



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

REPORT OF EXAMINATION
OF THE

MASSACHUSETTS HOMELAND INSURANCE COMPANY

Canton, Massachusetts

As of December 31, 2011

NAIC GROUP CODE 3703
NAIC COMPANY CODE 40320

EMPLOYERS ID NUMBER 04-2739739

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COMMONWEALTH OF MASSACHUSETTS

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April 18, 2013

Honorable Joseph G. Murphy
Commissioner of Insurance
The Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street
Boston, Massachusetts 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 as of December 31, 2011 of the

MASSACHUSETTS HOMELAND INSURANCE COMPANY

at its administrative office located at 120 Broadway, 31st Floor, New York, New York, 10271.
The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Massachusetts Homeland Insurance Company hereinafter referred to as (the "Company" or "MHIC") was last examined for the period January 1, 2002 to December 31, 2006. The current statutory examination under the association plan of the National Association of Insurance Commissioners ("NAIC") by the Massachusetts Division of Insurance (the "Division") covers the intervening period from January 1, 2007 to December 31, 2011 and any material transactions and/or events occurring subsequent to the examination date as noted during the course of this examination.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination be planned and performed 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. An 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 accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Representatives from the firm of INS Regulatory Insurance Services, Inc. ("InsRis") were engaged by the Division to assist in the examination by performing certain examination procedures at the direction and under the overall management of the Division's examination staff. INS Services, Inc. performed a review and evaluation of the control environment of MHIC's information technology systems on behalf of the Division.

The principal focus of the examination was 2011 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC risk-focused examination approach.

The Company is currently audited by PricewaterhouseCoopers LLP, an independent certified public accounting firm, in accordance with 211 CMR 23.00. The firm expressed unqualified opinions on the Company's financial statements for 2011. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective. We have also relied on certain work performed by the New York Department of Financial Services ("NYDFS") on its December 31, 2009 examination of Tower Insurance Company of New York ("TICNY"), which is the lead Company in the affiliated pool. No independent actuarial review was performed because the Company did not report net loss reserves as of December 31, 2011, due to a 100% inter-company quota share agreement. An evaluation of the adequacy and effectiveness of the IT Systems controls was performed by INS Services, Inc. to determine the level of reliance to be placed on summary information generated by the data processing systems.

HISTORY

General

MHIC was incorporated on September 22, 1981, under the name CU Homeland Insurance Company and commenced business on December 31, 1981. In 2001, CU Homeland Insurance Company's parent, CGU Corporation was acquired 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 Insurance Group, Ltd. The personal lines division writes and manages private passenger automobile, homeowners, and personal package business in the northeastern United States. MHIC is now the direct subsidiary of TICNY, which is 100% owned by TGI. The Company was licensed in Connecticut, Massachusetts and Rhode Island as of December 31, 2011. Immediately following the completion of the acquisition by TICNY, MHIC entered into an inter-company 100% quota share reinsurance agreement with Tower National Insurance Company (TNIC), where it cedes 100% of its net inforce new and renewal premium, as well as its net loss and loss expense reserves, to TNIC. MHIC does not directly participate in TGI's pooled business. TNIC cedes the business it assumes from MHIC to the TGI pool.

Since 2005, TGI was active in pursuing its objective and business strategy of growing and expanding its business operations regionally across the United States. This was accomplished through the acquisition of several insurance companies. On March 13, 2013, through a series of transactions, TGI was replaced as the ultimate controlling person of the Tower holding company system with Tower Group International, Ltd., which is publicly traded on the NASDAQ under the symbol TWGP. Management of Tower Group International, Ltd.'s affairs is directed by Michael H. Lee, who is Chairman, President and Chief Executive Officer.

Growth of the Company

The growth of the Company for the years 2007 through 2011 is shown in the following schedule, which was prepared from the Company's Annual Statements, including any changes as a result of the examination.

Year	Admitted Assets	Total Liabilities	Capital & Surplus	Direct Premium	Net Premium
2011	\$9,777,812	\$1,788,622	\$7,989,190	\$122,309,586	\$0
2010	12,868,902	7,979,270	4,889,632	158,844,127	0
2009	9,037,144	16,860	9,020,284	166,176,953	0
2008	8,606,711	98,504	8,508,207	106,902,214	0
2007	9,196,627	43,321	9,153,306	112,593,858	0

TERRITORY AND PLAN OF OPERATION

MHIC is a stock property and casualty insurer, providing coverage for homeowner multiple peril, private passenger auto liability, and auto physical damage. As of December 31, 2011, MHIC was authorized to write business in three states: Connecticut, Massachusetts, and Rhode Island.

