

REPORT ON EXAMINATION

OF

HOMESITE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2016

DATE OF REPORT

APRIL 30, 2018

EXAMINER

LAMIN JAMMEH

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

April 30, 2018

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31585 dated April 4th, 2017, attached hereto, I have made an examination into the condition and affairs of Homesite Insurance Company of New York as of December 31, 2016, 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 State Department of Financial Services.

The examination was conducted at the Company’s administrative office located at One Federal Street, Boston, MA 02110.

SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Wisconsin, which was the coordinating and lead state of the American Family Group. Other states participating in this examination were California, Georgia, Illinois, Ohio, and Texas. The examination was performed concurrently with the examinations of the following insurers:

<u>Insurer</u>	<u>State of Domicile</u>
American Family Mutual Insurance Company	Wisconsin
American Standard Insurance Company of Wisconsin	Wisconsin
American Family Insurance Company	Wisconsin
American Standard Insurance Company of Ohio	Wisconsin
American Family Life Insurance Company	Wisconsin
Midvale Indemnity Company	Illinois
Homesite Insurance Company	Wisconsin
Homesite Insurance Company of the Midwest	Wisconsin
Homesite Indemnity Company	Wisconsin
Homesite Insurance Company of California	California
Homesite Insurance Company of Georgia	Georgia
Homesite Insurance Company of Florida	Illinois
Homesite Insurance Company of Illinois	Illinois
Homesite Lloyds of Texas	Texas
The General Automobile Insurance Company, Inc.	Ohio
Permanent General Assurance Corporation	Ohio
Permanent General Assurance Corp. of Ohio	Ohio

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify current and 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 New York Laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Holding company description
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regards 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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on January 25, 1999 as a wholly-owned subsidiary of Homesite Securities Company LLC, which is in turn a wholly-owned subsidiary of Homesite Group Incorporated ("HGI"). The Company's ultimate parent was Alleghany Corporation. The Company became licensed on July 22, 1999 and commenced business on that date. On December 31, 2013, the American Family Mutual Insurance Company ("AFMIC") acquired, through its wholly owned subsidiary, AMFAM Inc., control of all the issued and outstanding voting capital stock of HGI, and became the ultimate parent of HGI and all its operating insurance subsidiaries.

A. Corporate Governance

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 seven nor more than twenty-one members. The board meets four times during each calendar year. At December 31, 2016, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Fabian John Fondriest Concord, MA	Chief Executive Officer & President Homesite Group Incorporated
Michael David Lorion Millbury, MA	Senior Vice President & Chief Financial Officer Homesite Group Incorporated
Andrew Allison McElwee, Jr. New London, NH	Executive Vice President & Chief Operating Officer, Homesite Group Incorporated
James Thomas Morahan, Jr. Foxboro, MA	Vice President Homesite Group Incorporated
Anthony Matthew Scavongelli Duxbury, MA	Executive Vice President & General Counsel Homesite Group Incorporated
Peter Benjamin Settel Duxbury, MA	Executive Vice President Homesite Group Incorporated
James Michael Skelly Yorktown Heights, NY	Attorney, Managing Partner Marks, O'Neill, O'Brien, Doherty & Kelly

A review of the minutes of the board of directors' meetings held during the examination period indicated that Peter Benjamin Settel attended less than 50% of the meetings for which he was eligible to attend. Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Subsequent to the examination date, Mr. Settel resigned and was replaced by Susan G. Anderson.

As of December 31, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Fabian John Fondriest	Chief Executive Officer
Andrew Allison McElwee, Jr	President
Michael David Lorion	CFO, Treasurer and Senior Vice President
Anthony Matthew Scavongelli	Executive Vice President and General Counsel,

B. Territory and Plan of Operation

As of December 31, 2016, the Company was licensed to write business in New York only.

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 (inland only)

Based upon 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.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premium</u>	<u>Assumed Premium</u>	<u>Total Gross Premium</u>
2012	\$34,483,938	\$ 18,124,084	\$52,608,022
2013	\$42,065,432	\$ 22,591,078	\$64,656,510
2014	\$47,325,108	\$(12,932,835)	\$34,392,273
2015	\$53,392,614	\$ 0	\$53,392,614
2016	\$57,392,403	\$ 0	\$57,392,403

The Company primarily offers homeowners multiple peril including renters and condominium insurance in the state of New York. Direct business is obtained through its call centers, its website and, most significantly, its partnership with large financial institutions ("partners"). The partners through whom the Company sells its products utilize various distribution channels including exclusive agencies, independent agents, and the internet. The Company ceased assuming business due to the termination of an inter-company pooling agreement as noted in the reinsurance ceded section.

