u>
Net loss, 2018	(208,999)
Net unrealized capital losses	(56,288)
Net change in surplus for the period ended December 31, 2018	<u>(265,287)</u>
Surplus as of December 31, 2018	\$ <u>11,869,127</u>

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Cash:

As of December 31, 2018, the Company reported “Cash” totaling \$2,116,357, all of which was held in a single institution. This balance exceeded the amount insured by the Federal Deposit Insurance Corporation (“FDIC”). The financial stability of financial institutions in which amounts more than FDIC limits are held is periodically assessed, and management believes there is not a significant risk to the Company as a result of the cash held in this institution.

NOTE 2 – Losses and Loss Adjustment Expenses Reserves:

The Company reported “Losses” and “Loss adjustment expenses” reserves totaling \$3,000 and \$3,000, respectively. These amounts are net of ceded loss reserves and loss adjustment expense reserves totaling \$11,497,806. These reserves represent management’s best estimate of the amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2018. As indicated in the “Reinsurance” section of this report, the ceded loss and loss adjustment expense reserves are collateralized by a reinsurance trust fund.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2018, were reviewed as part of the examination. As part of our review, we relied on the Company’s independent actuary, who concluded that the Company’s carried loss and loss adjustment expense reserves appeared to be sufficient. In addition, as part of our review, the Department utilized an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company’s actuary. The examination actuary concluded that the methodologies and assumptions utilized by the Company’s independent actuary to compute the reserves, and the amount of the loss reserves reported by the Company, as of December 31, 2018, were reasonable and adequate.

SUBSEQUENT EVENTS

We noted no significant subsequent events as of the date of this report.

SUMMARY OF RECOMMENDATIONS

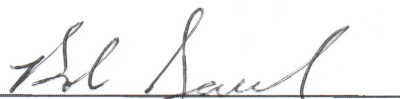
During the examination, no issues warranting comments or recommendations in this examination report were noted.

SIGNATURES

In addition to the undersigned, the following personnel from Eide Bailly, LLP, representing the Department, participated in this examination as a member of the examination team: Jim Williams, CPA, CFE, CIE.

The actuarial portion of this examination was completed by David Christhlf, ACAS, MAAA, of the Department.

Respectfully submitted,



Bob Burch, CFE
Examiner-In-Charge
Eide Bailly, LLP

Under the Supervision of,



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

Stephen C. Taylor
Commissioner

Via E-mail

October 10, 2019

Hugh B. McCreery, President
ProBuilders Specialty Insurance Company, RRG
3025 S. Parker Road, Suite 711
Aurora, Colorado 80014

RE: Examination of ProBuilders Specialty Insurance Company, RRG as of December 31, 2018

Dear Mr. McCreery:

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 (the "Company") as of December 31, 2018.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report contains a section entitled "Summary of Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there is no "Summary of Recommendations" requiring a response, please submit a statement that the Company accepts the Report.

The response must be in writing and shall be furnished to this Department by November 8, 2019. The signed response should be on company's letterhead and sent electronically via e-mail to me, in an adobe "pdf" format, to sean.odonnell@dc.gov.

Sincerely,

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

Enclosure

October 17, 2019

Mr. Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau
Department of Insurance, Securities and Banking
810 First Street, NE, #701
Washington, DC 20002

Re: Examination Report for ProBuilders Specialty Insurance Company, RRG as of December 31, 2018

Dear Mr. O'Donnell:

We have reviewed the draft copy of the Report on Examination ("Report") of the affairs and financial condition of ProBuilders Specialty Insurance Company, RRG as of December 31, 2018. We agree with and accept the Report.

Please contact me at 303.306.0002 if you have any questions regarding this matter.

Respectfully,



Hugh B. McCreery
President



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

Stephen C. Taylor
Commissioner

October 21, 2019

Hugh B. McCreery, President
ProBuilders Specialty Insurance Company, RRG
3025 S. Parker Road, Suite 711
Aurora, Colorado 80014

RE: Examination of **ProBuilders Specialty Insurance Company, RRG** as of December 31, 2018

Dear Dr. McCreery:

We are in receipt of your response, dated October 17, 2019, regarding the Report on Examination of ProBuilders Specialty Insurance Company, RRG (the "Company"), as of December 31, 2018. 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 District of Columbia 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.

Pursuant to Section 31-1404(d)(1) of the District of Columbia Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each of the Company's directors 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 202-442-8153 if you have any questions.

Sincerely,

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures