



**BUILDERS  
MUTUAL**

# 20 18

ANNUAL REPORT



**COMPLETE COVERAGE IS ONE THING.  
COVERAGE DELIVERED WITH A DEEP  
UNDERSTANDING OF YOUR BUSINESS  
IS ANOTHER.**



**NUMBER OF  
POLICYHOLDERS SERVED**

**23,532**

**DIRECT PREMIUM  
WRITTEN REACHED**

**\$373.3M**

**DIVIDENDS DISTRIBUTED**

**\$2.5M**

## From Our President

2018 represented another year of growth for Builders Mutual. The Company is pleased to report direct premium written totaling \$373.3 million for 2018, representing an increase of \$37 million and eclipsing 2017 as the largest premium year in Builders Mutual's history. For the past eight years, we have consistently achieved new milestones in premium and policy growth and continue to strengthen our position as a leading construction insurance carrier in the Southeast and Mid-Atlantic.

At the end of 2018, we served a total of 23,532 policyholders. As we grow, we strive to offer you a unique, personalized customer experience. We send surveys, capture your feedback, and actively work to have a deep understanding of your business. Achieving solid financial results allows us the opportunity to invest in more support, more resources, and more expertise to serve you.

Throughout this annual report, you will see examples of the enhancements we have made, the services we provide, and the expertise we share. Our leadership and our employees care about the industry we support and giving back has become an integral part of our culture. In 2018, we contributed to disaster relief efforts, we funded research to reduce job-site injuries, and we volunteered to help others. We were also proud to distribute a \$2.5 million dividend to eligible Workers' Compensation policyholders.

Together, we can get the job done right.

**John K. Boggs**  
CPA, CGMA, FLMI  
President/Chief Executive Officer





**CUSTOMER SERVICE IS ONE THING.  
DELIVERING A UNIQUE CUSTOMER  
EXPERIENCE FROM A TEAM OF  
INDUSTRY EXPERTS IS ANOTHER.**

At Builders Mutual, we are committed to being the leader in construction insurance in the Southeast and Mid-Atlantic. That's why we continually work to enhance the services we provide to our customers.

## Enhancements

- » The new **Claims Center**, [buildersmutual.com/claims](http://buildersmutual.com/claims), has everything policyholders and agents need to easily and efficiently report and manage claims.
- » **All policy mailings** now include a flyer highlighting the benefits of doing business with Builders Mutual. This flyer includes frequently used contact numbers, quick links to online resources, and all the ways we provide support that goes beyond the pages of your policy.
- » The **Enhanced Builders Risk One Shot** was updated to simplify the renewal process and reduce the amount of mail sent to policyholders. We also updated the design and format of our **Builders Risk Monthly Reporting** forms, making it easier to complete the form and reducing common errors. These changes were made in response to policyholder and agent feedback and align us more closely with common industry practices.

## Services



### AUDIT

Builders Mutual performed 20,986 physical audits with policyholders in 2018 to review WC and GL exposures and classifications, ensuring that estimated premiums are based on actual operations. Over 97% of policyholders surveyed in 2018 were satisfied with their audit experience.

We also offer the option for eligible policyholders to complete a self-audit by paper or online. 43% of all self-audits were submitted online in 2018.



### CLAIMS

Our claims team supported customers with over 8,000 newly reported claims in 2018. Once the claim is reported, policyholders are assigned a single point of contact who handles their claims from beginning to end.



### CUSTOMER CONTACT CENTER

With our live-voice personalized service, our customer service representatives are ready to answer any of your policy questions, along with dedicated claims reporting and express payment lines. This year, over 96% of the calls were answered with a live voice and 89% of customers surveyed were satisfied with their call experience.



### RISK MANAGEMENT SUPPORT

Our Risk Management team is dedicated to helping our customers protect their bottom line and keep their workers safe from injury. In 2018, our risk management consultants partnered with policyholders to conduct 2,933 job-site surveys and 167 safety training sessions.



**SAFETY EDUCATION IS ONE THING.  
SAFETY EDUCATION DELIVERED FROM  
SOMEONE WITH A DESIRE TO PROTECT  
YOUR CREW IS ANOTHER.**

Our dedication to the construction industry goes beyond our footprint and extends to anyone working on a job-site. We continue to share our industry expertise through a variety of resources and initiatives.

## Thought Leadership

In 2018, the Builders Mutual blog continued to grow into a robust resource.