C. Reinsurance Ceded

Prior to its acquisition the Company had participated in an inter-company pooling agreement which was terminated effective January 1, 2014. The Company and Homesite Insurance Company of the Midwest (“HICMW”) are parties to a Loss Portfolio Transfer and 100% Quota Share Reinsurance Agreement effective as of January 1, 2014. On February 11, 2016, at the Department’s request, the Company and HICMW amended the quota share agreement, retroactively to January 1, 2016 to reduce the ceded percentage from 100% to 80% in respect of all policies issued or renewed by the Company on or after January 1, 2016 except premiums and losses associated with the National Flood Insurance Program. In addition, the amendment ensures that the corresponding cash-flows between the Company and HICMW in respect of such policies are based on the same 80% cession (i.e. premiums, ceding commissions, subrogation, salvage, etc.). As a result, the Company reported unsecured reinsurance recoverables from HICMW of approximately \$38,172,000. This represents a significant counterparty credit risk for the Company, given that the reinsurance recoverable to surplus ratio is approximately 1.06 to 1. HICMW was examined concurrently with the Company and no financial adjustments were made to HICMW’s financial statements. HICMW reported an RBC ratio of 6,556% as of December 31, 2016.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

All significant 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 found the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial 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. 62R.

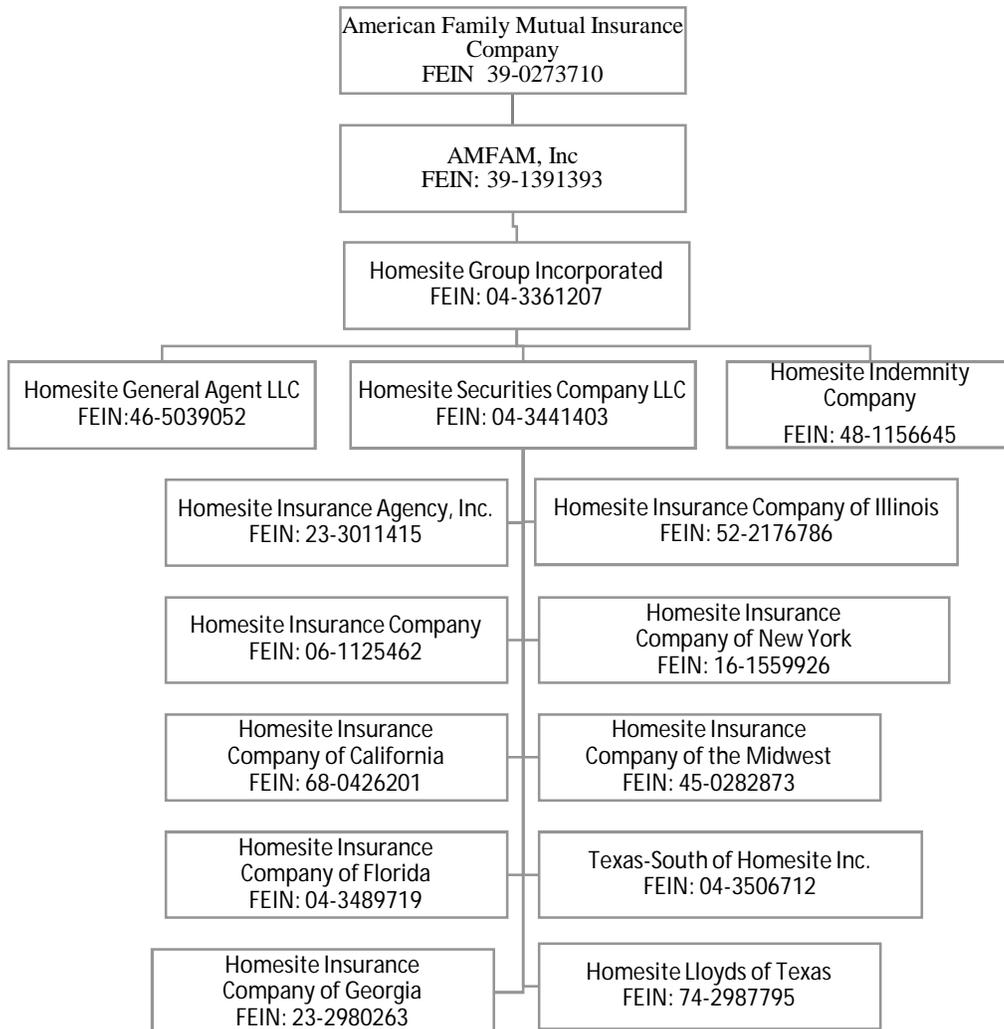
D. Holding Company System

The Company is a member of the American Family Insurance Group. The Company is a wholly owned subsidiary of Homesite Securities Company LLC, a Delaware limited liability company, which in turn is 100% owned by HGI. HGI is a wholly owned subsidiary of AMFAM Inc., which in turn is wholly owned by AFMIC.

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.

On August 5, 2016, in connection with AFMIC's conversion to a mutual holding company structure, AFMIC requested an exemption from filing an acquisition of control in accordance with Section 1506 of the New York Insurance Law. The exemption was granted on October 19, 2016.

