

EXAMINATION REPORT

OF THE

CAMDEN FIRE INSURANCE ASSOCIATION

MORRISTOWN, NEW JERSEY 07960

DECEMBER 31, 2011

NAIC COMPANY CODE 21946

NAIC GROUP CODE 1129

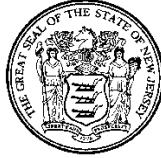
Filed

June 20, 2013

**Commissioner
Department of Banking &
Insurance**

TABLE OF CONTENTS

	Page
Salutation	1
Scope of the Examination	2
Compliance with Prior Report on Examination Recommendations	2
History and Kind of Business	3
Territory and Plan of Operation	3
Reinsurance	4
Parent, Subsidiaries and Affiliates	4
Intercompany Agreements	5
Management	7
Policy on Conflict of Interest	8
Fidelity Bond and Other Insurance Coverages	8
Employee Welfare and Pension Plans	9
Accounts and Records	9
Financial Statements and Other Exhibits:	10
Exhibit A- Balance Sheet as of December 31, 2011	11
Exhibit B- Statement of Income for the Five Year Examination Period Ended December 31, 2011	12
Exhibit C- Capital and Surplus Account for the Five Year. Examination Period Ended December 31, 2011.....	13
Notes to the Financial Statements	14
Subsequent Events.....	15
Conclusion	15



State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION

PO Box 325
TRENTON, NJ 08625-0325

TEL (609) 292-5350
FAX (609) 292-6765

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

KENNETH E. KOBYSLOWSKI
Commissioner

May 31, 2013

Honorable Kenneth E. Kobylowski
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, NJ 08625

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made into the condition and affairs of:

The Camden Fire Insurance Company

44 Whippany Road, Suite 109

Morristown, New Jersey 07960

N.A.I.C. GROUP CODE 1129

N.A.I.C. COMPANY CODE 21946

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey, hereinafter referred to in this report as "Camden Fire" or "the Company."

SCOPE OF THE EXAMINATION

This current examination of the Company was authorized in accordance with N.J.S.A. 17:23-22 and covers the five year period beginning January 1, 2007 and ending December 31, 2011.

The examination was conducted in accordance with the 2011 NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles 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 as defined in the 2011 NAIC Financial Condition Examiners Handbook.

Additional areas reviewed were in part as follows:

- History
- Fidelity Bond and Other Insurance
- Pension, Stock Ownership and Insurance Plans
- Statutory Deposits
- Insurance Products and Related Services
- Reinsurance
- Accounts and Records

COMPLIANCE WITH PRIOR REPORT ON EXAMINATION RECOMMENDATIONS

Treatment of Policyholders

It was recommended that the Company number each individual complaint recorded on the Complaint Log and record the total number of complaints received each year on the Complaint Log. The Company indicated they did not record any complaints during the examination period and since the complaint log as maintained is in substantial compliance with statute this examination was determined they have complied with this recommendation

Taxes, Licenses and Fees

It was recommended that the Company establish an accrual for state insurance department examination fees under "Taxes, Licenses and Fees" in future annual statements. A review by this examination indicated the Company accrued for the examination fees but recorded the accrual in other expenses. This accounting treatment has been accepted for purposes of this examination and it is considered that the Company has complied with this recommendation.

HISTORY AND KIND OF BUSINESS

The Company was originally incorporated as the "Camden Mutual Insurance Association" under a special act passed by the New Jersey Legislature on March 12, 1841 and commenced business on April 1, 1841.

In a supplement to its charter approved March 1, 1870, the Association was reorganized as a stock company.

Effective February 18, 1881, the name of the Association was changed to the "Camden Fire Insurance Association".

On June 2, 1998, Commercial Union, plc. the ultimate controlling person of the U.S. insurance group known as the Commercial Union Insurance Companies, acquired all of the common stock of General Accident, plc. the former ultimate controlling person of the U.S. insurance group known as the General Accident Insurance Companies, of which the Company was a member. The name of the ultimate controlling person was changed from Commercial Union, plc. to CGU, plc.

On October 22, 1999, the Company's name was changed from "Camden Fire Insurance Association" to "CGU Insurance Company of New Jersey".

On June 1, 2001, the CGU Insurance Group was acquired by White Mountains Insurance Group, Ltd., domiciled in Bermuda, and subsequently renamed, the "OneBeacon Insurance Group". The Company's name was subsequently changed from "CGU Insurance Company of New Jersey" to "The Camden Fire Insurance Association".

The authorized capital stock of the Company as of December 31, 2011, was 500,000 shares with a par value of \$8.40 per share for a total capital value of \$4,200,000. As of December 31, 2011, the Company is 100% owned by OneBeacon Insurance Group, LLC, a Delaware company.

The Company is presently authorized to transact in the State of New Jersey, the kinds of insurance specified in paragraphs "a", "b", "e", "f", "g", "i", "j", "k", "l", "m", and "o-1"; "o-2" and "o-3", of N.J.S.A. 17:17-1 and health insurance as specified in N.J.S.A. 178:17-4 et seq.

As of December 31, 2011, the Company's statutory home office in the State of New Jersey is located at 44 Whippany Road, Suite 109, Morristown, New Jersey 07960. The registered agent upon whom process may be served was Dennis Robert Smith.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company is licensed to transact the business of insurance in all states and the District of Columbia, with the exception of the following: Alaska, Arkansas, Hawaii, Massachusetts, Vermont, and Wyoming.

All personnel, materials, facilities, and services necessary for the Company to

transact the business of insurance in the State of New Jersey are provided by OneBeacon Insurance Company under the terms of a reinsurance agreement that became effective July 1, 2004.

As of today, the Company is currently not writing new business.

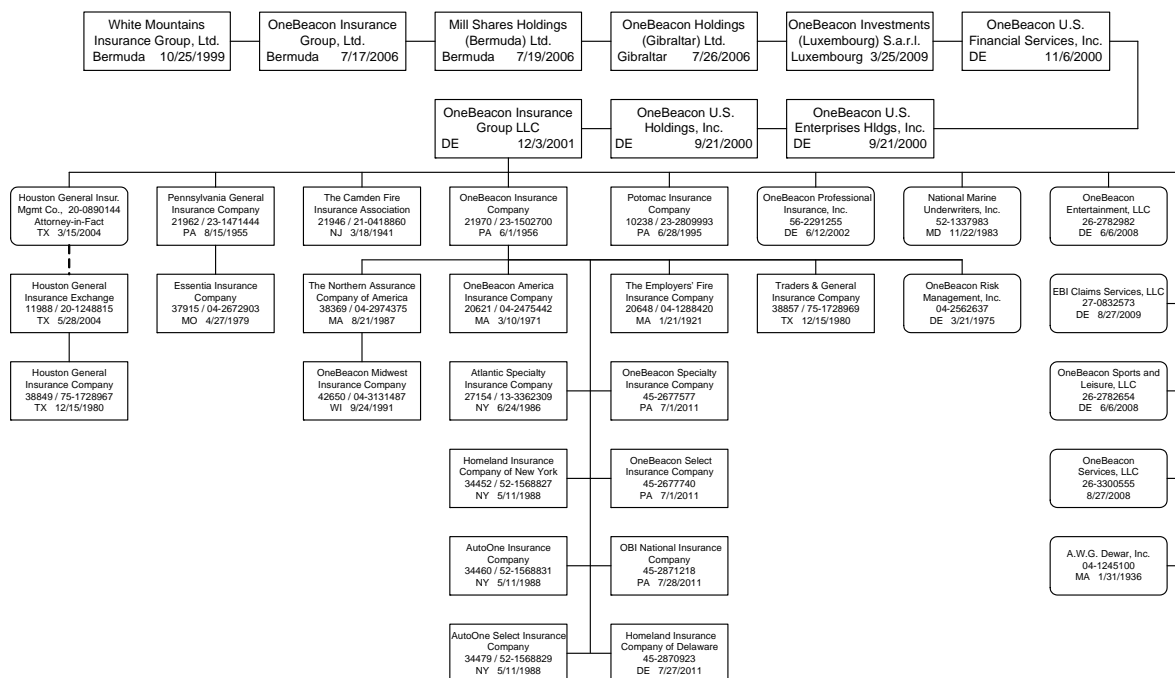
REINSURANCE

On July 1, 2004, Camden Fire entered into a reinsurance agreement with OneBeacon Insurance Company (OBIC). The parties intend this agreement shall apply to all insurance risks of every nature whatsoever underwritten or assumed by the Company and outstanding as of the effective date and to all such risks thereafter underwritten or assumed by the Company during the continuance of this agreement. Under this agreement, the Company hereby cedes and transfers to OBIC, and OBIC hereby reinsures and assumes from the Company, all net liabilities incurred under or in connection with all contracts and policies of insurance issued by the Company on or prior to the effective date. Under this agreement, the Company hereby agrees to cede and transfer to OBIC, and OBIC hereby agrees to reinsure and assume from the Company, automatically from inception, all net liabilities of the Company incurred under or in connection with all contracts and policies of insurance issued by it after the effective date.

PARENT, SUBSIDIARIES AND AFFILIATES

Camden Fire is a member of an insurance holding company system as defined by N.J.S.A. 17:27A-1. As such, Camden Fire does file a registration statement with the New Jersey Department of Banking and Insurance as required by N.J.S.A. 17:27A-3.

At December 31, 2011, Camden Fire was a wholly-owned subsidiary of OneBeacon Insurance Group, LLC (OBLLC), an insurance holding company domiciled in the State of Delaware. The following organizational chart shows that the ultimate controlling person is White Mountains Insurance Group, Ltd., an insurance holding company domiciled in Bermuda:



INTERCOMPANY AGREEMENTS

Examination review determined that Camden Fire was a party to the following agreements at the examination date: an investment management agreement with White Mountains Advisors, LLC; a federal income tax allocation agreement with named members of the White Mountains Insurance Group, Ltd.

Investment Management Agreement

Effective October 1, 2010, the Company entered into an investment management services agreement with White Mountains Advisors, LLC. Pursuant to the agreement, White Mountains Advisors, LLC, agrees to supervise and direct the investments of the Company investment account in accordance with the investment objectives, policies, and restrictions described in the investment guidelines furnished by the Company.

Tax Allocation Agreement

The Company and its affiliates are parties to a federal tax allocation agreement. The agreement covers the allocation, settlement and financial statement presentation of current federal taxes.

MANAGEMENT

The Board of Directors shall consist of not less than seven, nor more than twenty directors as determined by the Board. At December 31, 2011, the following ten directors, constituting a full board, were elected and serving:

Name	Occupation
Timothy Michael Miller	Deputy Chairman, President and CEO OneBeacon Insurance Group, Ltd.
Brian David Poole	Senior Vice President and Chief Actuary One Beacon Insurance Company
Paul Harrington McDonough	Senior Vice President and CFO OneBeacon Insurance Group, Ltd.
Alexander Constantine Archimedes	Senior Vice President OneBeacon Insurance Company
Thomas Norman Schmitt	Senior Vice President and Chief HR Officer OneBeacon Insurance Company
Jane Ellen Friedman	Secretary and Associate General Counsel OneBeacon Insurance Group, Ltd.
Josette Durling Kiel	Senior Vice President and Chief Underwriting Officer OneBeacon Insurance Company
Bradford Whitman Rich	Senior Vice President and General Counsel OneBeacon Insurance Group, Ltd.
Joan Kathleen Geddes	Assistant Secretary OneBeacon Insurance Company
Dana Perkins Hendershott	Senior Vice President OneBeacon Insurance Company

A review of the minutes of the stockholders and directors indicates that they adequately approve and support the Company's business transactions and events. This review also indicated that the prior examination report was distributed to and reviewed by the entire Board of Directors.