- » We tapped into the knowledge of seven different departments to create 34 original blog articles.
- » We redesigned the blog and organized content into the categories of safety, culture, business, and equipment.
- » We created the opportunity for policyholders to subscribe to our blog newsletter to receive our latest content on a monthly basis.
- » More than 7,000 users accessed the blog in 2018.
- » Top 5 articles in 2018 ranked in order of views:
  1. Danger in the Air: Implementing Respiratory Protection
  2. Subcontract Agreements: Extra Protection for General Contractors
  3. Prevent Ladder Accidents Through Safety Training
  4. Hurricane Season: A Quick Guide to Storm Recovery
  5. The Labor Shortage: The Cost of a Poor Hire

## Industry Commitment



### BUILDERS UNIVERSITY®

Builders University® strengthens our customers' safety programs and addresses risks that impact their profits. While we offer a variety of standard courses, our OSHA 10-Hour continues to be the most requested class, with 561 attendees in 2018.



### OSHA STAND-DOWN

We brought safety education to the job-site with targeted fall protection and ladder safety training. The Builders Mutual truck and trailer hit the road during the week of OSHA Stand-Down from May 7 to 11 to visit sites in NC, SC, and VA. Through our partnership with the NC Department of Labor and Little Giant Ladder Systems, our corporate road show reached 180 workers with presentations in English and Spanish. Our risk management team conducted an additional 86 Stand-Downs reaching a total of 1,241 workers across our entire footprint.



### PUT YOUR GUARD UP

Builders Mutual wants to effect change in the construction industry by doing something that will improve safety. As a result, we began planning our Put Your Guard Up campaign. Visit [putyourguardup.com](http://putyourguardup.com) to learn about ways this safety campaign will empower everyone on the job-site to recognize the important role guardrails play in protecting lives.



### SAFETY SPONSORSHIPS

For the first time, we served as the Official Safety Sponsor of the National Association of Home Builders and their Safety 365 campaign designed to promote construction safety every day of the year. Additionally, we sponsored and judged Skills USA and Carpentry Apprentice competitions to educate the next generation of workers about the importance of job-site safety.



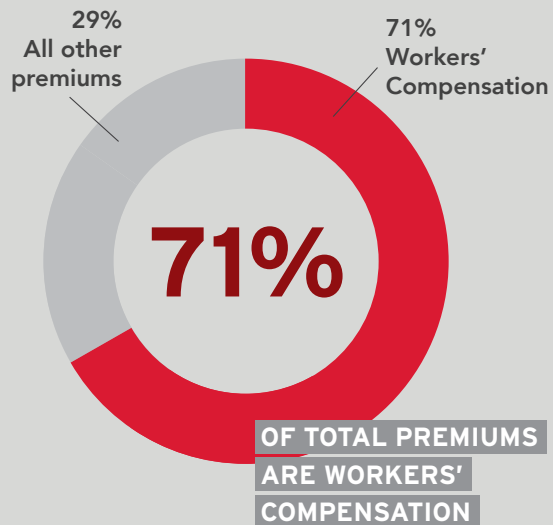
**GROWTH IS ONE THING.**

**GROWTH THAT STRENGTHENS  
OUR POSITION IN THE INDUSTRY  
IS ANOTHER.**



## Premium Growth

While Workers' Compensation premiums represent 71% of total premiums, we continue to implement strategies to further diversify our business to provide complete coverage to our customers.



## Policyholder Growth



TOTAL POLICIES SERVICED IN 2018

**40,578**

WE INSURED

**23,532**

GENERAL AND TRADE CONTRACTORS

### OUR TOP TRADES INSURED\*

- |                            |                              |
|----------------------------|------------------------------|
| <b>1</b> Painting          | <b>6</b> Masonry             |
| <b>2</b> HVAC              | <b>7</b> Roofing             |
| <b>3</b> Electrical Wiring | <b>8</b> Flooring            |
| <b>4</b> Excavation        | <b>9</b> Street Construction |
| <b>5</b> Landscaping       | <b>10</b> Tile and Terrazzo  |

