

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
MASSACHUSETTS HOMELAND INSURANCE COMPANY

Quincy, Massachusetts

For the period January 1, 2012 through December 31, 2013

NAIC GROUP CODE 2538

NAIC COMPANY CODE 40320

EMPLOYER ID NUMBER 04-2739739

Massachusetts Homeland Insurance Company

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

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May 29, 2015

The Honorable Daniel R. Judson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

MASSACHUSETTS HOMELAND INSURANCE COMPANY

at its home office located at 3 Batterymarch Park Drive, Quincy, Massachusetts, 02169. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance ("Division") has performed its multi-state/single state examination of Massachusetts Homeland Insurance Company ("the Company"). The last examination covered the period of January 1, 2007 through December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2013 and material events occurring subsequent to December 31, 2013.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of the adjustment is documented separately following the Company's financial statements.

This examination report includes significant findings of fact in compliance with Massachusetts General Laws Chapter 175, Section 4 and general information about the insurer and its financial condition. Other items may have been identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.) are not included within the examination report but communicated separately to other regulators and the Company.

COMPANY HISTORY

The Company was incorporated on September 22, 1981 under the name CU Homeland Insurance Company and commenced business on December 31, 1981. CU Homeland Insurance Company's parent corporation was acquired in 2001 by White Mountains Insurance Group, Ltd and renamed OneBeacon Corporation. Effective July 1, 2010, the Tower Group, Inc. ("TGI") acquired the personal lines division of OneBeacon Corporation. Presently the Company is a wholly-owned subsidiary of Tower Insurance Company of New York ("TICNY"), which is a wholly-owned subsidiary of TGI, which is a wholly-owned subsidiary of Tower Group International, Ltd. ("Tower Group"), a Bermuda company.

On March 13, 2013, TGI completed a merger transaction under which Tower Group, formerly known as Canopus Holdings Bermuda Ltd. was renamed Tower Group International, Ltd. On September 15, 2014, Tower Group was acquired by ACP Re Ltd. ("ACP Re") pursuant to an Agreement and Plan of Merger by and between Tower Group, ACP Re, and a wholly-owned

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subsidiary of ACP Re, which was merged with, and into Tower Group, with Tower Group as the surviving corporation in the merger, and a wholly-owned subsidiary of ACP Re. The controlling shareholder of ACP Re is a trust established by the founder of AmTrust Financial Services, Inc. ("AmTrust"), National General Holdings Corporation ("NGHC") and Maiden Holdings, Ltd.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

During 2013, Tower Group experienced significant losses in its business operations, which resulted in a severe reduction in its combined surplus through the Tower Group U.S. Reinsurance Pool ("Tower Pool"). Such losses were primarily due to adverse development in prior years' loss reserves within casualty-related lines of business, including workers' compensation, commercial multi-peril, other liability, and commercial automobile liability lines. As a result, the Company, which cedes all of its business to its affiliate, Tower National Insurance Company ("TNIC"), consented to administrative supervision by the Division on November 26, 2013. Also, the New York Department of Financial Services called a comprehensive examination of TICNY and other affiliates. TICNY is an affiliate of the Company and the lead company in the Tower Pool. The Division participated in the multi-state examination with respect to the Company and TNIC.

Prior to the completion of its acquisition of Tower Group by ACP Re, Tower Group entered into two Cut-Through Reinsurance Agreements, such that subsidiaries of AmTrust and NGHC reinsured at least 60% of new and renewal business produced by the Tower Group, including the unearned premium on such renewal business at January 1, 2014, effective January 3, 2014. Throughout 2014, Tower Group's financial condition continued to deteriorate resulting in A.M. Best downgrading the financial strength rating of Tower Group and its operating subsidiaries from a "B (Fair)" to a financial strength rating of "C (Weak)" on August 28, 2014. Following the receipt of all required regulatory approvals, including the Division's order approving the Form A application, ACP Re closed on its acquisition of Tower Group on September 15, 2014. Tower, NGHC and AmTrust terminated the two Cut-Through Reinsurance Agreements that provided 100% quota share reinsurance, and a cut-through endorsement to cover all eligible new and renewal commercial and personal lines business, on a run-off basis.

Effective September 15, 2014, AmTrust and NGHC are the administrators of the run-off of Tower Group's legacy business and also will prospectively manage and reinsure all business written by Tower Group's U.S. insurance companies ("Tower U.S. Insurers"), for which they will receive a net 2% commission on all such business.

A Personal Lines Quota Share Reinsurance Agreement was executed and effective September 15, 2014 in which Tower U.S. Insurers ceded 100% of their personal lines business after September 15, 2014 to Integon National Insurance Company ("Integon"), an affiliate of NGHC. Also, a Commercial Lines Quota Share Reinsurance Agreement was executed and effective September 15, 2014 in which Tower U.S. Insurers ceded 100% of their commercial lines business after September 15, 2014 to Technology Insurance Company, Inc. ("Technology"), an affiliate of AmTrust. Finally, CastlePoint Reinsurance Company, Ltd. ("CPRe") and Tower Group entered into a loss portfolio transfer agreement, in which CPRe assumed all insurance

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liabilities and unearned premiums for business written prior to September 15, 2014. AmTrust and NGHC provided \$250 million in stop-loss reinsurance coverage for these liabilities.

On December 4, 2014, A.M. Best upgraded the financial strength rating of the Company and the Tower U.S. Insurers to "A- (Excellent)" with a stable outlook. On January 7, 2015, the Division issued an order releasing the Company and TNIC from administrative supervision. As of December 31, 2014, the Company reported assets \$9.4 million, surplus of \$8.7 million, and a risk-based capital authorized control level of \$47,694.

MANAGEMENT AND CONTROL

Board of Directors

According to the bylaws, the Company's business shall be managed by a Board of Directors which may exercise all of the powers of the Company, except as otherwise provided by the Articles of Incorporation, by law, or the bylaws. The Board of Directors shall consist of not fewer than five Directors. For the period from November 18, 2013 and through September 15, 2014, the Company's Board of Directors consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
Greg A. Meyer	President
William E. Hitselberger	Executive Vice President and Chief Financial Officer
Elliot S. Orol	Senior Vice President, General Counsel and Secretary
William F. Dove	Senior Vice President
Catherine M. Wragg	Senior Vice President

Michael H. Lee, Gary S. Maier, and Joel S. Weiner served on the Company's Board of Directors during periods in 2012 and 2013. Eduard Pulkstenis served on the Company's Board of Directors for periods in 2013.

As of September 15, 2014, and through the date of the examination report, the Company's Board of Directors consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
Michael Karfunkel	Chairman, President and Chief Executive Officer of NGHC; Chairman of AmTrust
William E. Hitselberger	President and Treasurer
Herbert J. Lemmer*	Retired
Jonathan L. Shebel	Chief Executive Officer, and Chairman, Associated Reinsurance Brokers, Inc.
Stephen B. Ungar	General Counsel, AmTrust

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*William W. Fox, Jr., former Chief Executive Officer of Tower Group, was appointed as a director of the Company upon the closing of the ACP Re transaction on September 15, 2014. Following Mr. Fox's resignation, effective October 24, 2014, Herbert J. Lemmer was elected as a director of the board of the Company.

The ACP Re Audit Committee serves as the Audit Committee for the Company.

Officers

Officers and management of the Company as of December 31, 2013 and through September 15, 2014 were as follows:

<u>Name of Officer</u>	<u>Title</u>
Greg A. Meyer	President
William E. Hitselberger	Executive Vice President and Chief Financial Officer
Elliot S. Orol	Senior Vice President, General Counsel and Secretary

Officers and management of the Company as of September 15, 2014 and through the date of the examination report are as follows:

<u>Name of Officer</u>	<u>Title</u>
William E. Hitselberger	President and Treasurer
Robert M. Karfunkel	Secretary
Meghan Zeigler	Assistant Secretary

Affiliated Companies

As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Laws, Chapter 175, Section 206C and 211 CMR 7.00.

Abbreviated Organizational Chart

Below is an abbreviated organizational chart, focusing primarily on U.S. and Bermuda property/casualty insurers. Other U.S. health and accident insurers, international insurers, and insurance services organizations are part of the holding company system and are not shown here. Please refer to the Company's December 31, 2014 Annual Statement filing for a complete chart.