The principal officers of the Company elected and serving as of December 31, 2011 were:

T. Michael Miller	Chairman of the Board
Bradford W. Rich	President, Chief Executive Officer and General Counsel
Virginia A. McCarthy	Secretary
Todd C. Mills	Vice President and Treasurer
Brian D. Poole	Senior Vice President and Chief Actuary
Ann M. Andrews	Controller and Chief Accounting Officer
Sean W. Duffy	Senior Vice President and Chief Claims Officer
Josette D. Kiel	Senior Vice President and Chief Underwriting Officer
Paul H. McDonough	Senior Vice President and Chief Financial Officer
Alexander C. Archimedes	Senior Vice President
Dana P. Hendershott	Senior Vice President
Scott W. McClintock	Senior Vice President and Chief Information Officer
Thomas N. Schmitt	Senior Vice President and Chief Human Resources Officer

Camden Fire does not have any Board committees.

Camden Fire was determined to be in compliance with N.J. S.A. 17:27A-4d(5) which reads, "The provisions of paragraphs (3) and (4) of this subsection d, shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors and committees thereof that substantially meet the requirements of those paragraphs." It was determined that the Company's ultimate controlling person, White Mountains Insurance Group, Ltd., satisfies the requirements of this statute.

POLICY ON CONFLICT OF INTEREST

The OneBeacon Insurance Group, Ltd. maintains a corporate wide conflict of interest policy to which all officers, directors and staff members of OneBeacon and its subsidiaries, including the Company, are subject.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

As a member of the OneBeacon Insurance Group, Camden Fire is a named party on a Standard Form No. 25 "Financial Institution Bond" issued to its parent, OneBeacon Insurance Group, LLC.

The amount of fidelity coverage provided by this bond was determined to meet the suggested minimum amount recommended by the National Association of Insurance Commissioners at December 31, 2011.

EMPLOYEE WELFARE AND PENSION PLANS

The Company has no employees. The Company does not participate in retirement plans, or offer a deferred compensation plan, post-employment benefits or post-retirement benefits.

However, through the Reinsurance Agreement discussed in this report under the heading "Reinsurance", it is serviced as of December 31, 2011 by the employees of OneBeacon Services, LLC, who participate in the pension plans of said company.

ACCOUNTS AND RECORDS

The Company's internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent certified public accountants, PricewaterhouseCoopers LLP, including work papers generated to support the requirements of the Sarbanes-Oxley Act. As part of its engagement for the Pennsylvania Insurance Department, RRC performed a review and evaluation of the control environment of OneBeacon Group's IT systems. The NAIC's Information Systems Questionnaire (ISQ) completed by the Company was reviewed and interviews with Company management and IT staff were conducted to gather supplemental information and corroborate the Company's responses to the ISQ. Included was a review of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computers, Local Area Network (LAN), Wide Area Network (WAN) and Internet Controls. 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, nor were any such matters reported in the CPA firm's filings with the Division.

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.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A- Balance Sheet as of December 31, 2011

Exhibit B- Statement of Income for the Five Year Examination Period Ended
December 31, 2011

Exhibit C- Capital and Surplus Account for the Five Year Examination Period Ended
December 31, 2011

THE CAMDEN FIRE INSURANCE ASSOCIATION**BALANCE SHEET****AS AT DECEMBER 31, 2011**

	<u>Company</u>	<u>Examination</u>	<u>Note</u>
<u>Assets</u>			
Bonds	\$ 13,416,583	\$ 13,416,583	
Cash and Short Term Investments	2,870,480	2,870,480	
Investment Income Due and Accrued	36,113	36,113	
Net Deferred Tax Asset	20,162	20,162	
Guaranty Funds Recoverable or on Deposit	<u>20,920</u>	<u>20,920</u>	
Total Assets	16,364,258	16,364,258	
<u>Liabilities, Surplus and Other Funds</u>			
Losses & Loss Adjustment Expenses	\$ 0	\$ 0	1
Other Expenses	92,865	92,865	
Taxes, Licenses and Fees	32	32	
Federal Income Taxes	423,174	423,174	
Payable to Parent, Subsidiaries and Affiliates	4,691	4,691	
Total Liabilities	<u>\$ 520,762</u>	<u>\$ 520,762</u>	
Common Capital Stock	\$ 4,200,000	\$ 4,200,000	2
Gross Paid In and Contributed Surplus	11,215,950	11,215,950	
Unassigned Funds (Surplus)	<u>427,546</u>	<u>427,546</u>	
Surplus as Regards Policyholders	<u>\$ 15,843,496</u>	<u>\$ 15,843,496</u>	
Total Liabilities, Surplus and Other Funds	<u>\$ 16,364,258</u>	<u>\$ 16,364,258</u>	

STATEMENT OF INCOME

FIVE YEAR PERIOD ENDED DECEMBER 31, 2011

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>UNDERWRITING INCOME</u>					
Premiums Earned	\$ -	\$ -	\$ -	\$ -	\$ -
Deductions:					
Losses Incurred	\$ -	\$ -	\$ -	\$ -	\$ -
Loss Expenses Incurred	-	-	-	-	-
Other Underwriting Expenses Incurred	-	22,000	22,000	22,000	22,000
Aggregate Write-ins for Underwriting Deductions	-	-	-	-	-
Total Underwriting Deductions	\$ -	\$ 22,000	\$ 22,000	\$ 22,000	\$ 22,000
Net Income from Protected Cells	-	-	-	-	-
Net Underwriting Gain or (-) Loss	\$ -	\$ (22,000)	\$ (22,000)	\$ (22,000)	\$ (22,000)
<u>INVESTMENT INCOME</u>					
Net Investment Income Earned	\$ 2,648,981	\$ 1,875,822	\$ 1,109,125	\$ 554,662	\$ 242,664
Net Realized Capital Gains and (-) Losses	<u>(2,353,220)</u>	<u>(3,179,877)</u>	<u>(217,774)</u>	<u>(7,355,092)</u>	<u>646,729</u>
Net Investment Gain or (-) Loss	\$ 295,761	\$ (1,304,055)	\$ 891,351	\$ (6,800,430)	\$ 889,393
<u>OTHER INCOME</u>					
Net Income Miscellaneous Income/Expense	\$ -	\$ -	\$ -	\$ 199,075	\$ 93,340
Total Other Income	\$ -	\$ -	\$ -	\$ (199,075)	\$ 93,340
Dividends to Policyholders	-	-	-	-	-
Net Income After Dividends to Policyholders, After Capital					
Gains Tax and Before Federal Income Taxes	\$ 295,761	\$ (1,326,055)	\$ 869,351	\$ (7,021,505)	\$ 960,733
Federal and Foreign Income Taxes Incurred	<u>950,297</u>	<u>238,769</u>	<u>507,664</u>	<u>(247,402)</u>	<u>137,174</u>
Net Income	\$ (654,536)	\$ (1,564,824)	\$ 361,687	\$ (6,774,103)	\$ 823,559

