

REPORT OF EXAMINATION

OF

**AMERICAN BUILDERS INSURANCE
COMPANY RISK RETENTION GROUP,
INC.**

MONTGOMERY, ALABAMA

as of

December 31, 2017

TABLE OF CONTENTS

EXAMINER'S AFFIDAVIT	iv
SALUTATION	1
SCOPE OF EXAMINATION	2
ORGANIZATION AND HISTORY	3
MANAGEMENT AND CONTROL	4
MEMBERS.....	4
BOARD OF DIRECTORS	4
COMMITTEES	4
OFFICERS	4
CONFLICT OF INTEREST	4
DIVIDENDS TO POLICYHOLDERS.....	5
CORPORATE RECORDS	5
TERRITORY AND PLAN OF OPERATIONS	5
HOLDING COMPANY AND AFFILIATE MATTERS.....	5
HOLDING COMPANY REGISTRATION AND REPORTING	5
ORGANIZATIONAL CHART	6
TRANSACTIONS AND AGREEMENTS WITH AFFILIATES	6
FIDELITY BONDS AND OTHER INSURANCE.....	6
PENSIONS AND STOCK OWNERSHIP	6
COMPLIANCE WITH 18 U. S. C. 1033	6
SPECIAL DEPOSITS	7
FINANCIAL CONDITION/GROWTH OF THE COMPANY	8
REINSURANCE.....	8
REINSURANCE ASSUMED	8
REINSURANCE CEDED	8
ACCOUNTS AND RECORDS	8
LOCATION OF RECORDS	8
FINANCIAL STATEMENT INDEX	9
NOTES TO FINANCIAL STATEMENTS	14
CONTINGENT LIABILITIES AND PENDING LITIGATION	14

COMMENTS AND RECOMMENDATIONS.....14
SUBSEQUENT EVENTS.....14
CONCLUSION.....16

EXAMINER'S AFFIDAVIT

STATE OF NEVADA
COUNTY OF WASHOE



DEPARTMENT OF
Insurance

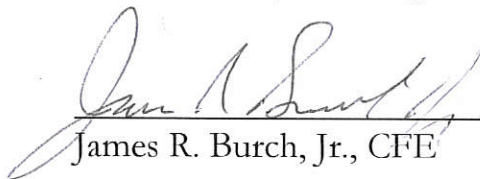
OCT 19 2018

ACCOUNTING DIVISION

James R. Burch, Jr., CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of American Builders Insurance Company Risk Retention Group, Inc.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of American Builders Insurance Company Risk Retention Group, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.



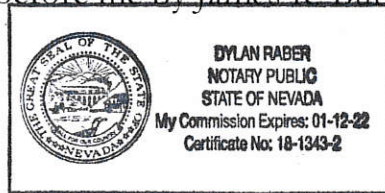
 James R. Burch, Jr., CFE

Subscribed and sworn before me by James R. Burch, Jr. on this 5th day of October, 2018

(SEAL)



(Signature of Notary Public)



My commission expires 01-12-22



KAY IVEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 502
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JERRY WORKMAN
MARK FOWLER

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
SCOTT F. PILGREEN

GENERAL COUNSEL
REYN NORMAN

October 5, 2018

Honorable Jim L. Ridling
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial examination as of December 31, 2017, has been made of

**American Builders Insurance Company Risk Retention Group, Inc.
Montgomery, Alabama**

at its captive manager's office located at 5151 Hampstead High Street, Suite 200, Montgomery, Alabama 36116. The report of examination is submitted herewith. Where the description "The Company" appears herein, without qualification, it will be understood to indicate American Builders Insurance Company Risk Retention Group, Inc.

SCOPE OF EXAMINATION

We have performed an examination of American Builders Insurance Company Risk Retention Group, Inc., a multi-state insurance company. This is the first examination of the Alabama risk retention group and covers the period September 16, 2016 through December 31, 2017.

The examination was conducted in accordance with applicable statutory requirements of the Code of Alabama, 1975, as amended, the Alabama Insurance Department regulations, bulletins and directives, and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC Financial Condition Examiners 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. 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, as mentioned in the Code of Alabama, 1975, as amended, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

An examination of the Company's information technology systems (IT) was conducted by Michael Nadeau of Eide Bailly, LLP. The IT examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

The Company's annual statements for each year under examination were compared with the corresponding general ledger account balances. During the period covered by the examination, the Company was audited by Bauknight, Petreas, & Stormer, P.A. (CPA's). The CPA's workpapers were not used in the examination due to the timing of the examination and the audit extension requested and approved by the Alabama Department of Insurance.

A signed letter of representation was obtained at the conclusion of the examination. In this letter, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2017.

ORGANIZATION AND HISTORY

The Company is an association captive risk retention group that redomesticated to Alabama from Montana effective September 16, 2016, via merger into an Alabama company of the same name. American Builders Insurance Company Risk Retention Group, Inc.'s Montana certificate of authority was suspended in 2012 due to an \$18,000 surplus deficiency and failure to revise its plan of operations to reflect December 31, 2009, examination recommendations. That former company ceased writing business in 2012 and infused sufficient funds to cure the deficiency. Between December 10, 2009, and September 30, 2013, the company issued \$1,422,180 in surplus notes. That former company withdrew all registrations in late 2013. On January 9, 2014, the Montana Insurance Department approved a 3-year run-off plan.

American Builders Insurance Company Risk Retention Group, Inc. (ABIC) is an Alabama domestic for-profit corporation, formed as an association captive. Pursuant to the Federal Liability Risk Retention Act (LRRRA), American Builders Association LLC (ABA) is the sole shareholder of the Company; the Company only provides insurance to members of ABA. ABA is an association comprised of residential and commercial artisans, residential general contractors and commercial sub-contractors. The surplus notes issued to the former company were consolidated in 2016 into one surplus note for \$1,422,180. Repayment of principal and interest is restricted to a surplus floor of \$642,218 and requires prior approval of the Commissioner.

At December 31, 2017, the Company's unassigned funds reported in the 2017 Annual Statement was \$606,952.

MANAGEMENT AND CONTROL

Members

The Company is an association captive company with ultimate control vested in its policyholder members.

Board of Directors

Members elected to the Board of Directors by the members and serving at December 31, 2017, were as follows:

Director	Residence	Principal Occupation
Keith Fawcett	Brentwood, Tennessee	President, Brentwood Reinsurance Intermediaries, Inc.
Douglas Sizemore	Johnson City, Tennessee	Board Member, Accident Insurance Company
Doranne Newton	Montgomery, Alabama	Underwriting Manager, Alabama Municipal Insurance Corp.

Committees

No committees of the Board were appointed during the examination period.

Officers

Officers of the Company elected by the Board of Directors and serving at December 31, 2017 were as follows:

Officers	Title
Keith Fawcett	President
Douglas Sizemore	Treasurer
Doranne Newton	Secretary

Conflict of Interest

The conflict of interest statements filed by the officers and directors of the Company were reviewed for the period covered by this examination. There were no material conflicts noted.

Dividends to Policyholders

The Company paid no dividends to policyholders during the examination period.

CORPORATE RECORDS

The Articles of Incorporation and By-Laws and amendments thereto were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations. The Company amended its original By-Laws on January 1, 2017, reducing the number of directors from three to two, which is not in compliance with ALA. CODE § 27-27-23 (a) (1975), which states: “The affairs of every domestic insurer shall be managed by not less than three directors, and at least one-third of the directors shall be bona fide residents of this state.” The Company however did have three directors on its board as of December 31, 2017.

Minutes of the meetings of the Stockholders and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with regard to actions taken on matters before the respective bodies for deliberation and action, except as otherwise noted in this Report.

TERRITORY AND PLAN OF OPERATIONS

The Company was issued a Certificate of Authority by the State of Alabama on September 16, 2016, allowing it to “transact ‘association captive’ insurance business within the State of Alabama.” The Company is licensed in the State of Alabama registered as a risk retention group to write liability insurance in Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Mississippi, Missouri, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina, Ohio, Oklahoma, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, and Wyoming as of December 31, 2017.

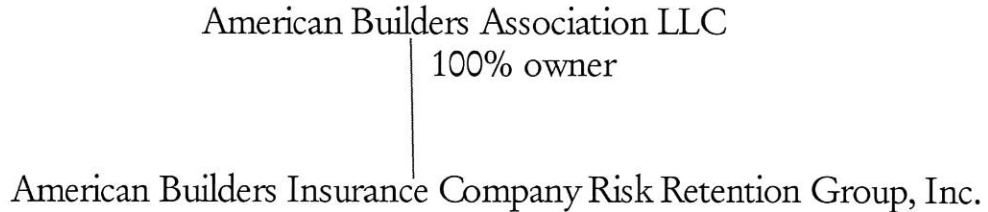
HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration and Reporting

The Company was subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE § 27-29-1 (1975). American Builders Insurance Company Risk Retention Group, Inc. was registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System.

The Company completed an appropriate filing required under the Holding Company Act on March 2, 2018 for the 2017 calendar year.

