

REPORT ON EXAMINATION

OF THE

HOMESITE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2007

DATE OF REPORT

MARCH 4, 2009

EXAMINER

ADEBOLA AWOFESO

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of examination	2
2.	Description of Company	3
	A. Management	3
	B. Territory and plan of operation	5
	C. Reinsurance	6
	D. Holding company system	7
	E. Significant operating ratios	10
	F. Accounts and records	10
	G. Information systems and controls	12
3.	Financial statements	13
	A. Balance sheet	13
	B. Underwriting and investment exhibit	15
4.	Losses and loss adjustment expenses	16
5.	Market conduct activities	16
6.	Compliance with prior report on examination	19
7.	Summary of comments and recommendations	21



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

March 4, 2009

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22815 dated August 18, 2008 attached hereto, I have made an examination into the condition and affairs of Homesite Insurance Company of New York as of December 31, 2007, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Homesite Insurance Company of New York.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's administrative office located at 99 Bedford Street, Boston, MA, 02111.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of Homesite Insurance Company of New York. The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated in New York on January 25, 1999 as a wholly-owned subsidiary of Homesite Securities Company LLC. The Company's ultimate parent is Alleghany Insurance Holdings LLC. The Company became licensed on July 22, 1999 and commenced business on that date.

At December 31, 2007, capital paid in was \$1,000,000 consisting of 10,000 shares of common stock at \$100 par value per share. Gross paid in and contributed surplus was \$7,600,000. Gross paid in and contributed surplus increased by \$3,600,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2002	Beginning gross paid in and contributed surplus	\$4,000,000
2003	Surplus contribution	\$300,000
2005	Surplus contribution	500,000
2006	Surplus contribution	<u>2,800,000</u>
	Total Surplus Contributions	<u>3,600,000</u>
2007	Ending gross paid in and contributed surplus	<u>\$7,600,000</u>

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The board meets four times during each calendar year. At December 31, 2007, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Douglas A. Batting Boston, MA	President, Homesite Insurance Company of New York
Melissa F. Brill Brooklyn, NY	Attorney, Cozen O'Connor
Fabian J. Fondriest Concord, MA	Chief Executive Officer, Homesite Insurance Company of New York
Preston B. Kavanagh, III Burlington, CT	Chief Financial Officer and Vice President, Homesite Insurance Company of New York
Sherry J. Little N. Easton, MA	General Counsel and Vice President, Homesite Insurance Company of New York
James T. Morahan, Jr. Foxboro, MA	Vice President of Finance and Treasurer, Homesite Insurance Company of New York
Theresa B. Murphy New York, NY	Attorney, Cozen O'Connor
Dennis M. Raimo Medford, MA	Principal, Quigley, Raimo & Co., PC
Anthony M. Scavongelli Duxbury, MA	Vice President of Partner Relations and Secretary, Homesite Insurance Company of New York
Michael C. Schmidt New York, NY	Attorney, Cozen O'Connor
Peter B. Settel Duxbury, MA	Vice President of Technology, Homesite Insurance Company of New York
Stephen D. Stayton Duxbury, MA	Vice President of Actuarial, Homesite Insurance Company of New York
Brendan G. Voss Scituate, MA	Vice President of Claims, Homesite Insurance Company of New York

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Fabian J. Fondriest	Chief Executive Officer
Douglas A. Batting	President
Preston B. Kavanagh, III	Chief Financial Officer and Vice President
Anthony M. Scavongelli	Secretary and Vice President
James T. Morahan, Jr.	Treasurer and Vice President

Conflict of Interest

The Company has an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of its officers, directors, trustees or responsible employees that is likely to conflict with the official duties of such person.

For the years 2003, 2004 and 2005, nine directors and officers did not have a signed conflict of interest statement on file and six statements were incomplete. In addition, the 2006 and 2007 statements were submitted late.

It is recommended that the Company comply with their own internal policy by ensuring that senior management and directors sign the annual conflict of interest statements in a timely manner.

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business only in New York. The Company only offers homeowners' insurance coverage.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a Percentage of United States Premiums</u>
2003	\$ 1,936,825	\$ 1,936,825	100.00%
2004	\$ 2,895,399	\$ 2,895,399	100.00%
2005	\$ 4,205,625	\$ 4,205,625	100.00%
2006	\$10,843,883	\$10,843,883	100.00%
2007	\$12,280,447	\$12,280,447	100.00%

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,700,000.