THE CAMDEN FIRE INSURANCE ASSOCIATION

Exhibit C

CAPITAL AND SURPLUS ACCOUNT

FIVE YEAR PERIOD ENDED DECEMBER 31, 2011

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Surplus As Regards Policyholders, December 31, Prior Year	\$ 73,654,557	\$ 73,251,324	\$ 64,382,516	\$ 65,633,215	\$ 17,402,470
Net Income	\$ (654,536)	\$ (1,564,824)	\$ 361,687	\$ (6,774,103)	\$ 823,559
Change in Net Unrealized Capital Gains or (Losses)	(219,628)	117,367	(121,688)	38,005	(168,660)
Change in Net Deferred Income Tax	(226,859)	3,932,937	1,518,320	(4,465,619)	(199,082)
Change in Non-Admitted Assets	7,997,790	(4,354,288)	(507,620)	12,970,972	(2,014,791)
Dividends to Stockholders	(7,300,000)	(7,000,000)	-	(50,000,000)	-
Change in Surplus As Regards Policyholders for the Year	\$ (403,233)	\$ (8,868,808)	\$ 1,250,699	\$ (48,230,745)	\$ (1,558,974)
Surplus As Regards Policyholders, December 31, Current Year	\$ 73,251,324	\$ 64,382,516	\$ 65,633,215	\$ 17,402,470	\$ 15,843,496

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Losses & Loss Adjustment Expenses

The Company under the terms of its quota share reinsurance agreement with OneBeacon cedes 100% of its business. As a result, the net loss and loss adjustment reserves are zero.

The Pennsylvania Insurance Department retained Risk and Regulatory Consultants (RRG) to perform an actuarial review of the Group's reserves. The RRG analysis indicated the Group's reserves were adequate.

The Actuarial Unit of the New Jersey Department of Banking and Insurance, Office of Solvency Regulation, reviewed the analysis of the Group's loss and loss adjustment expenses on a net and gross basis and concurred with the actuarial findings of Merlinos and Associates, Inc.

Note 2 - Capital and Surplus

Camden Fire reported surplus as regards policyholders in the amount of \$15,843,496 at December 31, 2011 as summarized below:

Common Capital Stock	\$ 4,200,000
Gross Paid In and Contributed Surplus	11,215,950
Unassigned Funds (Surplus)	426,546
TOTAL	\$ 15,843,496

The Company's common capital stock consisted of 500,000 shares issued and outstanding each with a \$8.40 par value. The shares of the Company are owned by its controlling entity, OneBeacon Insurance Group, LLC.

The Company was determined to be in compliance with the statutory minimum capital and surplus requirements specified by N.J.S.A. 17:17-1 at December 31, 2011.

SUBSEQUENT EVENTS

Effective October 1, 2012 OneBeacon Insurance Group, LLC contributed the stock of the Company to the OneBeacon Insurance Company. Approval was sought and granted to merge the Company into the OneBeacon Insurance Company. The merger is expected to be effective July 1, 2013.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES-STATEMENT BY MANAGING ACTUARY

The Camden Fire Insurance Association

I, Boris Privman, FCAS, MAAA, Managing Actuary for the New Jersey Department of Banking and Insurance, Office of Solvency Regulation, Actuarial Unit, have performed an actuarial review of the reported December 31, 2011 gross and net loss and loss adjustment expense reserves for The Camden Fire Insurance Association. Based upon this review the Company's booked gross and net loss reserves should be accepted without adjustments.

Actuarial findings as stated above and in this examination report are the sole responsibility of the New Jersey Department of Banking and Insurance's Actuarial Unit, Office of Solvency Regulation.

/S/

Boris Privman, FCAS, MAAA

CONCLUSION

This examination was conducted with the courteous cooperation of the officers and employees of the OneBeacon Insurance Group (Camden Fire Insurance Association).

Respectfully Submitted,

/S/

Robert Redden, CFE

THE CAMDEN FIRE INSURANCE ASSOCIATION

I, Robert Redden, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2011 to the best of my information, knowledge, and belief.

Respectfully submitted,

/s/

Robert Redden
CFE Reviewer
Department of Banking & Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Sheila M. Tkacs on
This 10th day of June, 2013

/S/

Notary Public of New Jersey
My commission expires: July, 2015