

**Examination Report  
of the  
ROCKINGHAM SPECIALTY, INCORPORATED  
Harrisonburg, Virginia  
as of  
December 31, 2021**

# COMMONWEALTH OF VIRGINIA



**SCOTT A. WHITE**  
**COMMISSIONER OF INSURANCE**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Rockingham Specialty, Incorporated as of December 31, 2021, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand  
and affixed to the original the seal of the Bureau at the City  
of Richmond, Virginia this 1<sup>st</sup> day of February 2023

Scott A. White  
Commissioner of Insurance



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Richmond, Virginia  
November 3, 2022

Honorable Scott A. White  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, an examination of the affairs and financial condition of the

**ROCKINGHAM SPECIALTY, INCORPORATED**

Harrisonburg, Virginia,

hereinafter referred to as the Company, has been completed. The report is hereby submitted for your consideration.

**SCOPE OF THE EXAMINATION**

This is the first examination by representatives of the State Corporation Commission Bureau of Insurance (Bureau). This examination covers the period from the Company's initial licensing, October 1, 2019 through December 31, 2021.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's 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 Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

The services of Merlinos & Associates, Inc. were employed to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves reported as of December 31, 2021.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

## **HISTORY**

The Company is licensed as a domestic surplus lines insurer pursuant to Code of Virginia Section 38.2-4811.1. The Company was incorporated on January 1, 2019, and licensed and added to the Rockingham Mutual Group, Inc. (Group) holding company structure effective October 1, 2019. The Company is a wholly-owned subsidiary of Rockingham Group, Inc. (RGI) which is a subsidiary of the Group. The Company is licensed in Virginia as a domestic surplus lines insurer to provide the Group with surplus lines eligibility.

According to its articles of incorporation as of January 1, 2019, the Company was organized for the following purposes:

(a) To carry on and conduct the business of a domestic surplus lines insurance company which will undertake the issuance of coverage in the following classes of insurance as more particularly defined and classified in the Code of Virginia (presently Article 2 of Chapter 1 of Title 38.2): including, but not limited to, credit accident and sickness insurance, accident and sickness insurance, fire insurance, miscellaneous property insurance, water damage insurance, burglary and theft insurance, glass insurance, boiler and machinery insurance, animal insurance, personal injury liability insurance, property damage liability insurance, workers' compensation and employers' liability insurance, fidelity insurance, surety insurance, credit insurance, credit involuntary unemployment insurance, credit property insurance, motor vehicle insurance, aircraft insurance, marine insurance, legal services insurance, mortgage guaranty insurance, home protection insurance, homeowners insurance, farmowners insurance, and commercial multi-peril insurance.

(b) To exercise all rights, privileges, powers and immunities given to corporations by the laws of the Commonwealth of Virginia, now existing or hereafter enacted—to the extent such laws apply to insurance companies.

(c) To do all acts and things that may be reasonably necessary, convenient or proper for the execution of its general powers and the accomplishment of its principal purposes.

### MANAGEMENT AND CONTROL

According to the bylaws, management of the Company shall be vested in a board of directors (board) of not less than 5 nor more than 13 persons elected by the members at annual meetings of the Company. Directors shall be elected for a term of one year and each and shall serve until their successors are elected and qualified.

The bylaws provide that the board shall elect the officers of the Company. The officers shall be a chairman of the board, a vice chairman of the board, a president, one or more vice presidents, a secretary, a treasurer, and a chief financial officer. The board may, if it desires, elect additional officers. The president, chairman, and vice chairman must be directors, but the other officers need not be directors. Officers shall be elected for terms of one year but shall hold such office only at the pleasure of the board of directors. Any two or more offices may be held by the same person except the offices of president and secretary and the offices of chairman and vice chairman of the board. At December 31, 2021 the board of directors and officers were as follows:

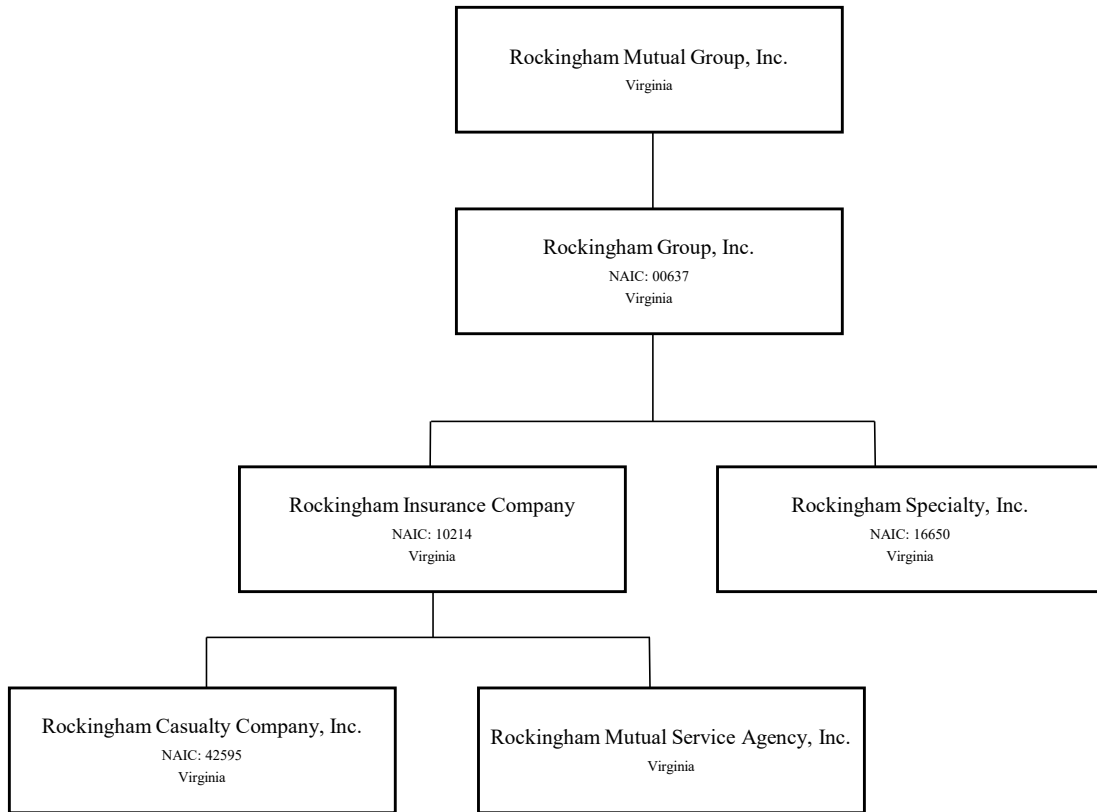
<u>Directors</u>	<u>Principal Business Affiliation</u>
Gene Patrick Berry	Consultant Indianapolis, Indiana
Michelle Suzanne Cox	Retired Cross Junction, Virginia
Douglas Gene Driver	Retired Broadway, Virginia
Horace Rogers Higgins, III	Principal OneDigital Health & Benefits Charlottesville, Virginia
Anne Burns Keeler	Consultant Staunton, Virginia

Robert Lehman Lyon	President and Chief Executive Officer of the Company Harrisonburg, Virginia
Timothy Gerard O'Shea	Vice President Dayforce Benefits, Ceridian Corporation Richmond, Virginia
Todd Andrew Putney	Retired Roanoke, Virginia
Christopher Scott Runion	President Eddie Edwards Signs Harrisonburg, Virginia
Pamela Lynette Turner	Sr. Vice President, Corporate Strategy Compass Community Credit Union Trinidad, California

Officers

Timothy G. O'Shea	Chairman of the Board
Douglas G. Driver	Vice Chairman of the Board
Robert L. Lyon	President and Chief Executive Officer
John K. Schwertfuehrer	Chief Financial Officer and Treasurer
Deborah L. Van Horn	Vice President

The Company is a member of a holding company. The following organizational chart illustrates this relationship as of December 31, 2021:





## **RELATED PARTY TRANSACTIONS**

### **Services Agreement:**

The Company has a services agreement in effect with Rockingham Insurance Company (RIC). Under the terms of the agreement, RIC provides facilities and services to the Company including, but not limited to, management, administration, claims, operations, accounting, and personnel. RIC will also execute the payment of agent commissions and fees and administer all reinsurance agreements.

In consideration for these services, the Company will reimburse RIC for the actual cost of agent commissions and fees paid by RIC. The Company will also reimburse RIC for the Company's net cost of reinsurance premiums paid by RIC. Settlement of all services and expenses will be on an actual or allocated percentage basis with payments made to RIC within approximately 90 days after the end of the month to which they are applicable. During the period under review, the Company paid RIC \$0, \$0, and \$893,643 in 2019, 2020, and 2021, respectively.

### **Tax Sharing Agreement:**

The Company is a party to a tax sharing agreement with RIC, Rockingham Casualty Company, Inc. (RCC), and Rockingham Mutual Service Agency, Inc., which provides for the filing of a consolidated federal income tax return. The income tax expense is allocated using the separate return method with current credit for net losses. Intercompany tax balances are settled annually in the fourth quarter.

### **Capital Contributions and Dividends:**

The Company received an initial capitalization of \$16,000,000 from RGI on June 24, 2019. An additional \$4,000,000 was received from RGI on September 30, 2021. The Company did not pay any dividends.

## **TERRITORY AND PLAN OF OPERATION**

The Company is a Virginia domestic surplus lines insurer. In addition to Virginia, the Company is eligible to write personal and commercial surplus lines insurance in 44 other states and the District of Columbia. Policies are sold and distributed in non-admitted markets through general agents. Primary lines of business include commercial multiple peril, commercial property and contractors' general liability.

The Company utilizes RIC's personnel and facilities. RSI pays expenses that can be directly attributed to it. Expenses applicable to more than one company in the group are pro-rated using the most appropriate methodology for the subject expense. Claims are adjusted by RIC's personnel and third-party administrators. Independent adjusters are used for property inspections when necessary. RSI is a participant in an intercompany pooling agreement with its affiliates RIC and RCC.

## REINSURANCE

The Company and other members of the Rockingham Group had the following reinsurance agreements in force at December 31, 2021:

### Ceded Reinsurance:

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Multiple Line Excess of Loss (Core Program)	Property	\$250,000 any one risk any one occurrence	\$750,000 excess of \$250,000 any one net loss any one risk; \$2,250,000 any one occurrence
	Casualty	\$200,000 each loss occurrence	\$800,000 excess of \$200,000 each loss occurrence

For losses arising out of a combination of property and casualty under this agreement, the reinsurer shall be liable for the ultimate net loss over and above an initial ultimate net loss of \$200,000 each loss occurrence, subject to a limit of liability to the reinsurer of \$250,000 each loss occurrence.

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Casualty Excess of Loss (Atlas General)	Commercial General Liability	\$250,000 each loss occurrence	\$750,000 excess of \$250,000 each loss occurrence
Quota Share (Atlas General)	Casualty	80%	20% of net liability (placed 78.5%); \$50,000 any one loss occurrence; annual aggregate limit is 200% of Company's ceded net written premium

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Property Per Risk	Property	\$1,000,000 ultimate net loss, each loss	\$2,000,000 excess of \$1,000,000 ultimate net loss, each loss, each risk
Casualty Excess of Loss	Casualty	\$1,000,000 ultimate net loss, each loss occurrence	\$3,000,000 ultimate net loss excess of \$1,000,000 each loss occurrence
First Excess Catastrophe	Property	\$5,000,000 each loss occurrence	\$5,000,000 excess of \$5,000,000 each loss occurrence
Second Excess Catastrophe	Property	\$10,000,000 each loss occurrence	\$15,000,000 excess of \$10,000,000 each loss occurrence
Third Excess Catastrophe	Property	\$25,000,000 each loss occurrence	\$47,000,000 excess of \$25,000,000 each loss occurrence
Fourth Excess Catastrophe	Property	\$72,000,000 each loss occurrence	\$53,000,000 excess of \$72,000,000 each loss occurrence
Quota Share (Ethos)	Property	70%	30% of gross liability, \$75,000 of any one loss occurrence; annual aggregate limit is \$6,000,000
Property Facultative (Atlas)	Property	\$3,000,000	\$7,000,000 ultimate net loss

<u>Type of Agreement</u>	<u>Line of Business</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Quota Share (iDemand)	Flood	10% of net liability	90% of net liability; to not exceed 90% of \$20,000,000 as respects any one loss occurrence; net written premium shall not exceed \$10,000,000 during the term of the agreement

The Company offers an endorsement to its commercial, farmowners, homeowners and dwelling fire policies coverage for equipment breakdown. This business is ceded 100% to the reinsurer.