MANAGEMENT

The annual shareholder meeting for the election of Directors was held in accordance the corporate Bylaws. Directors serving as of December 31, 2011, were:

<u>Director Name</u>	<u>Principal Occupation and Location</u>
Michael H. Lee	Director, President and Chief Executive Officer, TGI New York, New York
William E. Hitselberger	Director, Executive Vice President and Chief Financial Officer, TGI West Windsor, New Jersey
Gary S. Maier	Director, Executive Vice President and Chief Underwriting Officer, TGI Tenafly, New Jersey
Joel S. Weiner	Director, Senior Vice President, Chief Actuary, TGI New Hope, Pennsylvania
Elliot S. Orol	Director, Senior Vice President, Secretary and General Counsel, TGI New York, New York

The Company Bylaws state that the number of directors shall be "not less than nine, nor more than fifteen." As of December 31, 2011, five Directors were elected and reported by the Company.

The Company Bylaws state that the elected Directors are required to be residents of the Commonwealth of Massachusetts. As of December 31, 2011, none of the Directors were residents of the Commonwealth of Massachusetts.

The Company Bylaws require at least one regular meeting of the Directors following the annual meeting of the shareholders. It was noted that the Company did not convene any Board meetings during the period covered by the examination. In lieu of formal meetings, the Company's business was conducted through the use of "Action(s) by unanimous consent of Directors without a meeting".

On March 28, 2013 the Company revised its Bylaws to correct the issues noted above. The revised Bylaws now allow for between five and fifteen Directors, the residency requirement has been removed and the Directors may now transact business by unanimous written consent in lieu of meetings of the Board of Directors.

Although MHIC has a Board of Directors (Board), MHIC defers to the TGI Board for corporate governance matters. The MHIC Board has not appointed internal committees. The MHIC Board does utilize the following Committees of its ultimate parent, TGI.

Audit Committee
Compensation Committee
Corporate Governance & Nominating Committee
Investment Committee

The Board appointed the following senior officers in accordance with the Company's Bylaws:

<u>Officer Name</u>	<u>Title</u>
Michael H. Lee	President and Chief Executive Officer
William E. Hitselberger	Executive Vice President and Chief Financial Officer
Gary S. Maier	Executive Vice President and Chief Underwriting Officer
Elliot S. Orol	Senior Vice President, General Counsel, and Secretary
Craig A. Nyman	Treasurer

The Company Bylaws state that the Directors are required to elect certain officers. It was noted that the 2011 elected officers did not include the required positions of Assistant Secretary and Assistant Treasurer. Please see the Comments and Recommendations Section of the report on Page 15.

Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflict of interest as indicated in response to Question 18 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the Board of any material interest or affiliation on the part of any officer or director, which is in or is likely to conflict with his/her official duties. On an annual basis, all employees and independent Directors read the conflict of interest policy and sign a questionnaire wherein they can disclose any conflicts. The completed questionnaires were reviewed, and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2011 Annual Statement.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Bylaws and Articles of Incorporation were reviewed. Based upon the review of the Bylaws and Articles of Incorporation, and amendments thereto, the Company is operating in compliance with its Bylaws and in accordance with the purpose, functions and policies as set forth in its Articles of Incorporation with the exception of issues noted in the Comments and Recommendations Section of the report on Page 15.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with MGL c.175, Sections 180M-180Q.

Board of Directors Minutes

The MHIC Board has not held any Board meetings during the period covered by the examination. See the discussion of the annual Board meeting requirement above. The MHIC Board activity during the period took the form of unanimous consent of the Directors without a meeting. The unanimous consents were documented and reviewed.

AFFILIATED COMPANIES

Per Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirement of Chapter 175, Section 206C of the Massachusetts General Law.