C. Reinsurance

Assumed

The Company did not assume any reinsurance business.

Ceded

The Schedule F data as contained in the Company's filed annual statements was found to accurately reflect its reinsurance transactions.

At December 31, 2007, the Company had the following ceded reinsurance program in place:

Type of treaty

Cession

Homeowners:

Catastrophe Excess of Loss - Property
(4 Layers)

\$20,000,000 excess of \$20,000,000 per occurrence-
first layer

\$40,000,000 excess of \$40,000,000 per occurrence-
second layer

\$50,000,000 excess of \$80,000,000 per occurrence-
third layer

Type of treatyCession

	\$90,000,000 excess of \$130,000,000 per occurrence- fourth layer
Excess of Loss - Property (2 Layers)	First layer - \$250,000 excess of \$750,000 per risk; limit \$500,000 per occurrence. Second layer –\$1,000,000 excess of \$1,000,000 per risk; limit \$1,000,000 per occurrence and \$3,000,000 for all occurrences during the agreement year.
Excess of Loss - Liability (1 Layer)	\$500,000 excess of \$500,000 each occurrence.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

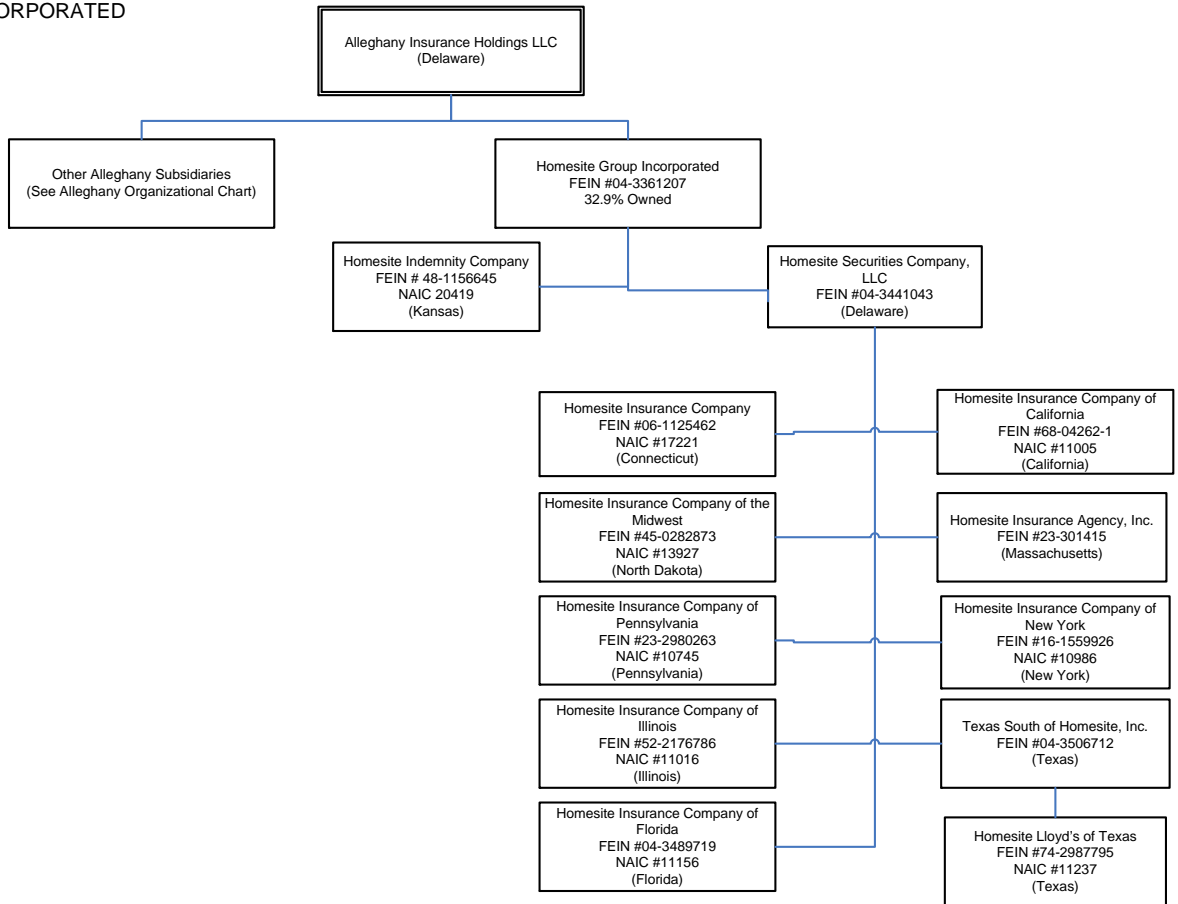
D. Holding Company System

The Company is a member of the Homesite Group of companies. The Company is a wholly-owned subsidiary of Homesite Securities Company LLC, a Delaware limited liability company, which in turn is 100% owned by Homesite Group Incorporated (“HGI”). The ultimate parent is Alleghany Insurance Holdings LLC, which acquired a controlling interest in HGI on December 29, 2006.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2007:

HOMESITE GROUP INCORPORATED



*Note: The following entities hold 10% or more of the outstanding stock of Homesite Group Incorporated: Morgan Stanley Capital Partners III, L.P. 26.00%, HDC Investors, L.P. 17.61%

At December 31, 2007, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

Effective January 1, 2006, the Company became a party to a federal income tax sharing agreement with Homesite Group Incorporated (“HGI”) and its subsidiaries, which form a consolidated group. This tax allocation agreement, provides that in any year or part thereof that the parties file consolidated federal income tax returns, a computation shall be made on or before the date provided by law for the payment of any federal income tax or estimated tax of the amount of income taxes or estimated tax refund to which each party would have to make or to which such party would be entitled if it filed at that time a return declaration or refund claims as a separate corporation and had not at the time been a member of the consolidated group. This agreement was filed with the Department in accordance with Section 1505(d)(3) of the New York Insurance Law.

Service Agreement

Effective June 8, 1999, the Company entered into a service agreement with HGI. The agreement engages HGI to provide personnel, legal services and management information systems and facilities support to the Company on a cost allocation/reimbursement basis. Pursuant to the agreement, HGI also provides for procurement support (including assistance in procuring office supplies and equipment and related services) and other services that may be requested from time to time by Homesite, on mutually agreeable terms. This agreement was filed with the Department in accordance with Section 1505(d)(3) of the New York Insurance Law.

Agency Agreement

Effective December 17, 2004, the Company entered into an agency agreement with Homesite Insurance Agency, Inc (“HIA”). The agreement authorized HIA to solicit potential customers on behalf of the Company and to facilitate the quote and application process for the purpose of selling Company’s homeowners insurance as defined. This agreement was filed with the Department in accordance with Section 1505(d)(3) of New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	97%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	51%
Premiums in course of collection to surplus as regards policyholders	10%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$28,355,571	63.43%
Other underwriting expenses incurred	14,604,084	32.67
Net underwriting loss	<u>1,743,924</u>	<u>3.90</u>
Premiums earned	<u>\$44,703,579</u>	<u>100.00%</u>

F. Accounts and Records

1. Custodial Agreement

Management answered affirmatively to the following General Interrogatory:

“Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity’s offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III conducting Examinations, G- Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?”

However, examination review indicated that the Company’s custodial agreement was lacking the protective covenants set forth in Section 3, III of the NAIC Financial Condition Examiners Handbook.

It is recommended that the Company procure a custodial agreement in compliance with the NAIC guidelines.

2. Investment Designation

Some of the CUSIP numbers and the investment designations reported in Company's annual statement Schedule D did not match those listed in the NAIC Securities Valuation Office (“SVO”) database.

It is recommended that the Company exercise due diligence in preparation of annual statement Schedule D going forward.

3. Investment Reconciliation

The Company does not reconcile its investment portfolio with its custodial statements on a monthly basis as its control in place specified. The Company instead utilized investment management (SRB) report balances to file its annual statement. The report was not reconciled to the custodial statements.

It is recommended that the Company reconcile its investment portfolio to the custodian bank statements on a monthly basis.

4. Capital Contribution

The Company received capital contributions of \$300,000 and \$500,000 in 2003 and 2005, respectively, from its parent Homesite Securities Company, LLC. These transactions were not submitted to the Department prior to enactment. Pursuant to Section 1505(d)(1) of the New York Insurance Law, the Company is required to notify the Superintendent in writing of its intention to enter into such transaction at least 30 days prior to the effective date of the transaction.

It is recommended that the Company comply with the notification requirements set forth in Section 1505(d)(1) of the New York Insurance Law.

G. Information Systems and Controls

Based upon a review of information technology (“IT”) controls conducted by the Kansas Insurance Department, it is recommended that the Company implement the following control policies and procedures that would improve the overall effectiveness of the information system (“IS”) control areas reviewed:

- Reconciliations between source data and the data repository (“data mart”) are done periodically by the information technology department; however, only the most current reconciliation was available for review. The Company also stated that monthly reconciliations from data mart to its worksheets used to analyze and update the financial statements are performed by the finance department on a monthly basis, but only evidence of the most current reconciliation was available for review. It is recommended that the Company implement formalized requirements for the source system to data mart reconciliation, in order to ensure that it is conducted on a stated fixed interval, such as a monthly basis. In addition, the Company should have formalized requirements for retaining all reconciliations from source systems down through the ledger for at least one year.
- The Company did not have adequate controls to ensure that all program changes released to production were appropriately documented and authorized during the exam period. It is recommended that the Company implement the appropriate change controls. It is also recommended that the Company consistently document business requirements and ensure they are signed off and dated by the business area prior to development. In addition, it is recommended that the current IT request management standard be updated to reflect these requirements and ensure that maintenance ticket requirements are appropriately documented.

The examiners noted that these control deficiencies within the Company’s IT environment, did not meet either the material weakness or the significant deficiency threshold and that there is a sufficient remaining IT control structure in place to warrant reliance on the Company’s IT controls.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$15,278,194	\$ 0	\$15,278,194
Common stocks	1,345,032	0	1,345,032
Cash, cash equivalents and short-term investments	2,723,962	0	2,723,962
Investment income due and accrued	155,462	0	155,462
Uncollected premiums and agents' balances in the course of collection	1,144,082	0	1,144,082
Deferred premiums, agents' balances and installments booked but deferred and not yet due	953,475	0	953,475
Amounts recoverable from reinsurers	2,506	0	2,506
Current federal and foreign income tax recoverable and interest thereon	244,723	0	244,723
Net deferred tax asset	<u>541,392</u>	<u>4,425</u>	<u>536,967</u>
Total assets	<u>\$22,388,828</u>	<u>\$4,425</u>	<u>\$22,384,403</u>

Liabilities, surplus and other fundsLiabilities

Losses and Loss adjustment expenses		\$ 3,009,160
Commissions payable, contingent commissions and other similar charges		71,831
Other expenses (excluding taxes, licenses and fees)		21,300
Taxes, licenses and fees (excluding federal and foreign income taxes)		199,811
Unearned premiums		6,573,980
Advance premium		242,685
Ceded reinsurance premiums payable (net of ceding commissions)		82,510
Amounts withheld or retained by company for account of others		22,335
Payable to parent, subsidiaries and affiliates		<u>581,476</u>
Total liabilities		\$10,805,088

Surplus and Other Funds

Common capital stock	\$ 1,000,000	
Gross paid in and contributed surplus	7,600,000	
Unassigned funds (surplus)	<u>2,979,315</u>	
Surplus as regards policyholders		<u>11,579,315</u>
Total liabilities, surplus and other funds		<u>\$22,384,403</u>

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2003 through 2007. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$6,531,856 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income

Premiums earned		\$44,703,579
Deductions:		
Losses incurred	\$23,531,412	
Loss adjustment expenses incurred	4,824,159	
Other underwriting expenses incurred	<u>14,604,084</u>	
Total underwriting deductions		<u>\$42,959,655</u>
Net underwriting gain or (loss)		\$ 1,743,924

Investment Income

Net investment income earned	\$ 2,146,817	
Net realized capital gain	<u>180,709</u>	
Net investment gain or (loss)		2,327,526

