

REPORT ON EXAMINATION
OF THE
HOMESITE INSURANCE COMPANY OF FLORIDA
TALLAHASSEE, FLORIDA
AS OF
DECEMBER 31, 2003

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
February 5, 2005

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0300

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), an examination has been made as of December 31, 2003, of the financial condition and corporate affairs of the:

HOMESITE INSURANCE COMPANY OF FLORIDA
313 North Monroe Street, Suite 200
Tallahassee, FL 32301

hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period from January 1, 2003, to the close of business on December 31, 2003. This is the second examination of the Company. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2002. This examination commenced with planning at the Office, on September 7, 2004. The fieldwork commenced on September 20, 2004, and was concluded as of January 28, 2005. The examination included any material transactions and events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination represents a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions, promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (FAC), with due regard to the statutory requirements of the insurance laws, rules and regulations of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination or estimation of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers and related records

prepared by the Company's independent certified public accountants (CPA) were reviewed and utilized where applicable within the scope of this examination.

The Company's assets were valued and/or verified and the liabilities were determined or estimated as of December 31, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

HISTORY

General

The Company was incorporated on December 29, 2000, under the laws of the State of Florida, as a stock property and casualty insurer. The Company commenced business on August 23, 2001, with the name of Homesite Insurance Company of Florida.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in the State of Florida, on December 31, 2003:

Homeowners multiple peril	Fire
Allied lines	Inland marine
Earthquake	Other liability
Mobile home multi peril	Mobile home physical damage

The Company has only written insurance coverage for homeowners multiple peril. The Company has endorsements to the homeowners policy covering inland marine and other liability risks.

The articles of incorporation were amended to change the address of the Company's office in Florida during the period covered by this examination. The Company did not report change in its 2003 annual statement. Also, the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2003, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	10,000
Total common capital stock	\$100,000
Par value per share	\$10

Control of the Company was maintained by its parent, Homesite Securities Company LLC, who owned 100 percent of the stock issued by the Company. The ultimate controlling party was Homesite Group Incorporated, who owned 100 percent of the parent company.

Dividends to Stockholders

The Company paid no dividends to its stockholder.

Management

No annual shareholder meeting was held to elect directors of the Company as required by Sections 607.1601 and 628.231, FS. Serving as of December 31, 2003, were as follows:

Directors

Name and Location	Principal Occupation
Fabian John Fondriest Boston, MA	CEO, the Company CEO, Homesite Group, Inc.
James Thomas Morahan, Jr. Boston, MA	Treasurer, the Company VP-Finance and Administration Homesite Group, Inc.
Manuel Zuniga Rios Boston, MA	Vice-President of Underwriting Homesite Group, Inc.
Anthony Matthew Scavongelli Boston, MA	Secretary and General Counsel, the Company VP and General Counsel Homesite Group, Inc.
Bennett Carl Verniero Boston, MA	VP-Marketing Homesite Group, Inc.

The following senior officers were appointed by the Board of Directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
Fabian John Fondriest	CEO
Douglas Andrew Batting	President
James Thomas Morahan, Jr.	Treasurer and Vice President
Anthony Matthew Scavongelli	Secretary and Vice President

Peter Benjamin Settel
Stephen Douglas Stayton

Vice President
Vice President

Fabian John Fondriest was not listed as CEO of the Company on the 2003 annual statement.

The Company used several internal committees in accordance with Section 607.0825, FS. The following is a list of the principal internal committees and their members as of December 31, 2003:

Investment Committee

Fabian John Fondriest¹
James Thomas Morahan, Jr.
Anthony Matthew Scavongelli
¹ Chairman

Audit Committee

Fabian John Fondriest¹
James Thomas Morahan, Jr.
Anthony Matthew Scavongelli
¹ Chairman

Conflict of Interest Procedure

The Company had adopted a conflict of interest policy statement that required annual disclosure, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the meetings by the board of directors were reviewed for the period under examination. There was no record that the board of directors reviewed the previous examination report by the Office. The minutes were documented and adequately approved Company transactions,

in accordance with Section 607.1601, FS, including the authorization of investments in accordance with Section 625.304, FS. There were no recorded minutes of the meetings of the Investment and Audit Committees. Additionally, minutes of the meeting of the shareholders did not exist for the period under examination.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

The Company had no acquisitions, mergers, disposals, dissolutions, or purchase or sales through reinsurance.

Surplus Debentures

The Company had no surplus debentures.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), FAC. The latest holding company registration filing with the State of Florida, as required by Section 628.801, FS, and Rule 690-143.046, FAC, was made on August 30, 2004.

The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company was a participant, along with its parent, in a tax allocation agreement between the Company and all affiliates. On December 31, 2003, the method of allocation between each respective company was based on the proportionate amount of each company's income taxes computed on a separate company basis.

Intercompany Service Agreement

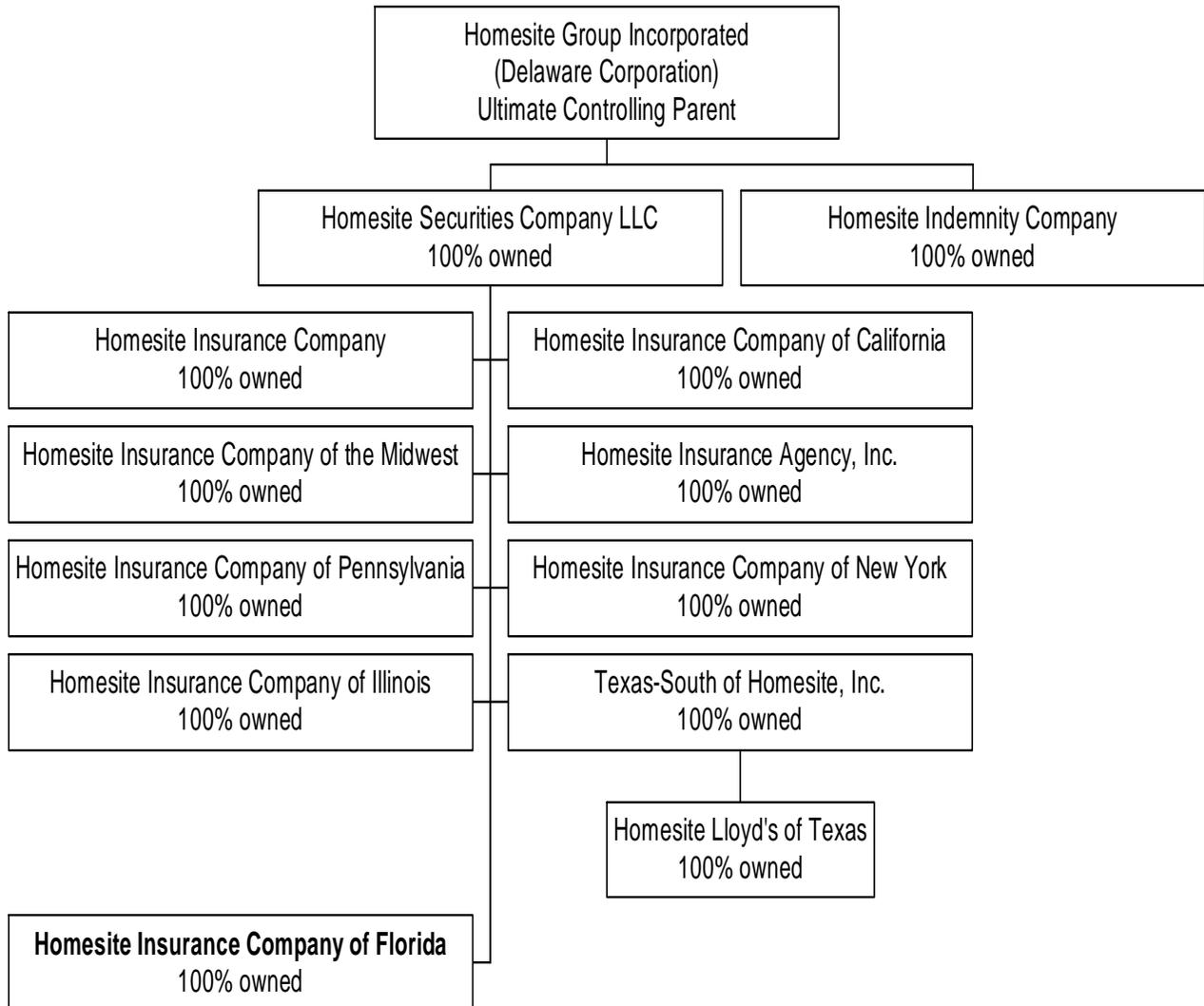
The Company entered into an intercompany service agreement with Homesite Group Incorporated (HGI) on February 12, 2001. HGI was to provide personnel, management information systems support, facilities support, procurement support, legal services and other such services mutually agreed upon. All transactions were subject to the ultimate authority of the Company. During the contract period services were provided on a cost allocation/reimbursement basis. HGI was responsible for maintaining full and accurate accounting records of all services rendered.