Certain agreements provide for deposit and minimum premiums, reinstatement premiums and/or specific ceding commissions. In some cases, contingent commissions or profits are to be calculated and paid. All agreements contain an insolvency clause. Any portion of the reinsurance credits for outstanding losses and loss adjustment expenses recoverable provided by the aforementioned agreements, and placed with unauthorized reinsurers, shall be, at the request of the Company, funded by the unauthorized reinsurer by a Letter of Credit or cash advance.

Assumed Reinsurance:

Intercompany:

The Company entered into an intercompany pooling agreement with RIC and RCC effective January 1, 2020. This agreement provides for the Company to assume 100% of the covered business by RIC and RCC. The Company agrees to then cede, and the parties assume, the specified participation percentage.

Rockingham Insurance Company	46%
Rockingham Casualty Company	32%
Rockingham Specialty, Inc.	22%
	100%

NAMIC Insurance Company, Inc.:

The Company assumed reinsurance from the NAMIC Insurance Company, Inc. under a retrocessional agreement. The Company assumed 0.58337% of:

- (a) 50% of the first \$1,000,000 each claim, each policy, and in the aggregate where applicable of the primary insurer of directors and officers liability insurance, insurance company professional liability insurance, insurance agents and brokers errors and omissions liability insurance, insurance company trustees and fiduciaries liability insurance and professional liability for insurance related organizations; and
- (b) 85% of the next \$4,000,000 each claim, each policy, and in the aggregate where applicable, in excess of \$1,000,000 each claim, each policy, and in the aggregate where applicable of the primary insurer of directors and officers liability insurance, insurance company professional liability insurance, insurance agents and brokers errors and omissions liability insurance, insurance company trustees and fiduciaries liability insurance and professional liability for insurance related organizations.

The aggregate share of the Company's assumption shall not exceed 1.16675% of the net retained liability.

### GROWTH OF THE COMPANY

The following data, obtained from Annual Statements filed with the Bureau and from examination reports, indicates the growth of the Company from inception to the period ending December 31, 2021:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Common Capital Stock</u>	<u>Gross Paid In</u>	<u>Unassigned Funds</u>
2019	\$17,109,252	\$917,616	\$1,000,000	\$15,000,000	\$191,636
2020	26,475,522	10,470,462	1,000,000	15,000,000	5,060
2021	49,269,468	30,948,610	1,250,000	18,750,000	(1,679,142)

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Loss)</u>
2019	\$0	\$0	\$39,890	(\$39,890)
2020	20,656,382	11,879,768	9,381,301	(604,687)
2021	25,236,835	16,651,999	10,923,046	(2,338,210)

**FINANCIAL STATEMENTS**

The following statutory financial statements present the financial condition of the company for the period ending December 31, 2021. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2021.



**ASSETS**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$18,657,114		\$18,657,114
Cash and short-term investments	8,097,774		8,097,774
Investment income due and accrued	94,533		94,533
Uncollected premiums and agents' balances in the course of collection	5,614,971		5,614,971
Amounts recoverable from reinsurers	274,218		274,218
Funds held by or deposited with reinsured companies	15,423,617		15,423,617
Current federal income tax recoverable	281,383		281,383
Net deferred tax asset	865,897	49,414	816,483
Aggregate write ins for other than invested assets	9,375		9,375
Totals	<u>\$49,318,882</u>	<u>\$49,414</u>	<u>\$49,269,468</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses		\$9,567,581
Loss adjustment expenses		3,323,424
Commissions payable, contingent commissions and other similar charges		425,074
Other expenses		18,194
Unearned premiums		15,512,402
Ceded reinsurance premiums payable		2,040,163
Payable to parent, subsidiaries and affiliates		<u>61,772</u>
 Total liabilities		 \$30,948,610
 Common capital stock	\$1,250,000	
Gross paid in and contributed surplus	18,750,000	
Unassigned funds (surplus)	<u>(1,679,142)</u>	
 Surplus as regards policyholders		 <u>18,320,858</u>
 Totals		 <u><u>\$49,269,468</u></u>

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**STATEMENT OF INCOME**

UNDERWRITING INCOME

Premiums earned	<u>\$25,236,835</u>
Deductions:	
Losses incurred	\$13,834,346
Loss adjustment expenses incurred	2,817,653
Other underwriting expenses incurred	<u>10,923,046</u>
Total underwriting deductions	<u>\$27,575,045</u>
Net underwriting loss	<u>(\$2,338,210)</u>

