REPORT ON EXAMINATION

OF THE

HOMELAND INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2011

DATE OF REPORT	JANUARY 17, 2013
EXAMINER	FE ROSALES, C.F.E.

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

January 17, 2013

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30768 dated December 27, 2011, attached hereto, I have made an examination into the condition and affairs of Homeland Insurance Company of New York as of December 31, 2011, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Homeland 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 150 Royall Street, Canton, MA 02021.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2006. This examination covered the five-year period from January 1, 2007 through December 31, 2011. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Pennsylvania, which was the coordinating state of the OneBeacon Insurance Group. The examination was performed concurrently with the examinations of the following insurers: OneBeacon Insurance Company, OneBeacon America Insurance Company, Pennsylvania General Insurance Company, The Northern Assurance Company of America, The Employers' Fire Insurance Company, AutoOne Select Insurance Company, AutoOne Insurance Company, Atlantic Specialty Insurance Company, Essentia Insurance Company, Traders & General Insurance Company, Camden Fire Insurance Company, OneBeacon Midwest Insurance Company, and Potomac Insurance Company. Other states participating in this examination were Massachusetts, New Jersey, Missouri and Wisconsin.

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 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 financially significant 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 assessment and an evaluation based upon the Company's Sarbanes Oxley documentation and testing. 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 Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Pensions, stock ownership and insurance plans
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated on May 11, 1988 under the laws of the State of New York as a stock insurance company under the General Assurance Company. The Company was licensed on July 19, 1988, and commenced business on October 1, 1988. The Company was wholly-owned by General Accident Corporation of America, and ultimately owned by General Accident Plc, a Scottish non-insurer corporation.

On June 2, 1998, Commercial Union Plc acquired General Accident Plc and formed CGU Plc, the new ultimate parent. Upon acquisition, the name of the Company's parent, General Accident Corporation of America, was changed to CGU Insurance Company.

On June 1, 2001, the White Mountains Insurance Group, Ltd., a Bermuda holding company, acquired CGU Plc. and the changed the name of the Company's parent, CGU Insurance Company, to OneBeacon Insurance Company ("OBIC").

On September 13, 2001, the Company's sole shareholder, OBIC, amended the Company's charter to adopt its current name of Homeland Insurance Company of New York.

Capital paid in is $4,500,000 consisting of 450,000 shares of $10 par value per share common stock. Gross paid in and contributed surplus was $75,556,834 as of December 31, 2011. There was no change in the gross paid in and contributed surplus and/or capital paid in during the examination period.

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 nineteen members. The board meets four times during each calendar year. At December 31, 2011, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Alexander Constantine Archimedes Bridgewater, NJ	Senior Vice President, Homeland Insurance Company of New York
Jane Ellen Freedman Newton Centre, MA	Assistant Secretary, Homeland Insurance Company of New York
Robert Charles Gallagher Brooklyn, NY	President, International Marine Underwriters
Joan Kathleen Geddes Hanover, MA	Assistant Secretary, Homeland Insurance Company of New York
Dana Perkins Hendershott Milford, CT	Senior Vice President and Chief Administrative Officer, Homeland Insurance Company of New York
Josette Durling Kiel Boerne, TX	Senior Vice President and Chief Underwriting Officer, Homeland Insurance Company of New York
Paul Harrington McDonough Wayzata, MN	Senior Vice President and Chief Financial Officer, Homeland Insurance Company of New York
Timothy Michael Miller Deephaven, MN	Chairman of the Board, Homeland Insurance Company of New York

Name and Residence	Principal Business Affiliation
Michelle Eileen O'Donovan Garden City, NY	National Product Line Director, International Marine Underwriters
Brian David Poole Wayzata, MN	Senior Vice President and Chief Actuary, Homeland Insurance Company of New York
Anthony Albert Recanatini Staten Island, NY	Underwriting Director, International Marine Underwriters
Bradford Whitman Rich Tucson, AZ	President, Chief Executive Officer and General Counsel, Homeland Insurance Company of New York
Thomas Norman Schmitt Greenwood, MN	Senior Vice President and Chief Human Resources Officer, Homeland 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 with the exception of Mr. Timothy Miller and Ms. Josette Kiel, each of whom attended less than 50% of the meetings for which they were 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. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

As of December 31, 2011, the principal officers of the Company were as follows:

Name	Title
Timothy Michael Miller	Chairman
Bradford Whitman Rich	President, Chief Executive Officer and General Counsel
Virginia Ann McCarthy	Secretary
Todd Colin Mills	Vice President and Treasurer
David Brian Poole	Senior Vice President and Chief Actuary
Paul Harrington McDonough	Senior Vice President and Chief Financial Officer
Ann Marie Andrews	Controller and Chief Accounting Officer

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed to write business in New York only but is eligible or approved to write Surplus Lines in forty-nine other states, the District of Columbia and Puerto Rico.

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:

Paragraph	Line of Business
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers’ compensation and employers’ liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
26	Gap

The Company is also authorized to write workers’ compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113, including coverages described in the Longshoremen’s and Harbor Workers’ Compensation Act (Public Law No. 803, 69 Congress as amended; 33 USC Section 901 et seq. as amended) and insurance and reinsurance of every kind or description, including those located or resident outside of the United States, its territories and possessions, except with respect to life insurance, title insurance and contracts for the payment of annuities, as specified in Section 4102(c) of the New York Insurance Law.

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 $35,000,000.

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

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a percentage of Total Premium
2007	($252,849)	$172,255,011	-0.15%
2008	$143,866	$149,934,745	0.10%
2009	($261,032)	$161,757,734	-0.16%
2010	$206,481	$160,714,028	0.13%
2011	$711,049	$162,381,279	0.44%

The negative direct premiums written in New York for the years 2007 and 2009 were driven by net return premium activities in the special property, entertainment and professional insurance businesses.

The Company is a property and casualty insurance writer that provides a wide range of specialty products and services through a network of independent agents, regional and national brokers, wholesalers and managing general agents.

C. Reinsurance

Assumed reinsurance accounted for 40.2% of the Company's gross premium written at December 31, 2011. The business assumed was attributable to the Company's inter-company pooling agreement.

Inter-Company Reinsurance Pooling Agreement

The Company participates in the OneBeacon Pooling Agreement ("Pooling Agreement") with various affiliated companies (collectively called "Pool Participants"), with OBIC functioning as pool leader. Under the terms of the Pooling Agreement, each of the Pool Participants cedes 100% of its direct business to OBIC and authorizes OBIC to perform various services on behalf of the Pool Participants including policy development, marketing, underwriting, policy administration, loss settlement, personnel, purchasing, accounting, data processing and facilities management. The joint expenses attributable to these services are allocated among the Pool Participants in accordance with their participation percentages. Net settlements of all amounts under the Pooling Agreement are made quarterly.

The Pool Participants also authorize OBIC to effect and be responsible for all reinsurance with third parties on contracts and insurance policies issued by the Pool Participants. As a result, all third party reinsurance of the Pool is recorded in OBIC, and only the intercompany pooling agreement reinsurance is recorded by the other Pool Participants.

The Pool Participants, their domiciliary state and their respective participation percentages in effect at December 31, 2011, are as follows:

Company	Pooling Percentages
OneBeacon Insurance Company (PA)	56.5%
OneBeacon America Insurance Company (MA)	16.4%
Homeland Insurance Company of New York (NY)	10.0%
Pennsylvania General Insurance Company (PA)	10.0%
The Northern Assurance Company of America (MA)	5.0%
The Employers' Fire Insurance Company (MA)	1.5%
Atlantic Specialty Insurance Company (NY)	0.6%
AutoOne Select Insurance Company (NY)	0.0%
AutoOne Insurance Company (NY)	0.0%
Pool Total	100.0%

Effective October 1, 2011, in anticipation of the sale of AutoOne Insurance Company and AutoOne Select Insurance Company to Interboro Holdings, Inc. ("Interboro"), these two companies' participation in the pool was reduced to zero percent and their former shares of 1% and 1.5%, respectively, were retained by OBIC under the terms of the amended Pooling Agreement. On February 22, 2012, the AutoOne companies were sold to Interboro.

