

REPORT ON EXAMINATION

OF

HOMELAND INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2016

DATE OF REPORT

DECEMBER 20, 2017

EXAMINER

ADEBOLA AWOFESO

TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Corporate governance	4
	B. Territory and plan of operation	6
	C. Reinsurance	7
	D. Holding company system	8
	E. Significant operating ratios	12
3.	Financial statements	13
	A. Balance sheet	13
	B. Statement of income	14
	C. Capital and surplus account	15
4.	Losses and loss adjustment expenses	15
5.	Subsequent events	16
6.	Compliance with prior report on examination	16
7.	Summary of comments and recommendations	16



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

December 20, 2017

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 31524 dated August 23, 2016, attached hereto, I have made an examination into the condition and affairs of Homeland Insurance Company of New York as of December 31, 2016, and submit the following report thereon.

Wherever the designations the “Company” or “HONY” appear 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 605 Highway 169 North, Suite 800, Plymouth, MN 55441.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a single state insurer and member of the OneBeacon Insurance Group. 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.

New York is the lead state of the OneBeacon Insurance Group. The examination of the Company was performed concurrently with the examinations of the following insurers: Atlantic Specialty Insurance Company (“ASIC”), the lead insurer of the OneBeacon Group and immediate parent of the Company, Homeland Insurance Company of Delaware (“HODE”), OBI America Insurance Company (“OBIA”), OBI National Insurance Company (“OBIN”) and Houston General Insurance Exchange (“HGIE”). The states participating in this examination were Delaware, Pennsylvania and Texas.

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 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 under the laws of the State of New York on May 11, 1988, as a stock insurance company originally named 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 on-insurer corporation.

In 1998, Commercial Union Plc acquired General Accident Plc and formed CGU Plc. On June 1, 2001, the White Mountains Insurance Group, Ltd., a Bermuda holding company, acquired CGU Plc, and the name of the Company's immediate parent was changed to OneBeacon Insurance Company ("OBIC"). OBIC was wholly owned by OneBeacon Insurance Group LLC ("OBLLC"), an intermediate insurance holding company domiciled in the state of Delaware. OBLLC is an indirect wholly owned subsidiary of OneBeacon Insurance Group, Ltd, ("OneBeacon" or the "Group") a holding company domiciled in Bermuda. In 2006, White Mountains sold 27.6% of OneBeacon shares to the public in an initial public offering, while retaining the majority of ownership. As of December 31, 2016, White Mountains, the ultimate controlling person of the Company, indirectly owned 76.1% of OneBeacon.

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

OneBeacon Background and Restructuring

In 2001, White Mountains acquired CGU Plc, the United States property and casualty insurance operations of a London based holding company. CGU Plc was rebranded as OneBeacon in the same year. Historically, OneBeacon had provided a wide range of insurance products including commercial, personal and specialty lines. OBIC was the parent of most of the US operating subsidiaries, was the lead insurer of

the Group and had retained a majority of the business through an intercompany pooling arrangement. OneBeacon sold its non-specialty commercial renewal rights and personal lines business in 2009 and 2010, respectively, and placed the remaining commercial business into run-off. Beginning in 2012, OneBeacon implemented significant changes to simplify the Group’s operating structure. In 2012, OneBeacon terminated the intercompany pooling agreement and aggregated the run-off business into OBIC in order to accommodate a sale of the run-off business. Between 2012 and 2014, the insurance subsidiaries of OBIC were merged, sold or transferred within the Group. A sale of substantially all of the run-off business was executed in 2014. Group management made ASIC the lead insurer of the Group and the parent of five insurance subsidiaries, including HONY. Effective August 1, 2014, ASIC assumes all of the insurance liabilities of its insurance subsidiaries through 100% quota share reinsurance agreements.

The following transactions related to the Group’s restructuring took place during the examination period:

Effective November 1, 2012, the Company purchased all of the issued and outstanding shares of OneBeacon Select (“OBSEL”), a Pennsylvania corporation, from its then parent company OBIC for a purchase price of \$50,497,133. The investment of this subsidiary is valued at the underlying equity on a statutory basis.

On June 30, 2013, an affiliated insurer, Atlantic Specialty Insurance Company (“ASIC”) purchased 100% of Company’s issued and outstanding shares of common stock from OneBeacon Insurance Company (“OBIC”). The purchase price was equal to the Company’s June 30 2013 statutory surplus of \$108,073,323. ASIC is a New York domiciled property and casualty insurance company, which at that point became the Company’s immediate parent.

In September 2017, White Mountains sold its ownership percentage of the OneBeacon Insurance Group, Ltd. to Intact Financial Corporation, an insurance group based in Canada. Details of the transaction can be found in the Subsequent Events section of this report.

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

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Paul John Brehm Minneapolis, MN	OneBeacon Insurance Group Senior Vice President and Chief Risk Officer
Dennis Albert Crosby Suwanee, GA	OneBeacon Insurance Group Executive Vice President

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Sean William Duffy Minneapolis, MN	OneBeacon Insurance Group Senior Vice President and Chief Claims Officer
Robert Charles Gallagher Brooklyn, NY	OneBeacon Insurance Group President, International Marine Underwriters Uni
Joan Kathleen Geddes Hanover, MA	OneBeacon Insurance Group Deputy General Counsel
Josette Durling Kiel Boerne, TX	OneBeacon Insurance Group Chief Underwriting Officer
Scott Walter McClintock Wayzata, MN	OneBeacon Insurance Group Senior Vice President and Chief Information Officer
Paul Harrington McDonough* Wayzata, MN	OneBeacon Insurance Group Executive Vice President and Chief Financial Officer
Timothy Michael Miller Deephaven, MN	OneBeacon Insurance Group Chief Executive Officer
Michelle Eileen O'Donovan Remsenberg, NY	OneBeacon Insurance Group Underwriting Consultant
Maureen Ann Phillips* Golden Valley, MN	OneBeacon Insurance Group Senior Vice President and General Counsel
Thomas Norman Schmitt Eden Prairie, MN	OneBeacon Insurance Group Senior Vice President and Chief Human Resources Officer
John Charles Treacy Stillwater, MN	OneBeacon Insurance Group Chief Accounting Officer and Treasurer

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, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Timothy Michael Miller	President and Chief Executive Officer
Maureen Ann Phillips*	Senior Vice President and General Counsel
Christopher Vincent Jerry	Secretary
John Charles Treacy	Senior Vice President and Treasurer

Paul John Brehm	Senior Vice President, Chief Risk Officer and Chief Actuary
Paul Harrington McDonough*	Senior Vice President and Chief Financial Officer
Scott Walter McClintock	Senior Vice President and Chief Information Officer

*After the Intact acquisition of the company and subsequent to this examination, these officers and board members elected to leave the company.

B. Territory and Plan of Operation

As of December 31, 2016, 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:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property damage
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	Worker's compensation and employer's 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 Longshore 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)(i)(ii) 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 and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2012	\$195,037,977	\$32,358,801	\$227,396,778
2013	\$195,301,652		\$195,301,652
2014	\$200,779,705		\$200,779,705
2015	\$192,918,927		\$192,918,927
2016	\$197,084,776		\$197,084,776

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.

Due to the 100% quota share reinsurance agreement with its immediate parent, ASIC, the Company does not retain any underwriting or reserving risk.

C. Reinsurance

Assumed Reinsurance

During the period covered by this examination, the Company assumed premiums of \$32,358,801 in 2012.

Ceded Reinsurance

100% Quota Share Reinsurance Agreement

Pursuant to a 100% quota share reinsurance agreement with its direct parent, ASIC, the Company cedes 100% of all liabilities incurred under or in connection with all contract and policies of insurance issued by the Company on or prior to the effective date to ASIC.

This agreement has been effective since October 1, 2012. It was amended on August 1, 2016 to change termination provision, add an arbitration clause and reflect the Company's administrative office in Minnesota.

The quota share agreement was filed with and was non-disapproved by the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law. The agreement was 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 that 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.