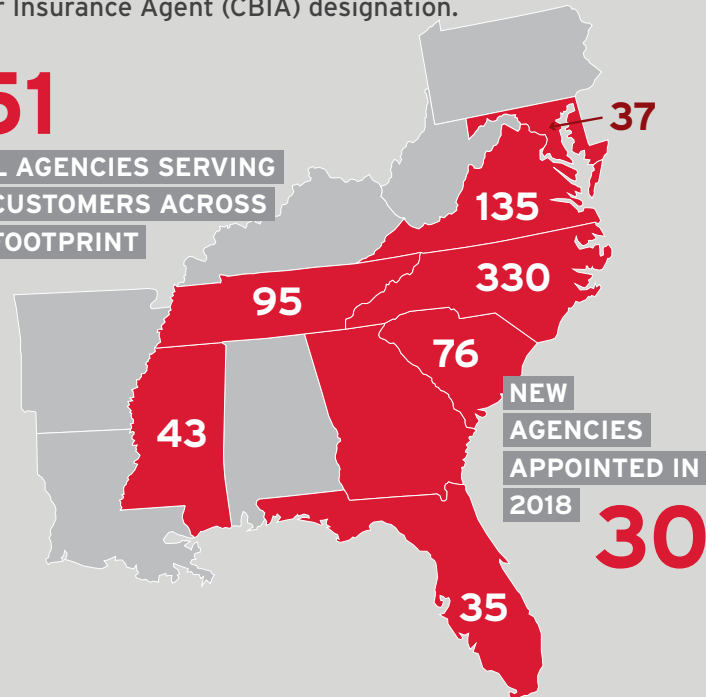
\*By number of customers.

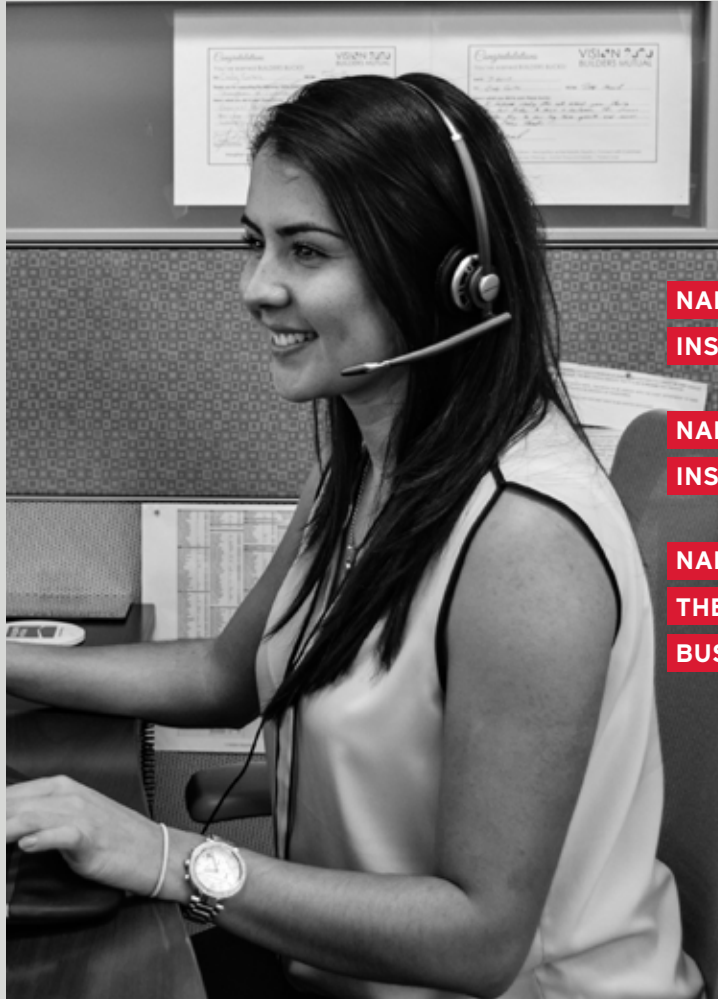
## Agency Growth

We partner with select independent agencies across our footprint who serve as the primary sales and service contacts for our policyholders. Builders University for Agents offers continuing education for our agents and is designed to help them build their industry expertise. In 2018, 57 agents earned their Certified Builder Insurance Agent (CBIA) designation.

