

**UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF VIRGINIA  
RICHMOND DIVISION**

*In Re James River Group Holdings, Ltd.  
Securities Litigation*

Case: 3:21-cv-00444-MHL

Hon. M. Hannah Lauck

CLASS ACTION

JURY TRIAL DEMANDED

**SECOND AMENDED CLASS ACTION COMPLAINT  
FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS**

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Lead Plaintiffs Employees' Retirement Fund of the City of Fort Worth d/b/a Fort Worth Employees' Retirement Fund ("Fort Worth") and The City of Miami General Employees' & Sanitation Employees' Retirement Trust ("Miami"), by their undersigned attorneys, bring this action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), and Securities Exchange Commission ("SEC") Rule 10b-5 promulgated thereunder, on behalf of themselves and all other similarly situated persons and entities, except Defendants and their affiliates, who purchased or otherwise acquired James River Group Holdings, Ltd. ("James River" or the "Company") common stock between February 22, 2019 and October 25, 2021, inclusive (the "Class Period"), and were damaged thereby.

## **I. INTRODUCTION**

1. James River is an insurance company whose largest and most important client was the rideshare company Uber. In 2014, James River began providing a specialty insurance product designed to cover Uber drivers while they were logged into the Uber app but not actively transporting passengers. Due to the specialty nature of the insurance, it was provided through James River's Excess and Surplus Line ("E&S"). The E&S Line not only provided insurance products that standard insurance would not cover due to their unique characteristics or perceived risks, but it was also vital to James River's financial health—accounting for 70% of James River's net written premiums between 2018 and 2020.

2. Properly reserving for losses is critical for companies like James River that provide E&S insurance because, unlike standard insurance, there is no guaranty fund for E&S lines from which to pay out claims in the event that an insurer files for bankruptcy. For this reason, reserves are material information to investors and the insureds' themselves as a measure of a specialty insurance company's financial health. Accordingly, companies like James River must report their reserves in financial statements, and these insurance reserves must be calculated and presented in

accordance with Generally Accepted Accounting Principles (“GAAP”), which are accounting rules adopted by the SEC.

3. Uber comprised **over 25%** of James River’s total consolidated gross written premiums for 2018 and 2019—totaling \$294.3 million and \$374.2 million, respectively—making it by far James River’s most important customer. Accordingly, Defendants constantly assured investors that they closely monitored the account to make sure that the Company’s loss reserves on claims arising from the Uber Contract—which was housed in the Company’s Commercial Auto Division—were strong and stable. Supposedly, as a result of this close oversight, Defendants were entirely “comfortable with our loss reserves.” Analysts credited these assurances and, in fact, directly linked reserves relating to the Uber Contract to the performance of James River’s share price. For example, JMP reported that “***stability in the commercial auto reserves is key to the stock’s performance in the near/intermediate term.***”<sup>1</sup>

4. The market was shocked 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.” Simultaneously, James River announced that it was taking an adverse charge of between \$55-\$60 million that Defendants “primarily” attributed to Uber, and which resulted in a \$25.2 million quarterly net loss—which until that point was James River’s largest quarterly loss ever. 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. On this news, Uber’s share price plummeted nearly 23% from \$48.94 to close at \$37.88 on October 8, 2019.

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<sup>1</sup> Unless otherwise indicated, all emphasis in quotation marks is added.

5. During an investor conference call on November 7, 2019, Defendant J. Adam Abram, James River's former CEO, admitted that the Company terminated the Uber Contract because "the risk became too large in absolute terms" and that "*candidly, in some years we mispriced the risk.*" Analysts immediately questioned James River's "future trajectory" given the "magnitude" of the losses. Accordingly, 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." Indeed, in each of its annual reports filed with SEC during the Class Period, Defendants emphasized that the Company's reserves were set, monitored, and adjusted according to a comprehensive and established process that included, *for each specific Uber claim*, "individual case-basis valuations" that utilized "historical information" and the Company's "past experience," adjusted for "current developments" and "anticipated trends." These statements were highly material, because they assured investors that the Company had specific, proven, and robust policies in place to set and monitor reserves.

6. Analysts credited these reassurances, noting that James River was "not seeing the type of loss emergence that had by this point already start[ed] plaguing" James River during prior accident years. Unbeknownst to the market, however, Defendants' assurances were utterly false. In truth, losses continued to rapidly mount on the Uber Contract after it was placed into runoff, and the Company lacked any established policies, procedures, or training for the setting, monitoring, and adjusting of reserves for the massive influx of Uber claims. Despite full knowledge of these rapidly mounting losses, Defendants knowingly failed to properly increase the reserves or implement a sound and reliable reserving process, resulting in James River's reserves being materially understated and insufficient to cover the multitude of Uber claims. In fact, the

Company did precisely the opposite. After eventually cancelling the enormously unprofitable Uber Contract, as explained more fully in ¶¶136-148 below, management deliberately instituted a variety of arbitrary and secretive practices to systematically suppress reserves across the entire Uber book and thus ensure that reserves were kept as low as possible, for as long as possible. Indeed, when James River knew that it had under-reserved for Uber, instead of admitting a mistake and outlining a correction program, Defendants took these measures to keep the truth from the market, particularly long enough to allow certain Executive Defendants to sell off massive blocks of stock at an inflated price and leaving the proposed class, and Fort Worth and Miami in particular, vulnerable to the effects of the inevitable revelation of the truth.

7. Ultimately, on May 5, 2021—a full eighteen months after the Uber Contract was terminated and placed into runoff, and despite Defendants’ repeated assurances that the runoff from the Uber Contract was “going well” and proceeding “consistent with our held reserves”—James River stunned the market by announcing that it was taking a \$170 million charge that was “primarily driven” by losses relating to Uber. The \$170 million charge was massive, wiping out all of the Company’s profit for the prior two years, and represented over 50% of the \$337 million net reserves that James River maintained for its entire Commercial Auto Division. Analysts were shocked, noting that the \$170 million charge meant that *each and every claim on the Uber Account was, on average, under-reserved by an astonishing 40%*.

8. The \$170 million charge further resulted in a net quarterly loss to James River of \$103.5 million, which was nearly *three times greater* than James River’s previous largest quarterly income loss of only \$36.8 million. Accordingly, in order to cover this massive loss, James River announced that it was commencing a dilutive secondary offering valued at approximately \$175 million—with a \$31.00 offering price that was a massive 34% discount to the closing price just

one day prior. The announcement of the \$170 million charge, the \$103.5 million loss, and the discounted, dilutive offering had a devastating impact on James River, with the Company's share price plummeting over 26% in a single day in response to these stunning revelations.

9. 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, and whose self-professed goal was to "eliminate the overhang" of Uber, 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." As D'Orazio bluntly acknowledged, "[W]e got it wrong."

10. Then, on October 26, 2021, James River again stunned investors by disclosing still more losses attributable to Uber—namely \$29.6 million in "impacts" from the Uber Contract. In response, James River's share price again dropped more than 16%, to close at \$32.75 on October 26, 2021. As Defendant D'Orazio later admitted, it was only after taking this charge—incurred two full years after cancelling the contract with Uber—that James River finally brought "economic finality to substantially all" of the Uber claims. Such "finality," however, resulted in substantial losses to the Company's investors, who experienced the elimination of *over \$450 million in shareholder market capitalization* during the Class Period.

11. In connection with their independent investigation of Defendants' fraud, Lead Plaintiffs interviewed 15 former employees of James River, all of whom worked first-hand on the Uber Account in senior level positions in James River's offices across the country, and several of



whom reported directly to the Company's most senior executives. As these numerous former employees uniformly recount, James River was forced to take these 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. In addition, Lead Plaintiffs recently obtained internal Company documents and sworn testimony by three additional former employees in an unrelated bad faith litigation against James River Insurance, which further corroborate and provide additional explosive details concerning the operation of Defendants' fraud.

12. *First*, former employees recounted that, unbeknownst to investors, James River ***had no reserve methodology at all, except to keep the reserves low***. Specifically, former Claims Examiners recalled that ***“there was no methodology for calculating reserves . . . it didn't exist; there was nothing.”*** Former employees confirmed that the process for setting reserves was ***“willy nilly”*** and typically based on nothing more than a “gut feeling . . . we would guess.”

13. *Second*, multiple former employees of the Company gave detailed explanations as to how James River systematically under-reserved on Uber claims. For example, a former Bodily Injury Claims Examiner recalled that James River used minimal reserves as “placeholders” to open Uber claims, which were often ***as little as \$1.00***. In his first year, approximately ***65%*** of bodily injury reserves were set at this de minimis amount. Similarly, a former Litigation Claims Examiner recalled that in 2017, the Company's Director of Claims implemented an automatic 30% cut to reserve increases across the board. A former James River Manager corroborated this account and likewise described the corporate culture at James River as ***“incredible”*** because he had ***“never worked in an environment where we bent the truth. They put caps on reserves irrespective of the injuries.”*** In the words of yet another former Claims Manager, this ***“put [James River] in a hole*** from the beginning with Uber.”

14. *Third*, multiple former employees recounted how James River would overpay on Uber claims specifically to avoid embarrassing Uber during litigation or at trial. A former Litigation Claims Examiner described how James River “bent over backwards” for Uber to avoid embarrassing it. Indeed, multiple Claims Examiners described how James River would pay out over **10 times** the reasonable value of the claim—sometimes over a hundred thousand dollars, all while not increasing the reserve for the claim—to appease Uber and help it avoid any negative publicity.

15. *Fourth*, numerous former employees recalled how James River knowingly hired adjusters with no claims experience and provided them with no training to accurately set reserves. A former Senior Claims Examiner at James River explained that the Company hired inexperienced people into the claims department, including recent college graduates and baristas from Starbucks, and that assigning Uber claims to people with no experience in claims was a bad recipe. Indeed, multiple former employees described how this lack of experience and training directly resulted in under-reserved claims. Moreover, these woefully inexperienced claims examiners were immediately given crushing workloads of 150-250 files or more. Not surprisingly, the claims department was plagued by very high turnover, which only compounded the Company’s inability to properly process, reserve for, and settle the massive influx of Uber claims. As one Claims Examiner stated bluntly, “***I could see that the place was a Titanic sinking.***”

16. The accounts of these fifteen former employees are corroborated and amplified by sworn deposition testimony from three additional former James River claims personnel and internal James River claim documents created during the Class Period, which have been developed in an ongoing insurance bad faith litigation against James River styled *Mark St. Amand v. James River Insurance Company, et al.*, Case No. 2:20-cv-01666 (D. Nev.) (“*St. Amand*”) (asserting

claims for breach of contract and contractual and tortious breach of the covenant of good faith and fair dealing). The claim at issue in the case involved a car accident where the Uber driver, a disabled U.S. veteran, was rear-ended on an interstate highway by another driver. The Uber driver was seriously injured in the accident. As a result, he had multiple surgeries and ongoing therapy to treat his resulting neck and spinal injuries, which resulted in over \$1 million in medical bills and months of lost wages. Sworn eyewitness testimony and internal documents from this high-dollar value case confirm that James River artificially suppressed reserves on this and all other Uber-related claims. The same evidence confirms that James River (1) did not have any policies, procedures, or guidelines for the setting, monitoring, and adjusting of reserves for Uber-related claims; and (2) lacked any formal training programs for the setting, monitoring, and adjusting of reserves for Uber-related claims.

17. Specifically, James River's former Vice President of Claims, Anita Rogers ("Rogers") repeatedly testified in her deposition in the *St. Amand* case that she could not "recall" and did not "know" of any policies or procedures to set, monitor, or adjust the reserves for Uber-related claims during her entire eight-year tenure at the Company. As the designated individual at James River responsible for monitoring and resolving Uber claims that presented large exposure to the Company (and having served in James River's claims department for many years), if any such policies, procedures or guidelines existed, it is utterly implausible that Rogers would not have known about them.

18. In addition, Rogers testified that "[t]here was no training" for claims examiners that she could recall on how to set a reserve either formally or informally. Rogers further testified that she received no training at James River prior to being handed claims files—even though she was

charged with the responsibility of overseeing all Uber claims with large losses and reported directly to the c-suite.

19. Additional sworn testimony from former James River employees in the *St. Amand* case further corroborates that James River provided no formal training to claims employees on how to set, monitor, or adjust a reserve, and that the Company had no policies or procedures to guide reserve-setting. These employees also testified that high-level James River executives, including Rogers, Courtenay Warren (“Warren”), the former Senior Vice President and Chief Claims Officer at James River Insurance, and Richard Schmitzer (“Schmitzer”), the President and CEO of James River Insurance (i.e., the Company’s E&S segment), were intimately involved in efforts to keep reserves artificially low, particularly after James River terminated the Uber Account.

20. Specifically, both Ingrid (Moses) Slaughter, who served as a Claims Manager and then Assistant Director of Litigated Claims at James River from September 2018 to May 2020, and Brianna Belcher, who served as Claims Manager and Litigation Claims Adjuster at James River between September 2015 and March 2021, testified that James River’s reserving process was predicated entirely on keeping reserves artificially low, that employees received little to no training on reserving, and that the Company maintained no established policies or procedures for the setting, monitoring, or adjusting of reserves. Instead, the Company’s reserving practices for the massive influx of Uber claims was predicated entirely on *ad hoc*, subjective, and on-the-fly decisions of a revolving door of woefully inexperienced and untrained claims department personnel.

21. The sworn testimony of Rogers, Slaughter, and Belcher confirms that Defendants lied to investors when describing “[t]he procedures we use to estimate loss reserves”: there were

no such procedures. Moreover, without any policies, procedures, or training of claims personnel on how to properly reserve against Uber claims, Defendants could not know and had no factual basis on which to assert that “every known claim has a specific case reserve established against it which management believes is adequate to resolve the claim and pay attendant expenses based on information available at the time.”

22. What is more, the Company’s internal claim file from the *St. Amand* case demonstrates that, from the outset, it was crystal clear to James River’s claims personnel who was at fault and that the Uber driver’s injuries were serious and required a sizeable reserve. However, despite the known and obvious severity of this claim and consequential need for a large reserve, James River’s internal documents show that the Company: (i) took nearly three months to set any reserve for the claim; (ii) set an initial reserve at the plainly insufficient level of \$2,500; (iii) repeatedly acknowledged that the reserve required a “significant” increase “per [the] injury report,” but waited more than one year after acknowledging that fact to increase the reserve at all; and (iv) never increased the reserve to a level that came even close to being “adequate to resolve the claim and pay attendant expenses based on information available at the time.”