The following is an abridged chart of the holding company system at December 31, 2016:



At December 31, 2016, the Company was party to the following agreements with other members of its holding company system:

Service Agreement

Effective June 8, 1999, the Company entered into a service agreement with HGI whereby HGI provides 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 support in procuring office supplies and equipment and related services and other services that may be requested from time to time by the Company, on mutually agreeable terms. The agreement was amended effective April 1, 2014 to update the parties' addresses for notice purposes. During 2016, the Company incurred costs of approximately \$10,435,000 relating to this agreement. This agreement was filed with the Department in accordance with Section 1505 of the New York Insurance Law.

Tax Allocation Agreement

Effective January 1, 2006 the Company became a party to a consolidated federal income tax allocation agreement with HGI and its subsidiaries. Pursuant to the agreement, companies having tax profits on a separate return basis will incur federal tax expense based on their separate return taxable income. Companies with tax losses on a separate basis will be compensated (at the current federal tax rate) for the reduction in the consolidated tax liability resulting from their losses. Such compensation shall come directly from profitable companies that utilize those tax losses to reduce their taxable income. The agreement was amended and restated effective January 1, 2013 and December 31, 2014. The agreement and all subsequent amendments were filed with the Department in accordance with Section 1505 of the New York Insurance Law and non-disapproved.

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 and to facilitate the quote and application process for selling homeowner's insurance on behalf of the Company. This agreement was filed with the Department in accordance with Section 1505 of New York Insurance Law.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2016, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to surplus as regards policyholders	64%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	50%
Two-year overall operating	36%

The Company's reported risk based capital score ("RBC") was 13,953.7% at December 31, 2016. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action.

There were no financial adjustments in this report that impacted the company's RBC score.

FINANCIAL STATEMENTSA. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$11,754,970	\$0	\$11,754,970
Cash, cash equivalents and short-term investments	11,013,862	0	11,013,862
Investment income due and accrued	63,439	0	63,439
Uncollected premiums and agents' balances in the course of collection	4,895,076	0	4,895,076
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,294,320	0	4,294,320
Amounts recoverable from reinsurers	1,786,397	0	1,786,397
Net deferred tax asset	<u>27,209</u>	<u>0</u>	<u>27,209</u>
Total assets	<u>\$33,835,273</u>	<u>\$0</u>	<u>\$33,835,273</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 591,914
Commissions payable, contingent commissions and other similar charges	518,123
Other expenses (excluding taxes, licenses and fees)	24,014
Taxes, licenses and fees (excluding federal and foreign income taxes)	1,172,416
Current federal and foreign income taxes	314,576
Unearned premiums	5,998,833
Advance premium	1,348,227
Ceded reinsurance premiums payable (net of ceding commissions)	2,090,218
Amounts withheld or retained by company for account of others	152,777
Payable to parent, subsidiaries and affiliates	<u>3,457,478</u>
Total liabilities	\$15,668,576

Surplus and Other Funds

Common capital stock	\$1,000,000
Gross paid in and contributed surplus	9,600,000
Unassigned funds (surplus)	<u>7,566,697</u>
Surplus as regards policyholders	<u>18,166,697</u>
Total liabilities, surplus and other funds	<u>\$33,835,273</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2014. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audit covering tax year 2015 is currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax year 2016. 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. Capital and Surplus

Surplus as regards policyholders increased \$6,822,222 during the five-year examination period January 1, 2012 through December 31, 2016 as reported by the Company, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2011			\$11,344,475
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$8,411,288		
Net unrealized capital gains or (losses)		\$ 248,825	
Change in net deferred income tax		1,985,920	
Change in non-admitted assets	630,512		
Aggregate write-ins for gains and losses in surplus	<u>15,167</u>	_____	
Net increase (decrease) in surplus	<u>\$9,056,967</u>	<u>\$2,234,745</u>	<u>6,822,222</u>
Surplus as regards policyholders per report on examination as of December 31,			<u>\$18,166,697</u>

No adjustments were made to surplus as a result of this examination.

Capital paid in is \$1,000,000 consisting of 10,000 shares of \$100 par value per share common stock. Gross paid in and contributed surplus is \$9,600,000. Gross paid in and contributed surplus did not change during the examination period.

LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$591,914 is the same as reported by the Company as of December 31, 2016. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”). All of the Company’s reserves are concentrated in homeowners multiple-peril.

SUBSEQUENT EVENTS

Effective January 1, 2017 AFMIC was converted into a Mutual Holding Company structure. As a result of the conversion, American Family Insurance Mutual Holding Company is now the ultimate controlling entity of the American Family Group. On the effective date, AFMIC was converted to a stock insurer, American Family Mutual Insurance Company, S.I.

COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page number refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Information Technology and Controls</u>	
	It was recommended that the Company establish and implement appropriate control policies and procedures to strengthen its Information Systems controls.	11
	The Company has complied with this recommendation.	

SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

Lamin Jammeh
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

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

Lamin Jammeh

Subscribed and sworn to before me

this _____ day of _____, 2018.

APPOINTMENT NO. 31585

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **Maria T. Vullo**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Lamin Jammeh

as a proper person to examine the affairs of the

Homesite Insurance Company of New York

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

COMPANY

with such other information as he shall deem requisite.

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

this 4th day of April, 2017

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief