REPORT OF EXAMINATION
OF THE
HOMESITE INSURANCE COMPANY OF CALIFORNIA
AS OF
DECEMBER 31, 2011

Filed October 19, 2012

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Los Angeles, California
August 28, 2012

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

HOMESITE INSURANCE COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company) at its statutory home office located at 99 Bedford Street, Boston, Massachusetts 02111.

SCOPE OF EXAMINATION

We have performed our single state examination of the Company. The previous examination was completed as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2011. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This examination was a coordinated examination and was conducted concurrently with the examinations of other insurance entities in the holding company group and included participation from the following states: North Dakota (Co-Coordinating State), Connecticut (Co-Coordinating State), Illinois, Kansas, New York, Georgia, Florida, and Texas.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; statutory deposits; and sales and advertising.

SUBSEQUENT EVENTS

Effective January 1, 2012, Homesite Insurance Company of Florida was added to the existing reinsurance pooling agreement described under the Reinsurance section of this report. On January 10, 2012, the California Department of Insurance (CDI) approved the seventh amendment to the reinsurance pooling agreement to add the new participant and to extend the term to December 31, 2012. The following are the member company participation percentages in effect as of January 1, 2012:

Pool Participants	Percentage
Homesite Insurance Company of the Midwest (North Dakota)	32%
Homesite Insurance Company (Connecticut)	26%
Homesite Indemnity Company (Kansas)	12%
Homesite Insurance Company of California (California)	11%
Homesite Insurance Company of New York (New York)	5%
Homesite Insurance Company of Florida (Florida)	4%
Homesite Insurance Company of Georgia (Georgia)	4%
Homesite Insurance Company of Illinois (Illinois)	3%
Homesite Lloyd's of Texas (Texas)	3%
	100%

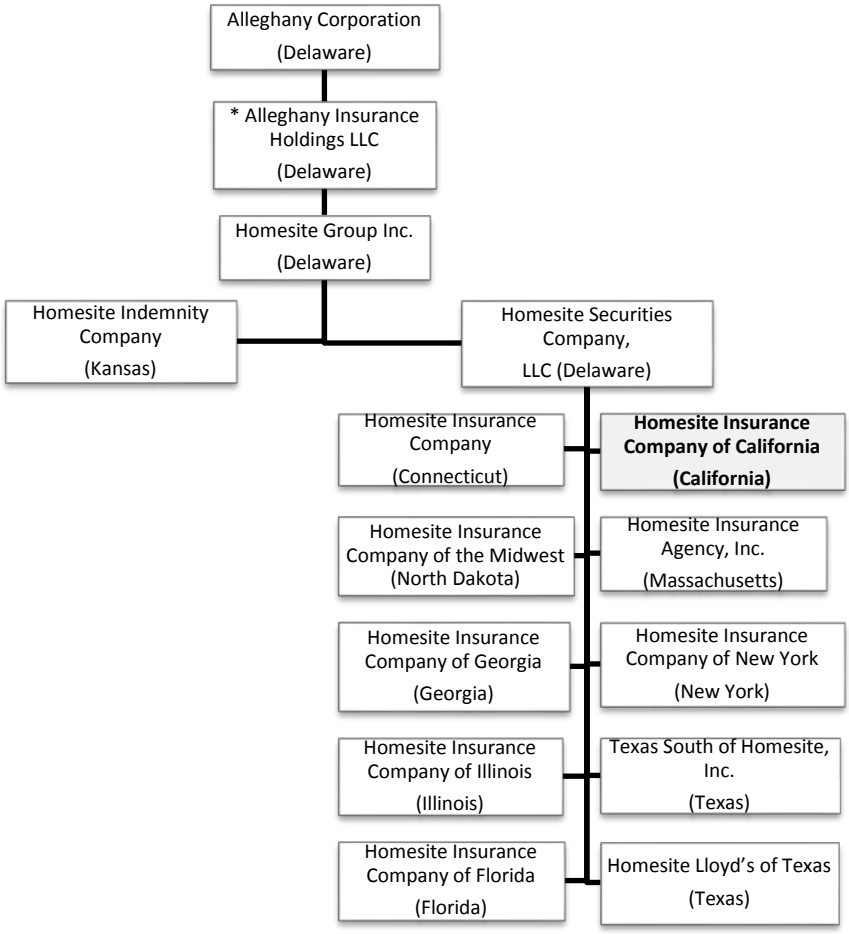
COMPANY HISTORY

The Company is a wholly-owned subsidiary of Homesite Securities Company LLC, which in turn is wholly-owned by Homesite Group Incorporated (HGI). As of December 31, 2011, the entities with ownership interest in HGI exceeding 10% includes Alleghany Insurance Holdings LLC with 32.9%, Morgan Stanley Capital Partners III, L.P. with 26%, and HDC Investors, L.P. with 17.6%. The ultimate controlling parent is Alleghany Corporation.

The Company received a $2 million capital contribution in 2011 from its parent, Homesite Securities Company LLC.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The following organizational chart depicts the Company's relationship within the holding company system as of December 31, 2011:



* Alleghany Insurance Holdings LLC owns 32.9% of Homesite Group Inc.

Management of the Company is vested in an eight-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2011 follows:

Directors

Name and Residence	Principal Business Affiliation
Douglas A. Batting Boston, Massachusetts	President Homesite Group Incorporated
Kenneth F. Flaherty Westmont, Illinois	Vice President, Senior Relationship Manager National Financial

Directors

Name and Residence	Principal Business Affiliation
Fabian J. Fondriest Concord, Massachusetts	Chief Executive Officer Homesite Group Incorporated
Michael D. Lorion Millbury, Massachusetts	Vice President, Chief Financial Officer, and Treasurer Homesite Group Incorporated
Jenifer L. Rinehart Norwell, Massachusetts	Vice President of Personnel Homesite Group Incorporated
Anthony M. Scavongelli Duxbury, Massachusetts	Vice President, General Counsel, and Secretary Homesite Group Incorporated
Mike T. Southworth Springfield, Illinois	Attorney Hart, Southworth & Witsman
Samuel J. Witsman Springfield, Illinois	Attorney Hart, Southworth & Witsman

Principal Officers

Name	Title
Fabian J. Fondriest	Chief Executive Officer
Douglas A. Batting	President
Michael D. Lorion	Vice President, Chief Financial Officer, and Treasurer
Anthony M. Scavongelli	Vice President, General Counsel, and Secretary
Andrew A. McElwee, Jr.	Executive Vice President of Underwriting
Christopher L. Conti	Vice President of Operations
James T. Morahan, Jr.	Vice President of Finance
Alex E. Punsalan (*)	Vice President of Claims
Jenifer L. Rinehart	Vice President of Personnel
Peter B. Settel	Vice President of Information Technology
Stephen D. Stayton	Vice President of Actuarial

(*) Resigned in April 2012 as Vice President

Management Agreements

Investment Management Agreement: On February 12, 2009, the Company entered into an Investment Management Agreement with SRB Corporation (SRB). Services provided under the agreement include, but are not limited to, investment accounting, cash management, and the development of investment objectives, policies and guidelines. SRB is compensated quarterly based upon a fee schedule relating to the Company's asset mix. The total fees paid by the Company for these services in 2008, 2009, 2010, and 2011 were $264,545, $311,957, $374,286 and $403,614, respectively.

Intercompany Service Agreement: On November 3, 1999, the Company entered into an Intercompany Service Agreement with its parent, Homesite Group Inc. (HGI), for the leasing of employees and facilities to the Company. Under the terms of the agreement, the Company reimburses HGI for salaries, administrative services and facilities based on the actual cost of these services. The total expenses paid to HGI for these services in 2008, 2009, 2010, and 2011 were $5,059,000, $4,694,000, $3,949,000, and $3,977,000, respectively. The California Department of Insurance (CDI) approved this agreement as part of the Certificate of Authority filing in 1999.

Consolidated Federal Income Tax Liability Allocation Agreement: The Company and its affiliates are parties to a consolidated federal income tax liability allocation agreement with its parent, HGI. The tax allocation is based on separate return calculations. Intercompany tax balances are settled within thirty days after the filing of the consolidated income tax return by HGI. The CDI approved this agreement on May 18, 2007.

The Company was not in compliance with the thirty day settlement provisions of the tax agreement. HGI's 2010 consolidated federal income tax return was filed on September 15, 2011 and the tax settlement was completed on October 28, 2011. It is recommended that the Company implement procedures to ensure compliance with the settlement provisions of the tax agreement.

TERRITORY AND PLAN OF OPERATION

The Company writes primarily homeowners insurance coverage solely in California. The Company's business is marketed directly, online, and most significantly through its partnerships with insurance institutions and large financial institutions with an affinity to the home buying process. At December 31, 2011, the Company had direct premiums of $24,285,594.

GROWTH OF COMPANY

Although the direct premiums written did not experience substantial growth since the last examination, gross and net premiums increased significantly as noted in the following schedule:

Year	Direct Premiums Written		Gross Premiums Written		Net Premiums Written	
	Amount	% Growth	Amount	% Growth	Amount	% Growth
2007	$18,303,827		$42,755,668		$28,864,732	
2008	$19,571,322	6.92%	$64,773,363	51.50%	$44,022,614	52,51%
2009	$22,098,546	12.91%	$74,586,234	15.15%	$52,487,687	19.23%
2010	$19,982,028	-9.58%	$82,471,096	10.57%	$62,489,068	19.05%
2011	$24,285,594	21.54%	$91,722,736	11.22%	$67,437,142	7.92%

The general increasing trend in direct premiums written was interrupted in 2010 due to a change in partner mix for new business, specifically, a decrease in new business primarily from one partner. New business with this partner resumed in 2011 and resulted in an overall increase of approximately 10% from 2009 to 2011.

The fluctuations in gross and net premiums written are primarily a result of (1) reinsurance activity of the lead company in the pool, Homesite Insurance Company of the Midwest, with non-affiliated reinsurers, (2) the addition of Homesite Lloyd's of Texas as a pool participant in 2010, and (3) increased writings for the pool.

LOSS EXPERIENCE

The Company reported underwriting losses in the last four years and net losses in the last three years as follows:

Year	Net Underwriting Gain or (Loss)	Net Income Or (Loss)	Surplus as Regards Policyholder
2008	($142,571)	$1,157,191	$27,984,183
2009	($2,712,114)	($259,935)	$29,481,022
2010	($5,472,223)	($2,564,174)	$28,143,469
2011	($8,084,999)	($5,284,636)	$24,206,200
2012 (*)	($2,345,516)	($112,749)	$25,880,698

(*) through June 30, 2012

The underwriting losses were primarily attributed to weather related claims, specifically, several severe Midwest storms in 2009, hail activity in 2010, and unprecedented spring storm activity and Hurricane Irene in 2011. Expenses have remained flat to decreasing and investment income has been relatively stable which helped mitigate some of the claim losses. The Company has implemented several initiatives that are expected to mitigate their exposures, including significant rate increases, new rating variables and rules to better differentiate risks, and increasing catastrophe reinsurance coverage.

REINSURANCE

Reinsurance Pooling Agreement

Effective January 1, 2011, the Company entered into a Pooling Agreement, whereby the Company and its affiliates cede 100% of direct premiums written to the lead company, Homesite Insurance Company of the Midwest (HMW). In return, HMW retrocedes to each pool member, after external reinsurance, a certain percentage of the premiums based on each member's participation. The participants in the Pooling Agreement, and their respective participation percentages as of December 31, 2011, were as follows:

Pool Participants	Percentage
Homesite Insurance Company of the Midwest (North Dakota)	28%
Homesite Insurance Company (Connecticut)	27%
Homesite Insurance Company of California (California)	16%
Homesite Indemnity Company (Kansas)	13%
Homesite Insurance Company of New York (New York)	6%
Homesite Insurance Company of Georgia (Georgia)	4%
Homesite Insurance Company of Illinois (Illinois)	3%
Homesite Lloyd's of Texas (Texas)	3%
	100%

The Company's pool participation percentage is 16%. In 2011, the Company's portion of the assumed business was $67.4 million. The agreement was approved by the California Department of Insurance on December 6, 2011. The agreement has an annual term, therefore requires annual amendments to extend the term.

Assumed

Other than the Pooling Agreement, the Company did not assume any reinsurance during the period under examination.

Ceded

Other than the Pooling Agreement, the Company did not cede any reinsurance during the period under examination.

ACCOUNTS AND RECORDS

Information System Controls

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of this review, findings were noted in controls over information technology 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 information system controls. This is a repeat recommendation from the previous examination.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Underwriting and Investment Exhibit for the Year Ended December 31, 2011

Reconciliation of Surplus as Regards Policyholders from December 31, 2007, through December 31, 2011

Statement of Financial Condition
as of December 31, 2011

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 68,099,000	$	$ 68,099,000	
Common stocks	7,088,905		7,088,905	
Cash and short-term investments	1,366,981		1,366,981	
Other invested assets	1,890,418		1,890,418	
Investment income due and accrued	685,903		685,903	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	5,133,242		5,133,242	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,208,954		2,208,954	
Reinsurance: Amounts recoverable from reinsurers	1,003,635		1,003,635	
Current federal income tax recoverable	370,061		370,061	
Net deferred tax asset	4,929,335	2,509,259	2,420,076	
Total assets	$ 92,776,434	$ 2,509,259	$ 90,267,175	
Liabilities, Surplus and Other Funds				
Losses			$ 16,415,775	(1)
Reinsurance payable on paid losses and loss adjustment expenses			4,534,330	
Loss adjustment expenses			3,453,252	(1)
Commissions payable, contingent commissions and other similar charges			108,858	
Other expenses			5,838	
Taxes, licenses and fees			310,694	
Unearned premiums			37,792,288	
Advance premiums			450,162	
Ceded reinsurance premiums payable			1,588,963	
Amounts withheld or retained by company for account of others			64,923	
Payable to parent, subsidiaries and affiliates			1,335,892	
Total liabilities			66,060,975	
Aggregate write-ins for special surplus funds		$ 806,692		
Common capital stock		2,600,000		
Gross paid in and contributed surplus		26,850,001		
Unassigned funds (surplus)		(6,050,493)		
Surplus as regards policyholders			24,206,200	
Total liabilities, surplus and other funds			$ 90,267,175	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2011

Statement of Income

Underwriting Income		
Premiums earned		$ 64,736,460
Deductions:		
Losses incurred	$ 51,760,399	
Loss adjustment expenses incurred	7,609,974	
Other underwriting expenses incurred	13,451,086	
Total underwriting deductions		72,821,459
Net underwriting loss		(8,084,999)
Investment Income		
Net investment income earned	$ 1,719,907	
Net realized capital gain	235,401	
Net investment gain		1,955,308
Other Income		
Net loss from agents' or premium balances charged off	(105,021)	
Finance and service charges not included in premiums	$ 376,467	
Total other income		271,446
Net loss before federal income taxes		(5,858,245)
Federal income taxes incurred		(573,609)
Net loss		$ (5,284,636)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2010		$ 28,143,469
Net loss	$ (5,284,636)	
Change in net unrealized capital gains	104,345	
Change in net deferred income tax	1,711,281	
Change in nonadmitted assets	(2,509,259)	
Change in provision for reinsurance	41,000	
Surplus adjustments: Paid-in	2,000,000	
Change in surplus as regards policyholders for the year		(3,937,269)
Surplus as regards policyholders, December 31, 2011		$ 24,206,200

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2011

Surplus as regards policyholders, December 31, 2007, per Examination			$ 28,394,102
	Gain in Surplus	Loss in Surplus	
Net loss	$	$ 6,951,554	
Change in net unrealized capital losses		142,991	
Change in net deferred income tax	3,287,459		
Change in nonadmitted assets		2,509,259	
Change in provision for reinsurance	139,000		
Surplus adjustments: Paid-in	2,000,000		
Aggregate write-ins for losses in surplus		10,557	
Total gains and losses	$ 5,426,459	$ 9,614,361	
Net decrease in surplus as regards policyholders			(4,187,902)
Surplus as regards policyholders, December 31, 2011, per Examination			$ 24,206,200

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Risk and Regulatory Consulting, LLC (RRC) was engaged by the North Dakota Insurance Department to conduct a comprehensive actuarial analysis to determine the reasonableness of the loss and loss adjustment expense reserves on a pooled basis as of December 31, 2011. Based on the analysis by RRC and the review of their work by a Casualty Actuary from the California Department of Insurance, the Company's December 31, 2011 reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control: Management Agreements – Consolidated Federal Income Tax Liability Allocation Agreement (Page 6): It is recommended that the Company implement procedures to ensure compliance with the settlement provisions of the tax agreement.

Accounts and Records: Information System Controls (Page 9): It is recommended that the Company establish and implement appropriate control policies and procedures to strengthen its information system controls. This is a repeat recommendation.

Previous Report of Examination

Accounts and Records - Information System Controls (Page 10): It was recommended that the Company establish and implement control policies and procedures to improve the overall effectiveness of the information system controls. The Company has not fully complied.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and affiliates' employees during the course of this examination.

Respectfully submitted,

_____/S/_____
Deanna Lo, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California