Massachusetts Homeland Insurance Company

Name of Parent, Subsidiaries or Affiliates	NAIC Co. Code	Domiciliary Location
TOWER GROUP, INC.		DE
ADIRONDACK AIF, LLC		NY
ADIRONDACK INSURANCE EXCHANGE	12583	NY
NEW JERSEY SKYLANDS MANAGEMENT, LLC		DE
NEW JERSEY SKYLANDS INSURANCE ASSOCIATION	11454	NJ
NEW JERSEY SKYLANDS INSURANCE COMPANY	11453	NJ
TOWER INSURANCE COMPANY OF NEW YORK	44300	NY
MASSACHUSETTS HOMELAND INSURANCE COMPANY	40320	MA
NORTH EAST INSURANCE COMPANY	24007	ME
NORTH ATLANTIC UNDERWRITERS, INC.		ME
PRESERVER GROUP, INC.		NJ
PRESERVER INSURANCE COMPANY	15586	NJ
MOUNTAIN VALLEY INDEMNITY COMPANY	10205	NH
TOWER RISK MANAGEMENT CORP.		NY
TOWER CLAIMS SERVICES, LLC		NY
TOWER NATIONAL INSURANCE COMPANY	43702	MA
SPECIALTY UNDERWRITERS ALLIANCE, INC.		DE
SUA INSURANCE SERVICES, INC.		DE
CASTLEPOINT NATIONAL INSURANCE COMPANY	40134	IL
YORK INSURANCE COMPANY OF MAINE	31267	ME
OCEAN II CORPORATION		DE
OCEAN I CORPORATION		DE
CASTLEPOINT BERMUDA HOLDINGS, LTD.		BE
CASTLEPOINT REINSURANCE COMPANY, LTD.		BE
HIG, INC.		DE
AMERICAN RESOURCES INS. CONS., LLC		AL
HERMITAGE INSURANCE COMPANY	18376	NY
KODIAK INSURANCE COMPANY	29750	NJ
CASTLEPOINT INSURANCE COMPANY	17205	NY
CASTLEPOINT FLORIDA INSURANCE COMPANY	13599	FL
CASTLEPOINT MANAGEMENT CORP.		DE
CASTLEPOINT RISK MGMT. OF FLORIDA, INC.		FL
10271 TOWER REALTY GROUP, LLC		DE
10272 TOWER REALTY GROUP, LLC		DE
10273 TOWER REALTY GROUP, LLC		DE

Service and Expense Sharing Agreement

Effective July 1, 2010, MHIC entered into a service expense sharing agreement where TNIC agrees to perform or oversee the performance of all functions related to the conduct of the property and casualty business including but not limited to: underwriting and marketing, policy issuance, billing, and collection, state filing, loss prevention, premium audit, claims, legal defense, corporate services, accounting, human resources, and management information services. In return for the services rendered by TNIC, fees shall be allocated to MHIC. The fee allocation is set forth in the agreement. MHIC agrees to pay TNIC for the salaries and estimated benefits incurred by TNIC. The salaries and benefits of the staff providing the services will be directly allocated to MHIC. Amounts payable under the agreement are to be settled at the end of each quarter.

Tax Allocation Agreement

MHIC entered into a tax allocation agreement with TGI and its affiliates to jointly file consolidated federal income tax returns in accordance with the relevant Internal Revenue Service regulations. Pursuant to the agreement, MHIC files a consolidated federal income tax return with the group. The tax liability or refund under the agreement represents the amount MHIC would pay or receive if it filed a separate return with the Internal Revenue Service.

Reinsurance Agreement

See the reinsurance section of this report for a discussion of the inter-company reinsurance agreement in place.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with authorized Massachusetts insurers. The aggregate limits of liability coverage meet the NAIC's suggested minimum as of December 31, 2011.

The Company has further protected its interests and properties by policies of insurance covering other insurable risks. Coverages are provided by insurers licensed in the Commonwealth of Massachusetts and were in force as of December 31, 2011.

SPECIAL DEPOSITS

The special deposits of the Company at December 31, 2011, are as follows:

Massachusetts Homeland Insurance Company

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value</u>
Massachusetts	Washington State Municipal Bond, 5%, 8/1/2035, 93974CZG8	\$100,000	\$108,474	\$109,047
Rhode Island	Cash on Deposit	\$141,741	\$141,741	\$141,741
Total of All Locations		\$241,741	\$250,215	\$250,788

REINSURANCE

Effective July 1, 2010, MHIC entered into a 100% quota share reinsurance agreement with its affiliate TNIC. Under the terms of the agreement, TNIC agrees to assume a 100% share portion of the net liabilities of all policies written by MHIC. The premium ceded shall be equal to the gross written premium and the ceding commission is equal to the actual costs of underwriting, managing the Company, and settling claims. The amounts related to the agreement are to be settled within 45 days of the end of each quarter.

The Company is not party to any assumption agreements.

SUBSEQUENT EVENTS

On July 30, 2012, TGI announced that it had exercised an option to combine with Canopus Holdings Bermuda Limited and Canopus Bermuda Limited. Together the companies are known as Canopus Bermuda. Canopus Bermuda reinsurance business is currently operated by Canopus Group Limited. TGI indicates that the merger with Canopus Bermuda will enable Tower to create a global specialty insurance group with greater diversification supported by an efficient international holding company structure and should enable Tower to increase its profitability. The combination was consummated on March 13, 2013. Canopus Holdings Bermuda Limited was renamed Tower Group International, Ltd. Tower Group International, Ltd. is now the ultimate controlling person of the Tower holding company system.

Effective in March, 2012, William F. Dove replaced Joel S. Weiner as an officer of the Company. Mr. Dove is Senior Vice President of Actuarial Services and a Director. Effective in October, 2012, Vito A. Nigro replaced Craig Nyman as an officer of the Company. Mr. Nigro is Managing Vice President of Finance and Treasurer.

ACCOUNTS AND RECORDS

The Company's internal controls structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent certified public accountants, and including work papers generated to support the requirements of

the Sarbanes-Oxley Act. A review and evaluation of the control environment of MHIC's information technology systems was done. The NAIC Information Systems Questionnaire completed by the Company was reviewed. The control environment of the Company's information systems was found to have in place sufficient internal controls.

No material internal control weaknesses were noted in connection with the examination.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2011 Annual Statement. No material exceptions were noted.

The Company reported its direct written premium by state in its Annual Statement filings. These premiums are recorded by risk location in accordance with NAIC Annual Statement instructions. This reporting results in the inclusion of a small amount of premiums in states where the Company is not licensed. It was determined that the Company did not include these premiums in its Massachusetts excise tax filing in accordance with MGL c. 63, Section 22, and the instructions for the Massachusetts excise tax form number 63-23P. Please see the Comments and Recommendations Section of the report on Page 15.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and by the NAIC as of December 31, 2011:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2011

Statement of Income for the Year Ended December 31, 2011

Statement of Capital and Surplus as of December 31, 2011

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2011

Massachusetts Homeland Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2011

<u>Assets</u>	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>	<u>Notes</u>
Bonds	\$ 11,623,026	\$ 0	\$ 11,623,026	
Cash and short-term investments	(2,364,653)		(2,364,653)	
Other invested assets	22,000		22,000	
Receivable for securities	249,602		249,602	
Subtotals, cash and invested assets	9,529,975	0	9,529,975	
Investment income due and accrued	117,374		117,374	
Current federal and foreign income tax recoverable and interest thereon	130,463		130,463	
Total Assets	<u>\$ 9,777,812</u>	<u>\$ 0</u>	<u>\$ 9,777,812</u>	
<u>Liabilities</u>				
Losses	\$ 0	\$ 0	\$ 0	1
Loss adjustment expenses	0	0	0	1
Net deferred tax liability	516		516	
Payable to parent, subsidiaries and affiliates	1,788,106		1,788,106	
Total Liabilities	1,788,622	0	1,788,622	
Common capital stock	2,000,000		2,000,000	
Gross paid in and contributed surplus	5,000,000		5,000,000	
Unassigned funds (surplus)	989,190		989,190	
Surplus as regards policyholders	7,989,190	0	7,989,190	
Total Liabilities, Capital and Surplus	<u>\$ 9,777,812</u>	<u>\$ 0</u>	<u>\$ 9,777,812</u>	

Statement of Income
For the Year Ended December 31, 2011

<u>Investment Income</u>	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Net investment income earned	\$ 388,699	\$ 0	\$ 388,699
Net realized capital gains (losses)	263,896		263,896
Net Investment Gain	<u>652,595</u>	<u>0</u>	<u>652,595</u>
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income	652,595		652,595
Federal and foreign income taxes incurred	<u>(447,478)</u>		<u>(447,478)</u>
Net Income	<u>\$ 1,100,073</u>	<u>\$ 0</u>	<u>\$ 1,100,073</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2010	<u>\$ 4,889,632</u>	<u>\$ 0</u>	<u>\$ 4,889,632</u>
Net income	1,100,073		1,100,073
Change in net deferred income tax	(175,212)		(175,212)
Change in nonadmitted assets	174,697		174,697
Surplus Adjustments: Paid in	2,000,000		2,000,000
Change in surplus as regards policyholders for the year	<u>3,099,558</u>	<u>0</u>	<u>3,099,558</u>
Surplus as regards policyholders, December 31, 2011	<u>\$ 7,989,190</u>	<u>\$ 0</u>	<u>\$ 7,989,190</u>

Reconciliation of Capital and Surplus
For Each Year in the Five-Year Period Ended December 31, 2011