INVESTMENT INCOME

Net investment income earned	\$230,142
Net realized capital losses	<u>1,403</u>
Net investment gain	<u>\$231,545</u>
Net income before federal income taxes	(\$2,106,665)
Federal income tax incurred	<u>(281,761)</u>
Net income	<u><u>(\$1,824,904)</u></u>

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR PERIOD UNDER REVIEW**

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Surplus as regards policyholders, December 31, previous year	<u>\$0</u>	<u>\$16,191,636</u>	<u>\$16,005,060</u>
Net income	\$191,636	(\$862,357)	(\$1,824,904)
Change in net deferred income tax		705,571	160,326
Change in nonadmitted assets		(29,790)	(19,624)
Capital changes: paid in	1,000,000		250,000
Surplus adjustments: paid in	<u>15,000,000</u>		<u>3,750,000</u>
Change in surplus as regards policyholders for the year	<u>\$16,191,636</u>	<u>(\$186,576)</u>	<u>\$2,315,798</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$16,191,636</u></u>	<u><u>\$16,005,060</u></u>	<u><u>\$18,320,858</u></u>

**CASH FLOW****Cash From Operations**

Premiums collected net of reinsurance	\$26,446,409
Net investment income	<u>367,439</u>
Total	<u>\$26,813,848</u>
Benefits and loss related payments	\$11,358,197
Commissions, expenses paid and aggregate write-ins for deductions	12,936,343
Federal income taxes paid	<u>657,378</u>
Total	<u>\$24,951,918</u>
Net cash from operations	<u>\$1,861,930</u>

**Cash From Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$2,244,687
Net gains on cash, cash equivalents and short-term investments	<u>14</u>
Total investment proceeds	<u>\$2,244,701</u>
Cost of investments acquired (long-term only):	
Bonds	<u>\$5,336,004</u>
Total investments acquired	<u>\$5,336,004</u>
Net cash from investments	<u>(\$3,091,303)</u>

**Cash From Financing and Miscellaneous Sources**

Cash provided (applied):	
Capital and paid in surplus	\$4,000,000
Other cash applied	<u>(1,558,401)</u>
Net cash from financing and miscellaneous sources	<u>\$2,441,599</u>
Net change in cash and short-term investments	<u>\$1,212,226</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

Cash and short-term investments:	
Beginning of year	\$6,885,548
End of year	<u>8,097,774</u>
Net change in cash and short-term investments	<u>\$1,212,226</u>

**SUBSEQUENT EVENT**

On July 28, 2022, the Board of Directors appointed Kevin Vance as Chief Risk Officer.

**ACKNOWLEDGEMENT**

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, T. Bradford Earley, Jr., AIAF, CFE, CPCU, Mario A. Cuellar, CFE, Danielle T. Ellis, and Benjamin B. MacKercher, CFE of the Bureau participated in the work of the examination.

Respectfully submitted,

*Jennifer K. Blizzard*

Jennifer K. Blizzard, AIM, AIAF, CFE  
Insurance Principal Financial Analyst



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January 26, 2023

David H. Smith, CFE, CPCU  
Chief Examiner  
Commonwealth of Virginia  
State Corporation Commission  
Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23218

\*\*\*Via E-Mail\*\*\*

Re: Rockingham Specialty, Inc.  
Examination Report as of December 31, 2021

Dear Mr. Smith:

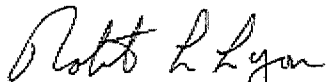
This is in response to your letter dated January 10, 2023, regarding the Rockingham Specialty, Inc. Examination Report as of December 31, 2021 that was recently completed by the Virginia Bureau of Insurance.

We acknowledge receipt of the draft examination report and have no issues with the findings contained therein. Therefore, we do not wish to request a hearing before the State Corporation Commission.

I would like to express my thanks to the examination team for the efficient and professional manner in which they handled themselves while completing the examination fieldwork.

In terms of the final report, five copies should be sufficient for our needs.

Sincerely,



Robert L. Lyon  
President and Chief Executive Officer

cc: Mr. Douglas G. Driver, Chairman of the Board of Directors  
Ms. Anne B. Keeler, Chair of the Audit Committee  
Mr. John K. Schwertfuehrer, Chief Financial Officer & Treasurer

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Wherever you are, we're *here*.