

REPORT ON EXAMINATION

OF THE

AUTOONE INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

DATE OF REPORT

JANUARY 11, 2008

EXAMINER

ADEBOLA AWOFOESO

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

January 11, 2008

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 22646 dated May 10, 2007 attached hereto, I have made an examination into the condition and affairs of AutoOne Insurance Company as of December 31, 2006, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate AutoOne Insurance Company.

Wherever the designation “OneBeacon” appears in this report, it should be understood to mean OneBeacon Insurance Company.

Wherever the designation “OneBeacon Insurance Group” appears in this report, it should be understood to mean the property and casualty insurance subsidiaries owned by OneBeacon Insurance Group LLC, an insurance holding company domiciled in the State of Delaware.

Wherever the designation “OneBeacon Pool” appears in this report, it should be understood to mean the OneBeacon Insurance Group Pool, a pool comprised of nine affiliated insurance companies whose combined underwriting results are shared among the members. The pool participants are set forth in item 2C herein.

Wherever the designation “WMIG” appears in this report, it should be understood to mean the White Mountains Insurance Group, Ltd., a Bermuda holding company.

Wherever the designation “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 offices located at One Beacon Lane, Canton, MA 02021.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the five year period from January 1, 2002 through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The current examination was organized, planned, and conducted based upon the application of the risk surveillance approach in accordance with the guidelines and procedures established in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (“NAIC”). To the extent considered appropriate, work performed by the Company’s independent certified public accountants (“CPA”) and the Sarbanes Oxley documentation were considered. A review also made of the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

- History of Company
- Management and control
- Corporate records
- Territory and plan of operation
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

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 on May 11, 1988, under the laws of the State of New York as a stock insurance company as the General Assurance Company. It was licensed on July 19, 1988, and commenced business on October 1, 1988. At the time the Company was formed, it was wholly-owned by General Accident Insurance Company of America, a Pennsylvania domiciled insurer, 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. The name of General Accident Insurance Company of America was changed to CGU Insurance Company on August 25, 1999.

On June 1, 2001, the White Mountains Insurance Group, Ltd. (“WMIG”), a Bermuda holding company, acquired CGU Plc. The name of CGU Insurance Company was changed to OneBeacon on August 28, 2001.

On January 8, 2004, the name of the Company was changed to its current name, AutoOne Insurance Company.

Capital paid in is \$3,000,000 consisting of 300,000 shares of common stock at \$10 par value per share. Capital paid in increased by \$2,000,000 during the examination period through the issuance of an additional 80,000 common shares on July 21, 2003 and 120,000 common shares on May 9, 2005. Gross paid in and contributed surplus was \$38,939,669 as of December 31, 2006. Gross paid in and contributed has not changed during the examination period.

During the period covered by this examination, the Company declared and paid the following dividends to its sole shareholder:

<u>Year</u>	<u>Amount</u>
2004	\$1,400,000
2005	<u>1,800,000</u>
Total	<u>\$3,200,000</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 nineteen members. The board met four times during each calendar year. At December 31, 2006, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Alexander C. Archimedes Bridgewater, NJ	Senior Vice President, OneBeacon Insurance Company
Carey D. Benson Smithtown, NY	Director, AutoOne Insurance Company
Timothy F. Benson Loudonville, NY	Director, AutoOne Insurance Company
Gary E. Black Novato, CA	Director, AutoOne Insurance Company
Andrew Coleman Carnase Norfolk, MA	Senior Vice President, OneBeacon Insurance Company
Mark Kevin Dorcus Guilford, CT	Managing Director, White Mountains Advisors, LLC
Thomas Lester Forsyth Dover, MA	Senior Vice President & General Counsel, OneBeacon Insurance Company
Rene Stephen Hernandez Lynbrook, NY	Director, AutoOne Insurance Company
Paul Harrington McDonough Wellesley, MA	Senior Vice President & Chief Financial Officer, OneBeacon Insurance Company
Timothy Michael Miller Deephaven, MN	President & Chief Executive Officer, OneBeacon Insurance Company
Brian David Poole Wrentham, MA	Senior Vice President & Chief Actuary, OneBeacon Insurance Company
Thomas Norman Schmitt Duxbury, MA	Senior Vice President & Chief HR Officer, OneBeacon Insurance Company
Roger Milgram Singer Durango, CO	Senior Vice President, OneBeacon Insurance Company

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 had an acceptable record of attendance.

As of December 31, 2006, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Timothy Michael Miller	President and Chief Executive Officer
Dennis Robert Smith	Secretary
Frederick James Turcotte	Treasurer and Director of Tax
Brian David Poole	Senior Vice President and Chief Actuary

B. Territory and Plan of Operation

As of December 31, 2006, the Company was licensed to write business in New York and twenty other states including the District of Columbia and 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
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 licensed to write the kinds of reinsurance as defined 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:

<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 Premium</u>
2002	\$141,904,926	\$141,904,926	100.00%
2003	\$143,603,626	\$143,603,626	100.00%
2004	\$150,532,503	\$182,829,503	82.33%
2005	\$113,381,383	\$145,899,593	77.71%
2006	\$ 94,119,031	\$101,718,107	92.53%

C. Reinsurance

Intercompany Reinsurance and Pooling Agreement

The Company operates under an intercompany pooling agreement with eight of its affiliates (collectively called "pool participants"). The current agreement was amended and restated effective January 1, 2001 and amended twice effective January 1, 2004. Prior to the amendment, the OneBeacon pool consisted of thirteen pool participants. Under the pooling agreement, each of the pool participants cedes 100% of its direct business to OneBeacon. OneBeacon is the lead company in the pool and after recording all assumed reinsurance from affiliates and third parties and ceded reinsurance to third parties, the remaining net underwriting activity is retroceded to each pool participant in accordance with each participant's pooling percentage as follows:

<u>Company</u>	<u>NAIC Code</u>	<u>Effective January 1,</u>	
		<u>2006</u>	<u>2001</u>
OneBeacon Insurance Company (PA)	21970	54.0%	54.0%
OneBeacon America Insurance Company (MA) *	20621	16.4	14.3
Homeland Insurance Company of New York (NY) *	34452	10.0	6.5
Pennsylvania General Insurance Company (PA) **	21962	10.0	4.5
Northern Assurance Company of America, The (MA) *	38369	5.0	5.0

<u>Company</u>	NAIC <u>Code</u>	<u>Effective January 1,</u>	
		<u>2006</u>	<u>2001</u>
AutoOne Select Insurance Company (NY) *	34479	1.5	1.5
Employers' Fire Insurance Company, The (MA) *	20648	1.5	1.5
AutoOne Insurance Company (NY) *	34460	1.0	0.6
Atlantic Specialty Insurance Company, (NY) *	27154	0.6	N/A
American Central Insurance Company (MO) **	37915		0.1
American Employers' Insurance Company (MA) **	20613		4.2
Camden Fire Insurance Company (NJ) **	21946		7.0
OneBeacon Midwest Insurance Company (WI) *	42650		0.3
Potomac Insurance Company of Illinois (IL) ***	40134		<u>0.5</u>
		<u>100.0%</u>	<u>100.0%</u>

* – Subsidiary of OneBeacon Insurance Company

** – Affiliate of OneBeacon Insurance Company

***- Sold November 23, 2004

Under the terms of the pooling agreement, each pool participant authorizes OneBeacon 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 participants in accordance with their participation percentages. Net settlements of all amounts under the pooling agreement are made quarterly. The Company has no employees or facilities.

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

Schedule F of the filed annual statements showed reinsurance ceded only to OneBeacon and reinsurance assumed from OneBeacon. The amounts were reported net of reinsurance ceded for the benefit of the entire pool. Therefore, the Schedule F data contained in the Company's filed annual statements for the years within the examination period appeared to accurately reflect the reported reinsurance transactions.

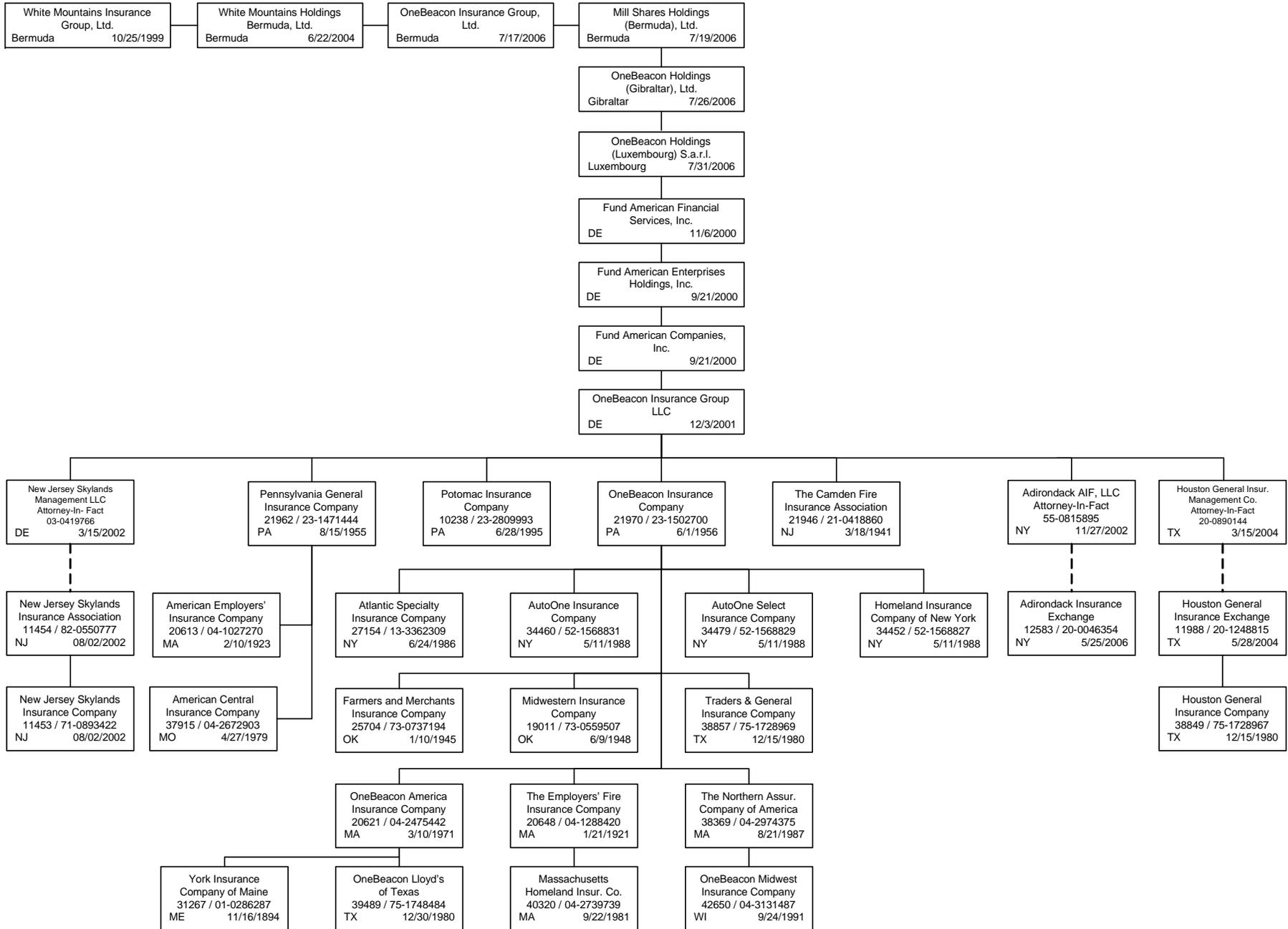
D. Holding Company System

The Company is a controlled insurer pursuant to the provisions of Section 1501 of the New York Insurance Law. The Company's ultimate holding company is WMIG.

At December 31, 2006, 100% of the outstanding shares of the Company were owned by OneBeacon, a Pennsylvania corporation, which is ultimately controlled by WMIG. During the third quarter of 2006, WMIG organized OneBeacon Insurance Group, Ltd. for the purpose of holding its property and casualty business within the OneBeacon Insurance Group LLC organization. During the fourth quarter of 2006, WMIG sold 27.6 million or 27.6% of OneBeacon Insurance Group Ltd.'s common shares in an initial public offering. Prior to the initial public offering, OneBeacon Insurance Group Ltd. and its subsidiaries collectively, was a wholly-owned subsidiary of WMIG. WMIG's principal subsidiaries are insurance companies that write property, casualty, accident and health insurance worldwide. The majority of WMIG's business is property and casualty insurance written in the United States, Canada and the United Kingdom.

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, 2006:



Note: At December 31, 2006, WMIG owned 72.4% of the outstanding common stock of OneBeacon Insurance Group, Ltd.

At December 31, 2006, the Company was party to the following agreements with other members of its holding company system:

(1) Inter-company Investment Management Agreement

Effective July 1, 2002, the Company is a party to an investment management agreement with White Mountain Advisors (“WMA”), LLC, formerly known as OneBeacon Asset Management, Inc., an affiliated investment advisor. Pursuant to the agreement, WMA provides investment research and advice, including the execution of orders for the purchase and sale of securities. The agreement provides for a manager’s compensation to be based upon a graduated level of total assets managed, with the amount of the fee decreasing as the amount of assets increases. The agreement was filed with the Department on May 30, 2002.

On November 14, 2006, the Company replaced the above agreement with a similar investment management agreement which stipulates for WMA to provide investment research and advice, including the execution of orders for the purchase and sale of securities in accordance with Company’s investment guidelines. In addition, WMA provides treasury management services which include, without limitation, (i) executing investment transactions to support short-term treasury cash requirement, (ii) settling inter-company and dividend treasury transactions with cash and securities, (iii) settling quarterly tax liability payments from the investment account, (iv) providing preliminary valuation for securities supporting treasury transactions, (v) assisting the Company in evaluating securities lending programs administered by Company’s custodian and (vi) collaborating with the Company to provide treasury transactions support to Company’s custodians. This agreement was filed with the Department on November 6, 2006, pursuant to Section 1505(d)(3) of the New York Insurance Law.

(2) Intercompany 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 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 this Department on August 14, 2001.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2006, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	41%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	40%
Premiums in course of collection to surplus as regards policyholders	4%

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	\$59,985,445	69.99%
Other underwriting expenses incurred	28,734,353	33.53
Net underwriting loss	<u>(3,013,662)</u>	<u>(3.52)</u>
Premiums earned	<u>\$85,706,136</u>	<u>100.00%</u>

F. Accounts and Records

i. CPA Contract

The Company's contracts with its CPA firm were missing, in whole or in part, the following required clauses of Department Regulation 118, part 89.2:

“(a) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b)(1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer's and any such subsidiary's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;

(b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and

(c) the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in sections 243.2(b)(7) and (c) of this Title. For the purposes of this subdivision, the workpapers and communications shall be deemed to have been created on the date the filing required by section 89.2(a) of this Part was submitted to the superintendent.”

It is recommended that the Company ensure that the contracts with its CPA for all future audits, contain the provisions required by Department Regulation 118. It is noted that a similar recommendation was included in the prior report on examination.

ii. Agents' Balances and Premiums Receivable Over 90 Days Past Due

The Company did not calculate the non-admitted portion of the premiums receivable over 90 days past due in accordance with Section 1301(a)(11) of the New York Insurance Law and NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 6, paragraph 9. The Company wrote off uncollectible accounts through an allowance for doubtful accounts that nets the allowance against the premiums receivable balances. The Company did not record an additional non-admitted amount as long as the amount carried as an off-set exceeded the actual statutory overdue calculation. During 2006, the Company did not reconcile the Generally Accepted Accounting Principles (“GAAP”) allowance with the Statutory Accounting Principles (“SAP”) allowance to provide that the SAP allowance was properly reflecting the non-admitted portion. This caused an understatement of the OneBeacon Insurance Group’s allowance/non-admitted asset portion of the overdue premiums receivable at December 31, 2006; however, the amount was deemed immaterial and no examination change is included in this report. The Company corrected this problem during 2007.

It is recommended that the Company ensure that the GAAP to SAP allowance reconciliation processes are instituted to provide assurance that the calculation is properly presented and recorded.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2006 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	\$66,984,222	\$ 0	\$66,984,222
Cash and short-term investments	1,410,438	0	1,410,438
Investment income due and accrued	585,897	0	585,897
Uncollected premiums and agents' balances in the course of collection	1,846,410	0	1,846,410
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,956,752	0	2,956,752
Amounts recoverable from reinsurers	265,995	0	265,995
Net deferred tax asset	2,075,620	953,880	1,121,740
Electronic data processing equipment and software	411,227	348,735	62,492
Furniture and equipment, including health care delivery assets	85,968	85,968	0
Receivables from parent, subsidiaries and affiliates	577,182	0	577,182
Sundry balances	<u>155,587</u>	<u>62,659</u>	<u>92,928</u>
Total assets	<u>\$77,355,298</u>	<u>\$1,451,242</u>	<u>\$75,904,056</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and Loss adjustment expenses	\$20,138,958
Reinsurance payable on paid losses and loss adjustment expenses	460,981
Other expenses (excluding taxes, licenses and fees)	55,126
Taxes, licenses and fees (excluding federal and foreign income taxes)	209,653
Current federal and foreign income taxes	420,000
Unearned premiums	8,607,368
Advance premium	56,883
Ceded reinsurance premiums payable (net of ceding commissions)	279,952
Unearned L.A.D. Service fees	171,333
NYAIP liability	129,996
Sundry balances	<u>36,536</u>
Total liabilities	\$30,566,786

Surplus and Other Funds

Common capital stock	\$ 3,000,000
Gross paid in and contributed surplus	38,939,669
Unassigned funds (surplus)	<u>3,397,601</u>
Surplus as regards policyholders	<u>45,337,270</u>
Totals liabilities, surplus and other funds	<u>\$75,904,056</u>

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated federal income tax returns through tax year 2002. All material adjustments made arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2003 through 2004 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2005 through 2006. The Company 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 \$9,703,826 during the five-year examination period January 1, 2002 through December 31, 2006, detailed as follows:

Underwriting Income

Premiums earned		\$85,706,136
Deductions:		
Losses incurred	\$45,505,457	
Loss adjustment expenses incurred	14,479,988	
Other underwriting expenses incurred	31,142,359	
Aggregate write-ins for underwriting deductions	<u>(2,408,006)</u>	
Total underwriting deductions		<u>88,719,798</u>
Net underwriting gain or (loss)		\$ (3,013,662)

Investment Income

Net investment income earned	\$10,124,443	
Net realized capital gain	<u>1,959,827</u>	
Net investment gain or (loss)		<u>12,084,270</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 344,024	
Finance and service charges not included in premiums	591,279	
Aggregate write-ins for miscellaneous income	<u>1,556,619</u>	
Total other income		<u>2,491,922</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$11,562,530
Dividends to policyholders		<u>30,551</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$11,531,979
Federal and foreign income taxes incurred		<u>3,392,392</u>
Net income		\$ <u>8,139,587</u>

Surplus as regards policyholders per report on examination as of December 31, 2001			\$35,633,444
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 8,139,587		
Net unrealized capital gains or (losses)	438,571		
Change in net unrealized foreign exchange capital gain (loss)	21,796		
Change in net deferred income tax	300,989		
Change in nonadmitted assets		\$ 844,958	
Cumulative effect of changes in accounting principles	1,553,519		
Capital changes transferred from surplus (stock dividend)	1,200,000		
Surplus adjustments transferred to capital (stock dividend)		1,200,000	
Dividends to stockholders		3,200,000	
Aggregate write-ins for gains and losses in surplus	<u>3,294,322</u>	<u> </u>	
Total gains and losses	<u>\$14,948,784</u>	<u>\$5,244,958</u>	
Net increase (decrease) in surplus			<u>9,703,826</u>
Surplus as regards policyholders per report on examination as of December 31, 2006			<u>\$45,337,270</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$20,138,958 is the same as reported by the Company as of December 31, 2006. 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. Privacy
- B. Cancellation and non-renewal
- C. Anti fraud plan
- D. Treatment of policyholders

Consumer Complaints

A sample of complaints from the Company's Complaint Log for each year under examination was selected and reviewed for compliance with Department Regulation No. 64.

Upon reviewing the sample of complaints filed with the Department for the Company's timely response in compliance with Part 216.4 of Department Regulation No. 64, it was noted that a significant number of complaints were responded to after 10 business days. The following shows the results of this review:

<u>Calendar Year</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Number of complaints responded to after 10 days business days	94	47	36	14	4
Total complaints received for a calendar year	342	406	574	530	348
Percentage of late responded claims	27%	11%	6%	3%	1%

Part 216.4(d) of Department Regulation 64 states:

“Every insurer, upon receipt of any inquiry from the Insurance Department respecting a claim, shall, within 10 business days, furnish the department with the available information requested respecting the claim.”

It is recommended that the Company set up a procedure to monitor its complaint log in order to ensure compliance with Part 216.4(d) of Department Regulation 64, with respect to responding to Department complaints within 10 business days.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Company adhere to the provisions of its charter and by-laws and maintain the minimum number of directors on its board at all times.	6
The Company has complied with this recommendation.	
B. <u>Reinsurance</u>	
It is recommended that the Company ensure that the lead company executes formal written authorizations with its reinsurance intermediaries in order to comply with Department Regulation 98.	16
The Company has complied with this recommendation.	
It is also recommended that the Company and/or the OneBeacon Pool implement the necessary internal controls to ensure that the written authorizations entered into between the Company and its reinsurance intermediaries are available for review upon request.	
The Company has complied with this recommendation.	
C. <u>Accounts and Records</u>	
i. <u>Proper Classification of Short-term Investments</u>	
It is recommended that the Company comply with SSAP 2 and the SVO Purposes and Procedures Manual when reporting short-term investments in the annual statement.	23
The Company has complied with this recommendation.	
ii. <u>Receivable from Parent, Subsidiaries and Affiliates</u>	
It is recommended that the Company comply with its pooling agreement and settle no later than the last day of the month following the close of each calendar quarter all intercompany receivables/payables. For any amount of receivables not paid when due shall bear interest from the due date until the date of payment at an annual rate as described in the pooling agreement.	24

The Company has complied with this recommendation.

iii. Ceded Reinsurance Balance Payable

It is recommended that the Company review its ceded reinsurance premiums balances to identify and either adjust or write-off any balances determined to be inaccurate or invalid. 25

The Company has complied with this recommendation.

It is also recommended that the Company implement the proper internal controls to ensure the accurate financial reporting of all balances relating to ceded reinsurance business in accordance with the NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual.

The Company has complied with this recommendation.

iv. Department Regulation 118 Compliance

It is recommended that the Company comply with Department Regulation 118. 25

The Company has not complied with this recommendation. A similar comment is made in this report.

v. Inability to Provide Examination Requested Information

It is recommended that the Company comply with Department Regulation 152, Part 243.2(b)(7) and retain all original documentation for investments until the report on examination had been issued by the Department for the period covering the time that the Company either made an acquisition of an investment and/or disposed of an investment. 25

The Company has complied with this recommendation.

vi. Errors and Omissions Noted in Annual Statement for 2001

It is recommended that the Company file the correct percentages of itself and its affiliates, participation in the pooled business. 26

The Company has complied with this recommendation.

D. Premiums, Agents' Balances and Installments Booked But Deferred and Not Yet Due

It is recommended that the Company non-admit the entire earned but 32

unbilled balance due to the lack of supporting documentation.

The Company has complied with this recommendation.

E. Funds Held By or Deposited With Reinsured Companies

It is recommended that the Company research its funds held balances and write-off against surplus, any balances that can not be substantiated 32

The Company has complied with this recommendation.

F. Reinsurance Recoverables on Loss and Loss Adjustment Expense Payments

It is recommended that the Company review its internal controls surrounding the reporting of this asset account, and implement the necessary procedures to ensure the accurate reporting of reinsurance recoverable balances. It is further recommended that the Company research all of its reinsurance balances and write-off against surplus, any balances that are determined to be unsubstantiated. 33

The Company has complied with these recommendations.

G. Losses and Loss Adjustment Expenses

i. It is recommended that the Company begin to have the OneBeacon Pool to compile loss and loss adjustment expense data on a gross of external reinsurance basis. 34

The Company has complied with this recommendation.

ii. It is recommended that the Company improve its procedures relative to the storage and maintenance of its claim files. 34

The Company has complied with this recommendation.

iii. It is recommended that the Company be mindful of the record retention requirements per Department Regulation 152. 34

The Company has complied with this recommendation.

H. Reinsurance Payable on Paid Losses and Loss Adjustment Expenses

It is recommended that: 1) the Company (the OneBeacon Pool) review its reinsurance payables to identify and either adjust or write-off any balances determined to be inaccurate or invalid; 2) the Company implement the proper internal controls to ensure the accurate financial reporting of all balances relating to reinsurance assumed business; and, 3) the Company settle all outstanding reinsurance balances with ceding 35

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companies on a timely basis and in accordance with the terms and conditions of the underlying contracts.

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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A. Accounts and Records

i. CPA Contract

It is recommended that the Company ensure that the contracts with its CPA for all future audits, contain the provisions required by Department Regulation 118.

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It is noted that a similar recommendation was included in the prior report on examination.

ii. Agents' Balances and Premiums Receivable Over 90 Days Past Due

It is recommended that the Company ensure that the GAAP to SAP allowance reconciliation processes are instituted to provide assurance that the calculation is properly presented and recorded.

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B. Market Conduct Activities

Consumer Complaints

It is recommended that the Company set up a procedure to monitor its complaint log in order to ensure compliance with Part 216.4(d) of Department Regulation 64, with respect to responding to Department complaints within 10 business days.

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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

AUTOONE INSURANCE COMPANY

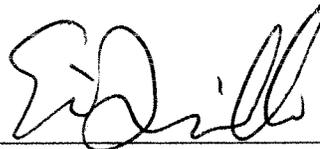
and to make a report to me in writing of the condition of the said

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 10th day of May, 2007



ERIC R. DINALLO
Superintendent of Insurance