	2011	2010	2009	2008	2007
Surplus as regards policyholders, December 31 previous year	<u>\$ 4,889,632</u>	<u>\$ 9,020,284</u>	<u>\$ 8,508,207</u>	<u>\$ 9,153,306</u>	<u>\$ 9,782,062</u>
Net income (loss)	1,100,073	(120,992)	526,354	217,970	272,384
Change in net unrealized capital gains or (losses) less capital gains tax		(214)	(323)	462	
Change in net deferred income tax	(175,212)	137,953	(15,738)	15,889	(6,274)
Change in nonadmitted assets	174,697	(173,417)	1,784	20,580	5,134
Capital changes: Transferred from surplus				700,000	
Surplus adjustments: Transferred to capital				(700,000)	
Surplus adjustments: Paid in	2,000,000				
Dividends to stockholders		(3,973,982)		(900,000)	(900,000)
Change in surplus as regards policyholders	<u>3,099,558</u>	<u>(4,130,652)</u>	<u>512,077</u>	<u>(645,099)</u>	<u>(628,756)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$ 7,989,190</u></u>	<u><u>\$ 4,889,632</u></u>	<u><u>\$ 9,020,284</u></u>	<u><u>\$ 8,508,207</u></u>	<u><u>\$ 9,153,306</u></u>

NOTES TO FINANCIAL STATEMENTS**Note 1: Loss and Loss Adjustment Expense (LAE) Reserves**

As part of the 2009 coordinated financial examination of TGI by the NYDFS, the "lead state" of the group, an actuarial analysis was performed of the loss and loss adjustment expense (LAE) reserves of TGI, which includes all reinsured affiliates as of December 31, 2009. The NYDFS made an independent assessment of the TGI Pool's loss and LAE reserves as of December 31, 2009, to determine whether the reserve amounts carried were reasonably stated in accordance with sound actuarial principals. This analysis was performed both gross and net of reinsurance.

The 2010 and 2011 documentation contained in the Company's external audit work papers, the SOX work papers, the internal audit work papers, and the Company's consulting actuary, Towers Watson, work papers were reviewed. The review of this documentation did not identify any exceptions related to the reserves reported for 2010 and 2011.

The Company is not a member of the TGI Pool, however the Company has in place a 100% quota share reinsurance agreement whereby its cedes all underwriting activity, including loss and LAE reserves to TNIC, which in turn cedes this business to TICNY, the lead company of the TGI Pool. As such, MHIC does not record net liabilities in its financial statements for losses and LAE reserves for the years under examination.

MHIC's gross, ceded, and net loss and LAE reserves as reported in the Exhibits and Schedules of its Annual Statement as of December 31, 2009, 2010 and 2011 were as follows:

	2011	2010	2009
Gross Reported Unpaid Losses	\$ 36,418,836	\$ 31,763,326	\$ 30,053,962
Gross IBNR Reserves	22,434,041	32,983,000	22,987,630
Total Gross Reserves	58,852,877	64,746,326	53,041,592
Ceded Reserves	(58,852,877)	(64,746,326)	(53,041,592)
Net	\$ 0	\$ 0	\$ 0

COMMENTS AND RECOMMENDATIONS

Failure to Elect Certain Officers

The Company Bylaws state that the Directors are required to elect certain officers. It was noted that the 2011 elected officers did not include the required positions of Assistant Secretary and Assistant Treasurer.

Recommendation: It is recommended that the Company comply with its Bylaws or amend the elected officers' requirements.

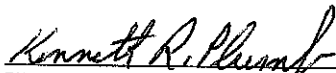
Failure to Report Taxable Premiums

The Company reported its direct written premium by state in its Annual Statement filings. These premiums are recorded by risk location in accordance with NAIC Annual Statement instructions. This reporting results in the inclusion of a small amount of premiums in states where the Company is not licensed. It was determined that the Company did not include these premiums in its Massachusetts excise tax filing in accordance with M.G.L. c. 63, Section 22, and the instructions for the Massachusetts excise tax form number 63-23P.

Recommendation: It is recommended that Company comply with MGL c. 63, Section 22 and the instructions for the Massachusetts excise tax form number 63-23P with regard to Massachusetts premium excise tax filings.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company. Acknowledgement is made of the participation of Peter Bliss, CFE of InsRis.



Kenneth R. Plumb, CPA, CFE
Supervising Examiner and Examiner-In-Charge
The Commonwealth of Massachusetts
Division of Insurance