Michael Karfunkel
Michael Karfunkel 2005 Grantor Retained Annuity Trust
ACP Re Holdings, LLC (DE)
ACP Re, Ltd. (BM)
Tower Group International, Ltd. (BM)
Tower Group, Inc. (DE)
CastlePoint Bermuda Holdings, Ltd. (BM)
CastlePoint Reinsurance Company, Ltd. (BM)

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Hermitage Insurance Company (NY)
CastlePoint Insurance Company (NY)
CastlePoint Florida Insurance Company (FL)
Tower Insurance Company of New York (NY)
Massachusetts Homeland Insurance Company (MA)
North East Insurance Company (ME)
Tower National Insurance Company (MA)
Preserver Insurance Company (NJ)
CastlePoint National Insurance Company (CA)
York Insurance Company of Maine (ME)
AmTrust Financial Services, Inc. (DE)
 AmTrust International Insurance, Ltd. (BM)
 All Insurance Management Ltd. (BM)
 Rochdale Insurance Company (NY)
AmTrust Insurance Company of Kansas, Inc. (KS)
AmTrust Lloyd's Corporation (TX)
 AmTrust Lloyd's Insurance Company of Texas (TX)
AmTrust North America of Florida, Inc. (FL)
 Associated Industries Insurance Company, Inc. (FL)
First Nonprofit Insurance Company (DE)
Insko Insurance Services, Inc. (CA)
 Developers Surety and Indemnity Company (IA)
 Indemnity Company of California (CA)
Milwaukee Casualty Insurance Co. (WI)
Security National Insurance Company (DE)
Sequoia Insurance Company (CA)
 Sequoia Indemnity Company (NV)
 Personal Express Insurance Company (CA)
Technology Insurance Company, Inc. (NH)
Wesco Insurance Company (DE)
 (continued on the next page)
National General Holdings Corp. (DE)
 MIC General Insurance Corporation (MI)
 National General Assurance Company (MO)
 National General Insurance Company (MO)
 New Jersey Skylands Management, LLC (DE)
 NJ Skylands Insurance Association (NJ)
 New Jersey Skylands Insurance Company (NJ)
Adirondack AIF, LLC (NY)
 Adirondack Insurance Exchange (NY)
 Mountain Valley Indemnity Company (NH)
National General Management Corp. (DE)
 Integon Casualty Insurance Company (NC)
 Integon General Insurance Corporation (NC)
 Integon Preferred Insurance Company (NC)
 New South Insurance Company (NC)

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Integon Indemnity Corporation (NC)
Integon National Insurance Company
Agent Alliance Insurance Company (AL)
Personal Express Insurance Company (CA)
National General Insurance Marketing, Inc. (MO)
National General Re, Ltd (BM)
Allied Producers Reinsurance Company, Ltd (BM)
Imperial Fire and Casualty Insurance Company (LA)
National Automotive Insurance Company (LA)

Michael Karfunkel owns 13.5% of NGHC's common stock and 1.3% of AmTrust's common stock. The Michael Karfunkel 2005 Grantor Retained Annuity Trust ("GRAT") owns 35.3% of NGHC's common stock, 99.9% of ACP Re's common stock and 12.2% of the common stock in AmTrust. Michael Karfunkel's wife is the sole trustee of the GRAT. AmTrust indirectly controls 13.2% of NGHC's common stock.

Transactions and Agreements with Affiliates (excluding Reinsurance)

See the Reinsurance section for affiliated reinsurance.

Managing General Agency Agreements

Effective September 15, 2014, National General Insurance Marketing, Inc. ("NGIM"), an affiliate of NGHC, produces and manages all new and renewal personal lines business of the Tower U.S. Insurers pursuant to a Personal Lines Managing General Agency Agreement for a 10% commission. Such commission payments are netted against the 12% ceding commission payable by Integon pursuant to the Personal Lines Quota Share Reinsurance Agreement. Similarly, effective September 15, 2014, AmTrust North America, Inc. ("ANA"), an affiliate of AmTrust, produces and manages all new and renewal commercial lines business of the Tower U.S. Insurers pursuant to a Commercial Lines Managing General Agency Agreement for a 10% commission. Such commission payments are netted against the 12% ceding commission payable by Technology pursuant to the Commercial Lines Quota Share Reinsurance Agreement.

Administrative Services Agreements

Under the terms of a 100% quota share reinsurance agreement between the Company and TNIC, TNIC provided services for the Company's non-investment operations, both underwriting and non-underwriting, for no fee, or cost, as long as the reinsurance agreement was in effect. The Company also had a Service and Expense Sharing Agreement with TNIC for any necessary services to be performed by TNIC on the Company's behalf, which are not covered under the 100% quota share reinsurance agreement.

Pursuant to the Personal Lines LPTA Administrative Services Agreement between the Tower U.S. Insurers and National General Management Corp. ("NGMC"), NGMC administers the runoff of all historical personal lines policies and claims of the Tower Pool written prior to September 15, 2014. Pursuant to the Commercial Lines LPTA Administrative Services

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Agreement between the Tower U.S. Insurers and ANA, ANA administers the runoff of all historical commercial lines policies and claims of the participants of the Tower Pool written prior to September 15, 2014.

Investment Management Agreement

Effective September 15, 2014, the Company and AII Insurance Management Ltd. ("AII") an affiliate of AmTrust, entered into the Investment Management Agreement, whereby AII manages the Company's investments.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Massachusetts, Connecticut and Rhode Island and uses independent agents to sell private passenger automobile, homeowners and umbrella policies to consumers in these states. The Company reported 2013 direct premium written of \$61.1 million in Massachusetts, \$58.1 million in Connecticut and \$4.6 million in Rhode Island.

Treatment of Policyholders – Market Conduct

During 2013, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2012 through December 31, 2012. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4. As a result factors described in the Summary of Significant Findings of Fact section of this report, the Division revised the scope of the examination to limited-scope to focus on specific industry issues and claims.

The limited-scope market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC's *Market Regulation Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The Division issued its publicly-available Report on the Limited Scope Market Conduct Examination on January 15, 2015. Attached to the Report is a Regulatory Settlement Agreement dated December 10, 2014 requiring corrective action and restitution for claims not reported to the Merit Rating Board, and for failing to provide at-fault operators with a notice of at-fault accident determination stating their rights to appeal those determinations.

REINSURANCE

The Company has a 100% quota share reinsurance agreement to cede in-force new and renewal business effective July 1, 2010 with its affiliate, TNIC. TNIC is a participant in the Tower Pool, where TNIC cedes 100% of direct and assumed business to TICNY, the pool manager. Amounts

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due to or from TICNY are settled in the next quarter. Prior to September 15, 2014, TICNY ceded to the pool participants their respective shares of the pool. TNIC retained a net 2% of the Tower Pool prior to September 15, 2014.

In the third quarter of 2013, Tower Group entered into agreements with three reinsurers, Arch Reinsurance Ltd. ("Arch"), Hannover Re (Ireland) Plc. ("Hannover") and Southport Re (Cayman), Ltd. ("Southport Re"). The agreements with Arch and Hannover each consisted of one reinsurance agreement, while the arrangement with Southport Re consisted of several agreements. The agreements with Arch and Hannover covered business written from July 1, 2013 to December 31, 2013, as well as unearned premiums as of June 30, 2013. As a result of the pending merger, the Southport Re treaties were commuted effective February 19, 2014, whereby all premiums paid to Southport Re by the Tower Group were returned, and all liabilities assumed by Southport Re were cancelled, whereby such liabilities became the obligation of the Tower Group.

As of January 3, 2014 through September 15, 2014, the Tower Group entered into Cut-Through Reinsurance Agreements, such that subsidiaries of AmTrust and NGHC reinsured at least 60% of new and renewal business produced by the Tower Group, including the unearned premium on such renewal business at January 1, 2014.

Effective September 15, 2014, Tower U.S. Insurers and CPRe entered into a Loss Portfolio Transfer Agreement pursuant to which CPRe will reinsure all the business written by Tower U.S. Insurers prior to September 15, 2014. AmTrust and NGHC provided \$250 million in stop-loss reinsurance coverage for these liabilities. Thus, as of September 15, 2014, the Company retains no net insurance risk.

Effective September 15, 2014, the Tower U.S. Insurers and Integon, an affiliate of NGIM, entered into a Personal Lines Quota Share Reinsurance Agreement whereby Tower U.S. Insurers ceded 100% of the losses on their personal lines business after September 15, 2014 to Integon. Also, effective September 15, 2014, the Tower U.S. Insurers and Technology, an affiliate of ANA, entered into a Commercial Lines Quota Share Reinsurance Agreement whereby Tower U.S. Insurers ceded 100% of the losses on their commercial lines business after September 15, 2014 to Technology, an affiliate of AmTrust. The related policies are issued under the Personal Lines Managing General Agency Agreement and the Commercial Lines Managing General Agency Agreement.

Lastly, effective November 1, 2014, Tower U.S. Insurers entered into a Quota Share Reinsurance Agreement with ACP Re, which further ensures that no net liability will be retained by the Company and the Tower U.S. Insurers.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2013. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2013

Statement of Income for the Year Ended December 31, 2013

Reconciliation of Capital and Surplus for Each Year in the Two-Year Period Ended December 31, 2013

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Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2013

	Per Annual Statement
ASSETS	
Bonds	\$ 2,541,782
Cash, cash equivalents and short-term investments	(2,090,581)
Other Invested Assets	27,990
Subtotals, cash and invested assets	479,191
Investment income due and accrued	10,023
Receivables from parent, subsidiaries and affiliates	8,276,475
Total Assets	<u>\$ 8,765,689</u>
LIABILITIES	
Current federal and foreign income taxes	\$153,019
Net deferred tax liability	2,130
Total Liabilities	<u>155,149</u>
Common capital stock	2,000,000
Gross paid in and contributed surplus	5,000,000
Unassigned funds (surplus)	1,610,540
Surplus as regards policyholders	<u>8,610,540</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 8,765,689</u>

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Statement of Income
For the Year Ended December 31, 2013

	Per Annual Statement
Net Premiums Earned	
Deductions:	
Net Losses Incurred	
Net Loss adjustment expenses incurred	
Net Other underwriting expenses incurred	
Aggregate write-ins for underwriting deductions	
Total net underwriting deductions	-
Net underwriting gain/(loss)	-
Net investment income earned	192,062
Net realized capital gains or (losses) less capital gains taxes	150,267
Net investment gain/(loss)	342,329
Aggregate write ins for miscellaneous income	(8)
Total other income	(8)
Net income after dividends to policyholders, after capital gains tax and before other federal and foreign income taxes	342,321
Federal and foreign income taxes incurred	52,387
Net income/(loss)	\$ 289,934

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Reconciliation of Capital and Surplus
For Each Year in the Two-Year Period Ended December 31, 2013

	2013	2012
Surplus as regards policyholders, December 31, prior year	\$ 8,304,947	\$ 7,989,190
Net income/(loss)	289,934	333,030
Change in net deferred income tax	27,519	(16,790)
Aggregate write-ins for gains and losses in surplus	(11,860)	(483)
Change in surplus as regards policyholders for the year	<u>305,593</u>	<u>315,757</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 8,610,540</u>	<u>\$ 8,304,947</u>

SUBSEQUENT EVENTS

See the subsequent events discussed in the Summary of Significant Findings of Fact and Company History, Management and Control and Reinsurance Sections of the examination report.

A Personal Lines Quota Share Reinsurance Agreement was executed and effective September 15, 2014 in which Tower U.S. Insurers ceded 100% of their personal lines business after September 15, 2014 to Integon, an affiliate of NGHC. Also, a Commercial Lines Quota Share Reinsurance Agreement was executed and effective September 15, 2014 in which Tower U.S. Insurers ceded 100% of their commercial lines business after September 15, 2014 to Technology, an affiliate of AmTrust. Finally, CPRe and Tower Group entered into a loss portfolio transfer agreement, in which CPRe assumed all insurance liabilities and unearned premiums for business written prior to September 15, 2014. AmTrust and NGHC provided \$250 million in stop-loss reinsurance coverage for these liabilities.

On January 7, 2015, the Division issued an order releasing the Company and TNIC from administrative supervision. As of December 31, 2014, the Company reported assets \$9.4 million, surplus of \$8.7 million, and a risk-based capital authorized control level of \$47,694.


The Company and Tower Group management engaged Huggins Actuarial Services, Inc. ("Huggins") in early 2015 to complete an assessment of Tower U.S. Insurers reserves as of September 31, 2014 and December 31, 2014. As of December 31, 2014, on both a gross and net basis, Huggins determined that the Tower U.S. Insurers reserves are within Huggins low and high estimate of reserves, but below the central estimate by \$98.5 million on a gross basis, and \$54.4 million on a net basis. Further, after considering the \$250 million stop-loss reinsurance coverage from AmTrust and NGHC, December 31, 2014 reserves are effectively reported at the Huggins central estimate on both a gross and net basis.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by the following examiners participating in this examination is acknowledged.

Dana W. Rudmose, CPA (inactive), CIE, AIR
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Rudmose & Noller Advisors, LLC



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