

Employees' Retirement Fund of the City of Fort Worth v. James River Group Holdings, Ltd.

COURT: United States District Court for the Eastern District of Virginia
CASE NUMBER: 3:21-cv-00444-MHL
CLASS PERIOD: 02/22/2019 - 10/25/2021
CASE LEADERS: John C. Browne, Rebecca E. Boon
CASE TEAM: Kate Aufses, Will Horowitz

This is a securities class action alleging that between February 22, 2019 and October 25, 2021, inclusive (the “Class Period”), James River Group Holdings, Ltd. (“James River” or the “Company”) and certain of the Company’s current and former senior executives (collectively, “Defendants”), defrauded persons and entities that purchased James River common stock (the “Class”) in violation of Sections 10(b) and 20(a) of the Exchange Act of 1934, 15 U.S.C. §§ 78j(b), 78t(a), and U.S. Securities and Exchange Commission Rule 10b-5 promulgated thereunder, 17 C.F.R. § 240.10b-5.

James River is a Bermuda-based insurance holding company that owns and operates a group of specialty insurance and reinsurance companies. The Company’s largest segment, Excess and Surplus (“E&S”) lines, provides coverage for insureds that generally cannot obtain insurance from standard lines insurers due to the perceived risks related to their businesses. Within its E&S lines segment, James River maintains a commercial auto division, which underwrites auto liability exposures for ride-share, delivery, and livery based services. James River’s E&S Lines was by far the Company’s most important business, and its performance was critical to the Company’s financial health. Indeed, the E&S Lines produced 68% of James River’s net written premiums in 2018, 77% in 2019 and 70% in 2020.

In 2014, James River began underwriting a new type of insurance policy that covered ride-share drivers who contracted with Rasier LLC (“Rasier”), a subsidiary of Uber Technologies, Inc. (together with Rasier, “Uber”). Until this point, ride-sharing companies—still a relatively new phenomenon— carried automobile insurance that only covered claims incurred while the ride-sharing drivers were transporting passengers, not while they were driving their cars in search of a passenger. This left a gap in coverage for accidents that occurred while the ride-sharing drivers were logged into the Uber app and available to accept a passenger but not actively transporting anyone. On March 14, 2014, Uber announced new expanded coverage through the Uber Contract that would cover this gap. At the time, James River was the only insurance company providing this type of insurance. Uber quickly became James River’s largest customer, accounting for more than 40% of the Company’s E&S lines segment’s gross written premiums and over 25% of its consolidated gross written premiums in 2019.

On the Company’s earnings call on February 22, 2019—the first day of the Class Period—Defendant Bob Myron, the Company’s then-CEO, celebrated the renewal of the Uber Contract, expressing that James River was “appreciative of continuing the long and collaborative relationship we have had with” the Company’s “largest account.” Analysts were shocked, then, when, on October 8, 2019, James River announced that it was terminating the Uber Contract early because it “has not met our expectations for profitability.” James River put the Uber Account into “runoff,” meaning that, while the contract had been cancelled, the Company would still be responsible for processing and paying claims that had accrued through the end of 2019. After the account was put into runoff, Defendants

repeatedly assured the market that the risk from the runoff Uber Account was contained, reassuring investors that James River was “comfortable with our pricing for the 2018 and 2019 years,” and later that James River was settling Uber-related claims “consistent with our held reserves.” Defendants continued to reassure the market that the runoff contract was “going well” and proceeding “consistent with our held reserves.”

In reality, unbeknownst to investors, James River was forced to take massive charges to the Uber Account due to James River’s fundamental and systematic failures, which Defendants knew contradicted their public statements during the Class Period. Former James River employees recounted that, unbeknownst to investors, James River had no reserve methodology at all, except to keep the reserves low, that James River systematically under-reserved on Uber claims, that James River would overpay on Uber claims specifically to avoid embarrassing Uber during litigation or at trial, and that James River knowingly hired adjusters with no claims experience and provided them with no training to accurately set reserves.

The full truth began to be revealed on May 5, 2021. On that date, James River stunned the market by announcing that it was taking a \$170 million charge that was “primarily driven” by losses relating to Uber. Significantly, at the same time that James River announced the \$170 million charge, the Company also admitted that the reserve methodology it used for claims on the Uber Account since its inception in 2014 was “wrong.” Specifically, Defendant Frank D’Orazio, who was named James River’s CEO less than a year prior, admitted that James River had “meaningfully changed our actuarial methodology” because “using only our own loss experience in our paid and incurred reserve projections rather than the array of inputs that we had used in prior quarters, and giving greater weight to incurred methods would give us a better and more conservative estimate of ultimate losses on this account.” The full truth was finally revealed on October 26, 2021, when James River again stunned investors by disclosing still more losses attributable to Uber—namely \$29.6 million in “impacts” from the Uber Contract.

On November 19, 2021, Lead Plaintiffs Employees’ Retirement Fund of the City of Fort Worth d/b/a Fort Worth Employees’ Retirement Fund and The City of Miami General Employees’ & Sanitation Employees’ Retirement Trust filed the Amended Class Action Complaint for Violations of the Federal Securities Laws. Defendants’ Motion to Dismiss the Amended Complaint was filed on January 18, 2022.

Case Documents

- November 19, 2021 - Amended Class Action Complaint