23. As detailed in Section IV(F)(2) below, the internal claims file shows years of *ad hoc* efforts by no fewer than ten claims department personnel to keep reserves on the claim as low as possible, notwithstanding their receipt of information which demonstrated that James River’s actual exposure was far greater. Contrary to Defendants’ representations to investors, there is no evidence that James River performed any analyses to estimate incurred and future losses on the claim, let alone analyses that utilized “historical information” and “past experience” adjusting for “current developments” and “anticipated trends.” Instead, James River set reserves artificially low from the start and then did not appropriately increase those reserves based on the level of incurred

medical expenses, lost wages, and other costs, as well as known and anticipated future costs and expenses.

24. There is no question that James River’s most senior officers knew of the pervasive and fundamental deficiencies in James River’s reserves and reserve setting process. Indeed, the Executive Defendants repeatedly assured investors that the Company’s most senior officers were directly responsible for reviewing and establishing the Company’s loss reserves, representing that, as members of James River’s Reserves Committee, they were specifically responsible for ***“reviewing” and “approving” the reserve for losses and loss adjustment expenses.*** Defendant D’Orazio further described how James River’s “leadership team” conducted “claims audits” to “review a healthy sampling of the open files.” Moreover, former employees described how reports on reserves—titled “Rasier [Uber] Reserves Audit” that listed various claims on a spreadsheet that needed to be reviewed to determine if the reserve was properly charged—were regularly provided to Schmitzer, who sat on the Reserves Committee along with the Executive Defendants. Indeed, given that senior James River executives repeatedly represented that they closely monitored the Uber reserve, the systemic and fundamental deficiencies that directly led to the \$170 million charge could not have gone unnoticed.

25. In addition, the new evidence adduced in the *St. Amand* litigation, together with the corroborating accounts of former employees interviewed during Lead Plaintiffs’ investigation, confirm that after the highly unprofitable Uber Contract was terminated in 2019, management’s systemic efforts to suppress reserves only accelerated. Indeed, management intentionally implemented draconian, arbitrary, and secretive practices to systematically suppress reserves across the entire Uber book—with the clear objective of ensuring that reserves stayed as low as possible.

26. First, to suppress reserves for large Uber claims, any request for a reserve increase to \$250,000 or more was *elevated all the way up to James River Insurance’s CEO*, Schmitzer, who routinely refused to approve such requests. Second, to suppress reserves on all other claims, management *drastically reduced the reserve authority across the board for all claims department personnel to absurdly low levels—e.g., 1/10<sup>th</sup> of an examiner’s prior levels—or simply “stripped [reserve authority] away to nothing.”* Third, management required that *each and every request for a reserve increase be re-routed through a secret new “PLM” email portal*, which was surreptitiously operated by Rogers, Warren, and Schmitzer. Remarkably, frontline claims handlers were specifically instructed to *not mention the PLM system in their notes* so that the inevitable reserve increase denials were not officially documented and would not be discovered in litigation. Indeed, only if the reserve increase was *approved* would the need for the increase even appear in the claim file. If, however, the increase was *denied*—as nearly all large requests “*almost always*” were—there would be no record ever indicating that the claim examiner even solicited an increase in the first place.

27. Finally, sworn witness testimony from *St. Amand* provides an additional motive—along with suspiciously timed insider selling—for Defendants’ deliberate suppression of reserves. Specifically, James River was actively seeking a sale of the Company both before and during the Class Period, but faced significant obstacles because of its enormous Uber-related liabilities—including sales that fell through precisely “*because of the Uber account.*”

28. Defendants’ knowledge of James River’s pervasive and fundamental reserving deficiencies for the Uber policy, and their knowing failure to correct them, directly resulted in the Uber Account being materially under-reserved and James River incurring aggregate charges in excess of \$200 million. As a result of these previously hidden facts being fully revealed to

investors, James River's share price fell precipitously, causing substantial harm to Lead Plaintiffs and the Class.

## **II. JURISDICTION AND VENUE**

29. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa. In addition, because this is a civil action arising under the laws of the United States, this Court has jurisdiction pursuant to 28 U.S.C. §§ 1331 and 1337.

30. Venue is proper in this District pursuant to 28 U.S.C. § 1391(b), Section 27 of the Exchange Act, 15 U.S.C. § 78aa. Many of the acts and transactions that constitute violations of law complained of herein, including the dissemination to the public of untrue statements of material facts, occurred in this District as James River Insurance Company ("James River Insurance") is headquartered in Richmond, Virginia.

31. In connection with the acts alleged herein, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to the mails, interstate telephone communications, and the facilities of a national securities exchange.

## **III. THE PARTIES**

### **A. Lead Plaintiff**

32. Lead Plaintiff Fort Worth provides retirement benefits to full-time City of Fort Worth employees, including general employees, police officers and firefighters and serves approximately 6,500 active members and 4,700 retirees and beneficiaries. As set forth in the certification previously filed with the Court (ECF No. 41), Fort Worth purchased James River common stock during the Class Period and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

33. Lead Plaintiff Miami is an independent body politic that was established in 1956 to provide benefits—including retirement, death, and disability benefits—to eligible employees of



the government of the City of Miami, Florida. As of year-end 2021, Miami managed \$1 billion in assets for the benefit of over 4000 active and retired participants. As set forth in the certification previously filed with the Court (ECF No. 41), Miami purchased James River common stock during the Class Period and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

**B. Defendants**

34. Defendant James River is an insurance holding company that owns and operates a group of specialty insurance and reinsurance companies, including James River Insurance, which is based in Richmond, Virginia. James River is organized under the laws of Bermuda. James River became a public company in December 2014, and its common stock trades on the NASDAQ under the symbol “JRVV.”

35. Defendant Robert (“Bob”) P. Myron (“Myron”) was the CEO of James River from January 2017 to August 5, 2019, and has served as the Company’s President and Chief Operating Officer since August 5, 2019. Myron has also served on the Company’s Board of Directors since 2010. Myron served as the Company’s Chief Financial Officer from June 2010 until September 2012, as the Company’s Chief Executive Officer from October 2012 to September 2014 and as the Company’s President and Chief Operating Officer from September 2014 to December 2017.

36. During the Class Period, Myron made materially false and misleading statements and/or omissions in interviews, presentations, and during investor conferences with securities analysts, including on February 22, 2019, May 2, 2019, August 1, 2019, February 21, 2020, April 30, 2020, July 30, 2020, October 29, 2020, and February 26, 2021. Defendant Myron also reviewed, approved, and signed James River’s filings with the SEC on Form 10-Q and Form 10-K on February 27, 2019, May 3, 2019, August 2, 2019, and February 27, 2020, which contained additional materially false and misleading statements and/or material omissions.

37. Defendant J. Adam Abram (“Abram”) is James River’s founder and was the Company’s CEO and Executive Chairman from August 2019 through October 2020 and has served as the Company’s Non-Executive Chairman since November 2020. Abram served as Chief Executive Officer and Executive Chairman of the Board from September 2014 through December 2017, Non-Executive Chairman of the Board from October 2012 through September 2014, Executive Chairman of the Board from December 2007 to September 2012, Chief Executive Officer from December 2007 through March 2008 and the Executive Chairman, President and Chief Executive Officer of James River Group, Inc. from its inception in 2002 through 2007 and from March 2008 until October 2012.

38. During the Class Period, Abram made materially false and misleading statements and/or omissions in interviews, presentations, and during investor conferences with securities analysts, including on August 1, 2019, November 7, 2019, February 21, 2020, April 30, 2020, July 30, 2020, and October 29, 2020. Defendant Abram also reviewed, approved, and signed James River’s filings with the SEC on Form 10-Q and Form 10-K on February 27, 2019, November 7, 2019, February 27, 2020, April 30, 2020, July 31, 2020, October 29, 2020, and February 26, 2021, which contained additional materially false and misleading statements and/or omissions.

39. Defendant Frank N. D’Orazio (“D’Orazio”) has served as the CEO of James River and been on its Board of Directors since November 2020.

40. During the Class Period, D’Orazio made materially false and misleading statements and/or omissions in interviews, presentations, and during investor conferences with securities analysts, including on February 26, 2021, May 5, 2021, and August 5, 2021. Defendant D’Orazio also reviewed, approved, and signed James River’s filings with the SEC on Form 10-Q and Form

10-K on February 26, 2021, May 5, 2021, and August 5, 2021, which contained additional materially false and misleading statements and/or omissions.

41. Defendant Sarah C. Doran (“Doran”) has been the Chief Financial Officer of James River since January 2017.

42. During the Class Period, Doran made materially false and misleading statements and/or omissions in interviews, presentations, and during investor conferences with securities analysts, including on February 22, 2019, May 2, 2019, August 1, 2019, November 7, 2019, February 21, 2020, April 30, 2020, July 30, 2020, October 29, 2020, February 26, 2021, May 5, 2021, and August 5, 2021. Defendant Doran also reviewed, approved, and signed James River’s filings with the SEC on Form 10-Q, Form 10-K, and Form 8-K on February 21, 2019, February 27, 2019, May 1, 2019, May 3, 2019, July 31, 2019, August 2, 2019, November 6, 2019, November 7, 2019, February 20, 2020, February 27, 2020, April 29, 2020, April 30, 2020, July 30, 2020, July 31, 2020, October 28, 2020, October 29, 2020, February 17, 2021, February 25, 2021, February 26, 2021, March 1, 2021, May 5, 2021, August 4, 2021, and August 5, 2021, which contained additional materially false and misleading statements and/or omissions.

43. Defendants Myron, Abram, D’Orazio, and Doran are referred to herein as the “Executive Defendants.”

44. Defendants Myron, Abram, D’Orazio, and Doran, because of their high-level positions, participation in and/or awareness of the Company’s operations, direct involvement in the day-to-day business of the Company, and/or intimate knowledge of the Company’s actual performance, and their power to control public statements about James River, had the power and ability to control the actions of James River and its employees throughout the Class Period, as alleged herein.

45. James River and the Executive Defendants are referred to herein as “Defendants.”

#### IV. OVERVIEW OF THE FRAUD

##### A. James River’s Insurance Business

46. James River is a Bermuda-based holding company that operates a group of specialty insurance and reinsurance companies, including Virginia-based James River Insurance. James River principally operates through three main business segments: Excess and Surplus Lines, Specialty and Admitted Insurance, and Casualty Reinsurance. Relevant here, the Company’s E&S Lines business is administered through James River Insurance and its wholly-owned subsidiary, James River Casualty Company (“James River Casualty”).

47. E&S lines provide insurance for business lines that standard insurance carriers will not cover due to unique characteristics or risks. Unlike with standard insurance, the insured runs the risk of the E&S insurer being unable to pay because there is no guaranty fund from which to obtain payment on a claim if an insurer files for bankruptcy. As James River explained in its 2018 Form 10-K:

Companies that underwrite on an E&S lines basis operate under a different regulatory structure than standard market carriers. E&S lines carriers are generally permitted to craft the terms of the insurance contract to suit the particular risk they are assuming. Also, E&S lines carriers are, for the most part, free of rate regulation. In contrast, standard market carriers are generally required to use approved insurance forms and to charge rates that have been authorized by or filed with state insurance departments. ***However, as E&S carriers, our insurance subsidiaries in the Excess and Surplus Lines segment are not backed by any state’s guarantee fund, . . .***

48. For this reason, an E&S insurer’s reserves—the money set aside to pay claims associated with a particular claim—are critically important to E&S insurers, insureds, and investors.

49. 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.

50. Within James River's E&S Lines, the most important division by far was Commercial Auto, which accounted for nearly 50% of the E&S Lines' gross written premiums in 2018, and 44% in 2019. James River's Commercial Auto Division administered the Company's contract with Uber.

**B. James River Underwrites A New Type Of Insurance With Uber And Uber Becomes James River's Largest And Most Important Contract**

51. In March 2014, James River significantly ramped up its Commercial Auto Division by underwriting a new type of insurance policy that covered Rasier LLC ("Rasier"), a subsidiary of the rideshare company Uber Technologies, Inc. (together with Rasier, "Uber"). James River entered into a contract to provide E&S insurance to Uber, which came up annually for renewal in March (the "Uber Contract" or the "Uber Account").

52. 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.

53. Uber quickly grew to become James River's largest and most important insured. Indeed, the Uber Contract comprised over 25% of James River's consolidated gross written premiums for 2018 and 2019—totaling \$294.3 million and \$374.2 million in gross written

premiums, respectively. With the growth of the Commercial Auto Division, Defendants constantly assured investors that the Commercial Auto division reserves were strong and stable, and boasted that the Uber Contract was healthy and profitable for James River.

54. On the Company's earnings call on February 22, 2019—the first day of the Class Period—Defendant Myron 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.” Defendants also focused on the reserves of the E&S Lines in particular. For example, in James River's 2018 Form 10-K, filed on February 27, 2019, the Company stated, “Balance sheet integrity is key to our long-term success. In order to maintain balance sheet integrity, we seek to estimate the amount of future obligations, especially reserves for losses and loss adjustment expenses, in a consistent and appropriate fashion.” James River further emphasized that its senior officers set reserves only after they conduct extensive and detailed valuation of claims “on an individual case-basis.” As James River explained:

The reserve for losses and loss adjustment expenses represents our estimated ultimate cost of all reported and unreported losses and loss adjustment expenses incurred and unpaid at the balance sheet date. . . . ***We estimate the reserve using individual case-basis valuations of reported claims and statistical analysis.***

\* \* \*

Based on the information provided, we establish case reserves [for the E&S Lines] by estimating the ultimate losses from the claim, including administrative costs associated with the ultimate settlement of the claim. ***Our claims department personnel use their knowledge of the specific claim along with internal and external experts, including underwriters and legal counsel, to estimate the expected ultimate losses.***

Later, on an August 2, 2019 earnings call, Defendant Myron assured investors, “When we look at the E&S segment, we are comfortable with our loss reserves.”

55. Analysts credited Defendants' statements regarding James River's relationship with Uber and the health of its reserves. For example, SunTrust noted on February 22, 2019,

*“Uber premium should be relatively stable* in the coming year following the renewal of the company’s contract . . . .” A week later, on March 1, 2019, SunTrust wrote that James River’s *“reserves appear to be healthy”* and that James River had “robust reserving practices” and “emphasize[d] adequacy” in setting its reserves.

56. Importantly, analysts directly linked the health of James River’s Commercial Auto reserves in particular to the performance of the Company’s share price. For example, on May 1, 2019, JMP reported that “commercial auto reserves were stable . . . . *We continue to believe that stability in the commercial auto reserves is key to the stock’s performance in the near/intermediate term.*” On August 1, 2019, JMP reemphasized this direct link, reiterating that “Commercial auto reserves were stable in aggregate . . . . *We continue to believe that stability in the aggregate commercial auto reserves is key to stock performance in the near/intermediate term . . . .*” Accordingly, both James River and the market were well-aware that proper reserving for claims on the Uber Contract was critical to James River’s financial performance.

**C. James River Cancels The Uber Contract But Assures The Market That Problems Are Contained And The Reserves Are Sufficient**

57. On October 8, 2019, just two months after analysts reiterated the close connection between reserves on the Uber Contract and James River’s share price, James River announced that it was cancelling the Uber Contract early because, in the words of Defendant Abram, the Uber *“account has not met our expectations for profitability, and we think it best to terminate the underwriting relationship* as of year end.” James River additionally announced that it was taking an adverse development charge of \$55-\$60 million attributed “primarily” to the Commercial Auto Division—*i.e.*, the Uber Contract. This charge resulted in a quarterly net loss of \$25.2 million. Consequently, James River put the Uber Account into “runoff,” meaning that the Company would be responsible for processing and paying claims that had accrued through the end of 2019.

58. This news shocked the market, sending James River's share price plummeting nearly 23%, over \$11 per share. Analysts were stunned; the next day, SunTrust downgraded James River and noted that "the magnitude of the volatility in losses—and, we would assume, *concern about their future trajectory*—have contributed to management's decision to end the [Uber] relationship." JMP similarly noted on October 9, 2019, "Last night's announcement included *a larger-than-anticipated charge*, as well as the *unexpected news* that James River had delivered notice of early cancellation to Uber . . . ."

59. During the subsequent 3Q 2019 quarterly earnings call on November 7, 2019, Defendant Abram spoke at length regarding the cancellation of the Uber Contract and the multiple ways that it was negatively impacting James River. Defendant Abram admitted that the \$25 million quarterly loss was "driven by the lack of profitability on the Uber Account" and "is not acceptable." He also described how, in the 17 years since James River was founded, it "*never reported a loss of this magnitude before*." Abram further admitted that, under his watch, "Uber's business and the underlying risk evolved very quickly. *Our underwriting assumptions and the related pricing did not keep pace with changes in Uber's business*. . . . [T]he risk became too large in absolute terms given the size of our company. And *candidly, in some years, we mispriced the risk*." Abram described the Uber Contract as "a diversion" from "highly profitable underwriting of small- and middle-market risk," and he stated that James River "decided to reset [its] focus on the many positives in [its] core E&S business. . . ." In response, the Company's stock dropped more than 3%.

60. Nevertheless, to assuage investors that the risks relating to the Uber Contract were contained, Defendant Abram assured the market that the losses from the Uber Contract were behind James River. He promised investors on the November 7, 2019 analyst call that "we're



comfortable with our pricing for the 2018 and 2019 years” and that the reported reserves reflected “a judgment that’s a historically well-informed judgment.” In response to an analyst’s request for “a little bit of color behind the scenes in terms of what changed with the reserve charge this quarter,” Defendant Doran similarly assured that James River had “standard practices and procedure around this,” was “watching it very carefully and very closely,” and had done a “deep dive” into the reserves, just like the Company did “every quarter.”

61. Analysts credited the Company’s reassurances. For example, on November 7, 2019, SunTrust wrote that “Management expressed confidence in its commercial auto reserves. They point out that accident years 2018 and 2019 are benefiting from substantial rate hikes and that they are not seeing the type of loss emergence that had by this point already starting (*sic*) plaguing the 2016 and 2017 accident years.” Over a year later, on March 3, 2021, Truist reported a “lower reserve risk” for James River, explaining that “the non-commercial auto E&S reserves look solidly redundant.”

62. With James River’s largest and most important customer in runoff due directly to the fact that Defendants admitted they “mispriced [Uber’s] risk,” Defendants continued to reassure the market that the risk associated with Uber was gone. For example, during the Company’s April 30, 2020 earnings call, Defendant Abram explained that the “run off of the [Uber] account is going well. We’re settling commercial auto claims at a rapid pace for amounts that are consistent with our held reserves.” Defendant Doran reiterated that the “run-off . . . is performing well within our expectations,” and that the Company was “pleased with the pace” of the runoff. The market credited these repeated reassurances, sending James River’s share price to as high as \$53 per share for the remainder of the Class Period.

**D. Eighteen Months After Cancelling The Uber Contract, And After Repeatedly Assuring Investors That Its Reserves Were Adequate, Defendants Announced A Massive \$170 Million Increase In Uber Reserves And Revealed That The Reserve Methodology Used By The Company For Seven Years Was “Wrong”**

63. On May 5, 2021—a year-and-a-half after the Uber Contract was terminated and Defendant Abram reassured the market that James River was “comfortable” with the Uber reserve—James River again shocked the market by disclosing that *the Uber Account was under-reserved by a stunning \$170 million*. Specifically, James River announced that it was taking a \$168.7 million adverse development charge, which included “*\$170.0 million of unfavorable development in Commercial Auto*, primarily driven by” Uber.

64. The \$170 million adverse reserve development was devastating to James River, and demonstrated how the Company had materially under-reserved for claims on the Uber Account *for years*. Indeed, the massive charge represented *over 50%* of the entire Commercial Auto Division’s \$337 million net reserves reported less than three months earlier in James River’s 2020 Form 10-K. Moreover, the \$170 million charge exceeded all of James River’s prior adverse reserve developments in the E&S Lines in the eight quarters since the Class Period began, *combined*:

Quarter	E&S Reserve Development (Adverse)
Q4 2020	(\$62,300,000)
Q3 2020	(\$27,000)
Q2 2020	\$2,800,000
Q1 2020	\$3,000
Q4 2019	\$46,000
Q3 2019	(\$50,000,000)
Q2 2019	(\$1,200,000)
Q1 2019	\$10,000

65. As this chart reflects, for half the reporting periods in the Class Period—four out of eight quarters—James River announced favorable reserve developments which actually reduced its Uber-related reserves, thereby creating the materially false impression that the money set aside for the Uber claims was more than sufficient. Indeed, for three consecutive quarters beginning in Q4 2019, James River *reduced* its E&S reserves—and even when James River eventually increased the reserves in Q3 2020, it took only a *de minimis* \$27,000 adverse development, even as the Uber claims were spiraling out of control. Further, as described in Section V below, all of the adverse charges that James River reported during the Class Period were also materially understated.

66. Analysts immediately noted the stunning size of the \$170 million charge. JMP, for example, wrote that *“headline figures impress upon outsiders just how significant the \$170 mln reserve charge was—most notably that it increased the total reserve per open claim by 55%.”* JMP put the \$170 million into further context, describing how it meant that, on average, each claim on the Uber Account was under-reserved by an astonishing 40%: “The average reserves/claim now sit at **40% higher** than the average paid claim severity observed during 1Q. In other words, with the \$170 mln charge, *management has provisioned for 40% further adverse development across the entire runoff book.*”

67. Significantly, at the same time that James River announced the \$170 million charge, the Company also admitted that the reserve methodology that James River had used for claims on the Uber Account was “wrong” and that the Company would immediately begin using a more conservative and correct methodology to calculate reserves. Specifically, Defendant D’Orazio—who was unexpectedly named James River CEO in November 2020, and admittedly made it his *“personal goal to be able to eliminate the overhang surrounding [the] Commercial Auto*

*runoff*’—conceded openly on the May 5, 2021 analyst call that “*we got it wrong.*” D’Orazio explained that the \$170 million charge was not due to the sudden influx of new claims or some other unforeseen occurrence, but rather because for years, James River had been using an improper methodology that materially understated reserves. Indeed, after years of repeatedly reassuring investors that James River’s reserve methodology was sound, Defendants announced the exact opposite: the methodology was deeply flawed, it ignored the Company’s own loss experience on Uber claims, and the Company was forced to abandon it.

68. As D’Orazio stunningly conceded, James River “*meaningfully changed our actuarial methodology . . .*” Specifically, Defendant D’Orazio admitted that “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.*” As Defendant D’Orazio further acknowledged, “The result in the changed methodology is significant . . . .”

69. Analysts immediately linked the \$170 million charge to the new reserve methodology, and they understood the magnitude of the old methodology’s fundamental and pervasive flaws. JMP flatly wrote that James River took the charge “*by effectively throwing out the prior reserving approach and starting fresh with a much more conservative process* that, among other things, only used James River data (no longer taking into account industry commercial auto data) and more heavily focused on incurred data (a more conservative approach than focusing on paid).” JMP further made clear that the massive charge and new methodology had occurred because D’Orazio had been brought in to James River to clean house, writing that this “much more conservative approach” was “drive[n] by a new CEO that is determined to get the risk management error behind them.”

70. The \$170 million charge resulted in a net quarterly loss to James River of \$103.5 million. This loss was nearly *three times* greater than the largest quarterly income loss the Company had ever reported—\$36.8 million—and completely wiped out the \$54.7 million in profit that the Company had reportedly earned over the nine prior quarters of the Class Period. Indeed, the charge was more than three times greater than the profit that the Company had reported for the prior 2-1/2 years:

Quarter	Net Income (Loss) (in millions)
Q4 2020	(\$20.3)
Q3 2020	\$26.3
Q2 2020	\$35.6
Q1 2020	(\$36.8)
Q4 2019	\$20.5
Q3 2019	(\$25.2)
Q2 2019	\$20.3
Q1 2019	\$22.7
Q4 2018	\$11.6

71. The announcement of the \$170 million charge and \$103.5 million loss had a devastating impact on James River. The Company's share price plummeted over 26% in response to these stunning revelations in a single day, from a close of \$46.50 to \$34.23, on unusually high trading volume.

72. In an obvious attempt to cover the massive loss, James River announced that it was commencing a secondary offering valued at approximately \$175 million to raise badly needed capital. Announced simultaneously with—and clearly as a direct result of—the massive charge and quarterly loss, James River disclosed that it was issuing 5,650,000 shares at an offering price of \$31.00 per share—an astonishing *34% discount* to the \$46.49 closing price on May 4, 2021.

The extraordinary discount reflected the Company’s own assessment of the impact of the change on its true financial condition—and made clear that the Company itself understood that its value had been dramatically impaired by the staggering charge. *Bloomberg* noted bluntly that the offering was priced at “*the sector’s steepest discount ever.*” Writing on May 6, 2021, UBS explained that the offering “will shore up” James River’s balance sheet “after the charges and provide them with capital . . . ,” but nevertheless “expect[ed] a negative reaction from investors given the reserve charge and dilutive equity capital raise.”

73. Remarkably, notwithstanding D’Orazio’s assurance on May 5, 2021 that the reserve charge would “put the concerns with our commercial auto runoff portfolio behind us for good,” the losses on the Uber Contract continued to mount. On October 26, 2021, James River disclosed an additional \$29.6 million in “impacts” from the Uber Contract, which directly resulted in James River’s share price falling more than 16%, from a close of \$39.08 per share on October 25, 2021 to a close of \$32.75 per share on October 26, 2021. Analysts reacted negatively to the announcement. For instance, UBS lowered its earnings per share estimate for James River in an October 26, 2021 report due in part to the “29.6mm charge related to the previously announced” decision to enter into a transaction to reinsure the remaining Uber claims.

74. Then, on November 2, 2021, after the Class Period ended, James River confirmed the obvious: that the “impact” would be booked as an adverse loss and loss adjustment expense reserve development, and that this development was directly related to the Company’s \$23.9 million quarterly loss, explaining in its Form 8-K that “our third quarter results were impacted by the . . . legacy transaction.” The Company’s Form 10-Q filing made on November 3, 2021 clarified that of the \$29.6 million development, \$13.8 million was an adverse loss adjustment reserve—despite having recognized the \$170 million charge just months prior.

**E. Former Employees Confirm That James River’s Reserves Were Materially Understated And Not Calculated In Accordance With GAAP, And That The Uber Contract Was Not Profitable For James River**

75. Contrary to Defendants’ representations, and as Defendants later admitted, James River’s reserves for the Uber Contract were materially understated. In their investigation of this Action, Lead Counsel interviewed 15 former employees of James River (“FE”).<sup>2</sup> Their first-hand accounts unequivocally establish that, contrary to Defendants’ assurances during the Class Period, James River: (i) had no reserve methodology at all, except to keep the reserves low; (ii) systematically under-reserved on Uber-related claims; (iii) “bent over backwards” for Uber by overpaying on claims to avoid embarrassing Uber; and (iv) knowingly hired adjusters with no claims experience, provided them with no training, and prevented them from using software that would accurately set reserves. These former employees described that the Uber Account was not profitable as a direct result of these fundamental and systemic failures, and that Defendants had first-hand knowledge of these facts.

**1. Former James River Employees Confirm That James River Had No Reserve Methodology Except To Keep The Reserves Low**

76. Despite Defendants touting the strength and robustness of the reserve throughout the Class Period, multiple former employees confirmed that, in fact, *James River had no reserve methodology at all—except to keep the reserves low*. FE1, a former Claims Examiner at James River Insurance’s Richmond office from 2019 until 2020, stated bluntly that *there was “no methodology” for calculating reserves*. According to FE1, *“It didn’t exist; there was nothing.”*

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<sup>2</sup> The terms “Former Employees” and “FE” refer to the former employees of James River whose reports are discussed in this Complaint. In order to preserve the Former Employees’ anonymity while maintaining readability, the Complaint uses the pronouns “he,” “his,” and “him” in connection with all of the Former Employees, regardless of their gender.

Rather than following a specific methodology, FE1 described the reserve-setting process as throwing a random number at the wall and hoping it would stick at what employees thought the claim was worth. Because of the absence of any methodology, FE1 explained that there was no standardization of setting reserves at an appropriate level. Thus, FE1 described, with nine out of ten claims, James River would find out that the claim was worth a lot more than what it had been priced.

77. FE2, a Bodily Injury Claims Examiner at James River Insurance from October 2017 until December 2019, confirmed this account. He described how new claims were valued to set a reserve, stating, “[W]e would guess” depending on the severity of the accident. A lot of it was “*gut feeling*,” he explained. These accounts were confirmed by numerous former employees. For example, FE3, who worked at James River Insurance as a Litigation Specialist from May to December 2020 and as a Bodily Injury Claims Examiner at James River Insurance from February 2017 to May 2020, described the reserving process as “willy nilly.” FE4, who worked as a Bodily Injury Claims Manager at James River Insurance from September 2017 until May 2020, described that, for his entire tenure at James River, the reserving process was a “firestorm,” noting that claims were always coming back under-reserved.

78. Indeed, *the only guiding principle in James River’s reserving process was to keep the reserves low*. Former employees described how James River deliberately discounted the reserves set on Uber claims. FE5 served as a Litigation Claims Examiner at James River Insurance’s Richmond, Virginia office from January 2017 through January 2021, in which role he was responsible for examining claims stemming from the Company’s Uber Account. He explained that in 2017, when Donna Jefferson came onboard as a Director of Claims, which gave her high-level authority over the Uber claims, the Company implemented an automatic 30% cut to reserve



increases. According to FE5, this meant that if a claims manager asked to increase a reserve up to \$100,000, that claim would be automatically cut to \$70,000. FE6, who worked at James River Insurance from 2016 until December 2020, most recently as a Litigation Claims Examiner, and FE1 confirmed FE5's account, explaining that Jefferson automatically cut reserves by 20-30%. Importantly, according to FE6, Jefferson reported to the Vice President of Claims, Rogers. According to FE4, all of the Company's reserving directives came from Rogers, who received her marching orders from the c-suite.<sup>3</sup>

## 2. James River Systematically Under-Reserved On Uber Claims

79. Given a reserve methodology where the only guiding principle was to keep the reserves low, James River's loss reserves, which it repeatedly touted as "conservative"—and analysts repeatedly accepted as "stabl[e]" and "conservative"—were in fact anything but. From the moment a new claim was opened, reserves were kept artificially low. Then, rather than take actual losses or new information into account in adjusting the loss reserves on Uber claims—as required by GAAP—*James River instead directed its claims adjusters to stay within well-defined reserve limits, regardless of new facts impacting the expected claims exposure.*

80. When a claim was opened on the Uber Account, an initial reserve was supposed to be set. However, rather than take into account the facts and information available to them at the time, adjusters were directed to open claims with artificially low "placeholder" reserves—reserves that were often times *as little as \$1.00*. For example, FE7 served as a Bodily Injury Claims Examiner at James River Insurance from May 2017 to March 2020, in which role he serviced Uber claims. He explained that adjusters would open claims at \$1.00 because all that was needed to

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<sup>3</sup> In May 2022, Rogers testified in the *St. Amand* case (bad faith litigation against James River) that as Vice President of Claims, she "reported directly to Courtney Warren," James River Insurance's Chief Claims Officer and a "C suite employee."

open a claim was a dollar amount. FE7 pointed out the obvious—that this made no sense whatsoever because claims could never be settled for just a dollar. Nonetheless, FE7 estimated that in his first year in Bodily Injury, reserves were set at \$1.00 for 65% of the claims that came in that year.

81. In addition to artificially low placeholder reserves being used to open bodily injury claims, these low placeholder reserves were similarly mandated for property damage claims. FE1 confirmed FE4's account, stating that in Property Damage, associates were allowed to reserve \$1,000 to \$1,500 for claims. FE4 also confirmed FE1's account, explaining that one of the clear reserving issues in 2018 and 2019 was the low factor reserve of \$1,500 per claim that was set for Uber claims. As FE4 put it, using a smaller factor reserve "*put us in the hole from the beginning with Uber*. No case was ever going to settle for \$1,500."

82. Once these placeholder reserves were set, former James River employees uniformly described how managers deliberately prevented adjusters from increasing claims reserves in light of new information. FE1 explained that, with respect to bodily injury claims, the claim reserve limit was set at \$5,000-\$10,000 right off the bat, and James River wanted the adjusters to stay within that amount. FE1 described how, with respect to certain bodily injury claims, for example a person with a face laceration, adjusters would state that they thought it was a six-figure claim and ask why they had to start it at \$5,000 instead of an obviously more appropriate number, such as \$70,000. FE1 recounted a particular time when he was reviewing high-value claims, and noticed a claim in which the initial information stated that the woman had facial lacerations because the car had flipped, and the initial reserve was set at \$5,000. FE1 said that it should have started at \$100,000 because the accident was clearly the Uber driver's fault. Yet, when employees asked why the reserves were set so low, they were told that was just how it is. FE1 further confirmed

that he frequently saw that James River's reserves were too low, but that the Company wanted employees to stay within reserves limits, regardless of the expected claim exposure.

83. FE8, who worked at James River Insurance as a Manager from July 2019 until July 2020, explained that, after the Uber Contract was terminated, claims managers were told that their reserve authority was lowered to \$32,000, a number that was cumulative for the entire file, even if there was more than one injured party. FE8 explained that reserves that needed to be set above \$32,000 had to go to the director level. FE8's director was Marti Shelton, who came from property damage and had no experience in bodily injury. According to FE8, Shelton just kept cutting the reserves. Anything above his authority had to get approved in Richmond and he could not get them to move on the numbers at all.

84. Indeed, FE8 described how the managers were forced to cut reserves when they knew that the files were worth much more. According to FE8, when managers complained about this, they were told that James River was not going to make any changes. According to FE8, Warren and Rogers (former VP of Claims at James River Insurance) stated that this was going to be the way James River reserved. FE8 added that he heard a rumor that Warren's and Roger's bonuses were dependent on keeping the reserves at a certain level. FE8 also stated that the adjusters were required to have a claim closure every day. FE8 explained, "It was incredible. *I have never worked in an environment where we bent the truth. They put caps on reserves irrespective of the injuries.*"

85. FE9 was a Bodily Injury Claims Manager at James River Insurance from August 2017 until November 2019, handling Uber claims. FE9 similarly described how in 2019, while on the litigation team, he and his colleagues were constantly submitting reports to Rogers regarding recommended reserves but were constantly getting shut down by her. According to FE9, Rogers

reduced reserves 100% of the time. FE9 described how every day he had conference calls with Rogers regarding the reserves during which the reserves would get cut and slashed. According to FE9, if you attempted to push back, you would be “reduced to ashes.”

86. FE6 confirmed the accounts of FE9 and FE8, explaining that there was not a time when reserves stopped being cut, and it never got easier to increase reserves. FE6 explained that after James River ended the contract with Uber, reserves were actually reduced. As FE6 put it, it was never easy to get more reserves on claims even when the Company knew that they should have more money on claims.

87. Multiple former employees have also described how James River required claims employees to draft time-consuming reports known as Large Loss Reports (“LLR”) when they wanted to increase the reserves set on certain Uber claims, which contributed to under-reserving. FE10, who served as a Claims Quality Assurance (“QA”) Manager at James River Insurance’s Richmond, Virginia office from April 2017 to January 2020, flatly explained that the LLR process resulted in under-reserved claims. He described that in mid-2019, Rogers and Warren lowered all the claim examiners’ settlement authority to \$5,000—and FE10 noted that you can’t do anything to settle claims with \$5,000. As FE10 explained, in order to have higher settlement and reserve authority, the claim examiner had to put together LLRs, which were very lengthy and took a lot of time to complete. It was not uncommon for the average claim examiner to have 150 files, and that examiner would need to write 20 or more LLRs in order to increase a claim’s reserve. FE10 explained that an LLR typically took half a day to complete, which resulted in examiners not being able to properly reserve their files because of the enormous delays involved in completing LLRs.

88. Even after the Uber Contract was terminated, James River continued to systematically under-reserve on Uber claims due to burdensome, mandatory LLRs. According to

FE5, who worked on litigation claims for the Uber Account until he left the Company in January 2021, James River under-reserved for the Uber Account the entire time he worked on the Uber Account. He stated that the claims examiners had to jump through a lot of hoops to increase their reserves, and that LLRs had to be generated in order to increase reserves for Uber claims. These reports were very detailed and often more than 30 pages long. He commented that employees had such a high claim load that they did not have time to increase their reserves, and that the standards to increase the reserves were “crazy.”

### **3. James River “Bent Over Backwards” For Uber, Systematically Overpaying On Uber Claims To Avoid Embarrassing Uber**

89. Multiple former employees confirmed that James River consistently overpaid and lost money on Uber claims. This, in turn, contributed to the Uber Contract being not profitable and to James River being under-reserved, because the reserves were supposed to reflect what the claims were actually worth. FE11, who worked as a Litigation Claims Examiner at James River Insurance from November 2015 to April 2021, explained that James River’s claims examiners “bent over backwards” for Uber, and as a result, the Company under-reserved on the Uber Account from the beginning.

90. FE12, who worked as a Litigation Claims Examiner at James River Insurance’s Richmond office from May 2018 until July 2020, explained that many of the Uber claims were overpaid to appease Uber and avoid any negative publicity. He was told that Uber was James River’s largest client, and the Company wanted to make them happy. He added that Uber’s public image should not have been an insurance issue, and James River should not have been paying \$100,000 to settle claims that should have settled for \$30,000.

91. The pressure from Uber to overpay claims and avoid trial only increased after the contract was terminated. FE3 explained how James River still had a backlog of claims at the time,

and Uber was still included in the claims process even though they were not insuring new claims. FE3 described how Uber was eager to settle by any means necessary. According to FE3, James River would request a certain amount to settle the claims, but Uber was very eager to avoid trial and thus would increase the amount paid to settle the claim.

92. Uber dictated James River's compliance with its demands and the amount the Company paid out on claims because, incredibly, *Uber had first-hand access to the files of claims pending against it—and because Uber representatives were often sitting in the room with James River executives while James River determined the reserve on a claim.* According to FE13, who served as a Claims Examiner, Assistant Claims Manager, and Claims Manager at James River Insurance between April 2015 and May 2020, Uber had access to James River's claims files, and Uber would go in and do its own audits on its claims. As a claims manager, FE13 was fielding questions about claims from both James River and Uber.

**4. James River Knowingly Hired Adjusters With No Claims Experience, Gave Them No Training, And Prevented Them From Using Software That Would Accurately Set Reserves, And Senior Management Knew It**

93. James River was particularly susceptible to pressure from Uber that resulted in materially understated reserves—not only because Uber was the Company's most important contract, but because the Company knowingly failed to train its claims employees in proper reserving practices and processes. Just as the only guiding reserve principle was to keep the reserves low; the only guiding principles for paying claims were to pay them off to appease Uber, or to stay within authority, regardless of what the claims were actually worth.

94. According to FE6, there was no reserve training when he was hired. There was not a formal process of saying for this type of injury, pay this amount; rather, employees were just supposed to pay the claim within their authority, and the focus was on staying inside of authority

rather than on properly paying the claim. FE1 confirmed that no one on his team received proper training. FE1 described how, with respect to pricing out claims depending on someone's injury, Sean Casey, the Assistant Director of Claims, went over a claim in which a car flipped, and the person had a concussion and a traumatic brain injury. Casey was upfront about the fact that they still had to set the reserves at their reserve limit regardless of what they knew the claim to actually be worth.

95. James River's failure to train adjusters in how to properly reserve a claim directly led to claims being under-reserved. FE3 described how with respect to reserving, there was no training; no one trained him how to reserve; and there was under-reserving. FE3 stated that no one told employees how to reserve correctly, and he was never formally advised on how to reserve files. Instead, he would be sent this spreadsheet and be told to figure it out.

96. FE1's team manager had zero bodily injury training, and he confirmed that the lack of training directly contributed to James River being under-reserved. FE12 agreed, confirming that James River's lack of training for staff members resulted in poor reserves. He explained that James River did not have a formalized training program for these new hires until 2020. FE12 stated that he also did not receive any training on the Uber Account. He explained that he was shown his desk and handed 75 bodily injury claims, many with severe liability. According to FE12, it was a free-for-all and like a startup that did not know anything.

97. The lack of training for new employees was magnified exponentially due to the influx of claims that James River received after signing on the Uber Account, which forced the Company into a "hypergrowth" stage. FE14, who worked at James River Insurance's Richmond office as a Claims Examiner from May 2019 until January 2021, explained that the claims department was understaffed and unable to process all the Uber claims. He added that the

Company had a high turnover rate within claims because people were leaving the Company, and those positions were not being filled. Most of the claim examiners quit because of the stress from their workloads. The remaining claims examiners were getting an increase in Uber claims and the claims from the examiners who quit.

98. As a result of the adjusters not being able to perform all of the work, the Company went on a hiring spree to make up for its personnel shortfall—hiring anyone and everyone regardless of their lack of expertise. FE12 explained that James River only had a few dozen claims examiners prior to the Uber Account. To address that avalanche of claims from Uber, James River hired 350 to 400 new claims examiners. Most of the new hires did not have insurance experience, and many had only retail experience, such as working at PetSmart and Starbucks. FE12 commented that the Company was just filling seats to fill seats. As FE12 stated, “Insurance is not a place where you put someone who does not know anything about coverage. You cannot hand them 100 claims and expect to prosper.”

99. FE15, who worked as a Senior Claims Examiner at James River Insurance from November 2017 until March 2021, explained that the Company had 300 to 400 adjusters just for the Uber Account. Most of them were inexperienced and overworked; in fact, according to FE15, “That’s an understatement.” He also noted that the Company hired recent college graduates and baristas from Starbucks to meet the demand for claim examiners to work on the Uber claims.

100. The constant hiring and turnover of new, inexperienced staff led FE1 to bluntly state that, as of October or November 2019—*i.e.*, just as the early termination of the Uber Contract was announced—“I could see that the place was a Titanic sinking.” FE15 added that, after James River announced that it was cutting ties with Uber in October 2019, many people started to leave the Company, and those positions were not filled. He stated that claims examiners that worked on



Uber and the core division had their workload increased. The claims examiners were overloaded and he was up to 160-170 claims in litigation. He added that there was no way a claims examiner could handle 160 claims in litigation and not have something blow up. FE15 stated that he still gets telephone calls from defense counsel across the country that complain to him that the claims examiners have no idea what they are doing.

101. FE11 confirmed that, once ties with Uber were cut in October 2019, there was a revolving door with claims examiners. Claims examiners were leaving in droves, and their files were transferred to other overworked claims examiners that were also looking to leave James River. He stated that every two (2) weeks, the claims examiners were getting 20-30 file transfers. FE11 stated that those transfers were then sent to someone else who was looking to leave, so they didn't touch those files.

102. Compounding the problems James River encountered by hiring inexperienced staff and not training them, former employees have described how the technology the Company used for estimating reserves was either dysfunctional or unsuitable for its purpose. For example, FE8 was responsible for managing the national transportation claim team dedicated to the Uber Account and had 28 years of claims-handling experience in the insurance industry. He explained that he was aware of James River's reserving issues, and in particular, noted that James River's systems consistently under-reserved claims. Specifically, FE8 stated that James River had templates for the adjusters for reserving and a software system, which evaluated the claims. It was a requirement that all the claim information had to be entered into this system. The system then generated a reserve amount for each claim. If the system generated a number above the adjuster's reserve authority, the adjusters needed to get management approval. FE8 was one of four or five managers that reviewed these claims. He commented that the numbers made absolutely no sense.

For instance, FE8 recounted that there were “claims with multiple compound fractures with internal fixation . . . which is a big claim, and the system is saying that the reserve should be \$6,000,” which was below the claim value. As described further in Section VIII below, Defendants touted James River’s supposedly ground-breaking technology throughout the Class Period.

103. In stark contrast, FE13 explained that at James River, they were using a homegrown claims system. According to FE13, the data was poor and outdated. FE13 noted that James River used the Mitchell system for their bodily injury evaluations, but not until the last year or so that he was there, which was 2019. Prior to that, they did not have any tools for evaluating claims. Further, the Mitchell system did not solve James River’s under-reserving problem. According to FE6, the Company would “nickel and dime” or insist the examiners just go with the Mitchell IQ number, which was not accurate. FE6 explained that the Mitchell system did not consider certain injuries, like a concussion, or a lot of basic injuries that examiners often saw, such as scarring and other things that put more money on claims. Despite this, the Company would push for employees to go with the inaccurate Mitchell number.

##### **5. As A Direct Result Of These Systemic Reserving Failures, The Uber Contract Was Unprofitable And Was Cancelled**

104. James River’s fundamental, systemic, and widespread failure to properly reserve for Uber claims directly caused steadily mounting losses and increasing quarterly loss adjustment expenses. Indeed, the Company’s fundamental failure to properly reserve for Uber claims rendered the Uber Contract unprofitable—as Defendant Abram conceded—and led to its early termination.

105. In fact, the Uber Contract was unprofitable for James River long before the October 2019 announcement that it was being terminated early. For example, FE13 explained that in 2017 or 2018, a lot of rumors began circulating about how James River was not making any money on

the Uber Account and that they were all going to be laid off. In the early years of the Uber Account, James River lost a lot of money and under-reserved its files by a lot. Thus, by the start of the Class Period, the Uber Contract had been unprofitable for years.

**6. The Company's Most Senior Officers Were Directly Responsible For Reviewing, Monitoring, And Approving The Reserves For The Uber Account**

106. Defendants repeatedly assured investors that they closely monitored the reserves on Uber claims given the critical significance of Uber and the Uber reserves to James River's financial health. James River maintained a Reserve Committee, which included Defendant Myron (the Company's President and CEO from January 2018 through August 2019 and President and COO from August 2019 to August 2021), Defendant Abram (the Company's CEO from August 2019 through October 2020), Defendant D'Orazio (the Company's CEO from November 2020 to the present), and Defendant Doran (the Company's CFO from January 2017 to the present), as well as Schmitzer, the President and CEO of James River's E&S segment during the Class Period.

107. James River's Forms 10-K described the Reserve Committee's responsibilities as (a) reviewing, (b) determining, (c) monitoring, and (d) approving James River's reserves. Specifically, the Forms 10-K provide that the Reserve Committee (a) "meets quarterly to review the actuarial recommendations made by each chief actuary"; (b) uses its best judgment to determine the best estimate to be recorded for the reserve for losses and loss adjustment expenses on our quarterly balance sheet"; (c) "continually monitor reserves using new information on reported claims and a variety of statistical techniques and adjust our estimates as experience develops or new information becomes known"; and (d) "review[s]" and "approve[s]" the reserve for losses and loss adjustment expenses.

108. The Forms 10-K reiterated that senior management reviewed the reserves at least quarterly, and that the settlement authority of front-line adjusters was intentionally kept low:

*Senior management reviews each case above a specified amount at least quarterly to evaluate whether the key issues in the case are being considered and to monitor case reserve levels.* We keep the settlement authority of front-line adjusters low to ensure the practice of having two or more members of the department participate in the decision as to whether to settle or defend.

109. In addition to the responsibilities laid out in the Forms 10-K, the accounts of multiple former James River employees confirm that senior management was personally involved in setting and auditing reserves for claims made on the Uber Account. Indeed, on the February 26, 2021 earnings call, Defendant D’Orazio explained that senior James River leadership conducted audits of claims while reviewing the Company’s reserves. He described, “We call for a claims *audit by our senior claims leadership team to review a healthy sampling of the open files of time.*”

110. FE3 described receiving “reserve reports” titled “Rasier [Uber] Reserves Audit,” on an Excel spreadsheet that would have the employee’s name, and list the employee’s claims that needed to be reviewed to see if those claims were adequately reserved. FE3 stated that the Excel spreadsheets came from Anita Rogers, then to Donna Jefferson and then to Sean Casey. The spreadsheet would be sent via email, and all of their names were attached to it. Schmitzer’s name was also on the report. The reports went all the way to the president of the Company.

111. FE10 described that in 2018 his QA team began conducting focus audits on Uber reserves. The first focus audit analyzed reserves set at under \$100,000. He explained that the focus audits indicated that most of the files were being under-reserved based on the information in the files relating to bodily injuries. FE10 then stated that the audit results went to the c-suite because the results were shared with Uber.

112. FE10 also related that Rogers and Warren were involved in the QA audit process. Specifically, if a claim file received a low audit score for being under-reserved, claim managers

would often push back on the audit. According to FE10, Rogers and Warren always sided with the managers. In addition, Rogers and Warren wanted to make the QA audit questions more vague, which further allowed several of the QA team's findings to be challenged by claim managers and directors. FE10 explained that this "was very frustrating for me and my team" as they were being "told to give more leeway and look at it more subjectively." But, according to FE10, "audits are supposed to be black and white and not vague." FE10 stated that Rogers and Warren even started allowing exceptions to some of the QA questions which also caused the QA audit scores to improve. James River disbanded the QA audit team at the end of 2019. FE10 felt he was penalized for not getting the QA team to look at the audits in the way that Rogers and Warren wanted.

113. After the Uber Contract was terminated early, Defendants' scrutiny of the Company's reserves increased, as James River was paying out on Uber claims but not receiving additional premiums to support those payouts. According to FE11, in October 2019, James River cut back on their reserves for Uber and reduced adjusters' reserve authority down to \$5,000. In addition, the Company created a new email portal referred to as PLM. All reserves had to be sent to PLM for review by VP Anita Rogers and SVP Courtenay Warren.

114. FE12 also noted that the Company began to scrutinize its Uber claims more after the contract cancellation. For instance, FE12 noted that litigation claims examiners and their managers' settlement authority limits were greatly reduced beginning in 2020, and his limit to settle claims went from \$50,000 down to \$5,000. FE12 added that middle managers had their limits decreased from \$100,000 to \$25,000. FE2 similarly stated that his settlement authority changed from \$15,000 to \$1,000 and from \$100,000 to \$5,000 for his supervisor after the announcement of the Uber cancellation. FE2 specifically recalled that authority levels were decreased a week after the press release about Uber, and everybody's authority got cut including

all of the supervisors. This made it harder for adjusters to do their jobs, because employees were required to make specific requests to set reserves above their settlement authority. FE6 similarly explained that once settlement authorities were slashed after the Uber Contract was cancelled, it became even more difficult to increase reserves.

**F. Sworn Testimony And Internal Claim Documents Confirm That James River's Only Overriding "Policy" Was To Keep Reserves Artificially Low For As Long As Possible**

**1. Sworn Deposition Testimony Confirms The Fraud**

115. Defendants' deficient, arbitrary, and fraudulent reserving practices are corroborated by sworn testimony from multiple former James River employees recently provided in depositions in the *St. Amand* insurance bad faith litigation. Remarkably, such testimony includes that of the Company's longtime former VP of Claims, Rogers, who was responsible for all Uber claims with "large losses" (including the claim at issue in *St. Amand*) and who reported to Warren, the Company's Chief Claims Officer. Deposition testimony from Ingrid (Moses) Slaughter ("Slaughter"), who served as a Claims Manager and an Assistant Director of Litigated Claims at James River from September 2018 to May 2020, and Brianna Belcher ("Belcher"), who served as Claims Manager and Litigation Claims Adjuster at James River between September 2015 and March 2021, further corroborates and adds additional details to Rogers' sworn testimony and the accounts of the fifteen former employees set forth above.

116. The testimony provided by these eyewitnesses exemplifies how James River's claims department set and maintained reserves at remarkably low levels for years, even while internally acknowledging that reserves should be adjusted to far higher levels based on available information about the severity of the exposure. Rather than setting specific case reserves for every known claim that were "adequate to resolve the claim and pay attendant expenses," in truth, the

evidentiary record in the *St. Amand* litigation confirms that the only guiding principle for James River’s reserving “process” was to keep reserves as low as possible, for as long as possible.

117. Indeed, the sworn testimony adduced in the *St. Amand* litigation substantiates that after the calamitous Uber Contract was terminated in 2019, management’s systemic and pervasive efforts to suppress reserves grew in scope and severity. Rogers, Slaughter, and Belcher each describe significant changes in corporate policy to keep reserves for all Uber claims at absurdly low levels and resist any increases, including through the implementation of draconian, arbitrary, and secretive Companywide practices that applied across the entire Uber book.

118. Finally, sworn witness testimony from *St. Amand* provides an additional motive for Defendants’ deliberate suppression of Uber reserves. Specifically, in addition to reaping millions in insider sales before blindsiding investors with a \$170 million charge, James River actively sought a sale of the Company but faced significant obstacles because of its enormous Uber-related liabilities—including sales that fell through precisely “because of the Uber account.”

**a. Sworn Testimony Confirms That James River Had No Established Processes, Procedures, Or Formal Training For The Setting, Monitoring, Or Adjusting Of Uber Claim Reserves**

119. Throughout the Class Period, Defendants made numerous assurances to investors in SEC filings and investor conference calls that James River maintained comprehensive and robust policies and procedures for setting, monitoring, and adjusting reserves. For example, under the heading “Reserve Policy,” each of the Company’s Forms 10-K assured investors, “We continually monitor reserves using new information on reported claims and a variety of statistical techniques and adjust our estimates as necessary as experience develops or new information becomes known”—including, specifically, “individual case-basis valuations” to set loss and expense reserves for reported claims, and sophisticated “statistical analyses” to “estimate the cost



of losses” for “incurred but not reported claims.” The same Forms 10-K unequivocally assured investors that “every known claim ha[d] a specific case reserve established against it which management believes is adequate to resolve the claim and pay attendant expenses based on information available at the time.” These statements, and others like them, were all designed to convince investors that James River had detailed policies for setting reserves and was constantly monitoring and adjusting them pursuant to hard analyses. James River also sought to convince investors that the reserves were accurate and sufficient to cover all losses and expenses resulting from the Uber Contract. However, as sworn testimony in the *St. Amand* litigation revealed, none of these statements were true. To the contrary, numerous senior James River claim personnel testified under oath that throughout the Class Period, James River lacked **any** established policies and procedures for the setting, monitoring, or adjusting reserves for Uber-related claims.

120. Indeed, Rogers, Slaughter, and Belcher—the Vice President of Claims, Assistant Director of Litigation Claims, and Senior Claims Manager—each confirmed under oath that throughout the Class Period, James River had **no** established policies or procedures, and **no** formal training, for setting, monitoring, or adjusting Uber reserves. To the contrary, **all** reserve decisions were left to *ad hoc*, subjective, and on-the-fly decisions of the revolving door of highly inexperienced claims handlers abruptly hired by James River to deal with the crushing influx of Uber claims.

121. Remarkably, despite serving as the VP of Claims during the Class Period who responsible for overseeing all Uber claims with large losses, and serving in various managerial capacities in James River’s claim department during a tenure that spanned over eight years<sup>4</sup>—on May 27, 2022, Rogers repeatedly testified, under oath, that she could not “recall” and did not

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<sup>4</sup> See [www.linkedin.com/in/anita-rogers-11963758](https://www.linkedin.com/in/anita-rogers-11963758) (listing Roger’s positions at James River from May 2013 to July 2021, including as a Claims Manager, Senior Claims Manager, Director of Claims, and Vice President of Claims).



“know” if the Company had policies or procedures for setting, adjusting, or monitoring reserves on Uber-related claims.

122. Rogers’ testimony contradicts Defendants’ assurances to investors about the Company’s comprehensive reserve-setting procedures. For example, Rogers testified that she was *not aware of any reserving policies at all—and tellingly, she was unable to cite or describe a single policy that purportedly applied to or governed the Company’s reserves setting process.* Specifically, Rogers testified:

- Despite working at James River for over eight years and reporting directly to a c-level officer, she did not know of any “policies and procedures in place that were used on how to set a reserve”;
- She did not know of any “policies and procedures that explain to the claims handlers what information they should consider” or “follow when setting a reserve”;
- She did not know whether “there were policies and procedures in place that were used on whether to adjust the reserve when new information is made known”;
- She did not know whether there were “policies and procedures that set a limit on how long it should take to make a decision on whether to increase a reserve”;
- She could not “recall” “whether there were policies and procedures in place at James River regarding how to handle reserves”;
- There was “no standard practice” that “James River followed to dictate to its claims examiners . . . when it needs to request an increase to the reserves when they reach an opinion that it should be [increased]”;

- She was unaware of any policies and procedures for monitoring claim reserves during any time she was employed by James River; and
- In fact, Rogers admitted that she did not even monitor reserves for individual claims, but instead, only “monitor[ed] reserves ... *in gross level.*”

123. Rogers further testified that she was *not aware of any formal or informal training for claims handlers*. Specifically, Rogers testified that she did not know “whether or not there were policies in place that would require claims handlers hired in response to the Uber contract to undergo either formal or informal training.” In addition, Rogers testified that the “claims handlers that were hired in response to the Uber contract” were not “sent to schooling or any type of . . . training academy” or “provided any . . . training manuals.”

124. Rogers further testified that *she personally received no training*. When Rogers began as a James River claim examiner in 2013, Rogers “received no training from James River on how to set a reserve”; “received no training on how to train, formally or informally, claims examiners on how to set a reserve”; and, upon her promotion in 2018 to Director and then VP of Claims, she received no training on how to handle Uber-specific claims such as uninsured motorist claims.

125. The lack of any training and instruction on how to set or adjust a reserve was particularly problematic because, as Rogers testified, *James River “hired people to work as claims examiners with no insurance experience.”* Indeed, prior to the Uber Account, Rogers testified that James River had only “between 10 and 50” claims examiners on staff—which, as discussed herein, quickly multiplied to between 300 and 400.

126. In short, Rogers testified that James River lacked policies or procedures for setting, monitoring, or adjusting reserves for Uber-related claims, and, at best, its reserving practices were

done on an *ad hoc* basis at the whim of inexperienced and untrained claims handlers. Accordingly, management had no basis to conclude that the Uber reserves were adequate or that the reserves were sufficient to cover expected losses.

127. Slaughter's deposition testimony in the *St. Amand* insurance litigation explicitly confirms that James River had ***no policies or procedures for setting and adjusting reserves***. Slaughter served as a Claims Manager and an Assistant Director of Litigated Claims at James River from September 2018 to May 2020.<sup>5</sup> Specifically, when asked, "Were there any policies and procedures that you recall in place regarding how to adjust the reserve while you worked at James River?" Slaughter unequivocally testified, "No."

128. Slaughter further testified that ***there was no formal reserving training***. Slaughter did not recall "any formal training on how to monitor a reserve." When asked, "Do you recall formal training in place regarding those three things of reserves, setting, monitoring, those type of things?" Slaughter answered, "I don't remember anything like that, no."

129. Significantly, Slaughter made clear that James River's lack of formal training was not a standard industry practice. Slaughter testified that ***James River's lack of training for claims examiners contrasted dramatically with other insurance companies***. Specifically, she described that, at her previous employer, Nationwide, she worked at a corporate training center training "everyone from folks who were newly hired . . . with no experience to experienced adjusters . . . ." When asked to describe the differences between James River and Nationwide, she testified,

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<sup>5</sup> Prior to joining James River, Slaughter had extensive relevant experience in the insurance industry. Slaughter testified that her career in insurance began nearly thirty years ago, in 1995, when she was hired by Nationwide Insurance as an insurance adjuster. After being quickly promoted at Nationwide, she joined Penn National Insurance for a couple of years, before rejoining Nationwide Insurance as a corporate trainer. In that position, she trained new hires with no background in insurance, as well as experienced adjusters, teaching three levels of classes: "Class I, Class II, and Class III." She then received several promotions at Nationwide, working in its Harrisburg, Pennsylvania office, and its Raleigh, North Carolina office until 2018, where she held the title of commercial claims manager before leaving to join James River Insurance.

“There were a lot of differences. Nationwide was a very structured environment. . . . They had training centers. They had training curriculum. They had processes as to when you were hired in as far as what you had to do to become adept at a particular job.”

130. The sworn testimony of Rogers and Slaughter was further confirmed by Brianna Belcher, another former claims employee assigned to Uber claims both before and during the Class Period.<sup>6</sup> Belcher served as Claims Manager and Litigation Claims Adjuster at James River between September 2015 and March 2021. Belcher testified that she underwent *no formal training on how to set, monitor, or adjust a reserve*. This testimony corroborates the statements of FE1, FE3, FE6, and FE12, all of whom stated that the Company lacked any formal training for claims employees, which directly contributed to James River being under-reserved.

131. Like Slaughter, Belcher testified that *James River’s practices did not comport with the industry standard*. Belcher explained that her previous employer, Allstate, required her to go through rigorous training before she could begin to handle claims. Belcher testified that she was required to attend a week-long training known as “claims university” during which she attended classes every day from 8 a.m. until 5 p.m. She also took daily quizzes and a final test at the end of her training. Belcher was required to undergo this rigorous training even though her settlement authority was relatively low.

132. James River’s lack of formal training for Uber claims personnel was in no way addressed by any on the job training. The claims department was overwhelmingly staffed by employees with little or no relevant insurance experience, and any informal “hands-on” training

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<sup>6</sup> Like Slaughter, before joining James River, Belcher had significant relevant experience in the insurance industry. Belcher testified that she began her career in insurance at Capital One in or about August 2010, where she investigated fraudulent claims at its Richmond, Virginia office. After four years at Capital One, she joined Allstate as a liability determination adjuster, in its Richmond office. Belcher remained at Capital One for over a year before joining James River in September 2015. Belcher was employed by James River for over 5½ years until her departure in March 2021, where she held the title of litigation claims adjuster.

was ineffective because of the department’s chaotic environment and exceptionally high turnover. Slaughter testified that given the extreme demands of working on the Uber Account, turnover was “*huge*” and “*unusual*.” Slaughter further testified that she herself was hired in September 2018 and quickly promoted—after barely 12 months—from claims manager to assistant director of litigated claims.

133. Slaughter also testified that James River was “*hiring people so fast and losing people so fast* that some of the folks I would hire would *literally get crushed with 150 new files the first day they sat in a chair*. So in between picking their benefits, they were faced with 150 files that had not been handled since the last person had left the job.” She testified that it is “very difficult to keep employees in a situation like that.”

134. Indeed, Slaughter testified, “*people were quitting so frequently that the work environment was horrific*. And for somebody to handle that many files, even the best intentions will . . . eventually say, you know what, this is too much, it’s not getting any better, and they would seek employment elsewhere.” Further, Slaughter testified, “in Arizona, they had *constant turnover*” and “Richmond had *a ton of turnover*” as well.

135. Slaughter’s description of James River’s rapid hiring of individuals to cope with the enormous influx of Uber claims corroborates FE12’s and FE15’s accounts (described at ¶¶98-100) of a dramatic increase in hiring of claims personnel after James River signed the Uber Contract, who were promptly given crushing workloads. Slaughter, FE12, and FE15 all described how this “horrific” work environment led to high turnover and a revolving door of inexperienced and untrained claims personnel, who were left without any formal policies, procedures, or training to guide them in properly reserving for the large and ballooning number of Uber claims.

**b. Sworn Testimony Confirms That, After Cancelling The Uber Contract, Management Implemented Systemic Practices To Further Suppress Uber Reserves And Limit And Conceal Any Requests For Increases**

136. By October 2019, the Uber Contract had become so unprofitable and disruptive to James River's business that Defendants decided to cancel it. At that point, management's systemic efforts to keep reserves artificially low reached crisis proportions. Indeed, Slaughter's and Belcher's sworn testimony in the *St. Amand* litigation provides further detail (described at ¶¶83-84, 86, and 113-14 by FE2, FE6, FE8, FE11, and FE12) on how after the Uber Contract was terminated, management implemented extreme, arbitrary, and surreptitious practices designed to further suppress reserves—and all requests to increase reserves—across the entire Uber book.

137. Specifically, Slaughter and Belcher testified that James River's pointed efforts at under-reserving *increased dramatically after the Company terminated the Uber Account*. Belcher explained that *any* request for a reserve increase to \$250,000 or more now had to be approved by James River Insurance's CEO. Slaughter and Belcher both testified that these requests were routinely refused; that employees' reserve authority was dramatically slashed on all other claims; and that all requests to increase reserves above even these newly lowered levels (e.g., 1/10<sup>th</sup> of the authority that existed previously) were required to be routed through a new and secret PLM email portal (described at ¶113 by FE11) that was controlled by Rogers and Warren.

138. Remarkably, both Slaughter and Belcher testified that *claims handlers were specifically instructed not to mention the PLM system in their notes* so that requests for reserve increases—and the inevitable denials—were not officially documented in the claims file and, thus, were unlikely to be discovered in litigation.

139. In particular, Slaughter testified in the *St. Amand* litigation that in October 2019, *reserve authority across the entire claims department was dramatically reduced by Schmitzer,*

**Warren, and Rogers.** Slaughter described how the three officers “stripped everyone’s authority,” “dump[ing] the claims managers down to [\$]25,000, which is basically taking all of their authority away,” and that both Slaughter’s and her boss’s (the Director of Claims) reserve authority was “stripped away to nothing.” As she explained, in “a litigated file environment, you would never do that to someone that you wanted to resolve files.”

140. What is more, Slaughter testified that Rogers’s and Warren’s reserve “authority was reduced as well because if they wanted, for instance, a million dollars in authority, they would have to elevate it to [Schmitzer].” In other words, and as explicitly stated by Belcher, ***any request for a reserve increase of \$250,000 or more now had to be personally approved by James River Insurance’s CEO, Schmitzer.***

141. In conjunction with lowering claims employees’ reserve authority, in October 2019, James River opened a new email portal, colloquially known as the “PLM” account, and all requests to increase reserves were “funneled to this one email account where everyone had to go . . . if they wanted authority.” According to Slaughter, this was an extreme departure from James River’s existing procedure for requesting reserve increases, and documenting the reasons therefore, in the claims file.

142. The PLM portal was secretly operated by Rogers, Warren, and Schmitzer. Specifically, Slaughter testified that the PLM email account “went to Anita Rogers most of the time” or to “Courtenay Warren if Anita Rogers was not available or if it exceeded Anita Rogers’ authority. And then it went even higher to Richard [Schmitzer] . . . .” Once the PLM account was put into operation, Schmitzer weighed in more aggressively on reserve increase requests, often sending “a paragraph of things that you needed to do in order to have the reserve reviewed.” Additionally, Schmitzer would often “disagree” with Rogers’s determination to increase a reserve.

143. Further, Slaughter testified, requests for reserve increases sent to the PLM portal were frequently denied for vague reasons, such as “we didn’t present it well enough. We needed more information. It’s not ready to resolve yet.” These requests were “almost always denied,” and “if it was a larger increase . . . most of the time it’s denied.”

144. Belcher confirmed Slaughter’s testimony, and the accounts of FE2, FE11, and FE12, regarding employees’ *reserve authority being dramatically slashed after James River terminated the Uber Account*, noting that prior to the loss of the Uber Account her authority to set a reserve was \$250,000, and after the termination it was decreased *tenfold* to \$25,000. Belcher further testified that a “manager’s meeting” was held at which claims managers were told by Donna Jefferson, the then-Assistant Director of Claims (and current Director of Claims), that their reserve-setting authority was decreased “to streamline the process.” Belcher also confirmed that, after the termination of the Uber Account, one of the processes instituted was that Rogers, Warren, and Schmitzer had more involvement regarding the Company’s handling of reserves. Specifically, after the termination of the Uber Account, Schmitzer made all decisions to accept or reject an increase to the reserve over \$250,000. FE2 and FE12 (discussed at ¶114 above) similarly described the process by which James River systematically decreased claims employees’ and their managers’ reserve and settlement authority in the aftermath of the Uber termination.

145. Rogers similarly testified that claims examiners’ reserve authority was “lowered” after the Uber Contract was cancelled.

146. Significantly, Schmitzer, Warren, and Rogers took *deliberate steps to conceal the PLM portal*, conceal its circumvention of standard operating procedures (at both James River and other insurance companies), and conceal that they (Schmitzer, Warren, and Rogers) had injected themselves into any request for a reserve increase—all the way down to the lowest level claims



adjuster—in a deliberate effort to ensure that reserves for Uber claims remained as low as possible. Moreover, these new reserves procedures were designed to keep requests for reserve increases out of the claims files, *i.e.*, unless the request was accepted. If, however, a request for increased reserves was denied, neither the request nor the denial would ever appear in the claims file. Instead, such requests and denials would stay hidden in the PLM portal, and thus unlikely to be discovered in any eventual litigation, or as part of due diligence by a potential buyer of the Company.

147. For example, Slaughter testified that James River employees were instructed not to mention emails that were routed through the PLM account. She explained, “***We were told not to talk about it***, that we were to submit it in email form and then it would be considered and then they would look at it to see if it was justified or not. And then if they justified it, the manager had to go in and write a note about why they were changing the reserve.” Slaughter explained that this practice was “***very unusual***” compared to the practices of other insurance companies such as Nationwide, where “you have to justify what you’re doing first and then it goes into a claim log to say, okay, I’ve looked at all these things and this is why I think we need to make a change.” Conversely, at James River, “***everything was after the fact. So you had to basically apply for your reserve change and if it was granted, then you would document the notes***”—*meaning that if the request was not granted, there would be no record in the claims file of either the request for a reserve increase or that it was denied.* Belcher also testified that it was “accurate” that claims managers were told not to mention the PLM account in their claims notes after the termination of the Uber Account in October 2019. Thus, if the claim was denied, there was no record in the claim file indicating that the adjuster believed the reserves were inadequate.

148. The testimony of Rogers, Slaughter, and Belcher in the *St. Amand* case directly contradicts Defendants' representation to investors regarding both the adequacy of James River's held reserves, as well as its purportedly robust reserving process. Indeed, their testimony eviscerates Defendants' representation that "every known claim has a specific case reserve established against it which management believes is adequate to resolve the claim and pay attendant expenses based on information available at the time." Defendants could not know whether reserves for any Uber claim were adequate based on available information in light of the facts that: (1) James River had no established policies or procedures for claims handlers or their supervisors to follow in setting, monitoring, or adjusting reserves for Uber related claims; (2) James River did not provide its large team of inexperienced claim handlers with any training on how to set reserves; and (3) after the Uber Contract was terminated, James River's management implemented systemic, pervasive, and draconian practices to ensure that Uber-related reserves remained at absurdly low-levels and that any efforts to increase reserves were met with resistance or denied outright, all while being kept secret. In short, rather than setting reserves in a "consistent and appropriate fashion" using "historical information," "continually monitor[ing] reserves using new information," and adjusting reserves "as experience develops or new information becomes known," the deposition testimony and the underlying sample claim file (discussed below) from the *St. Amand* litigation confirm that, in truth, the only guiding principle for James River's reserving "process" was to keep reserves artificially low.

**c. Sworn Testimony Provides Additional Information  
Reinforcing Defendants' Motive**

149. Finally, deposition testimony in the *St. Amand* litigation provides additional information reinforcing Defendants' motive to mispresent and conceal the Company's enormous liabilities under the Uber Contract. As internally known within the Company but undisclosed to

investors, a key part of the reason that James River refused to increase reserves appropriately—even after the Uber Account was terminated—was because *James River was trying to sell the Company*. Specifically, Slaughter testified that James River was for years looking for a potential acquiror, and she mentioned two specific instances in which a potential sale fell apart. First, Slaughter understood that James River attempted to sell the Company in 2018 but “they weren’t able to because of the Uber account.” She further testified that after she left the Company in May 2020, she heard that James River tried to “sell it again and the folks who were trying to look into buying it were doing due diligence, but I . . . don’t think they were liking the answers they were getting,”—undoubtedly referring, again, to the massive Uber related liabilities.

## 2. Internal James River Documents Confirm The Fraud

150. Corroborating the sworn testimony of Rogers, Slaughter, and Belcher, and the accounts of the former James River employees described above, the claims file from the *St. Amand* insurance bad faith litigation shows that James River’s claims department was immediately aware of the severity of the accident and injuries at issue, yet *for two and a half years* no fewer than ten James River claims personnel made *ad hoc* efforts to keep the reserves on the claim artificially low, notwithstanding their receipt of information showing that the Company’s actual exposure was far greater.

151. The claim at issue in the *St. Amand* bad faith litigation concerns an Uber-driver who was rear-ended and severely injured in an accident on September 26, 2017. The details of the accident are straightforward. The Uber driver, a disabled U.S. veteran, was rear-ended while driving on an interstate highway by a driver who admitted she was “looking down at her phone” at the time of impact. The other vehicle’s driver, who undisputedly was 100% at fault, had \$15,000 of liability coverage from a different auto insurer and James River provided the Uber driver uninsured motorist (“UM”) coverage with a policy limit of \$1 million. Thus, James River was

responsible for medical bills and other damages sustained by the Uber driver exceeding the other driver's \$15,000 limits, *up to a maximum of \$1 million*—excluding liability for bad faith claims handling.

152. The claim file shows that James River's claims department was immediately aware of the severity of the accident and injuries, yet kept reserves artificially low. When originally reporting the claim to James River in September 2017, the Uber driver informed James River that he was taken to the hospital to treat back and neck injuries stemming from the accident. Despite the seriousness of the injuries, James River set no reserves for the Uber driver's claims for three months. Then, in January 2018, *James River set "placeholder" reserves of just \$2,500*, a plainly insufficient amount given the seriousness of the reported injuries—consistent with the Company's practice as reported by FE1, FE4, and FE7 (*see* ¶¶80-82).

153. Over the ensuing two-year period, James River's claims department received increasing amounts of information confirming the severity of the insured's injuries and the insufficient nature of the reserves. Indeed, throughout this time, the Uber driver's medical bills *alone* exceeded the reserves, at times by several hundred thousand dollars. Notably, the incurred medical bills constituted only one aspect of James River's exposure for the accident; for example, the insured was unable to work and lost income for months, required ongoing physical therapy, and would likely require additional major surgeries as a result of the accident—information that was also known to the Company's claims handlers. Yet, reserves for the claim were never materially increased to an amount even approaching James River's true exposure.

154. As set forth in James River's internal claim file, by November 2018, the Uber driver reported to James River that: (i) he had already received medical bills exceeding \$84,000 with additional bills impending; (ii) he was transferred from the Veterans Affairs hospital "because they

could not manage his injuries”; (iii) he was in ongoing treatment, including receiving physical therapy “a couple of times per week”; (iv) he was missing work because of the pain; (v) he had undergone a back surgery to address pain from the accident; and (vi) specialists recommended an additional back surgery. In response to this information, James River increased reserves to just \$79,000. But this figure was manifestly insufficient to cover even the known medical bills, let alone the additional bills that were rapidly mounting and the driver’s lost income. *See* ¶¶79-88 (describing pre-set caps on reserve increases).

155. Over the next 1½ years, James River continued to knowingly maintain a grossly insufficient reserve. Evidence continued to mount demonstrating the need to increase reserves, and the claims personnel responsible for handling the claim repeatedly recognized the need for a significant increase. For example, on March 29, 2019, (during the Class Period) a note in the claims file expressly recognized that the reserve “[w]ill need to be increased due to the severity of the injury,” and, moreover, the increase would need to be “significant.” Yet, no action was taken. On April 29, 2019, a notation in the claim file explicitly stated that the reserves “need[] to be increased.” Again, no increase was made. Further, there is no indication in the claims file that James River supervisors were reviewing these notes and compelling claims handlers to act on increasing the reserve. On May 16, 2019, the Uber driver’s attorney made a demand for the \$1 million policy limits and provided documentation of the extensive medical records and bills; still, James River did not increase its reserves. On July 1, 2019, Slaughter instructed a subordinate that the claim will require an “LLR” (Large Loss Report) because the Uber driver was claiming “over \$1M in specials.”

156. Slaughter’s July 1, 2019 email confirms that multiple claims department personnel, including managers, were involved in monitoring reserves for this claim, and internally recognized

that James River's exposure vastly exceeded its established reserves. Remarkably, the LLR was not completed for an additional nine months. Consistent with the accounts of FE5 and FE10 (¶¶87-88), the personnel responsible for this claim delayed filling out the onerous LLR despite internally recognizing that the reserves required a "significant" increase based on information the Company had known about for years.

157. On August 2, 2019 the Uber driver provided James River with yet additional medical records, but James River still made no change to the reserves. In fact, on September 10, 2019, James River's claims handlers internally acknowledged for the *third time in six months* that the reserve on the claim "*needs to be increased per injury report.*" Still, no increases were made or LLRs completed. On December 6, 2019, the Uber driver renewed its policy limit demand of \$1 million; still no changes were made to the reserves.

158. In March 2020—approximately 2½ years after James River received notice of the loss, 17 months after any prior reserve adjustment on the claim, and over 1 year after James River internally admitted that its reserves were insufficient—James River finally increased its reserves. On March 16, 2020, a claim examiner requested a reserve increase, but only to \$95,000, and only in response to a formal demand for \$1 million in policy limits which was supported by *medical bills totaling more than \$1.1 million*. Consistent with the accounts of FE1, FE8 and FE6 (¶¶81-82, 84, 103), the claims examiners and managers were forced to keep the reserves materially lower than the Company's known exposure. On March 25, 2020, the same day the reserve was changed to \$95,000, a claim examiner finally submitted a 23-page Large Loss Report.

159. On April 15, 2020, with the Uber driver threatening litigation, Rogers reviewed the belatedly prepared LLR and approved a staggering eight-fold reserve increase, from \$95,000 to \$750,000. Notably, even this amount represented a *25% discount* to the \$1 million policy limits.

Significantly, she made clear that the massive increase was not in response to new information that James River had not known about. To the contrary, Rogers testified that, prior to the increase, “the reserves were *inappropriate* based on the information” that James River had in its possession and agreed that the reserves for this enormous claim were “*grossly undervalued at the time.*”

160. Thus, in the one claim file obtained through Lead Plaintiffs’ ongoing investigation (and without any discovery), James River knowingly under-reserved a material claim for years. Indeed, for much of the Class Period, James River admittedly under-reserved on this one claim at times by nearly 90%, if not more, despite acknowledging on at least three separate occasions that the reserves “need to be increased per the injury report.” The dramatic under-reserving of this sample claim was not an aberration, but rather the result of James Rivers’ complete lack of any policies, procedures, or formal training regarding the setting, monitoring, or adjusting of claim reserves, as confirmed by Rogers’ testimony and the accounts of FE1, FE3, and FE6 (*see* ¶¶76-78, 94-96).

161. Indeed, since September 1, 2016, James River has been sued in connection with its Uber insurance in over 70 cases alleging coverage disputes and/or bad faith claims handling, approximately *one-quarter* of which assert that James River’s misconduct in the given case was part of a larger pattern and practice of bad faith claims handling concerning the Uber Account.

## **V. FALSE AND MISLEADING MISSTATEMENTS AND OMISSIONS**

### **A. Materially False Statements And Omissions Relating To Financial Measures And Reserve Developments**

#### **1. Misstatement of Key Financial Measures for the Fourth Quarter of 2018 and Full Year 2018**

162. On February 21, 2019, James River filed with the SEC a press release announcing its financial results for the fourth quarter and fiscal year ended December 31, 2018 on Form 8-K (“4Q 2018 Press Release”) signed by Defendant Doran. The Company held an earnings call on



February 22, 2019 to discuss its results for the fourth quarter and fiscal year 2018. On February 27, 2019, James River filed with the SEC its Annual Report on Form 10-K (“2018 Form 10-K”) signed by Defendants Myron, Abram, and Doran.

163. In the 4Q 2018 Press Release, James River reported its “Reserve for losses and loss adjustment expenses” as **\$1.661 billion** as of December 31, 2018. In the 2018 Form 10-K, the Company clarified that “the Company’s *net reserve* for losses and loss adjustment expenses at December 31, 2018 was **\$1,194.1 million.**” The 2018 Form 10-K further provided that the specific amount of the “*net reserve*” attributed to the “*E&S – commercial auto*” segment was **\$355 million.**

164. In the 4Q 2018 Press Release, James River further reported an adverse reserve development of \$5.8 million dollars. James River explained, “The unfavorable reserve development in the quarter was largely a result of **\$5.8 million** of adverse development in the Excess and Surplus Lines segment, driven by the 2016 accident year in our commercial auto division.” During the earnings call, Defendant Doran confirmed, “We just had the **\$5.8 million** of adverse development from the 2016 accident year in Commercial Auto.”

165. The 2018 Form 10-K disclosed the following reserves developments for the full fiscal year 2018:

\$17.7 million of adverse development was experienced in 2018 on the reserve for losses and loss adjustment expenses held at December 31, 2017. ***This adverse reserve development included \$15.0 million of adverse development in the Excess and Surplus Lines segment, including \$20.7 million of adverse development in the commercial auto line of business that was primarily related to the 2016 contract year with one insured.***

166. The reported reserves and reserve developments set forth in ¶¶163-165 above were materially false and misleading because they were materially understated. For example:

- a. As described in ¶¶63-68 above, on May 5, 2021, Defendant D’Orazio admitted that, despite insuring Uber claims since 2014 and recognizing adverse reserve developments year after year, James River did not primarily rely on its prior “own loss experience,” but that doing so “would give us a better and more conservative



estimate of ultimate losses on [the Uber] account” as required under GAAP. Using this improper methodology caused James River’s reserve for losses and loss adjustment expenses to be materially understated, requiring an adverse reserve development of \$170 million.

- b. James River had no reserve methodology except to keep reserves low, as described in ¶¶76-78 above. Indeed, James River had no established policies or procedures for claims handlers or their supervisors to follow in setting, monitoring, and adjusting reserves for Uber related claims, as described in ¶¶119-135 above.
- c. James River systematically under-reserved on Uber claims by putting caps on reserves and then refusing to increase them based on new information, as described in ¶¶79-88 above.
- d. James River “bent over backwards” for Uber, systematically overpaying on Uber claims to avoid embarrassing Uber, thereby causing the claims to be under-reserved, as described in ¶¶89-92 above.
- e. James River knowingly hired adjusters with no claims experience, gave them no training, and prevented them from using software that would accurately set reserves, as described in ¶¶93-103, 123-135 above.
- f. In addition, as described in ¶¶275-291 below, James River’s reported reserves for losses and loss adjustment expenses were (a) not primarily based on James River’s past loss experience with similar claims; and (b) not reasonably estimated, in violation of GAAP.

## 2. Misstatement of Key Financial Measures for the First Quarter of 2019

167. On May 1, 2019, James River filed with the SEC a press release announcing its financial results for the first quarter of 2019 on Form 8-K (“1Q 2019 Press Release”) signed by Defendant Doran. On May 2, 2019, the Company held an earnings call to discuss its results for the first quarter of 2019. On May 3, 2019, the Company filed its Quarterly Report on Form 10-Q, signed by Defendants Myron and Doran (“1Q 2019 Form 10-Q”).

168. In the 1Q 2019 Press Release, James River reported its “Reserve for losses and loss adjustment expenses” as **\$1.730 billion** as of March 31, 2019. In the 1Q 2019 Form 10-Q, the Company clarified that, as of March 31, 2019, the Company’s “*net reserves*” were **\$1.222 billion**.

The 1Q 2019 Form 10-Q broke down the “*net reserve*” by segment. Specifically, the reported net reserve for the E&S line—which included the commercial auto segment—was ***\$864 million***.

169. In its 1Q 2019 Form 10-Q, James River further disclosed the following reserve developments:

The Company experienced \$1.0 million of adverse reserve development in the three months ended March 31, 2019 on the reserve for losses and loss adjustment expenses held at December 31, 2018. ***This reserve development included \$10,000 of favorable development in the Excess and Surplus Lines segment . . .***

170. The reported reserves and reserve developments set forth in ¶¶168-169 above were materially false and misleading because they were materially understated:

- a. As described in ¶¶63-68 above, on May 5, 2021, Defendant D’Orazio admitted that, despite insuring Uber claims since 2014 and recognizing adverse reserve developments year after year, James River did not primarily rely on its prior “own loss experience,” but that doing so “would give us a better and more conservative estimate of ultimate losses on [the Uber] account” as required under GAAP. Using this improper methodology caused James River’s reserve for losses and loss adjustment expenses to be materially understated, requiring an adverse reserve development of \$170 million.
- b. James River had no reserve methodology except to keep reserves low, as described in ¶¶76-78 above. Indeed, James River had no established policies or procedures for claims handlers or their supervisors to follow in setting, monitoring, and adjusting reserves for Uber related claims, as described in ¶¶119-135 above.
- c. James River systematically under-reserved on Uber claims by putting caps on reserves and then refusing to increase them based on new information as described in ¶¶79-88 above.
- d. James River “bent over backwards” for Uber, systematically overpaying on Uber claims to avoid embarrassing Uber, thereby causing the claims to be under-reserved, as described in ¶¶89-92 above.
- e. James River knowingly hired adjusters with no claims experience, gave them no training, and prevented them from using software that would accurately set reserves, as described in ¶¶93-103, 122-135 above.
- f. In addition, as described in ¶¶275-291 below, James River’s reported reserves for losses and loss adjustment expenses were (a) not primarily based on James River’s past loss experience with similar claims; and (b) not reasonably estimated, in violation of GAAP.