Premiums of the Company were received by HGI and deposited into an HGI account along with premium of other Company affiliates. On a monthly basis, this account was reconciled and the premiums due to the Company were transferred net of the amounts due HGI pursuant to the intercompany service agreement. The premiums were deposited into a trust account within 15 working days after collection, as required by Section 625.012(5), FS.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system, is shown on the following page. Schedule Y of the 2003 Annual Statement provided a list of all related companies of the holding company group.

HOMESITE INSURANCE COMPANY OF FLORIDA ORGANIZATIONAL CHART

DECEMBER 31, 2003



FIDELITY BOND AND OTHER INSURANCE

The Company's ultimate parent, HGI, maintained fidelity bond coverage up to \$2,000,000 with a deductible of \$25,000. This insurance adequately covered the suggested minimum amount of coverage for the Company, as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS:

State	Description	Par Value	Market Value
FL	USTN, 3.5%, 01/15/2011	\$ 316,000	\$ 334,630
TOTAL FLORIDA DEPOSITS		<u>\$ 316,000</u>	<u>\$ 334,630</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company was authorized to transact insurance in the State of Florida only, in accordance with Section 624.401(2), FS.

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The reinsurance agreements reviewed were found to meet NAIC regulations with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

The Company was not able to supply risk transfer calculations for its reinsurance contracts as required by SSAP No. 62; however, the Office was able to determine adequate transfer of risk. The Company had not filed Reinsurance Summary Statements as part of the required filings for Florida.

Ceded

The Company ceded risk on a quota share basis to AXA Reinsurance for certain written business. The Company ceded risk on a 50% basis (previously was 60% before 4/1/2003) to AXA Reinsurance. The Company also had a quota share/excess of loss of personal umbrella business agreement with General Reinsurance Corporation and American Re-Insurance Company. The Company

ceded 5% of the first \$1,000,000, while each occurrence after \$1,000,000 was covered by the reinsurer 100%.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company was audited annually by an independent CPA for the years 2002 and 2003, in accordance with Section 624.424(8), FS. Audited statutory financial statements and supporting work papers were prepared by the CPA as required by Rule 690-137.002, FAC.

The data reconciliation provided by the opening actuary did not adequately reconcile or explain data differences between Schedule P and the data used.

The Company's written premium file and its premium receivable file did not contain effective and termination dates to facilitate a recalculation of earned premiums, unearned premiums or aged receivables.

The Company included advance premiums and premium refunds in its calculation of premiums receivable.

