

REPORT ON EXAMINATION

OF THE

HOMESITE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2011

DATE OF REPORT

AUGUST 29, 2012

EXAMINER

FE ROSALES, C.F.E.

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of examination	2
2.	Description of Company	3
	A. Management	4
	B. Territory and plan of operation	6
	C. Reinsurance	7
	D. Holding company system	8
	E. Significant operating ratios	10
	F. Information technology and controls	10
3.	Financial statements	12
	A. Balance sheet	12
	B. Statement of income	13
4.	Losses and loss adjustment expenses	14
5.	Compliance with prior report on examination	14
6.	Summary of comments and recommendations	16



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

August 29, 2012

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 30767 dated December 12, 2011, attached hereto, I have made an examination into the condition and affairs of Homesite 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 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 main administrative office located at 99 Bedford Street, Boston, MA 02111.

## 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, 2007. This examination covered the four-year period from January 1, 2008 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 North Dakota, which was the coordinating state of the Homesite Insurance Group. The examination was performed concurrently with the examinations of the following insurers: Homesite Insurance Company of the Midwest, Homesite Insurance Company, Homesite Insurance Company of California, Homesite Indemnity Company, Homesite Insurance Company of Georgia, Homesite Insurance Company of Illinois, and Homesite Lloyds of Texas. Other states participating in this examination were North Dakota, Connecticut, California, Illinois, Georgia, Kansas 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 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. 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  
 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 in 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. The Company's ultimate parent is Alleghany Corporation. The Company became licensed on July 22, 1999 and commenced business on that date.

At December 31, 2011, capital paid in was \$1,000,000 consisting of 10,000 shares of common stock at \$100 par value per share. Gross paid in and contributed surplus was \$9,600,000. Gross paid in and contributed surplus increased by \$2,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2007	Beginning gross paid in and contributed surplus	\$7,600,000
2011	Surplus contribution	<u>\$2,000,000</u>
2011	Ending gross paid in and contributed surplus	<u>\$9,600,000</u>

As noted above, the Company received capital contribution of \$2,000,000 in 2011 from its direct parent Homesite Securities Company, LLC. Pursuant to Section 1505(d)(1) of the New York Insurance Law, the transaction was submitted to the Department and was non-disapproved on October 21, 2011.

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 seven nor more than twenty-one members. The board meets four times during each calendar year. At December 31, 2011, the board of directors was comprised of the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Douglas Andrew Batting Boston, MA	President, Homesite Group Inc. and its insurance company subsidiaries
Melissa Faythe Brill Brooklyn, NY	Attorney, Cozen O'Connor
Kenneth Francis Flaherty Westmont, IL	Vice President, Senior Relationship Manager, National Financial
Fabian John Fondriest Concord, MA	Chief Executive Officer, Homesite Group Inc. and its insurance company subsidiaries
Suzanne Hopkins Carmel, NY	Manager, Customer Service Homesite Group Inc. and its insurance company subsidiaries
Michael David Lorion Millbury, MA	Chief Financial Officer, Treasurer and Vice President, Finance Homesite Group Inc. and its insurance company subsidiaries
James Thomas Morahan, Jr. Foxboro, MA	Vice President, Finance Homesite Group Inc. and its insurance company subsidiaries
Alex Eugene Punsalan Niantic, CT	Vice President, Claims Homesite Group Inc. and its insurance company subsidiaries

Name and ResidencePrincipal Business Affiliation

Anthony Mathew Scavongelli  
Duxbury, MA

General Counsel, Secretary and Vice President,  
Legal  
Homesite Group Inc. and its insurance company  
subsidiaries

Peter Benjamin Settel  
Duxbury, MA

Vice President, Technology  
Homesite Group Inc. and its insurance company  
subsidiaries

Mike Thomas Southworth  
Springfield, IL

Attorney,  
Hart, Southworth & Witsman

Samuel Joe Witsman  
Springfield, IL

Attorney,  
Hart, Southworth & Witsman

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, 2011, the principal officers of the Company were as follows:

NameTitle

Fabian John Fondriest  
Douglas Andrew Batting  
Michael David Lorion

Chief Executive Officer  
President  
Chief Financial Officer, Treasurer and Vice  
President

Anthony Matthew Scavongelli  
Andrew Allison McElwee, Jr.

General Counsel, Secretary and Vice President  
Executive Vice President

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed to write business in New York only 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>
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

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

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

<u>Calendar Year</u>	<u>Total Premiums</u>
2007	\$12,280,447
2008	\$13,778,325
2009	\$16,870,970
2010	\$20,650,394
2011	\$29,246,852

The Company primarily offers Homeowners multiple peril, including renters and condominium insurance in the State of New York. Direct business is obtained via a call center, a website and, most significantly, its partnerships with large financial institutions ("partner(s)") with an affinity to the home-buying process. The partners, through whom the Company sells its products, utilize varied distribution channels including exclusive agencies, independent agents, and through the internet.

C. Reinsurance

Assumed reinsurance accounted for 46.4% 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 Homesite Pooling Agreement ("Pooling Agreement") with various affiliated companies, with Homesite Insurance Company of the Midwest ("Homesite - Midwest") functioning as pool leader. Pursuant to the Pooling Agreement, each participant cedes to Homesite - Midwest, and Homesite - Midwest accepts, assumes, and reinsures 100% of each participant's net underwriting liabilities before external reinsurance. Homesite - Midwest then cedes to each of the other participants its proportionate share of (a) all premiums written by the pooled companies; (b) all amounts paid or incurred during such period for losses, loss adjustment expenses (LAE), other underwriting expenses and other specific losses arising out of their underwriting operations; (c) all claims and settlements involving business covered by the agreement; and (d) all resulting net underwriting income or loss. All participants settle their accounts monthly, within thirty days of closing.

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

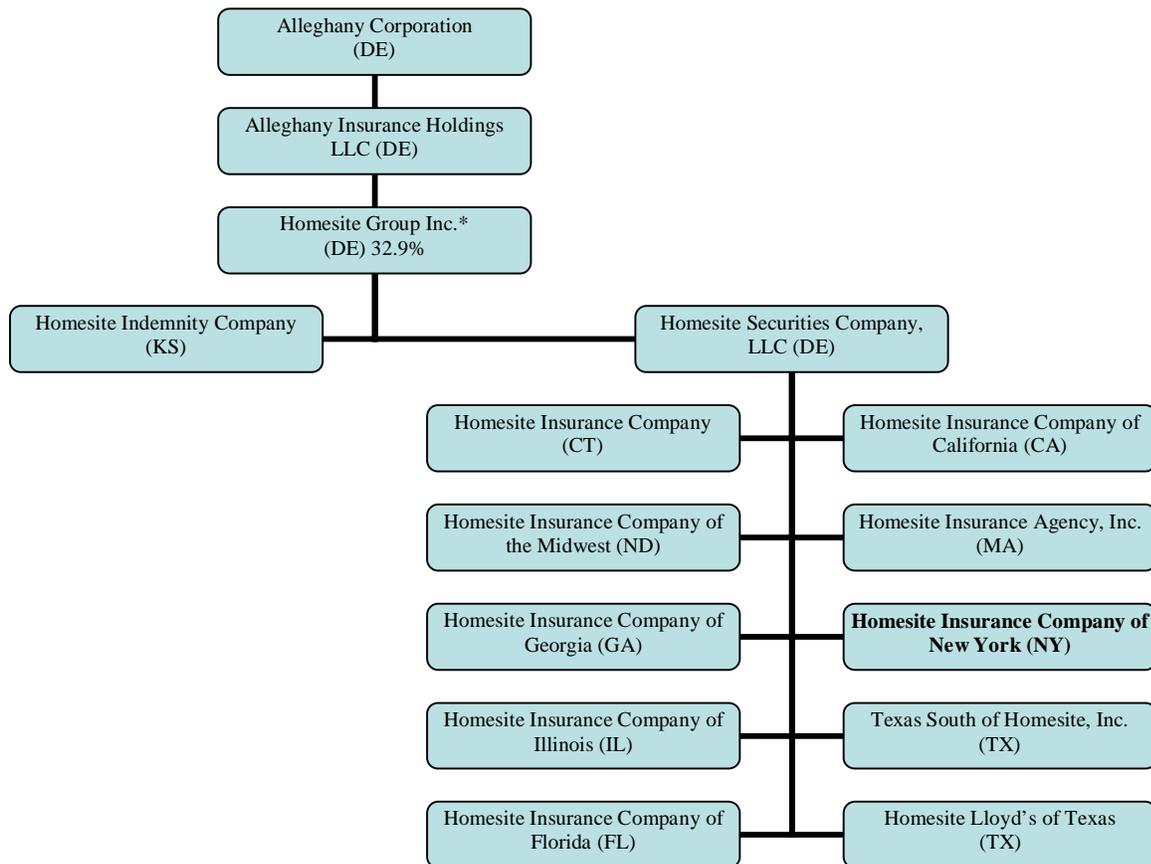
<u>Company</u>	<u>Pooling Percentages</u>
Homesite Insurance Company of the Midwest ("Pool Leader")	28%
Homesite Indemnity Company	27%
Homesite Insurance Company of California	16%
Homesite Indemnity Company	13%
<b>Homesite Insurance Company of New York</b>	<b>6%</b>
Homesite Insurance Company of Georgia	4%
Homesite Insurance Company of Illinois	3%
Homesite Lloyd's of Texas	<u>3%</u>
Pool Total	<u>100%</u>

D. Holding Company System

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

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 Alleghany Insurance Holdings, LLC, other entities holding more than 10% of HGI’s stock are Morgan Stanley Capital Partners, III, LP with 26% and HDC Investors, LP with 17.61%. The Plymouth Rock Company Inc., parent of SRB, has a 9.82% ownership interest.

In addition to the intercompany pooling arrangement previously discussed 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 January 18, 2000, the Company entered into an investment management agreement with SRB Corporation (“SRB”). Pursuant to the terms of the agreement, SRB provides a broad spectrum of investment services, including but not limited to providing advice to the Company concerning the development of investment objectives, the development of investment policies and guidelines, the investment and management of assets, the measurement and evaluation of investment performance, investment accounting, cash management, the management of banking relationships, the management of a custodial relationship and administrative support. SRB is compensated quarterly based upon a fee schedule relating to the Company’s invested asset mix. This agreement was filed with the Department in accordance with Section 1505 of the New York Insurance Law.

#### Services Agreement

Effective June 8, 1999, the Company entered into a service agreement with HGI. The agreement engages HGI to provide personnel, legal services and management information systems and facilities support to the Company on a cost allocation/reimbursement basis. Pursuant to the agreement, HGI also provides for procurement support (including assistance in procuring office supplies and equipment and related services) and other services that may be requested from time to time by Homesite, on mutually agreeable terms. This agreement was filed with the Department in accordance with Section 1505 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 (“Tax Agreement”) with Homesite Group Incorporated (“HGI”) and its subsidiaries. This agreement was filed with the Department in accordance with Section 1505 of the New York Insurance Law and non-disapproved on May 25, 2006.

#### 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 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	223%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	82%
Premiums in course of collection to surplus as regards policyholders	29%

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 four-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$67,154,713	78.30%
Other underwriting expenses incurred	22,732,646	26.51%
Net underwriting loss	<u>(4,120,557)</u>	<u>(4.80)%</u>
Premiums earned	<u>\$85,766,802</u>	<u>100.00%</u>

F. Information Technology and Controls

A risk-focused assessment and review of the Company's Information Technology ("IT") general controls was performed in accordance with NAIC requirements as outlined in the Examiners' Handbook. The objectives were to determine that Information Systems (IS) resources align with the Company's objectives and ensuring that significant risks (strategic, operational, reporting and compliance) arising out of its IT environment are appropriately mitigated by strategies and controls as outlined in the Handbook's Exhibit C Part 2 – Evaluation of Controls in Information Technology Work Program.

The objectives above were achieved through a combination of reviewing the Company's policies and procedures, testing in key areas related to the Exhibit C, interviewing the Company's IT senior management, and reviewing IT risk assessment processes and leveraging the risk assessment procedures performed by Company's Internal Audit Department.

In addition, a review of application interface controls was performed over the following financially significant systems:

- Horison Policy Management
- Queplix Claims Management
- Data Warehouse
- Freedom Financial Reporting (General Ledger)

As a result of this review, findings were noted in controls over operations, logical security, physical security, program change, and disaster recovery. These findings were presented to the Company along with recommendations to strengthen its controls.

It is recommended that the Company establish and implement appropriate control policies and procedures to strengthen its IS controls.

### 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:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u> Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$25,523,851	\$ 0	\$25,523,851
Common stocks (stocks)	3,777,546	0	3,777,546
Cash, cash equivalents and short-term investments	1,214,401	0	1,214,401
Aggregate write-ins for invested assets	0	0	0
Investment income due and accrued	256,120	0	256,120
Uncollected premiums and agents' balances in the course of collection	3,339,117	0	3,339,117
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,488,359	0	2,488,359
Amounts recoverable from reinsurers	1,386,028	0	1,386,028
Net deferred tax asset	<u>1,863,977</u>	<u>630,512</u>	<u>1,233,465</u>
Total Assets	<u>\$39,849,399</u>	<u>\$630,512</u>	<u>\$39,218,887</u>
 <u>Liabilities, surplus and other funds</u>			
Losses and loss adjustment expenses			<u>Examination</u> \$ 7,450,886
Reinsurance payable on paid losses and loss adjustment expenses			1,700,374
Commissions payable, contingent commissions and other similar charges			120,396
Other expenses (excluding taxes, licenses and fees)			1,438
Taxes, licenses and fees (excluding federal and foreign income taxes)			302,154
Current federal and foreign income taxes			103,559
Unearned premiums			14,172,108
Advance premium			649,978
Ceded reinsurance premiums payable (net of ceding commissions)			1,375,201
Amounts withheld or retained by company for account of others			84,184
Payable to parent, subsidiaries and affiliates			<u>1,914,134</u>
Total liabilities			<u>\$27,874,412</u>
Aggregate write-ins for special surplus funds			\$411,155
Common capital stock			1,000,000
Gross paid in and contributed surplus			9,600,000
Unassigned funds (surplus)			<u>333,320</u>
Surplus as regards policyholders			<u>\$11,344,475</u>
Total liabilities and surplus			<u>\$39,218,887</u>

Note: The Internal Revenue Service has not audited the Company's consolidated Federal Income Tax returns during the examination period, and no audit is being conducted presently nor is one scheduled at this time. 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 \$234,840 during the four-year examination period January 1, 2008 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned		\$ 75,280,202
Deductions:		
Losses and loss adjustment expenses incurred	\$ 61,720,806	
Other underwriting expenses incurred	<u>19,655,440</u>	
Total underwriting deductions		<u>81,376,246</u>
Net underwriting gain or (loss)		\$ <u>(6,096,044)</u>

Investment Income

Net investment income earned	\$ 2,743,907	
Net realized capital gain	<u>204,309</u>	
Net investment gain or (loss)		\$ <u>2,948,216</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (489,581)	
Finance and service charges not included in premiums	<u>725,759</u>	
Total other income		<u>236,178</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ <u>(2,911,650)</u>
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		(2,911,650)
Federal and foreign income taxes incurred		<u>168,608</u>
Net Income		\$ <u>(3,080,258)</u>

Surplus as regards policyholders per report on examination as of December 31, 2007			\$11,579,315
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$ 0	\$3,080,258	
Net unrealized capital gains or (losses)	96,800	0	
Change in net deferred income tax	1,374,705	0	
Change in nonadmitted assets		626,087	
Surplus adjustments paid in	<u>2,000,000</u>	<u>0</u>	
Total gains/(losses)	<u>\$3,471,505</u>	<u>\$3,706,345</u>	<u>(234,840)</u>
Surplus as regards policyholders per report on examination as of December 31, 2011			<u>\$11,344,475</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$7,450,886 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 8 recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
<u>Conflict of Interest</u>	
It was recommended that the Company comply with their own internal policy by ensuring that senior management and directors sign the annual conflict of interest statements in a timely manner.	5
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. <u>Custodial Agreement</u>	
It was recommended that the Company procure a custodial agreement in compliance with the NAIC guidelines.	11
The Company has complied with this recommendation.	
ii. <u>Investment Designation</u>	
It was recommended that the Company exercise due diligence in preparation of annual statement Schedule D going forward.	11
The Company has complied with this recommendation.	
iii. <u>Investment Reconciliation</u>	
It was recommended that the Company reconcile its investment portfolio to the custodian bank statements on a monthly basis.	11
The Company has complied with this recommendation.	
iv. <u>Capital Contributions</u>	
It was recommended that the Company comply with the notification requirements set forth in Section 1505(d)(1) of the New York Insurance Law.	11
The Company has complied with this recommendation.	
C. <u>Information Systems and Controls</u>	
It was recommended that the Company implement control policies and procedures that would improve the overall effectiveness of the information system (“IS”) control areas identified by the Kansas Insurance Department.	12
The Company has not complied with this recommendation. A similar comment is contained in this report.	

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Market Conduct Activities</u>	
i. <u>Treatment of Policyholders</u>	
It was recommended that the Company comply with the Department Regulation No. 64.	17
The Company has indicated that they have complied with this recommendation; however, the Property Bureau's Market Conduct Unit is still in the process of their review of the Company's market conduct activities.	
ii. <u>Cancellation and Non-Renewal</u>	
It was recommended that the Company comply with Section 3425 of the New York Insurance Law and Department Circular Letter No. 23(2008).	18
The Company has indicated that they have complied with this recommendation; however, the Property Bureau's Market Conduct Unit is still in the process of their review of the Company's market conduct activities.	

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A <u>Information Technology and Controls</u>	
It is recommended that the Company establish and implement appropriate control policies and procedures to strengthen its Information Systems controls.	11

Respectfully submitted,

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

STATE OF MASSACHUSETTS    )  
  )ss:  
COUNTY OF NORFOLK        )

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. 30767**

**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*

**HOMESITE INSURANCE COMPANY OF NEW YORK**

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

**COMPANY**

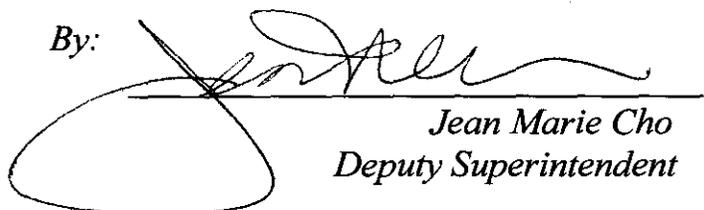
*with such other information as she shall deem requisite.*

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

*this 12th day of December, 2011*

**BENJAMIN M. LAWSKY**  
*Superintendent of Financial Services*

By:

  
**Jean Marie Cho**  
*Deputy Superintendent*

