

A Slow, Steady Pace Wins the Race



BARRY GOLDSTEIN, chairman and chief executive officer of Kingstone Cos. Inc., applied patience and determination to his company's switch from a retail operation to a traded homeowners insurer. A.M. Best/Kim Bjorheim

Niche company completes metamorphosis from auto agencies to traded homeowners insurance carrier

By Chad Hemenway

As a successful owner and breeder of horses, Barry Goldstein knows what it takes to raise a winner. So it's no surprise the executive had patience and determination to spare during the complicated two-year conversion of the former DCAP Group Inc. and its subsidiary.

Goldstein is chairman and chief executive officer of Kingstone Cos. Inc., a holding company of the property/casualty insurance company Kingstone Insurance Co.

"A lot of people worked hard to get this done and we think it's a great business transaction that will pay dividends," said Goldstein, who spoke to *BestWeek* from his wood-paneled office decorated with harness-racing photographs and paintings. Educated as an accountant, Goldstein, originally from Queens, N.Y., said he paid his way through college by working at the racetrack and has owned and bred horses for 20 years.

The publicly traded Kingstone Cos. (NASDAQ: KINS) and its insurance operating company represent the metamorphosis of the former DCAP Group Inc. (formerly NASDAQ: DCAP), which has been a consistent leader on A.M. Best's Global Insurance Composite Index.

DCAP was made up of a network of retail agencies specializing in nonstandard automobile. It also owned Commercial Mutual Insurance Co.

As a result of a complex reorganization, Kingstone Cos. exited the insurance distribution sector entirely and sold its brokerage businesses. Now a stock company, Commercial Mutual has become primarily a homeowners insurer under the name Kingstone Insurance Co. The insurer is based in Kingston, N.Y., and writes business only through independent agents, and only in New York.

"We felt we had to do this in order to make better use of capital," said Goldstein, from Kingstone Cos. headquarters, a one-story brick building at the edge of quaint downtown Hewlett, N.Y., on the south shore of Long Island. "We think this devotes capital to the business

that can deliver the best returns to shareholders. But you can't forget where you came from; we want to try and make money without cutting the throats of those who help you make it."

As an executive for a company owning retail agencies, Goldstein said he began to notice a transformation in the way insurers were doing business. With the use of technology, Goldstein said insurers "began to put people in a box using computers — models to squeeze costs."

"I grew weary of it — CEOs managing companies based solely on a spread sheet," he added. "Commission rates went down and the explanation was to remain price competitive. They turned it into a subhuman process regardless of the fact the producer may be a stellar one."

Goldstein, also chairman and chief investment officer of Kingstone Insurance, said the retail insurance distribution business and the nonstandard auto landscapes changed.

“It used to be nonstandard auto business was served by storefronts,” he said. “The Internet just got started. Geico was not a factor — Progressive — those types didn’t exist. Then the marketing changed dramatically. We saw a shrinking market share, a higher cost of delivery.”

Kingstone Insurance primarily now offers homeowners insurance, as well as condominium renters, dwelling fire, personal umbrella, commercial auto, and physical damage policies for limousines and taxis.

The critical decision to concentrate on homeowners was made during the regulatory journey to become a property/casualty insurance stock company.

“The initial thought was to be vertically integrated with our own distribution — our own products, with the premium finance company,” said Goldstein. “We’d have retail locations. Others would franchise using our finance company and sell through the same locations.”

However, at the time, DCAP did not have access to the capital to get the sales, and Goldstein said he thought the business model needed to be justified.

In April, DCAP sold its 16 retail stores in New York,

and later, the franchise business. Kingstone Insurance became a stock property as of July 1 with the simultaneous announcement that the company sold its stores in Philadelphia — the chain of agencies Goldstein bought about a dozen years ago before selling them to DCAP. He started as a consultant with the group in 2001.

Goldstein said Kingstone Cos. is debt-free and poised to grow. Kingstone Insurance insures about 14,000 residences in New York’s five boroughs and Long Island but “we can do more,” he said.

“We’ve been on Long Island for many years and we’re going to stay the course,” Goldstein said. In return, Goldstein said he will use his experience in the agency sector to treat Kingstone’s agents well, offering competitive commission rates that grow as well as profit sharing for excellent loss ratios.

The access to capital Goldstein said was achieved with the conversion allows Kingstone to strengthen its balance sheet and maintain what it writes, keeping in mind the business model. Kingstone will “not manage operations to generate short-term results,” Goldstein said.

“We’re not a home run hitter; we’re a singles hitter,” Goldstein said. “We’ll hit our share of extra-base hits here and there, but that’s how we’re playing the game now.”

Kingstone Conversion

Company’s name: Was DCAP Group Inc. — now Kingstone Companies Inc.



Subsidiary:

Was Commerical Mutual Insurance Co. — now Kingstone Insurance Co.

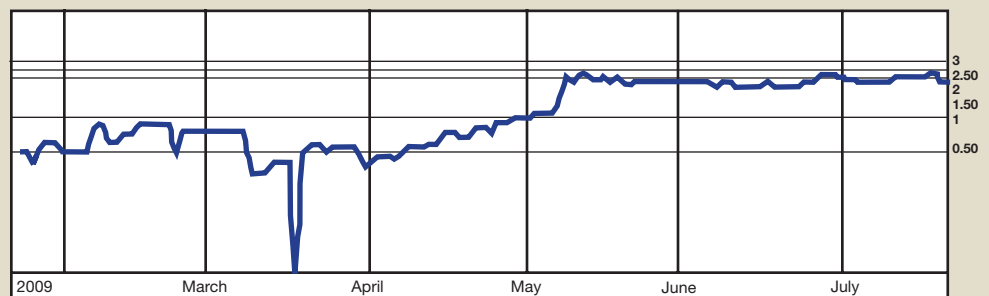
NASDAQ symbol: KINS

Business sector: Was insurance brokerage — now a property/casualty insurance company

Source: Kingstone Cos.

Kingstone Six Month Stock Performance

July 20, 2009



Source: Yahoo