**751**

TOTAL AGENCIES SERVING OUR CUSTOMERS ACROSS OUR FOOTPRINT





## Employee Growth

Our people are our greatest asset. Our industry experts help us stand out as a top carrier. In 2018, we were proud to earn these awards:

**NAMED TOP INSURANCE WORKPLACES BY INSURANCE BUSINESS AMERICA.**

**NAMED COMPANY OF THE YEAR BY THE INDEPENDENT INSURANCE AGENTS OF NORTH CAROLINA.**

**NAMED ONE OF THE HEALTHIEST EMPLOYERS IN THE RALEIGH-DURHAM AREA OF NC BY TRIANGLE BUSINESS JOURNAL.**

We develop our employees to promote and grow from within. There were 46 internal promotions in 2018. We also hired 44 new employees to end the year with 338 employees.



**FINANCIAL STRENGTH IS ONE THING.  
FINANCIAL STRENGTH DEMONSTRATED  
YEAR OVER YEAR IS ANOTHER.**



## IN 2018, A.M. BEST COMPANY REAFFIRMED OUR "A" (EXCELLENT) RATING

**Builders Mutual is focused on the longevity of our company and our ability to serve our customers now and in the years to come.**

*The following are statements of financial position and results of operations of Builders Mutual Insurance Group for the fiscal year ended December 31, 2018. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.*

## Results of Operations

The Company is reporting net income of \$46.3 million for 2018. Net premiums earned increased by \$33.4 million, or 11.1%, during the year, reflecting higher levels of building activity and continued improvement in the construction industry. While Workers' Compensation premium represents 71.0% of total premiums, we continue to implement strategies to further diversify our book of business to provide complete coverage to our customers. Builders Mutual's focus remains on providing a high-quality insurance product at a fair price to our policyholders without sacrificing any of the underwriting discipline needed to grow profits and sustain financial strength.

Losses and LAE incurred increased by \$23.7 million, and our calendar-year loss ratio was 56.4%, as a percentage of net premiums earned. The loss ratio came in lower than was planned and is the result of successful risk management and underwriting discipline, even as our overall exposures continue to grow.

Total underwriting expenses incurred are \$103.2 million for 2018, compared with \$92.4 million in 2017. The growth in the Company's operating expenses is consistent with the growth in current-year premium and supports our continuing investment in and dedication to all of our customers, people, and key processes.

Despite a continued low-interest-rate environment, net investment income increased by \$3.3 million in 2018. This increase is largely due to our increased funding of investment contributions over the course of 2018. Adding to overall investment income, sales of investments generated realized capital gains of \$1.5 million.



## Balance Sheet

All figures represented in thousands (,000).

ASSETS	2018	2017
Bonds	\$589,946	\$525,248
Common and preferred stocks	168,606	171,736
Real estate held for income	13,201	13,638
Cash and short-term investments	33,586	27,316
Premium balances	102,975	91,207
Other assets	35,545	30,579
<b>Total Assets</b>	<b>\$943,859</b>	<b>\$859,724</b>

LIABILITIES AND POLICYHOLDERS SURPLUS	2018	2017
Unpaid losses and loss adjustment expenses	\$411,331	\$374,698
Unearned premiums	84,957	77,578
Other liabilities	56,803	49,284
<b>Total Liabilities</b>	<b>553,091</b>	<b>501,560</b>
<b>Total Policyholders Surplus</b>	<b>390,768</b>	<b>358,182</b>
<b>Total Liabilities and Policyholders Surplus</b>	<b>\$943,859</b>	<b>\$859,742</b>

## Financial Position

### ASSETS



Total assets increased \$84.1 million, or 9.8%, to \$943.9 million. Bonds and common stocks represent 80.4% of the Company's assets and increased during the year by \$61.6 million from additional investment contributions from our strong insurance operations and changes in market values. The Company continues to invest heavily in fixed income securities, which are \$589.9 million, or 62.5% of total assets. Cash and short-term investments increased by \$6.3 million. The fluctuation in the equity market during the fourth quarter of 2018 reduced the market value of common stocks by 3.0 million or 1.8%. Premium balances receivable increased \$11.8 million due to the growth in written premium noted above.

### LIABILITIES



Total liabilities increased by \$51.5 million, or 10.3%, in 2018. Total unpaid loss and loss adjustment expense reserves increased \$36.6 million this year due to the exposure growth in our business. Included in the loss and loss adjustment expense reserves is favorable loss development on our prior accident years. This favorable loss development reflects the safe working conditions created by our policyholders with guidance and assistance from our Risk Management consultants. Unearned premium reserves increased \$7.4 million, from the growth in written premiums. Other liabilities increased slightly, the result of an increase in agent commission payables, offset by decreases in other items, including policyholder deposits. The \$2.5 million safety dividend is included in other liabilities and was paid to all our eligible policyholders in early 2019.