### 3. Misstatement of Key Financial Measures for the Second Quarter of 2019

171. On July 31, 2019, James River filed with the SEC a press release announcing its financial results for the second quarter of 2019 on Form 8-K (“2Q 2019 Press Release”) signed by Defendant Doran. On August 1, 2019, the Company held an earnings call to discuss its results for the second quarter of 2019. On August 2, 2019, the Company filed its Quarterly Report on Form 10-Q, signed by Defendants Myron and Doran (“2Q 2019 Form 10-Q”).

172. In the 2Q 2019 Press Release, James River reported its “Reserve for losses and loss adjustment expenses” as **\$1.783 billion** as of June 30, 2019. In the 2Q 2019 Form 10-Q, the Company clarified that, as of June 30, 2019, the Company’s “*net reserves*” were **\$1.238 billion**. The 2Q 2019 Form 10-Q broke down the “*net reserve*” by segment. Specifically, the reported net reserve for the E&S line—which included the commercial auto segment—was **\$879 million**.

173. In its 2Q 2019 Form 10-Q, James River further disclosed the following reserve developments:

The Company experienced \$2.3 million of adverse reserve development in the three months ended June 30, 2019 on the reserve for losses and loss adjustment expenses held at December 31, 2018. ***This reserve development included \$1.2 million of adverse development in the Excess and Surplus Lines segment***, as adverse development in the 2016 and 2017 accident years for commercial auto business were largely offset ***by favorable development in the 2018 accident year for commercial auto business . . . .***

174. The 2Q 2019 Press Release similarly stated: “The reserve development in the quarter included **\$1.2 million** of adverse development in the Excess and Surplus Lines segment. During the quarter, the Company had adverse development in the 2016 and 2017 accident years of its commercial auto line, which was largely offset by favorable development in this line from the 2018 accident year.” During the earnings call, Defendant Doran explained, “This quarter, we had

**\$25 million** of favorable development from the 2018 accident year, which was largely offset by adverse development in the 2016 and 2017 years.”

175. The reported reserves and reserve developments set forth in ¶¶172-174 above were materially false and misleading because they were materially understated:

- a. As described in ¶¶63-68 above, on May 5, 2021, Defendant D’Orazio admitted that, despite insuring Uber claims since 2014 and recognizing adverse reserve developments year after year, James River did not primarily rely on its prior “own loss experience,” but that doing so “would give us a better and more conservative estimate of ultimate losses on [the Uber] account” as required under GAAP. Using this improper methodology caused James River’s reserve for losses and loss adjustment expenses to be materially understated, requiring an adverse reserve development of \$170 million.
- b. James River had no reserve methodology except to keep reserves low, as described in ¶¶76-78 above. Indeed, James River had no established policies or procedures for claims handlers or their supervisors to follow in setting, monitoring, and adjusting reserves for Uber related claims, as described in ¶¶119-135 above.
- c. James River systematically under-reserved on Uber claims by putting caps on reserves and then refusing to increase them based on new information, as described in ¶¶79-88 above.
- d. James River “bent over backwards” for Uber, systematically overpaying on Uber claims to avoid embarrassing Uber, thereby causing the claims to be under-reserved, as described in ¶¶89-92 above.
- e. James River knowingly hired adjusters with no claims experience, gave them no training, and prevented them from using software that would accurately set reserves, as described in ¶¶93-103, 122-135 above.
- f. In addition, as described in ¶¶275-291 below, James River’s reported reserves for losses and loss adjustment expenses were (a) not primarily based on James River’s past loss experience with similar claims; and (b) not reasonably estimated, in violation of GAAP.

#### **4. Misstatement Of Key Financial Measures for the Third Quarter of 2019**

176. On November 6, 2019, James River filed with the SEC a press release announcing its financial results for the third quarter of 2019 on Form 8-K (“3Q 2019 Press Release”) signed by Defendant Doran. On November 7, 2019, the Company filed its Quarterly Report on Form 10-

Q, signed by Defendants Abram and Doran (“3Q 2019 Form 10-Q”), and held an earnings call to discuss its results for the third quarter of 2019.

177. In the 3Q 2019 Press Release, James River reported its “Reserve for losses and loss adjustment expenses” as **\$1.941 billion** as of September 30, 2019. In the 3Q 2019 Form 10-Q, the Company clarified that, as of September 30, 2019, the Company’s “*net reserves*” were **\$1.326 billion**. The 3Q 2019 Form 10-Q broke down the “net reserve” by segment. Specifically, the reported net reserve for the E&S line—which included the commercial auto segment—was **\$958 million**.

178. In its 3Q 2019 Form 10-Q, James River disclosed the following reserve developments:

The Company experienced **\$57.0 million of adverse reserve development** in the three months ended September 30, 2019 on the reserve for losses and loss adjustment expenses held at December 31, 2018. ***This reserve development included \$50.0 million of adverse development in the Excess and Surplus Lines segment primarily related to the 2016 and 2017 accident years for the commercial auto business.***

179. The 3Q 2019 Press Release similarly stated: “during the quarter, there was **\$50 million** of unfavorable development in the Excess and Surplus Lines segment, driven by one large account (Rasier LLC) in two prior underwriting years.” The 3Q 2019 Press Release further explained, “The reserve development in the quarter included **\$50.0 million** of adverse development in the Excess and Surplus Lines segment, driven by the 2016 and 2017 accident years of its commercial auto line.” During the earnings call, Defendant Doran confirmed that “[w]e had adverse development of **\$57 million** overall. We had **\$50 million** of adverse development in the Uber book, most of which was focused on the 2017 underwriting year with the balance in the 2016 underwriting year.”

180. The reported reserves and reserve developments set forth in ¶¶177-179 above were materially false and misleading because they were materially understated:

- a. As described in ¶¶63-68 above, on May 5, 2021, Defendant D’Orazio admitted that, despite insuring Uber claims since 2014 and recognizing adverse reserve developments year after year, James River did not primarily rely on its prior “own loss experience,” but that doing so “would give us a better and more conservative estimate of ultimate losses on [the Uber] account” as required under GAAP. Using this improper methodology caused James River’s reserve for losses and loss adjustment expenses to be materially understated, requiring an adverse reserve development of \$170 million.
- b. James River had no reserve methodology except to keep reserves low, as described in ¶¶76-78 above. Indeed, James River had no established policies or procedures for claims handlers or their supervisors to follow in setting, monitoring, and adjusting reserves for Uber related claims, as described in ¶¶119-135 above.
- c. James River systematically under-reserved on Uber claims by putting caps on reserves and then refusing to increase them based on new information, as described in ¶¶79-88 above.
- d. James River “bent over backwards” for Uber, systematically overpaying on Uber claims to avoid embarrassing Uber, thereby causing the claims to be under-reserved, as described in ¶¶89-92 above.
- e. James River knowingly hired adjusters with no claims experience, gave them no training, and prevented them from using software that would accurately set reserves, as described in ¶¶93-103, 122-135 above.
- f. In addition, as described in ¶¶275-291 below, James River’s reported reserves for losses and loss adjustment expenses were (a) not primarily based on James River’s past loss experience with similar claims; and (b) not reasonably estimated, in violation of GAAP.

##### **5. Misstatement of Key Financial Measures for the Fourth Quarter of 2019 and Full Year 2019**

181. On February 20, 2020, James River filed with the SEC a press release announcing its financial results for the fourth quarter and fiscal year ended December 31, 2019, on Form 8-K (“4Q 2019 Press Release”) signed by Defendant Doran. The Company held an earnings call on February 21, 2020, to discuss its results for the fourth quarter and fiscal year 2019. On February

27, 2020, James River filed with the SEC its Annual Report on Form 10-K (“2019 Form 10-K”) signed by Defendants Abram, Myron, and Doran.

182. In the 4Q 2019 Press Release, James River reported its “Reserve for losses and loss adjustment expenses” as **\$2.046 billion** as of December 31, 2019. In the 2019 Form 10-K, the Company clarified that “the Company’s *net reserve* for losses and loss adjustment expenses as of December 31, 2019 was **\$1,377.5 million.**” The 2019 Form 10-K further provided that the specific amount of “net reserves” attributed to the Company’s “E&S – commercial auto” business was **\$433 million.**

183. In the 4Q 2019 Press Release, James River further reported a “favorable reserve development” of **\$46,000** in the Excess and Surplus Lines for the fourth quarter of 2019.

184. During the earnings call, Defendant Doran confirmed, “We did not experience *any material reserve development in our Commercial Auto line.*”

185. The 2019 Form 10-K, however, disclosed the following regarding the Company’s reserve developments for the full fiscal year 2019:

\$69.0 million of adverse development was experienced in 2019 on the reserve for losses and loss adjustment expenses held at December 31, 2018. ***This adverse reserve development included \$51.2 million of adverse development in the Excess and Surplus Lines segment, including \$57.4 million of adverse development in the commercial auto line of business that was primarily related to the 2016 and 2017 accident years with Rasier.***

186. The reported reserves and reserve developments set forth in ¶¶182-185 above were materially false and misleading because they were materially understated:

- a. As described in ¶¶63-68 above, on May 5, 2021, Defendant D’Orazio admitted that, despite insuring Uber claims since 2014 and recognizing adverse reserve developments year after year, James River did not primarily rely on its prior “own loss experience,” but that doing so “would give us a better and more conservative estimate of ultimate losses on [the Uber] account” as required under GAAP. Using this improper methodology caused James River’s reserve for losses and loss adjustment expenses to be materially understated, requiring an adverse reserve development of \$170 million.



- b. James River had no reserve methodology except to keep reserves low, as described in ¶¶76-78 above. Indeed, James River had no established policies or procedures for claims handlers or their supervisors to follow in setting, monitoring, and adjusting reserves for Uber related claims, as described in ¶¶119-135 above.
- c. James River systematically under-reserved on Uber claims by putting caps on reserves and then refusing to increase them based on new information, as described in ¶¶79-88 above.
- d. James River “bent over backwards” for Uber, systematically overpaying on Uber claims to avoid embarrassing Uber, thereby causing the claims to be under-reserved, as described in ¶¶89-92 above.
- e. James River knowingly hired adjusters with no claims experience, gave them no training, and prevented them from using software that would accurately set reserves, as described in ¶¶93-103, 122-135 above.
- f. In addition, as described in ¶¶275-291 below, James River’s reported reserves for losses and loss adjustment expenses were (a) not primarily based on James River’s past loss experience with similar claims; and (b) not reasonably estimated, in violation of GAAP.

#### 6. Misstatement of Key Financial Measures for the First Quarter of 2020

187. On April 29, 2020, James River filed with the SEC a press release announcing its financial results for the first quarter of 2020 on Form 8-K (“1Q 2020 Press Release”) signed by Defendant Doran. On April 30, 2020, the Company filed its Quarterly Report on Form 10-Q, signed by Defendants Abram and Doran (“1Q 2020 Form 10-Q”), and held an earnings call to discuss its results for the first quarter of 2020.

188. In the 1Q 2020 Press Release, James River reported its “Reserve for losses and loss adjustment expenses” as **\$2.043 billion** as of March 31, 2020. In the 1Q 2020 Form 10-Q, the Company clarified that, as of March 31, 2020, the Company’s “*net reserves*” were **\$1.352 billion**. The 1Q 2020 Form 10-Q broke down the “net reserve” by segment. Specifically, the reported net reserve for the E&S line—which included the commercial auto segment—was **\$979 million**.

189. Furthermore, in its 1Q 2020 Form 10-Q, James River disclosed the following reserve developments:



The Company experienced \$874,000 of adverse reserve development in the three months ended March 31, 2020 on the reserve for losses and loss adjustment expenses held at December 31, 2019. ***This reserve development included \$3,000 of favorable development in the Excess and Surplus Lines segment.***

190. In the 1Q 2020 Press Release, James River similarly reported a “favorable reserve development” of ***\$3,000*** in the Excess and Surplus Lines for the first quarter of 2020.

191. During the earnings call, Defendant Doran confirmed, “We did not experience ***any material reserve development in our commercial auto line.***”

192. The reported reserves and reserve developments set forth in ¶¶188-191 above were materially false and misleading because they were materially understated:

- a. As described in ¶¶63-68 above, on May 5, 2021, Defendant D’Orazio admitted that, despite insuring Uber claims since 2014 and recognizing adverse reserve developments year after year, James River did not primarily rely on its prior “own loss experience,” but that doing so “would give us a better and more conservative estimate of ultimate losses on [the Uber] account” as required under GAAP. Using this improper methodology caused James River’s reserve for losses and loss adjustment expenses to be materially understated, requiring an adverse reserve development of \$170 million.
- b. James River had no reserve methodology except to keep reserves low, as described in ¶¶76-78 above. Indeed, James River had no established policies or procedures for claims handlers or their supervisors to follow in setting, monitoring, and adjusting reserves for Uber related claims, as described in ¶¶119-135 above.
- c. James River systematically under-reserved on Uber claims by putting caps on reserves and then refusing to increase them based on new information, as described in ¶¶79-88 above.
- d. James River “bent over backwards” for Uber, systematically overpaying on Uber claims to avoid embarrassing Uber, thereby causing the claims to be under-reserved, as described in ¶¶89-92 above.
- e. James River knowingly hired adjusters with no claims experience, gave them no training, and prevented them from using software that would accurately set reserves as described in ¶¶93-103, 122-135 above.
- f. In addition, as described in ¶¶275-291 below, James River’s reported reserves for losses and loss adjustment expenses were (a) not primarily based on James River’s past loss experience with similar claims; and (b) not reasonably estimated, in violation of GAAP.