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (216,278)	
Finance and service charges not included in premiums	<u>340,728</u>	
Total other income		<u>124,450</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 4,195,900
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		<u>\$ 4,195,900</u>
Federal and foreign income taxes incurred		<u>1,705,246</u>
Net income		<u>\$ 2,490,654</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2002			\$ 5,047,459
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$2,490,654		
Net unrealized capital gains or (losses)	224,500		
Change in net deferred income tax	573,799	0	
Change in non-admitted assets		4,425	
Surplus adjustments paid in	3,600,000		
Prior years' adjustment - additional federal income tax expense and deferred income taxes	<u>0</u>	<u>352,672</u>	
Total gains and losses	<u>\$6,888,953</u>	<u>\$357,097</u>	
Net increase (decrease) in surplus			<u>6,531,856</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$11,579,315</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$3,009,160 is the same as reported by the Company as of December 31, 2007. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

- A. Treatment of Policyholders
- B. Cancellation and non-renewal

Treatment of Policyholders (Claims and Complaint Handling)

A sample of claims from Company data as well as a sample of complaints from the Company's complaint log was selected and reviewed for compliance with Department Regulation No. 64.

Part 216.6 of Regulation No. 64 - Standards for prompt, fair and equitable settlements; states:

(a) In any case where there is no dispute as to coverage, it shall be the duty of every insurer to offer claimants, or their authorized representatives, amounts which are fair and reasonable as shown by its investigation of the claim, providing the amounts so offered are within policy limits and in accordance with the policy provisions.

(b) Actual cash value, unless otherwise specifically defined by law or policy, means the lesser of the amounts for which the claimant can reasonably be expected to:
(2) replace it with an item substantially identical to the item damaged. Such amount shall include all monies paid or payable as sales taxes on the item repaired or replaced..."

(c) "...If the insurer needs more time to determine whether the claim should be accepted or rejected, it shall so notify the claimant, or the claimant's authorized representative, within 15 business days after receipt of such proof of loss, or requested information. Such notification shall include the reasons additional time is needed for investigation. If the claim remains unsettled, unless the matter is in litigation or arbitration, the insurer shall, 90 days from the date of the initial letter setting forth the need for further time to investigate, and every 90 days thereafter, send to the claimant, or the claimant's authorized representative, a letter setting forth the reasons additional time is needed for investigation..."

Upon reviewing the sample of claim and complaints filed, seven of the selected claims and four of New York Insurance Department complaints were not in compliance with Part 216.6 (b)(2) and (c) of Department Regulation No. 64.

It is recommended that the Company comply with the Department Regulation No. 64.

Cancellation and Non-Renewal

The examiner reviewed the Company's cancellation and non-renewal practices for compliance with Section 3425 of the New York Insurance Law:

- (a) Two of the selected policies were improperly non-renewed, and one cancellation notice to the insured could not be found.
- (b) Twelve policies were cancelled for substantial risk, i.e., "dwelling is not owner occupied," "house vacant," or "dwelling under construction and not owner occupied," which is not in compliance with Department Circular Letter No. 23 (2008). The Circular Letter states:

“. . . Insurance Law Section 3425(c)(2)(E) applies only when there has been an actual physical change to the property that renders the property uninsurable in accordance with insurer’s underwriting guidelines. Physical change occurs only when the dwelling or property has been altered or changed in some manner. (See Opinion of Office of General Counsel No. 04-11-20, November 29, 2004). The fact that an insured is not occupying a residence does not constitute a physical change to the premises within the meaning of Section 3425(c)(2)(E)”. “Similarly, the fact that an insured is not occupying a residence does not, standing alone, constitute grounds for cancellation of a homeowners’ policy under Insurance Law Section 3425 (c)(2)(D). . . .”

It is recommended that the Company comply with Section 3425 of the New York Insurance Law and Department Circular Letter No. 23 (2008).

