

EXAMINATION REPORT
on
JAMES RIVER CASUALTY COMPANY
Richmond, Virginia
as of
December 31, 2019

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 James River Casualty Company as of December 31, 2019, 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 2nd day of July 2021

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
May 27, 2021

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

Dear Sir:

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

James River Casualty Company

Richmond, Virginia

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

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2015 through December 31, 2019. Assets were verified and liabilities were established at December 31, 2019.

This 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 and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

The examination of the Company was conducted by the Bureau as part of the James River Insurance Group. The Ohio Department of Insurance was the lead state regulator of the group examination. The examination of the Company was conducted concurrently with the examination of the following insurers:

Insurer

James River Insurance Company
 Falls Lake Fire and Casualty Company
 Falls Lake National Insurance Company
 Stonewood Insurance Company

Domiciliary State

Ohio
 California
 Ohio
 North Carolina

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.

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 commenced business on August 26, 2009 as a property and casualty insurance company. The Company was initially capitalized by issuing 10,000 shares with a par value of \$100 to JRIC for \$6,000,000, with \$1,000,000 reported as common capital stock and \$5,000,000 reported as additional paid-in-capital. On December 5, 2011, the Company received \$9,000,000 from JRIC as additional paid-in-capital in order to meet the Company's minimum capital and surplus requirements to write policies on an excess surplus lines basis in Ohio.

MANAGEMENT AND CONTROL

Management is vested in a board of directors, which shall consist of five members. Each director shall be elected to hold office until the next succeeding annual meeting of the shareholders or until his successor shall have been elected and qualified. A quorum shall consist of a majority of the number of directors constituting the board.

The bylaws provide that the officers of the Company shall be a chairman of the board and a president, each of whom shall be a director of the Company, one or more vice presidents, a secretary and a treasurer, and such other officers determined to be necessary.

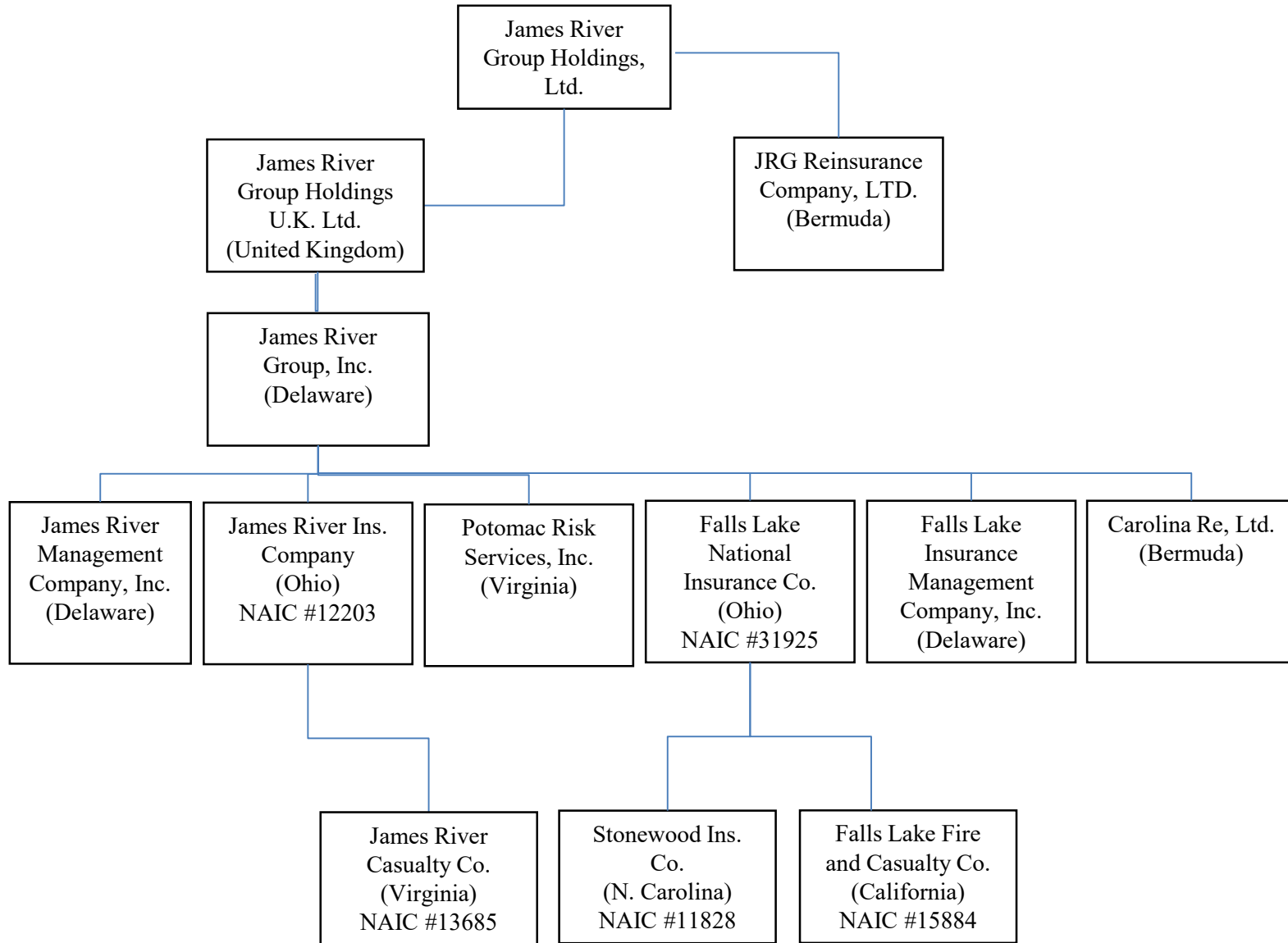
Directors and officers at December 31, 2019 were as follows:

<u>Director:</u>	<u>Principal Business Affiliation:</u>
John G. Clarke	Senior Vice President James River Insurance Company Richmond, Virginia
Sarah C. Doran	Chief Financial Officer James River Group Holdings, Ltd. Richmond, Virginia
Timothy S. MacAleese	Senior Vice President and Chief Financial Officer James River Insurance Company Richmond, Virginia
Richard J. Schmitzer	President and Chief Executive Officer James River Insurance Company Richmond, Virginia
Richard H. Seward	Senior Vice President and Chief Actuary James River Insurance Company Richmond, Virginia

Officers:

Sarah C. Doran	Chairman of the Board
Richard J. Schmitzer	President and Chief Executive Officer
Timothy S. MacAleese	Senior Vice President and Chief Financial Officer
Courtenay Warren	Senior Vice President and Chief Claims Officer
Patricia A. Sells	Treasurer and Controller
Pamela L. Knowles	Secretary
Todd Hierman	Assistant Secretary

The Company is a wholly owned subsidiary of James River Insurance Company (JRIC), an Ohio domestic. JRIC is wholly owned by James River Group, Inc., a Delaware corporation, which is a wholly owned subsidiary of James River Group Holdings UK, Ltd. (United Kingdom). The following chart illustrates this insurance holding company system at December 31, 2019:



RELATED PARTY TRANSACTIONS

Management Service Agreements

Effective August 12, 2009, the Company entered into a management services cost sharing agreement with James River Management Company, Inc. (JRMC), an affiliate. Pursuant to this Agreement, JRMC will provide accounting, administrative, underwriting, and claim services. Fees allocated to the Company for these services during 2015, 2016, 2017, 2018 and 2019 were \$463,760, \$636,257, \$980,108, \$1,564,495 and \$1,012,624, respectively.

Consolidated Tax Sharing Agreement

On April 19, 2007, the Company entered into a consolidated tax sharing agreement with James River Group, Inc. and other affiliates. Under this agreement, which began with the 2007 tax year, federal income taxes will be allocated to the Company on approximately the same basis as though the Company were filing a separate return. Estimated tax payments are settled with the Company's parent at the time such estimates are payable to the Internal Revenue Service. The final settlement between the Company and its affiliates is to be made within ninety days of the filing of the tax return.

Dividends

The Company paid no cash dividends during the period covered by this examination.

TERRITORY AND PLAN OF OPERATION

The Company is domiciled and licensed in the Commonwealth of Virginia. As of December 31, 2019, the Company was approved to write the following lines of business in Virginia:

Fire
Miscellaneous Property and Casualty
Inland Marine
Liability Other Than Auto
Automobile Liability
Boiler and Machinery

In addition, the Company is approved for surplus lines business in Ohio.

The Company was formed to supplement the business of JRIC and is involved exclusively in the sale of various commercial property and liability coverage on an excess and surplus lines basis. The Company offers coverage for property, general liability, professional liability, medical malpractice liability, and products liability.

The Company sells its policies through the same independent wholesale and retail surplus lines agents utilized by JRIC.