Organizational Chart



Transactions and Agreements with Affiliates

There were no transactions with affiliates during the examination period.

FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2017, the Company, due to their limited operations, did not have any fidelity bond coverage in place. The Company should obtain a fidelity bond in an amount in accordance with the NAIC 2018 Financial Condition Examiners Handbook, Exhibit R.

The Company does have an error and omissions policy from Aspen American Insurance with a sufficient amount of coverage as reviewed by the examiner.

PENSIONS AND STOCK OWNERSHIP

The Company has no employees and thus has no pension in place and no stock ownership.

Compliance with 18 U. S. C. 1033

According to ALA. ADMIN. CODE 482-1-146-.11 (2009),

- (1) A Section 1033 insurer subject to the Commissioner’s examination authority shall have and apply the following: (a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense. (b) An internal procedure after initial employment or contracting, applied on a

periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense. (c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.

In compliance with the ALA. ADMIN. CODE 482-1-146-.11 (2009), the Company will perform the following procedures:

(1) have all employees, officers, directors, and managers to complete as part of the application for initial license with the Company verify on the affidavit if they have ever been convicted of a Section 1033 offense after initial employment.

(2) Annually the Company will require each employee, officer, director, and manager to complete a questionnaire and attest if they have a felony conviction for a Section 1033 offense.

(3) If it is determined that an employee, manager, officer, or contractor has been convicted of a Section 1033 offense after initial employment, the following will take place:

(a) Within 30 days, the employee or contractor must provide the required Section 1033 consent or employment will be terminated.

(b) Thereafter, on an annual basis, the affected employee or contractor will be subject to a background check and must provide the required Section 1033 consent.

The Company provided an annual disclosure from Doranne Newton and Keith Fawcett for calendar 2016 and from Doranne Newton, Keith Fawcett, and Douglas Sizemore for calendar 2017. There were no other new hires during the examination period. The Company was determined to be in compliance.

SPECIAL DEPOSITS

At December 31, 2017, due to the Company being a captive insurer, it is not required to maintain a special deposit.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following information presents significant items that reflect the growth of the Company for the years indicated:

	<u>2017</u>	<u>2016</u>
Admitted Assets	\$1,208,670	\$705,710
Liabilities	\$601,718	\$57,028
Gross Written Premium	\$1,083,896	\$0
Net losses Incurred	\$38,629	\$(131,307)
Net Loss Adjustment	\$57,599	\$(58,777)
Surplus as regards policyholders	\$606,952	\$648,682

REINSURANCE

Reinsurance Assumed

The Company had no reinsurance assumed.

Reinsurance Ceded

The Company has a General Liability Excess of Loss Reinsurance Contract with seven Lloyds syndicates and Aspen Insurance through its reinsurance intermediary, Willis Re Inc. The reinsurance contract provides reinsurance coverage of \$750K each loss occurrence in excess of the Company's retention of \$250K each loss occurrence. The reinsurance contract is for three one year periods with a minimum reinsurance rate of \$12.5% to a maximum rate of 32.5% depending on the Loss Cost ratio for the entire three period.

ACCOUNTS AND RECORDS

Location of Records

The Company maintained its records at the office of its captive manager, Arsenal Insurance Management.

FINANCIAL STATEMENT INDEX

The following financial statements are based on the statutory financial statements filed by the Company with the State Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on the financial statements reflect any examination adjustments to the amount reported in the annual statement and should be considered an integral part of the financial statements.

	Page
Statement of Assets, Liabilities, Surplus and Other Funds (Assets)	10
Statement of Assets, Liabilities, Surplus and Other Funds (Liabilities)	11
Statement of Income	12
Reconciliation of the Capital and Surplus Account	13

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

**AMERICAN BUILDERS INSURANCE COMPANY RISK RETENTION
GROUP, INC.**
STATEMENT OF ASSETS
For the Year Ended December 31, 2017

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Prior Year Net Admitted Assets</u>
ASSETS				
Cash, cash equivalents and short-term investment	\$ 729,568	\$ -0-	\$ 729,568	\$705,710
Uncollected premiums and agents' balance in the course of collection	215,113		215,113	-0-
Deferred acquisition costs	261,239		261,239	-0-
Other receivables	2,750	-0-	2,750	-0-
TOTAL ASSETS	<u>\$1,208,670</u>	<u>\$ -0-</u>	<u>\$ 1,208,670</u>	<u>\$ 705,710</u>

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.**

**AMERICAN BUILDERS INSURANCE COMPANY RISK RETENTION
GROUP, INC**
STATEMENT OF LIABILITIES AND OTHER FUNDS
For the Year Ended December 31, 2017