The Company's accounting records were maintained on a computerized system at the office of the Company's parent in Boston, MA. The Company's account balances were verified with the line items

of the annual statement submitted to the Office. The Company's hardcopy records were maintained at the Company's office in Florida, as required by Section 628.271, FS., and paragraph 23 of Consent Order No. 41011-01-CO.

The Company maintained its principal operational offices in Boston, MA, where this examination was partially conducted.

The following agreements were in effect between the Company and non-affiliates:

Custodial Agreement

The Company had a custodial agreement with SRB Corporation and the Wachovia Bank. The agreement was in compliance with Rule 690-143.042, FAC. There was a written agreement between the Company and SRB Corporation. SRB Corporation was the investment manager for the Company.

CPA Agreement

The Company had a CPA agreement with PriceWaterhouseCoopers to conduct an annual audit of their financial statements. Documentation in the form of board of director minutes was not provided to evidence that the CPA was hired in accordance with Section 624.424(8)(c), FS.

Actuarial Agreement

The Company had an actuarial agreement with Pinnacle Actuarial Resources, Inc. to render an actuarial opinion for the year 2003.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

HOMESITE INSURANCE COMPANY OF FLORIDA
Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$7,858,389		\$7,858,389
Cash:			
On deposit	326,630		326,630
Short-term investments	172,575		172,575
Agents' Balances:			
Uncollected premium	170,565		170,565
Reinsurance recoverable from reinsurers	23,005		23,005
Receivables from parent	66,892		66,892
Interest and dividend income due & accrued	86,393		86,393
	<hr/>		<hr/>
Totals	\$8,704,449	\$0	\$8,704,449
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HOMESITE INSURANCE COMPANY OF FLORIDA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$111,302		\$111,302
Loss adjustment expenses	25,957		25,957
Commissions payable, contingent commissions	51,524		51,524
Other expenses	10,951		10,951
Taxes, licenses and fees	46,036		46,036
Federal and foreign income taxes payable	18,308		18,308
Unearned premium	606,971		606,971
Advance premiums	76,303		76,303
Ceded reinsurance premiums payable	107,745		107,745
Total Liabilities	\$1,055,097		\$1,055,097
Common capital stock	\$100,000		\$100,000
Gross paid in and contributed surplus	7,404,780		7,404,780
Unassigned funds (surplus)	144,572		144,572
Surplus as regards policyholders	\$7,649,352		\$7,649,352
Total liabilities, capital and surplus	\$8,704,449	\$0	\$8,704,449

HOMESITE INSURANCE COMPANY OF FLORIDA
Statement of Income

DECEMBER 31, 2003

Underwriting Income

Premiums earned	\$453,441
DEDUCTIONS:	
Losses incurred	163,202
Loss expenses incurred	29,362
Other underwriting expenses incurred	468,217
Total underwriting deductions	<u>\$660,781</u>
Net underwriting gain or (loss)	(\$207,340)

Investment Income

Net investment income earned	\$261,608
Net realized capital gains or (losses)	<u>132,403</u>
Net investment gain or (loss)	\$394,011

Other Income

Net gain or (loss) from agents' or premium balance charged off	\$0
Finance and service charges not included in premiums	<u>3,507</u>
Total other income	\$3,507

Net income before dividends to policyholders and before federal & foreign income taxes	\$190,178
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$190,178
Federal & foreign income taxes	<u>66,563</u>
Net Income	\$123,615

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$7,539,674
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Gains and (Losses) in Surplus

Net Income	\$123,615
Net unrealized capital gains or losses	(13,937)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	109,678
Surplus as regards policyholders, December 31 current year	<u><u>\$7,649,352</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses **\$ 137,259**

An outside actuarial firm, which was appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet, as of December 31, 2003, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

HOMESITE INSURANCE COMPANY OF FLORIDA
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2003

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders per December 31, 2003, Annual Statement	\$7,649,352
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment necessary.			
LIABILITIES:			
No adjustment necessary.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$7,649,352

FINDINGS, COMMENTS AND CORRECTIVE ACTION

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2002 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2003.

