



PROBUILDERS SPECIALTY INSURANCE COMPANY, RRG
3025 South Parker Road, Suite 711, Aurora, CO 80014

INFORMATION STATEMENT

This Information Statement is furnished in connection with the Annual Meeting of Shareholders of ProBuilders Specialty Insurance Company, RRG, (the “Company”) to be held at 3025 South Parker Road, Suite 711, Aurora, CO 80014 on Wednesday, November 13, 2019 at 1:30 p.m. MST, and any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders.

Background

The Company is a District of Columbia Risk Retention Group. It was originally formed and licensed in 2002 in the State of Nevada under the name “Builders & Contractors Insurance Company, RRG” and re-domesticated (changed its domicile) to the District of Columbia on May 10, 2004. As a District of Columbia captive insurer, the Company is subject to the principal regulatory oversight of the District of Columbia Department of Insurance, Securities and Banking (“DCDISB”).

The Company’s goal was to provide a market for contractor’s liability insurance coverage for its policyholders. In this regard, the Company’s only business was the issuance of liability insurance to builders, contractors, developers, and other members of the construction industry. The Company was registered to do business in 49 states and the District of Columbia. The Company ceased writing new business and non-renewed existing business effective February 28, 2010. As of December 31, 2012, no policies were in force.

The Company operates as a risk retention group under the Federal Liability Risk Retention Act of 1986. As a risk retention group, the Company is not subject to many of the licensing, financial, or other requirements to which other types of insurance companies are subject. For example, the rates charged by a risk retention group and the policy forms used by a risk retention group do not need to be approved by state insurance regulatory officials in each state in which the risk retention group operates (although the risk retention group’s state of domicile may regulate such rates and forms). In addition, state “guaranty fund” protection is not available to risk retention group policyholders in the event a risk retention group becomes insolvent.

Stock Ownership

By law, risk retention groups must be owned by their policyholders. In this regard, in connection with their purchase of insurance from the Company, each of the Company's policyholders must execute a "Subscription and Shareholders Agreement" ("Agreement"), through which they subscribe for common shares of the Company, and pay a fee for such common shares. Upon execution of that Agreement and payment of the required subscription fee, a policyholder becomes a shareholder of the Company.

The Agreement sets forth certain rights, obligations, and restrictions applicable to the Company's shareholders. For example, it provides that the Company's shares are not transferable by the shareholder, and discloses that the shares are not registered under state or federal securities laws. Any right of the Company or the shareholder to cause the shares to be redeemed is as described in the Agreement.

By executing the Agreement, shareholders grant the Company's Chairman of the Board a proxy to vote their shares at meetings of the Company's shareholders. This proxy may be revoked in writing by a shareholder at any time, or by attending a meeting and voting in person.

As permitted by applicable law, the Company does not issue stock certificates to its shareholders. Instead, the Company will send a written notice to each shareholder (after the initial purchase of Company shares) notifying the shareholder of the number of shares of the Company's common stock registered in such shareholder's name.

As of December 31, 2018, 97,651 common shares of the Company's capital stock were outstanding. This number is unchanged from the year-ended December 31, 2015.

Financial Information and Results of Operations

As of December 31, 2018, the Company's capital (stockholders' equity) was \$11,869,127, and total assets were \$12,070,858. Written and earned premium for the year-ended December 31, 2018 (net of amounts payable to reinsurers under reinsurance agreements) was \$0. The net loss for the year-ended December 31, 2018 was \$209,000. A net underwriting loss of \$377,000, consisting primarily of operating expenses, was offset by \$168,000 of investment income.

The foregoing financial information is based on the Company's December 31, 2018 financial statements, prepared in accordance with generally accepted accounting principles ("GAAP").

Relationships with Third Parties

As a result of a series of transactions (approved by the DCDISB) effective February 1, 2015 Catalina Holdings (Bermuda) Ltd. ("CHBL") became the Company's Ultimate Controlling Party. CHBL acquires and manages non-life insurance and reinsurance companies and portfolios in run-off. CHBL was established in 2005, has total assets exceeding \$5 billion, an equity capital base exceeding \$900 million, and operates in Bermuda, the US, the UK, Ireland, and Switzerland.

Pursuant to a Management and Underwriting Agreement (the "Management Agreement"), the Company's day-to-day operations are managed by Residential Loss Control Holdings, LLC

(“RLCH”), a wholly-owned subsidiary of CHBL. RLCH has extensive prior experience managing risk retention groups. RLCH is paid a management fee by the Company for specified management services. The fee for these services is \$250,000 for 2018.

Through a Claims Service Agreement, the Company’s claims are adjusted by Catalina U.S. Insurance Services LLC (“CUSIS”), a wholly-owned subsidiary of CHBL. CUSIS receives a fee, based upon the number of hours dedicated to any specific claim, from the Company.

Through novation with NationsBuilders Insurance Corporation (“NBIC”) and commutation with Starwest Insurance Company, Ltd., (“Starwest”), Catalina General Insurance Ltd. (“CatGen”) became the primary reinsurer of the Company. CatGen, a wholly-owned subsidiary of CHBL, is a Bermuda registered and domiciled licensed insurance company. Upon consummation of the novation and commutation, CatGen established a trust for the Company’s benefit in order to collateralize the future liabilities. The other non-affiliated reinsurers – Arch Re and Markel – were subsequently novated to CatGen.

The Company also has a number of excess of loss reinsurers who are not related to, or affiliated with, CHBL or its subsidiaries.

Gus Krause of Krause & Associates in Atlanta, Georgia, has been retained to provide actuarial services to the Company. EKS&H provided audit services to the Company. Asset Allocation & Management Company, LLC manages the Company’s investments.

Reinsurance

Through February 28, 2010, the Company issued policies with per occurrence limits of \$500,000, \$1,000,000 or \$2,000,000; general aggregate limits of \$500,000 or \$2,000,000; and products/completed operations aggregate limits of \$500,000, \$1,000,000 or \$2,000,000. On occasion larger policy limits were offered with facultative reinsurance coverage for the excess limits. The Company purchased excess of loss reinsurance for \$1,500,000 excess of \$500,000 per policy and per occurrence.

To limit its exposure with respect to losses and related expenses under the policies it issued, the Company originally entered into quota share reinsurance agreements with NBIC, Starwest and other reinsurers whereby the reinsurers agreed to indemnify the Company a stated percentage of each loss incurred under policies issued by the Company in return for a corresponding portion of the premium paid to the company for such policies. As of February 1, 2015 all of NBIC’s and Starwest’s reinsurance obligations were assumed – via novation and commutation, respectively – by CatGen. As noted above the Arch liabilities were assumed, via novation, by CatGen in January 2016. The Markel liabilities were novated to CatGen in October 2018.

The Company maintains reinsurance with certain other third-party reinsurers under which such reinsurers have agreed to indemnify the Company for \$1,500,000 excess of \$500,000 (as of 01/01/09).

The Company’s reinsurance agreements with the reinsurers do not eliminate or change the Company’s direct obligations to its policyholders for the payment of the full amount of losses covered under the policies the Company issued. The Company is required to pay the full amount

of all such covered losses even if one or more of its reinsurers fail to meet their obligations under a reinsurance agreement.

Management

The Board of Directors is responsible for directing the management of the Company. The Board of Directors met 4 times in 2018 and each director attended at least 75% of the aggregate of the total number of meetings of the Board of Directors. The Company's Bylaws provide that the Board of Directors shall consist of up to five persons and that the number of persons serving on the Board of Directors may be increased or decreased by amendment of the Bylaws. The Bylaws of the Company also provide for staggered three-year terms of office for the Company's directors. Officers of the Company are elected by the Board of Directors and serve at the discretion of the Board of Directors.

Currently, the directors and officers of the Company are as follows:

Hugh McCreery – Mr. McCreery has served as director and Chairman of the Board of the Company since December 2017. Prior to then he was the Chief Financial Officer and Treasurer of the Company since February 2015. He has been a director and treasurer of RLCH and its subsidiaries since May 2010.

Mark Heald - Mr. Heald has served as a director of the Company since 2003. He is the Chief Financial Officer of JKB Development, Inc., a Company policyholder located in Turlock, California.

Charles Spinelli - Mr. Spinelli has served as a director of the Company since 2005. He is the President and founder of Spinelli Homes, Inc., a Company policyholder located in Anchorage, Alaska, and is the former President of the Anchorage Home Builders Association. He also is a past director of the National Home Builders Association.

Deborah White - Ms. White has served as a director of the Company since 2003. Ms. White formerly owned and served as Vice President of A&W Concrete, located in Santa Rosa, California.

Compensation

As indicated above, most of the day-to-day functions of the Company are managed by RLCH pursuant to the Management Agreement between RLCH and the Company. Those directors and officers of the Company who are also employees of CUSIS are paid a salary by CUSIS. CUSIS pays a salary to the CUSIS claims examiners who adjust the Company's claims. As part of a Claims Service Agreement between the Company and CUSIS, the Company reimburses CUSIS for claims adjustment service salaries. Members of the Company's Board of Directors who are not officers of RLCH receive an annual retainer fee, in addition to reimbursement of expenses.

Shareholder Nominations and Proposals

The Company's Bylaws contain the following provisions concerning shareholder nominations and proposals:

Any shareholder proposal or nomination for the election of a director by a shareholder shall be delivered to the Secretary of the Corporation no less than ninety (90) days nor more than one hundred twenty (120) days in advance of the first anniversary of the Corporation's annual meeting held in the prior year; provided, however, that in the event the Corporation shall not have had an annual meeting in the prior year, such notice shall be delivered no less than ninety (90) days nor more than one hundred twenty (120) days in advance of June 15 of the current year. Such shareholder nominations (a) must contain as to each person whom the shareholder proposes to nominate for election or re-election as a director at the annual meeting: (w) the name, age, business address and residence address of the proposed nominee, (x) the principal occupation or employment of the proposed nominee, (y) the class and number of shares of capital stock of the Corporation which are beneficially owned by the proposed nominee, and (z) all information relating to such person that is required to be disclosed in the then-current form of biographical affidavit appropriate for filing with District of Columbia insurance regulatory authorities; and (b) as to the shareholder giving notice of nominees for election at the annual meeting, (i) the name and record address of the shareholder, and (ii) the class and number of shares of capital stock of the Corporation which are beneficially owned by the shareholder. With respect to any other proposal, the shareholder's notice must include a description of the business or proposal proposed to be brought before the meeting, the purposes or reasons for the proposal, and any material interest of the shareholder in such business or proposal. A person nominated by a shareholder for election to the Board of Directors shall be eligible to serve as a director only if the nomination was made in accordance with the procedures set forth in this bylaw. Any other business brought before a meeting by shareholder may only be conducted at such meeting if the business was proposed in accordance with the procedures set forth in this bylaw. Except as otherwise provided by law, the articles of incorporation or these bylaws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be conducted at the meeting was made or proposed in accordance with the procedures set forth in this bylaw. If any proposed nomination or business is not in compliance with this bylaw, the chairman may declare that such defective proposal or nomination shall be disregarded.

No nominations or proposals were received from shareholders in 2019.