	<u>Current Year</u>	<u>Prior Year</u>
Liabilities:		
Losses	\$ 69,687	\$ 31,058
Loss adjustment expenses	69,996	23,470
Other expenses	4,962	-0-
Taxes, licenses and fees	43,044	2,500
Unearned premiums	625,269	-0-
Ceded reinsurance premiums payable	<u>-211,240</u>	<u>-0-</u>
Total Liabilities	\$ 601,678	\$ 57,028
Capital and Surplus:		
Common capital stock	\$ 1,000	\$ 1,000
Surplus notes	1,422,180	1,422,180
Gross paid in and contributed surplus	498,085	498,085
Unassigned funds (surplus)	<u>-1,314,313</u>	<u>-1,272,583</u>
Surplus as regards policyholders	\$ 606,952	\$ 648,682
Total	\$ 1,208,670	\$ 705,710

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

**AMERICAN BUILDERS INSURANCE COMPANY RISK RETENTION
GROUP, INC**
STATEMENT OF INCOME
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Premiums earned	\$309,867	\$ -0-
<u>Deductions:</u>		
Losses incurred	\$ 38,629	\$ -131,307
Loss adjustment expenses incurred	57,599	-58,777
Other underwriting expenses incurred	<u>260,598</u>	<u>137,545</u>
Total underwriting deductions	\$ 356,826	\$ -52,539
Net underwriting gains/(loss)	\$ -46,959	-52,539
<u>Investment income:</u>		
Net investment income earned	\$ 5,229	\$ 1,848
Net realized capital gains (losses) less capital gains taxes	<u>-0-</u>	-0-
Net investment gains (loss)	\$ 5,229	\$ 1,848
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	-41,730	54,387
Federal and foreign income taxes incurred	\$ -0-	\$ -0-
Net income (loss)	\$ <u>-41,730</u>	\$ <u>54,387</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

**AMERICAN BUILDERS INSURANCE COMPANY RISK RETENTION
GROUP, INC**
STATEMENT OF CHANGES IN CAPITAL AND SURPLUS
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Surplus as regards policyholders	\$ 648,682	\$594,292
Net income	\$ -41,730	\$ 54,387
Net remittances from or (to) Home office	-0-	3
Change in surplus as regards policyholders	\$ -41,730	\$54,390
Surplus as regards policyholders, December 31current year	\$606,952	\$ 648,682

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Surplus as regard policyholders

\$606,952

The above captioned amount is the same as reported by the Company in its 2017 Annual Statement. There were no adjustments to surplus as a result of this examination.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included the review of the Company's statutory financial statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of accounts and unrecorded items. The examiners obtained a letter of representation from management as of December 31, 2017. No unreported contingent liabilities were noted, and all pending litigation against the Company, at December 31, 2017, appeared to be within the ordinary course of its business.

COMMENTS AND RECOMMENDATIONS

Corporate Records – Page 5

It is recommended the Company amend its current By-Laws to increase the minimum number of director to 3 in order to comply with ALA. CODE § 27-27-23 (1975).

Fidelity Bonds and Other Insurance – Page 6

It is recommended the Company obtain a fidelity bond in an amount in accordance with the NAIC 2018 Financial Condition Examiners Handbook, Exhibit R.

SUBSEQUENT EVENTS

A review of events subsequent to the December 31, 2017, examination date was done. The following items were noted during this review.

In June of 2018, the Company requested approval of a permitted practice regarding ALA. CODE § 27-5-11(a) (1975) and approval of a revised Plan of Operations and financial projections from the Alabama Commissioner. The Alabama Commissioner approved such request in the same month.

On August 1, 2018, American Builders Association LLC infused \$92,803.10 into the Company as a capital contribution.

The Company became registered in the following states subsequent to December 31, 2017, California, Connecticut, District of Columbia, Hawaii, Illinois, Iowa, Massachusetts, Michigan, Minnesota, Montana, Nevada, Nevada, Oregon, Pennsylvania, and Vermont.

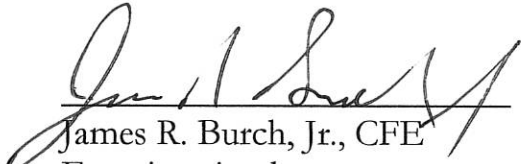
CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Michael Nadeau IT Examiner and Dan Davis, FCAS, MAAA, Actuary, represented the Alabama Department of Insurance and participated in the examination of the Company.

Respectfully submitted,



James R. Burch, Jr., CFE
Examiner-in-charge
Alabama Department of Insurance