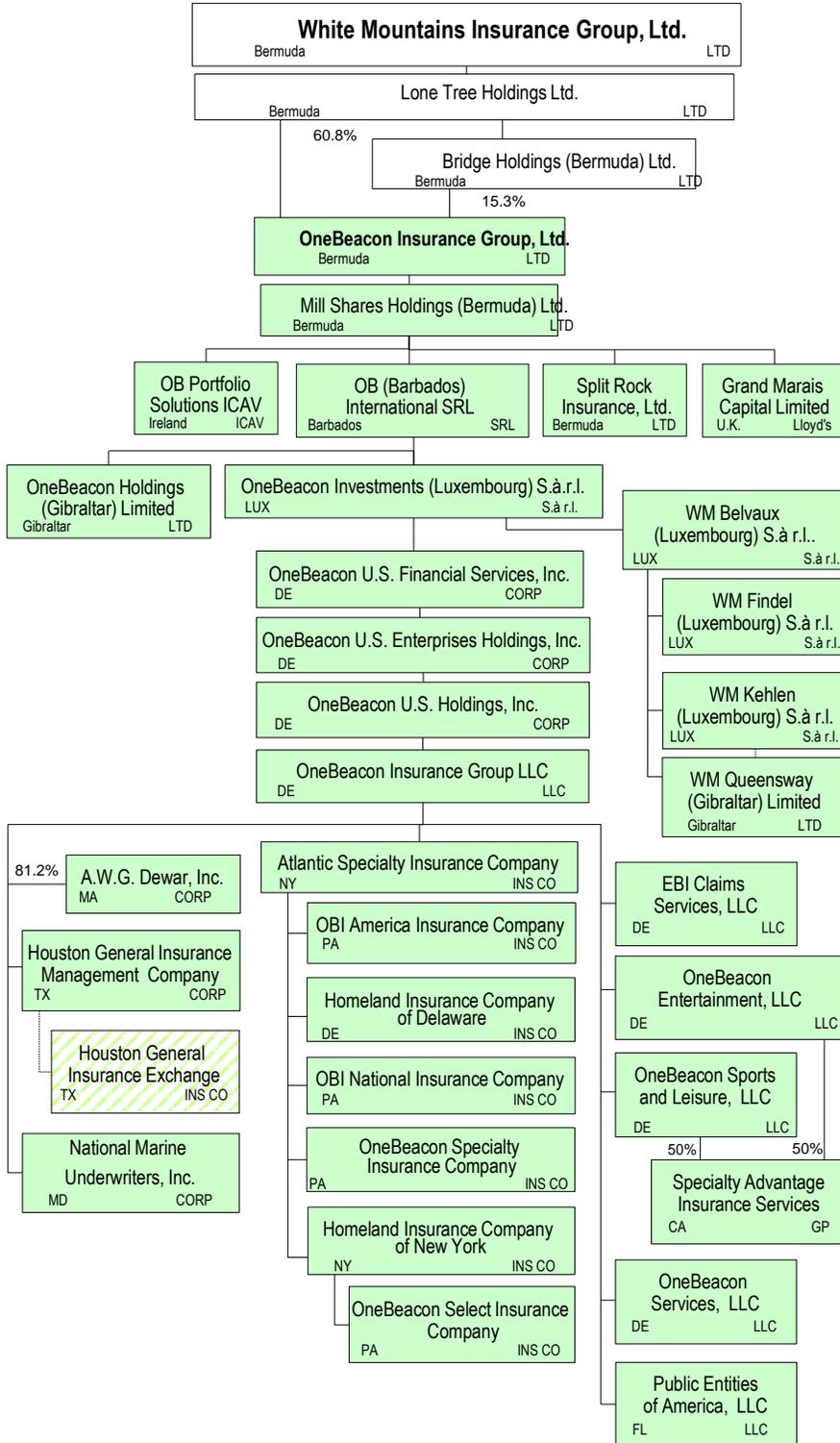
D. Holding Company System

The Company is a wholly-owned subsidiary of ASIC, a property and casualty insurance company domiciled in New York wholly-owned by OBLLC. OBLLC is wholly owned by OneBeacon, which at year end 2016 was ultimately controlled by White Mountains Insurance Group, Ltd., a Bermuda domiciled Company.

In September 2017, White Mountains sold its ownership interest of the OneBeacon Insurance Group, Ltd. to Intact Financial Corporation ("Intact"), an insurance group based in Canada. Details of the transaction can be found in the Subsequent Events section of this report.

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, 2016:



Holding Company Agreements

As of the examination date, December 31, 2016, the agreements are as follows:

Investment Management Agreement

Effective December 23, 2014, the Company became party to an Amended and Restated Investment Management Agreement (“IMA”), originally established on July 1, 2002, with White Mountain Advisors, LLC (“WMA”), an affiliated investment advisor. According to the IMA, WMA agreed to provide investment advisory services and treasury management services to OneBeacon and its subsidiaries for a fee, as stipulated in the IMA. The fee for these services is paid quarterly and computed at the annual rate equal to a percentage of the aggregate value of the net assets of HONY investment portfolio on an annual basis. Various amendments were made to this agreement during the examination period either to modify the fee schedule or to add or removed an affiliated company. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

This agreement was terminated effective December 31, 2017 and replaced with a new Investment Management Agreement with Intact Investment Management, Inc., effective December 15, 2017.

Tax Allocation Agreement

Effective December 23, 2014, the Company is party to an Amended and Restated Tax Allocation Agreement with OneBeacon U.S. Financial Services, Inc. a Delaware Corporation. 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. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Effective May 1, 2015, an amendment was made to the tax allocation agreement to add OBIA, a state of Pennsylvania corporation, to the tax allocation agreement as OBIA became a member of the group. Two weeks after acquisition by Intact, Inc., an amendment was made to reflect the re-domestication of OBIG, Ltd. from Bermuda to Delaware.

Broker Agreement

Effective February 19, 2014, the Company has a broker agreement with Public Entities of America, LLC, a Florida limited liability company. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Producer Agreement

Effective March 27, 2009, the Company has a producer agreement with Specialty Advantage Insurance Services (a/k/a Entertainment Broker International). The agreement was filed with this Department pursuant to Section 1505 of the 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*	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	3%
Two-year overall operating ratio*	0%

*The operating ratios were zero due to Company's reinsurance agreement with ASIC.

Underwriting Ratios

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>Ratio</u>
Losses and loss adjustment expenses incurred	\$48,577,434	56.88%
Other underwriting expenses incurred	36,519,482	42.76
Net underwriting loss	<u>300,327</u>	<u>0.35</u>
Premiums earned	<u>\$85,397,243</u>	<u>100.00%</u>

The Company's reported risk based capital score ("RBC") was 1,366.6% at 12/31/16. 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.

3. FINANCIAL STATEMENTS

A 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	\$44,011,934		\$ 44,011,934
Common stocks	55,115,782		55,115,782
Cash, cash equivalents and short-term investments	2,015,512		2,015,512
Other invested assets	13,974,863		13,974,863
Investment income due and accrued	<u>97,274</u>	<u>0</u>	<u>97,274</u>
Total assets	<u>\$115,251,365</u>	<u>\$ 0</u>	<u>\$115,215,365</u>

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses		\$ 0
Other expenses (excluding taxes, licenses and fees)		22,790
Current federal taxes and foreign income taxes		1,357,540
Net deferred tax liability		139,537
Payable to parent, subsidiaries and affiliates		<u>24,971</u>
Total liabilities		\$ 1,544,838

Surplus and Other Funds

Common capital stock	\$ 4,500,000	
Gross paid in and contributed surplus	75,556,834	
Unassigned funds (surplus)	<u>33,613,693</u>	
Surplus as regards policyholders		<u>113,670,527</u>
Total liabilities, surplus and other funds		<u>\$115,215,365</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2012. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2013 through 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. Statement of Income

Net income for the five-year examination period as reported by the Company, from January 1, 2012 through December 31, 2016 was \$20,550,158 detailed as follows:

Underwriting Income

Premiums earned		\$85,397,243
Deductions:		
Losses and loss adjustment expenses incurred	\$48,577,434	
Other underwriting expenses incurred	36,720,130	
Aggregate write-in for underwriting deductions	<u>(200,648)</u>	
Total underwriting deductions		<u>85,096,916</u>
Net underwriting gain		\$ 300,327

Investment Income

Net investment income earned	\$ 7,488,029	
Net realized capital gain	<u>10,424,567</u>	
Net investment gain		17,912,596

Other Income

Net loss from agents' or premium balances charged off	\$ 0	
Finance and service charges not included in premiums	0	
Aggregate write-ins for miscellaneous income	<u>270,858</u>	
Total other income		<u>270,858</u>

Net income before dividends to policyholders and before federal and foreign income taxes		\$18,483,781
Dividends to policyholders		<u>3,194</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$18,480,587
Federal and foreign income taxes incurred		<u>(2,069,571)</u>
Net income		<u>\$20,550,158</u>

C. Capital and Surplus

Surplus as regards policyholders as reported by the Company decreased \$8,959,279 during the five-year examination period from January 1, 2012 through December 31, 2016, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2011			\$122,629,806
	<u>Increases in</u>	<u>Decreases in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$20,550,158		
Net unrealized capital gain	2,503,730		
Change in net deferred income tax		\$ 6,398,783	
Change in non-admitted assets	<u>385,616</u>		
Dividends to stockholders		<u>26,000,000</u>	
Total gains and losses	<u>\$23,439,504</u>	<u>\$32,398,783</u>	
Net increase in surplus			<u>(8,959,279)</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2016			<u>\$113,670,527</u>

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

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, 2016. There was no change in the gross paid in and contributed surplus and/or capital paid in during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2016. The zero liability is a result of the 100% quota share reinsurance agreement the Company has in place with its direct parent, ASIC. The examination analysis of the loss and loss adjustment expense reserves was conducted on the Company's gross reserves and done in conjunction with the analysis of all operating insurers within the OneBeacon Group. The analysis was done 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").

5. SUBSEQUENT EVENTS

On September 28, 2017, the Company's parent, OneBeacon, was acquired by Intact, a publicly traded Canadian corporation. Intact acquired OneBeacon for an aggregate amount of approximately \$1.7 billion. Upon acquisition, OneBeacon became a wholly-owned subsidiary of Intact and all its insurance subsidiaries, including the Company, will continue to operate as the OneBeacon Insurance Group in the United States. Mike Miller, former Chief Executive Officer of OneBeacon Insurance, was appointed president of Intact's United States operations and will report directly to Charles Brindamour, Intact's Chief Executive Officer. The acquisition transaction was approved by the Department on September 22, 2017.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Management</u> It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.</p> <p>The Company has complied with this recommendation.</p>	<p>5</p>

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

APPOINTMENT NO. 31524

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:

Adebola Awofeso

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 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 23rd day of August, 2016

MARIA T. VULLO
Superintendent of Financial Services



By: Joan P. Riddell
Joan Riddell
Deputy Bureau Chief