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained fourteen recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company comply with Section 1201(a)(5)(B)(v) of the New York Insurance Law and Article III, Section 2 of its by-laws and maintain at least thirteen members of its board of directors.	4
The Company has complied with this recommendation.	
ii. It is recommended that the Company comply with its by-laws and hold four regularly scheduled quarterly meetings of its board of directors.	4
The Company has complied with this recommendation.	
iii. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
The Company has complied with this recommendation.	
B. <u>Reinsurance</u>	
i. It is recommended that the Company comply with Department guidelines concerning multiple reinsureds.	8
The Company has complied with this recommendation.	
ii. It is recommended that the Company conform the insolvency clause of its excess of loss agreement to comply with Section 1308 of the New York Insurance Law.	9
The Company has complied with this recommendation.	
iii. It is recommended that the Company amend its offset clause to state that in the event of the insolvency of the ceding company, offsets shall only be permitted in accordance with Section 7427 of the New York Insurance Law.	9
The Company has complied with this recommendation.	

<u>ITEM</u>		<u>PAGE NO.</u>
iv.	It is recommended that the arbitration clause of both the excess of loss and quota share agreements be amended to state that arbitration should take place in New York State. The Company has complied with this recommendation.	10
C.	<u>Holding Company System</u> It is recommended that the Company submit its tax allocation agreement to the Department for approval pursuant to Department Circular Letter No. 33 (1979). The Company has complied with this recommendation.	12
D.	<u>Abandoned Property Law</u> It is recommended that the Company file abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law. The Company has complied with this recommendation.	13
E.	<u>Accounts and records</u>	
i.	<u>CPA Engagement Letter</u> It is recommended that the Company incorporate the provisions of Section 89.2 of Department Regulation 118 into its audit engagement letter with its certified public accountant. The Company has complied with this recommendation.	14
ii.	<u>Investment Guidelines</u> It is recommended that the Company's written investment guidelines be submitted to its board of directors for approval. The Company has complied with this recommendation.	14
iii.	<u>Records</u>	
(a)	It is recommended that the Company comply with Section 325(a) of the New York Insurance Law by keeping and maintaining its books of account in its principal office in New York State. The Company has complied with this recommendation.	15

<u>ITEM</u>	<u>PAGE NO.</u>
(b) In addition, it is recommended that the Company's board of directors adopt a plan for keeping and maintaining its books of account outside of New York State and submit this plan to the Superintendent for approval, in accordance with Section 325(b) of the New York Insurance Law.	15
The Company has complied with this recommendation.	
F. <u>Market Conduct Activities</u>	
It is recommended that the Company comply with the requirements of Department Regulation No. 64.	20
The Company has not complied with this recommendation. A similar comment is made in this report.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
<u>Conflict of Interest</u>	
It is recommended that the Company comply with their own internal policy by ensuring that senior management and directors sign the annual conflict of interest statements in a timely manner.	5
B. <u>Accounts and Records</u>	
i. <u>Custodial Agreement</u>	
It is recommended that the Company procure a custodial agreement in compliance with the NAIC guidelines.	11
ii. <u>Investment Designation</u>	
It is recommended that the Company exercise due diligence in preparation of annual statement Schedule D going forward.	11
iii. <u>Investment Reconciliation</u>	
It is recommended that the Company reconcile its investment portfolio to the custodian bank statements on a monthly basis.	11

<u>ITEM</u>	<u>PAGE NO.</u>
iv. <u>Capital Contributions</u> It is recommended that the Company comply with the notification requirements set forth in Section 1505(d)(1) of the New York Insurance Law.	11
C. <u>Information Systems and Controls</u> It is recommended that the Company implement control policies and procedures that would improve the overall effectiveness of the information system (“IS”) control areas identified by the Kansas Insurance Department.	12
D. <u>Market Conduct Activities</u>	
i. <u>Treatment of Policyholders</u> It is recommended that the Company comply with the Department Regulation No. 64.	17
ii. <u>Cancellation and Non-Renewal</u> It is recommended that the Company comply with Section 3425 of the New York Insurance Law and Department Circular Letter No. 23 (2008).	18

Respectfully submitted,

_____/s/
Adebola Awofeso,
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

ADEBOLA AWOFESE, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/s/
Adebola Awofeso

Subscribed and sworn to before me

this _____ day of _____, 2009.

Appointment No. 22815

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Adebola Awofeso

as proper person to examine into the affairs of the

HOMESITE INSURANCE COMPANY OF NEW YORK

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 18 day of August, 2008



A handwritten signature in black ink that reads "Eric Dinallo".

ERIC R. DINALLO
Superintendent of Insurance