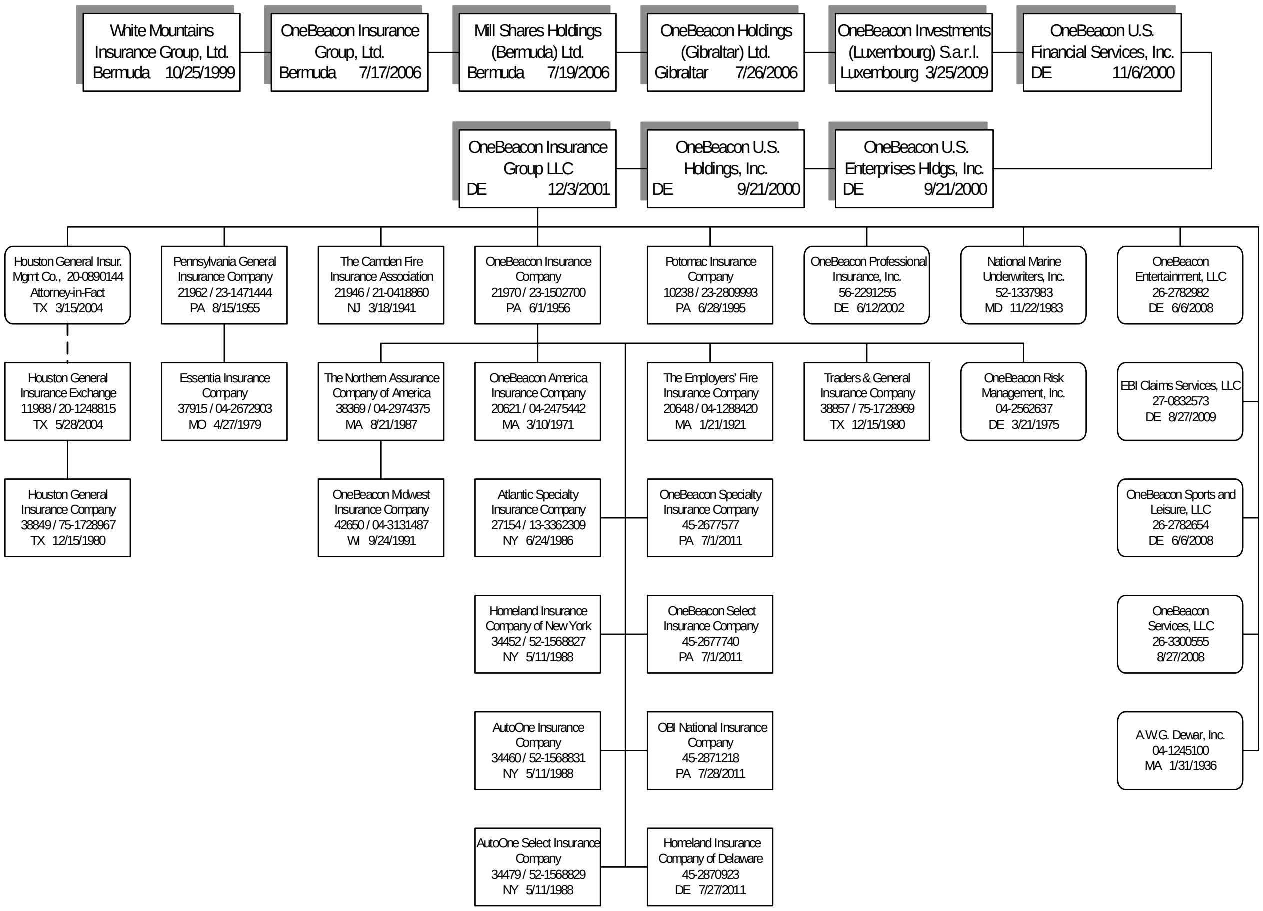
Additionally, OBIC assumes 100% of all direct underwriting activity of the following affiliates: The Camden Fire Insurance Association, OneBeacon Midwest Insurance Company, Potomac Insurance Company, and Traders & General Insurance Company. OBIC also assumes 90% of the direct underwriting activity from Essentia Insurance Company.