### POLICYHOLDER SURPLUS



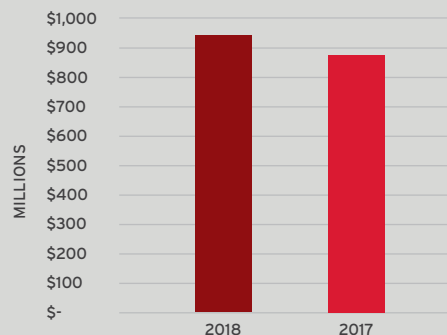
Policyholder surplus grew \$32.6 million in 2018 to \$390.8 million. This large growth in our surplus is mainly from the net income generated of \$46.3 million. Builders Mutual's continued ability to grow its policyholder surplus in this economy and construction market is a solid indication of our underlying foundational financial strength and is also a key factor in maintaining our A.M. Best "A" (Excellent) rating.

## Statement of Income

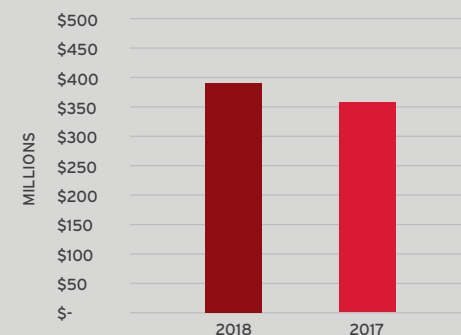
All figures represented in thousands (,000).

UNDERWRITING INCOME	2018	2017
Premiums earned	\$334,322	\$300,873
Losses and LAE incurred	188,722	165,025
Underwriting expenses	103,216	92,449
Underwriting gain/(loss)	\$42,384	\$43,399
INVESTMENT INCOME	2018	2017
Investment income, net of interest expense	\$21,614	\$18,279
Rental income	554	127
Realized capital gains/(losses)	1,473	2,625
Other expenses	1,755	1,864
Income before dividends and income taxes	64,270	62,566
Policyholder dividends	4,518	2,844
Federal income tax expense	13,469	17,699
<b>Net Income</b>	<b>\$46,284</b>	<b>\$42,023</b>
CHANGES IN POLICYHOLDERS SURPLUS	2018	2017
Unassigned surplus, beginning of year	\$358,182	\$310,032
Net income	46,284	42,023
Net unrealized capital gains	(13,881)	15,591
Change in net deferred income tax	2,582	(8,710)
Change in non-admitted assets	(1,738)	(1,651)
Change in provision for reinsurance	(661)	-
Adjustment for prior period changes	-	897
<b>Unassigned Surplus, End of Year</b>	<b>\$390,768</b>	<b>\$358,182</b>

## TOTAL ASSETS



## TOTAL POLICYHOLDERS SURPLUS



## Profitability Analysis

	2018	2017	CHANGE
<b>LOSS RATIO</b>	56.4%	54.8%	1.6%
<i>Losses + LAE/Net Premiums Earned</i>			
<b>EXPENSE RATIO</b>	30.2%	30.1%	0.1%
<i>Other Underwriting Expenses/Net Premiums Written</i>			
<b>DIVIDEND RATIO</b>	1.4%	0.9%	0.5%
<i>Policyholders Dividends/Net Premiums Earned</i>			
<b>COMBINED RATIO</b>	88.0%	85.9%	2.1%
<i>Loss Ratio + Expense Ratio + Dividend Ratio</i>			
<b>OPERATING RATIO</b>	81.5%	79.8%	1.7%
<i>Combined Ratio - (Net Investment Income Earned/Net Premiums Earned)</i>			



**BUILDING COMMUNITIES IS ONE THING.  
HELPING REBUILD COMMUNITIES  
IS ANOTHER.**

**In 2018, Builders Mutual gave back to the communities we serve as well as to our industry in a number of ways, including:**

### SUPPORTING HURRICANE FLORENCE DISASTER RELIEF

In the aftermath of Hurricane Florence, Builders Mutual joined efforts with the state and local Home Builders Associations in North Carolina and the Home Builders Association of South Carolina to help their many members and families impacted by significant damage and flooding.

### FUNDING RESEARCH

As leading experts in construction, we have an opportunity, if not an obligation, to support and guide efforts of specialized industry research to promote safety while at work. Builders Mutual's donation to the Job-Site Safety Institute (JSI) will help conduct research and produce studies that guide safety practices, set new safety standards, and influence worker behavior on job-sites.

### GIVING VOLUNTEER TIME OFF

In 2018, we began to offer four hours of volunteer time off for each employee to give back to their local community every calendar year.



### MAKING CHARITABLE DONATIONS

#### » American Heart Association (AHA)

Builders Mutual employees, along with their families and four-legged friends, participate in the Triangle Heart Walk each year to show support for the importance of a heart-healthy lifestyle. We support the AHA as the nonprofit educates and raises awareness about our nation's No. 1 and No. 4 killers: heart disease and stroke.

#### » American Cancer Society

In 2018, Builders Mutual formed a new partnership with the Susan G. Komen Foundation and V Foundation. Cancer is second only to heart disease for early deaths in the U.S., and we know many members of our corporate family have been touched personally by this disease. We proudly support those who are battling cancer and remember those who are fighting or who have fought hard against this terrible disease. Our involvement helps to make advances in cancer research.

#### » Habitat for Humanity

It makes perfect sense that we would give back to the community by building houses for those in need. We've partnered with Habitat for Humanity to help build houses for eight years. In 2018, our employees and interns volunteered 662 hours. We are proud to see our employees giving back to the community and step into our policyholders' shoes to experience a job-site firsthand for a few hours each year.







**LEADERSHIP IS ONE THING.**

**LEADERSHIP BORN OUT OF  
JOB-SITE EXPERIENCE  
IS ANOTHER.**



## 2018 Board of Directors

### **Rick Judson, Chairman**

Evergreen Group, LLC  
Charlotte, NC

### **David Stormont, Vice Chairman**

Storm Coast Homes, LLC  
Kitty Hawk, NC

### **Erik A. Anderson, Secretary**

Anderson-Moore Builders  
Winston-Salem, NC

### **Alan C. Banks**

Evans Coghill Homes  
Charlotte, NC

### **Andy Betts**

Business Consultant  
Raleigh, NC

### **Gary Embler**

Niblock Development Corp.  
Concord, NC

### **Jerry Hartsell**

Business Consultant  
Midland, NC

### **Willard "Buddy" Hughes**

Insulated Concrete, Inc.  
Lexington, NC

### **Mark Martin**

Sandmark Custom Homes, Inc.  
Kitty Hawk, NC

### **Brian Pace**

Pace Development Group  
Charlotte, NC

### **Phil Warrick**

Piedmont Wholesale  
Greensboro, NC

**Top Left to Right:** Rick Judson, David Stormont,  
Erik Anderson, Mark Martin

**Middle:** Alan Banks, Jerry Hartsell, Gary Embler, Brian Pace

**Front:** Phil Warrick, Buddy Hughes, Andy Betts



## Officers & Department Directors

### John K. Boggs

CPA, CGMA, FLMI

President/Chief Executive Officer

### Mike Gerber

CBIA

Senior Vice President/  
Chief Marketing Officer

### Tom Lockard

CPA, CGMA

Vice President/Chief Financial Officer

### Alan Mercaldo

CBIA

Vice President/Chief Information  
Officer

### Jillian Madsen

Executive Assistant

### Ken Bunn

AIC, PMP

Assistant Vice President/Claims

### Ross Fowler

CPCU, CBIA

Assistant Vice President/Underwriting

### Michele Hemric

SPHR, ACC, CBIA

Assistant Vice President/HR and  
Organizational Effectiveness

### Lisa Hoke

CPA, FLMI

Assistant Vice President/Controller

### Brad Mook

CPCU, CLU, CBIA

Assistant Vice President/Business  
Development

### Jeff Beatty

CBIA

Director of Underwriting

### Joe Frazier

Director of IT Business Solutions

### Tina Hill

CBIA

Director of Claims, WC

### Jerry Kaiser

Senior Director of Information  
Technology

### Angelo Paino

CPCU, CBIA

Director of Sales

### Todd Quilici

Director of IT Operational Services

### Bill Schaffner

CBIA

Director of Risk Management

### Jodi Vedelli

CBIA

Senior Director of Marketing

### Steve Vore

CPA, CTP

Director of Premium Services

### Christopher Wetzel

FCAS, MAAA

Director of Actuarial Services

### Melissa Williard

CIC, CBIA

Director of Underwriting