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 for the ten-year period ending December 31, 2019:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital Paid Up</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>
2010	\$6,244,664	\$140,681	\$1,000,000	\$5,000,000	\$103,983
2011	15,618,631	426,963	1,000,000	14,000,000	191,668
2012	15,928,865	658,038	1,000,000	14,000,000	270,827
2013	26,735,030	11,166,312	1,000,000	14,000,000	568,718
2014	28,911,305	13,049,504	1,000,000	14,000,000	861,801
2015	30,566,480	14,198,940	1,000,000	14,000,000	1,367,540
2016	45,455,735	28,924,162	1,000,000	14,000,000	1,531,573
2017	44,660,240	27,341,401	1,000,000	14,000,000	2,318,839
2018	50,476,284	32,579,793	1,000,000	14,000,000	2,896,491
2019	54,453,735	35,280,076	1,000,000	14,000,000	4,173,659

<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>
2010	\$15,619	\$32,858	\$33,873	(\$51,112)
2011	57,965	115,033	11,887	(68,955)
2012	125,416	277,779	(63,212)	(89,151)
2013	2,387,848	877,323	1,027,915	482,610
2014	3,379,980	1,906,881	1,189,846	283,253
2015	4,250,008	2,771,520	1,213,479	265,009
2016	9,598,682	8,170,036	1,706,032	(277,386)
2017	7,907,511	5,296,340	1,960,869	650,302
2018	8,253,444	6,131,094	1,675,761	446,589
2019	9,767,066	7,589,160	1,688,827	489,079

REINSURANCE

The Company's reinsurance program consists of various excess of loss and quota share reinsurance contracts with unaffiliated and affiliated reinsurers.

Unaffiliated Reinsurance Ceded:

The Company's reinsurance program includes a combination of excess of loss and quota share treaties with unaffiliated reinsurers. The retention level per occurrence for primary casualty is up to \$2,000,000 per occurrence and for excess casualty it is up to \$1,000,000 per occurrence. The primary level for primary specialty casualty, including professional liability, is up to \$1,000,000 per occurrence, subject to a \$1,000,000 aggregate deductible. The retention level per risk for excess property is \$5,000,000 per risk. The property catastrophe reinsurance treaty has a limit of \$40,000,000 as of December 31, 2019.

Affiliated Reinsurance Ceded:

Effective January 1, 2008, the Company began ceding insurance to JRG Reinsurance Company, Ltd. (JRG Re), an affiliate based in Bermuda, through a 70% quota share agreement. Under this agreement, the Company cedes 70% of its net premiums earned and its net losses and allocated loss adjusting expenses incurred subsequent to December 31, 2007 on all lines of business for policies with effective dates prior to January 1, 2018.

Effective January 1, 2018, the Company entered into a reinsurance agreement with Carolina Re Ltd., an affiliate, whereby the Company cedes 70% of premiums earned and 70% of losses and allocated loss adjustment expenses incurred, each net of third party reinsurance.

Effective January 1, 2013, the Company entered into an intercompany reinsurance pooling arrangement with its United States affiliated insurance carriers. All lines of business are subject to the pooling net of any reinsurance. Net business includes business in force on January 1, 2013 and all business written on or subsequent to that date. The pooling provides for proportionate sharing of premiums earned, losses and loss adjustment expenses incurred, and underwriting expenses incurred. On August 1, 2016, Falls Lake Fire and Casualty Company, a California domestic, was added to the intercompany reinsurance pooling agreement. Effective January 1, 2017, the intercompany reinsurance pooling agreement was revised to exclude JRIC's commercial auto line of business. Falls Lake General Insurance Company was merged into JRIC on November 15, 2018.

The intercompany reinsurance pooling participation percentages are as follows:

Falls Lake National Insurance Company (lead company)	10%
James River Insurance Company	61%
Stonewood Insurance Company	14%
James River Casualty Company	9%
Falls Lake Fire and Casualty Insurance Company	6%

All contracts contained an insolvency clause.

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Company for the period ending December 31, 2019. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2019.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$16,478,302		\$16,478,302
Preferred stocks	769,652		769,652
Common stocks	1,190,892		1,190,892
Cash and short-term investments	3,370,610		3,370,610
Investment income due and accrued	108,362		108,362
Uncollected premiums and agents' balances in course of collection	2,884,028		2,884,028
Amounts recoverable from reinsurers	1,356,142		1,356,142
Funds held or deposited with reinsured companies	26,382,407		26,382,407
Net deferred tax asset	726,252	45,603	680,649
Receivables from parent, subsidiaries and affiliates	1,059,485		1,059,485
Aggregate write-ins	173,206		173,206
Totals	<u>\$54,499,338</u>	<u>\$45,603</u>	<u>\$54,453,735</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$12,882,272
Reinsurance payable on paid losses and loss adjustment expenses		2,106,240
Loss adjustment expenses		8,127,745
Current federal income taxes		233,749
Unearned premiums		5,372,391
Ceded reinsurance premiums payable		509,292
Funds held by company under reinsurance treaties		5,545,741
Aggregate write-ins for liabilities		<u>502,646</u>
 Total liabilities		 \$35,280,076
 Common capital stock	 \$1,000,000	
Gross paid in and contributed surplus	14,000,000	
Unassigned funds	<u>4,173,659</u>	
 Surplus as regards policyholders		 <u>19,173,659</u>
 Totals		 <u><u>\$54,453,735</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$9,767,066</u>
Deductions:	
Losses incurred	\$4,280,992
Loss adjustment expenses incurred	3,308,168
Other underwriting expenses incurred	<u>1,688,827</u>
Total underwriting deductions	<u>\$9,277,987</u>
Net underwriting gain	<u>\$489,079</u>

INVESTMENT INCOME

Net investment income earned	\$599,989
Net realized capital losses	<u>19,613</u>
Net investment gain	<u>\$619,602</u>

OTHER INCOME

Aggregate write-ins for miscellaneous income	<u>\$3,351</u>
Total other income	<u>\$3,351</u>
Net income before federal income taxes	\$1,112,032
Federal income taxes incurred	<u>426,254</u>
Net income	<u><u>\$685,778</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Surplus as regards policyholders, December 31, previous year	15,861,801	16,367,540	16,531,573	17,318,839	17,896,495
Net income	570,126	(137,374)	809,956	827,384	685,778
Change in net unrealized capital gains or (losses)	6,642	(44,642)	105,281	(107,181)	141,291
Change in net deferred income tax	(68,964)	260,280	(304,077)	124,089	167,280
Change in nonadmitted assets	(2,065)	85,769	176,106	(266,636)	282,815
Change in surplus as regards policyholders for the year	<u>505,739</u>	<u>164,033</u>	<u>787,266</u>	<u>577,656</u>	<u>1,277,164</u>
Surplus as regards policyholders, December 31, current year	<u><u>16,367,540</u></u>	<u><u>16,531,573</u></u>	<u><u>17,318,839</u></u>	<u><u>17,896,495</u></u>	<u><u>19,173,659</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$8,547,321
Net investment income	698,107
Miscellaneous income	3,351
Total	<u>\$9,248,779</u>
Benefit and loss related payments	\$7,327,843
Commissions, expenses paid and aggregate write-ins for deductions	3,744,720
Federal income taxes paid	292,299
Total	<u>\$11,364,862</u>
Net cash from operations	<u>(\$2,116,083)</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$3,424,903
Stocks	400,000
Net gains on cash and short-term investments	377
Total investment proceeds	<u>\$3,825,280</u>
Cost of investments acquired (long-term only):	
Bonds	\$3,989,594
Total investments acquired	<u>\$3,989,594</u>
Net cash from investments	<u>(\$164,314)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	<u>\$2,289,468</u>
Net cash from financing and miscellaneous sources	<u>\$2,289,468</u>
Net change in cash and short-term investments	<u>\$9,071</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$3,361,539
End of year	<u>\$3,370,610</u>
Net change in cash and short-term investments	<u>\$9,071</u>

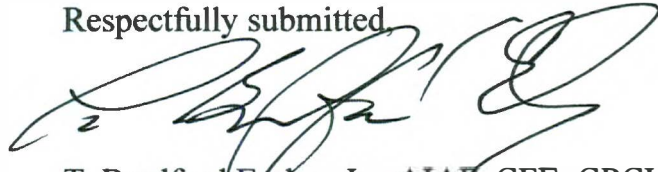
SUBSEQUENT EVENT

On May 6, 2021, the Company's ultimate controlling party, James River Group Holdings, Ltd, announced a public offering of 6,497,000 common shares at a price of \$31.00 per share. The net proceeds of \$192,000,000 are expected to be used for general corporate purposes.

ACKNOWLEDGMENT

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

Respectfully submitted

A handwritten signature in black ink, appearing to read 'T. Bradford Earley, Jr.', written in a cursive style.

T. Bradford Earley, Jr., AIAF, CFE, CPCU
Insurance Principal Financial Analyst
Commonwealth of Virginia



JAMES RIVER GROUP HOLDINGS, LTD.

ACKNOWLEDGEMENT LETTER

July 1, 2021

David H. Smith
Chief Examiner
Virginia Bureau of Insurance
Via Email: David.Smith@scc.virginia.gov

RE: James River Casualty Company ("JRCC")

Dear David,

Please accept this Acknowledgement Letter in response to your recently issued Report of Examination for JRCC as of December 31, 2019. We acknowledge receipt of the December 31, 2019 examination report of James River Casualty Company. We also thank the Bureau for its courteous efforts and support in this regard.

Sincerely,

A handwritten signature in black ink, appearing to read 'Timothy S. MacAleese'.

Digitally signed by Tim
MacAleese
Date: 2021.07.01 12:43:48
-04'00'

Timothy S. MacAleese
Chief Financial Officer
James River Casualty Company

CC: Brad Early, BOI Manager, Brad.Earley@scc.virginia.gov