D. Holding Company System

As of December 31, 2011, the Company was a member of the OneBeacon Insurance Group. The Company was a wholly-owned subsidiary of OneBeacon Insurance Company, a property and casualty insurance company domiciled in Pennsylvania, which is ultimately controlled by White Mountains Insurance Group, Ltd.

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, 2011:



In addition to the intercompany pooling arrangement discussed previously in the Reinsurance section of this report, the Company was party to the following agreements with other members of its holding company system at December 31, 2011:

Investment Management Agreement

Effective July 1, 2002, the Company entered into an investment management agreement with White Mountain Advisors, LLC ("WMA"), formerly known as OneBeacon Asset Management, Inc., an affiliated investment advisor. The agreement stipulated for WMA to provide investment research and advice, including the execution of orders for the purchase and sale of securities.

On November 14, 2006 the Company replaced the above agreement with a similar agreement with WMA, whereby WMA agreed to provide treasury management services in addition to the services provided in the previous agreement. This agreement was filed with the Department on November 6, 2006 pursuant to Section 1505 of the New York Insurance Law.

Effective October 1, 2010, the Company entered into a new investment management agreement with WMA pursuant to which WMA provides investment research and advice, including the execution of orders for the purchase and sale of securities. The fee for these services is paid quarterly and is equal to a percentage of the value of the investment portfolio on the last day of the preceding calendar quarter. This agreement was filed with the Department on August 26, 2010 pursuant to Section 1505 of the New York Insurance Law.

Tax Allocation Agreement

Effective December 31, 2001, the Company became a party to a federal income tax sharing agreement with Fund American Enterprise Holdings, Inc. 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 estimate 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 claim as a separate corporation and had not at the time been a member of the consolidated group.. This agreement was filed with this Department on August 14, 2001 pursuant to Section 1505 of the New York Insurance Law.

Effective December 31, 2004, the Company amended the above original tax allocation agreement with Fund American Enterprises Holdings, Inc. to reflect an assignment and assumption agreement to its wholly owned subsidiary, Fund America Financial Services, Inc. (“Holdco”), now known as OneBeacon U.S. Financial Services, Inc.

During the examination period, subsidiaries were added and entities deleted as members of the original agreement due to changes in the OneBeacon organization.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	89%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	66%
Premiums in course of collection to surplus as regards policyholders	6%

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:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$439,939,018	59.04%
Other underwriting expenses incurred	267,343,780	35.88
Net underwriting loss	37,902,877	5.09
Premiums earned	$745,185,675	100.00%

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Company:

Assets	Assets	Examination Assets Not Admitted	Net Admitted Assets
Bonds	$231,873,255	$ 0	$231,873,255
Preferred stocks	35,889		35,889
Common stocks	20,844,837		20,844,837
Cash, cash equivalents and short-term investments	7,033,401		7,033,401
Other invested assets	13,865,074		13,865,074
Receivables for securities	21,064		21,064
Investment income due and accrued	2,200,061		2,200,061
Uncollected premiums and agents' balances in the course of collection	7,896,892		7,896,892
Deferred premiums, agents' balances and installments booked but deferred and not yet due	11,288,559		11,288,559
Current federal and foreign income tax recoverable and interest thereon	3,324,619		3,324,619
Net deferred tax asset	5,120,641		5,120,641
Electronic data processing equipment and software	447,964	123,894	324,070
Furniture and equipment, including health care delivery assets	33,729	33,729	0
Receivables from parent, subsidiaries and affiliates	1,025,853		1,025,853
Sundry assets	450,677	227,993	222,684
Balances receivable from Tower Group and Hanover Insurance Group	350,657	0	350,657
L.A.D. service fees receivable	126,187	0	126,187
Total assets	$305,939,359	$385,616	$305,553,743

Liabilities, surplus and other funds

	Examination
Liabilities	
Losses and loss adjustment expenses	$126,752,733
Other expenses (excluding taxes, licenses and fees)	137,190
Taxes, licenses and fees (excluding federal and foreign income taxes)	1,622,066
Unearned premiums	53,036,685
Advance premium	14,360
Payable for securities	22,970
Unearned L.A.D. service fees	1,204,037
Unearned takeout credit fees	87,900
NYAIP liability	45,996
Total liabilities	$182,923,937
Surplus and other funds	
Common capital stock	$ 4,500,000
Effect of implementation of SSAP No. 10R	355,916
Gross paid in and contributed surplus	75,556,834
Unassigned funds (surplus)	42,217,056
Surplus as regards policyholders	$122,629,806
Totals liabilities, surplus and other funds	$305,553,743

Note: The Internal Revenue Service has not completed any Federal Income Tax audits during the examination period. However, audits covering tax years 2007 through 2009 are currently under examination. 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. Statement of Income

Surplus as regards policyholders decreased by $103,950,659 during the five-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income		
Premiums earned		$745,185,675
Deductions:		
Losses and loss adjustment expenses incurred	$439,939,018	
Other underwriting expenses incurred	277,774,920	
Aggregate write-ins for underwriting deductions	(10,431,140)	
Total underwriting deductions		707,282,798
Net underwriting gain or (loss)		$ 37,902,877
Investment Income		
Net investment income earned	$58,464,043	
Net realized capital gain	1,417,674	
Net investment gain or (loss)		$ 59,881,717
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$(992,336)	
Finance and service charges not included in premiums	2,839,353	
Aggregate write-ins for miscellaneous income	5,719,727	
Total other income		$ 7,566,744
Net income before dividends to policyholders and before federal and foreign income taxes		$105,351,338
Dividends to policyholders		108,706
Net income after dividends to policyholders but before federal and foreign income taxes		$105,242,632
Federal and foreign income taxes incurred		31,876,660
Net Income		$ 73,365,972

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2006			$226,580,465
Net income	$73,365,972	$ 0	
Net unrealized capital gains or (losses)		6,196,944	
Change in net unrealized foreign exchange capital gain (loss)		246,259	
Change in net deferred income tax		10,836,495	
Change in nonadmitted assets	5,607,151	0	
Surplus adjustments paid in		6,265,346	
Dividends to stockholders		159,734,654	
Aggregate write-ins for gains and losses in surplus	355,916	0	
Net increase (decrease) in surplus	$79,329,039	$183,279,698	$(103,950,659)
Surplus as regards policyholders per report on examination as of December 31, 2011			$122,629,806

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $126,752,733 is the same as reported by the Company as of December 31, 2011. 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. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A	Accounts and Records	
i.	CPA Contract It was recommended that the Company ensure that the contract with the CPA for all future audits, contain the provisions required by Department Regulation 118.	13
	The Company has complied with this recommendation	
ii.	Agents' Balances and Premiums Receivable Over 90 Days Past Due	
	It was recommended that the Company institute procedures to assure GAAP to STAT allowance reconciliation processes are instituted to provide assurance that the calculation is properly presented and recorded.	13
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A	Management	
	i. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5

Respectfully submitted,

/s/
Fe Rosales, C.F.E.
Associate Insurance Examiner

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

FE ROSALES, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

/s/
Fe Rosales

Subscribed and sworn to before me

this__________ day of ___________________, 2012.

APPOINTMENT NO. 30768

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, 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:*

Fe Rosales

as a proper person to examine the affairs of the

HOMELAND 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 she shall deem requisite.

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

this 27th day of December, 2011

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES
EXCELSIOR