Certificate of Authority

This examination finds that the Company has not written insurance coverage in the lines of business of fire, allied lines, earthquake, mobile home multi peril and mobile home physical damage in the last two years. **In accordance with Section 624.430, FS, it is recommended that the Company submit a business plan on the use of these lines of business in the next year or two, or submit a request to the Office to have these lines of business removed from their certificate of authority. In either instance, the submission should be made within 90 days of the issuance of this report.**

Examination Report Review

The corporate records for the year 2003 did not contain documentation that the board of directors reviewed the previous examination report by the Office. The NAIC Financial Condition Examiners Handbook requires that the present examination report state whether or not the Company's board of directors reviewed the previous examination report. **It is recommended that the Company's board of directors review the current examination report when issued, and record the review in the board of directors meeting minutes; and provide a copy of such minutes to the Office within 90 days of the issuance of this report.**

Annual Meeting of Shareholders

The Company has not held its annual meeting of the shareholders in accordance with its bylaws. **It is recommended that the Company hold all future annual meetings of shareholders in accordance with its bylaws.**

Change in Articles of Incorporation

The Company changed its articles of incorporation effective December 30, 2003. However, the Company did not indicate the change in the general interrogatories for the annual statement of 2003. **It is recommended that the Company correctly answer the general interrogatories in the NAIC annual statements; in all future filings with the Office.**

Documentation of CPA Services Agreement

The approval to hire a CPA to perform the annual audit was not documented in the minutes of the meeting of the board of directors, as required by Section 624.424(8)(c), FS. **It is recommended that the Company document the hiring of the CPA in the board of director minutes; and provide a copy of such minutes to the Office within 90 days of the issuance of this report.**

Listing of Officers, Jurat Page

The list of officers on the jurat page of the Company's 2003 annual statement did not include Fabian John Fondriest as Chief Executive Officer of the Company. **It is recommended that the Company list all officers on the jurat page of its annual statement in accordance with NAIC instructions, in all future filings with the Office.**

Actuarial Reconciliations

The data reconciliation provided by the opining actuary did not adequately reconcile or explain data differences between Schedule P and the data used. **It is recommended that the Company require its opining actuary to adequately reconcile the data used in the opinion to the Company's Schedule P, in all future years.**

Reinsurance Risk Transfer Calculations

The Company did not supply an evaluation of whether it is reasonably possible for its reinsurers to realize a significant loss from the risk transfer calculation in accordance with SSAP No. 62. Nonetheless, the Office was able to determine adequate transfer of risk. **It is recommended that the Company perform an evaluation of whether it is reasonably possible for its reinsurers to realize a significant loss from the risk transfer calculation in accordance with SSAP No. 62; for all future years.**

Reinsurance Summary Statements

The Company has not filed reinsurance summary statements for its reinsurance treaties as part of the required filings in the state of Florida. **It is recommended that the Company file reinsurance summary statements as part of the required filings within 90 days of the issuance of this report.**

Aging of Premiums Receivable

The Company did not provide an electronic file of premiums receivable with the necessary data for a recalculation of the Company's aged premiums receivable. **It is recommended that the Company provide in future Office examinations, an electronic file of premiums receivable which has the necessary data to perform a recalculation of the Company's aged premiums receivable.**

Advance Premiums

The Company reported the amount of Refunds due policyholders as a reduction in its accounts receivable by \$65,645. **It is recommended that the Company record its refunds due policyholders as amounts retained by the Company for account of others, in all future filing of annual and quarterly statements.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of the **Homesite Insurance Company of Florida** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$7,649,352, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Joe Boor, FCAS, Actuary, and John Berry, Financial Examiner/Analyst Supervisor participated in the examination.

Respectfully submitted,

Roger Kelley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation