

REPORT ON EXAMINATION
OF THE
RESPONSE INDEMNITY COMPANY
AS OF
DECEMBER 31, 2000

DATE OF REPORT

OCTOBER 5, 2001

EXAMINER

GLENDAM. GALLARDO

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

October 5, 2001

Honorable Gregory Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21715 dated April 4, 2001 attached hereto, I have made an examination into the condition and affairs of Response Indemnity Company as of December 31, 2000, and submit the following report thereon.

The examination was conducted at the Company 's administrative offices located at 4 Gannett Drive, White Plains, New York, 10604.

Wherever the designations "the Company" or "RNY" appear herein without qualification, they should be understood to indicate the Response Indemnity Company. In addition, wherever the designations the "parent company" or "DRC" appear herein without qualification, they should be understood to indicate Direct Response Corporation.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

1. SCOPE OF EXAMINATION

This is the first statutory examination of the Company following the examination on organization conducted as of January 14, 1997. This examination covers the four-year period from January 15, 1997 through December 31, 2000. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2000. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the report on organization.

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

2. DESCRIPTION OF COMPANY

Response Indemnity Company was originally incorporated on October 17, 1995, as Adirondack Insurance Company by the Plymouth Rock Company of Boston Massachusetts. On November 22, 1996, ownership of Adirondack Insurance Company was transferred to Direct Response Corporation (“DRC”). It was organized and granted a certificate of authority pursuant to the New York Insurance Law on May 9, 1997. The Company began operations as a direct writer of private and passenger automobile insurance on October 15, 1997. On September 17, 1997, Adirondack Insurance Company changed its name to Response Indemnity Company, the present title.

At the end of 1997, the year in which the Company was organized, the Company reported capital and gross paid in surplus of \$1,000,000 and \$5,500,000 respectively. Paid in capital consists of 10,000 shares with a par value of \$100 per share. During 1999 and 2000 the parent company made cash contributions to the Company’s paid-in surplus in the amount of \$3,136,328 and \$1,000,000 respectively. Consequently, as of December 31, 2000, the Company’s capital and gross paid in surplus amounted to \$1,000,000 and \$9,636,328 respectively.

The Company is licensed only in the state of New York.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. As of the examination date, the board of directors was comprised of 14 members. The board meets at a minimum four times during each calendar year as required by the Company's by-laws.

The directors as of December 31, 2000 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
August P. Alegi Stamford, CT	Vice President, General Counsel & Secretary, Response Indemnity Company Direct Response Corporation
Hal Belodoff Short Hills, NJ	President, Plymouth Rock Assurance
Steven W. Carlsen Chappaqua, NY	President, Response Indemnity Company
Kathleen A. Gleeson Mamaroneck, NY	Vice President, Response Indemnity Company Direct Response Corporation
Paula W. Gold Boston, MA	Vice President and General Counsel, Plymouth Rock Assurance
Colleen Granahan Newton, MA	Counsel to the Chairman, Plymouth Rock Assurance
Mory Katz Katonah, NY	Chairman, Response Indemnity Company President & Chief Executive Officer, Direct Response Corporation
George Kowalsky Yardley, PA	Vice President & Treasurer, Response Indemnity Company Direct Response Corporation
Eileen A. Lehman Somers, NY	Director of Underwriting, Response Indemnity Company Direct Response Corporation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Sean P. Payne Wingdale, NY	Director of Strategic Planning, Response Indemnity Company Direct Response Corporation
Michael F. Quido North Branford, CT	Vice President, Response Indemnity Company Direct Response Corporation
Denis E. Robich Lincolnshire, IL	Vice President, Response Indemnity Company Direct Response Corporation
Thomas E. Rocchio Huntington, NY	Vice President-Claims, Response Indemnity Company Direct Response Corporation
Clifford Wess Flanders, NJ	Vice President & Chief Actuary, Response Indemnity Company Direct Response Corporation

The minutes of all the meetings of the board of directors and committees thereof held during the examination period were reviewed. The review of the minutes disclosed that the meetings were well attended with the exception of Paula Gold and Colleen Granahan, each of whom attended less than 50% of the meetings for which they were eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

The review of the minutes of the board of directors' meetings indicated that the Company's investment transactions were authorized and approved by its board of directors only on one occasion

throughout the period under examination. Section 1411(a) of the New York Insurance Law states the following:

“No domestic insurer shall make any loan or investment...., unless authorized or approved by its board of directors or committee thereof responsible for supervising or making such investment or loan. The committee’s minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law, which requires that investments be approved and authorized by the Company’s board of directors or any committee thereof.

Further, the Company responded affirmatively to Annual Statement General Interrogatory #25 for calendar year 2000, which inquires if the purchase of investments is passed upon by the Company’s board of directors or any sub-committee thereof. This response does not appear to be accurate since no evidence was presented to the examiner that its directors approved the purchase or sale of investments. It is recommended that the Company exercise care when answering general interrogatories of its filed and sworn to annual statements.

As of December 31, 2000, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Steven W. Carlsen	President
August P. Alegi	Vice President, General Counsel & Secretary
George Kowalski	Vice President & Treasurer
Cliff Wess	Vice President & Chief Actuary
Mory Katz	Chairman
Kathleen A. Gleeson	Vice President
Francis M. Quido	Vice President
Denis Robich	Vice President
Thomas E. Rocchio	Vice President

The Company does not have any employees. The business operations and affairs of the Company are conducted by the parent company pursuant to a service agreement in effect since January 1, 1999. It should be noted that the Company shares common management with all its insurance affiliates, including Response Insurance Company, a Delaware domiciled insurer, whose premium writings consist primarily of auto risks located in New York. All insurance operations and services provided by Direct Response Corporation to its insurance subsidiaries, including the Company, are conducted at its Suisun City, California, call center, as well as its principal offices located in White Plains, New York.

In addition, the Company utilizes the services of several third party administrators to handle its claims functions.

B. Territory and Plan of Operation

As of December 31, 2000, the Company was licensed to write business only in New York State. The following chart illustrates total direct premiums written in New York for each year under examination:

<u>Calendar Year</u>	<u>Total Premiums Written</u>
1997	\$ 505,800
1998	\$2,478,199
1999	\$5,830,751
2000	\$4,954,840

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3(i)	Accident & health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Inland marine only
26	Gap insurance

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, Response Indemnity Company is required to maintain a minimum surplus to policyholders in the amount of \$3,700,000.

The Company began operations as a direct writer of private passenger automobile insurance. At present, the Company continues writing only private passenger liability and physical damage insurance. Business is solicited and marketed through direct mail, radio and affinity groups, such as professional or trade associations and also the internet.

C. Reinsurance

The Company does not assume reinsurance.

The Schedule F data as contained in the Company's Annual Statements filed for the years within the examination period were found to accurately reflect the reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts effected during the examination period. The review indicated that the contracts contained an insolvency clause. However, such insolvency clause does not meet the standard wording required by Section 1308 of the New York Insurance Law.

The reinsurance credit taken by the Company as of the examination date was not material enough to merit any change to the financial statements in this report. However, it is recommended that the Company amend its reinsurance agreements to revise the insolvency clause so that it comply with the wording required by Section 1308 of the New York Insurance Law.

The reinsurance program in effect as of the examination date is outlined as follows:

<u>Treaty</u>	<u>Cession</u>
First Private Passenger Excess of Loss Reinsurance Agreement 100% Authorized	100% of \$750,000 of the Company's ultimate net loss each occurrence in excess of \$250,000 not to exceed \$750,000, in any one occurrence.
Second Private Passenger Excess of Loss Reinsurance Agreement 100% Authorized	100% of \$1,000,000 of the Company's ultimate net loss each occurrence in excess of \$1,000,000 not to exceed \$1,000,000, in any
90% Quota Share Reinsurance Agreement of Personal Umbrella Business 100% Authorized	Coverage is provided for policies written by the Company which limits do not to exceed \$2,000,000, each occurrence.

Examination review of the Company's reinsurance program disclosed that both RNY and Response Insurance Company are participants on these contracts. The review also disclosed that the reinsurance premiums associated with the second layer of the excess of loss contracts was equally divided between the Company and its affiliate. This allocation does not appear to be fair and equitable given the fact that Response Insurance Company writes approximately three times more business than RNY.

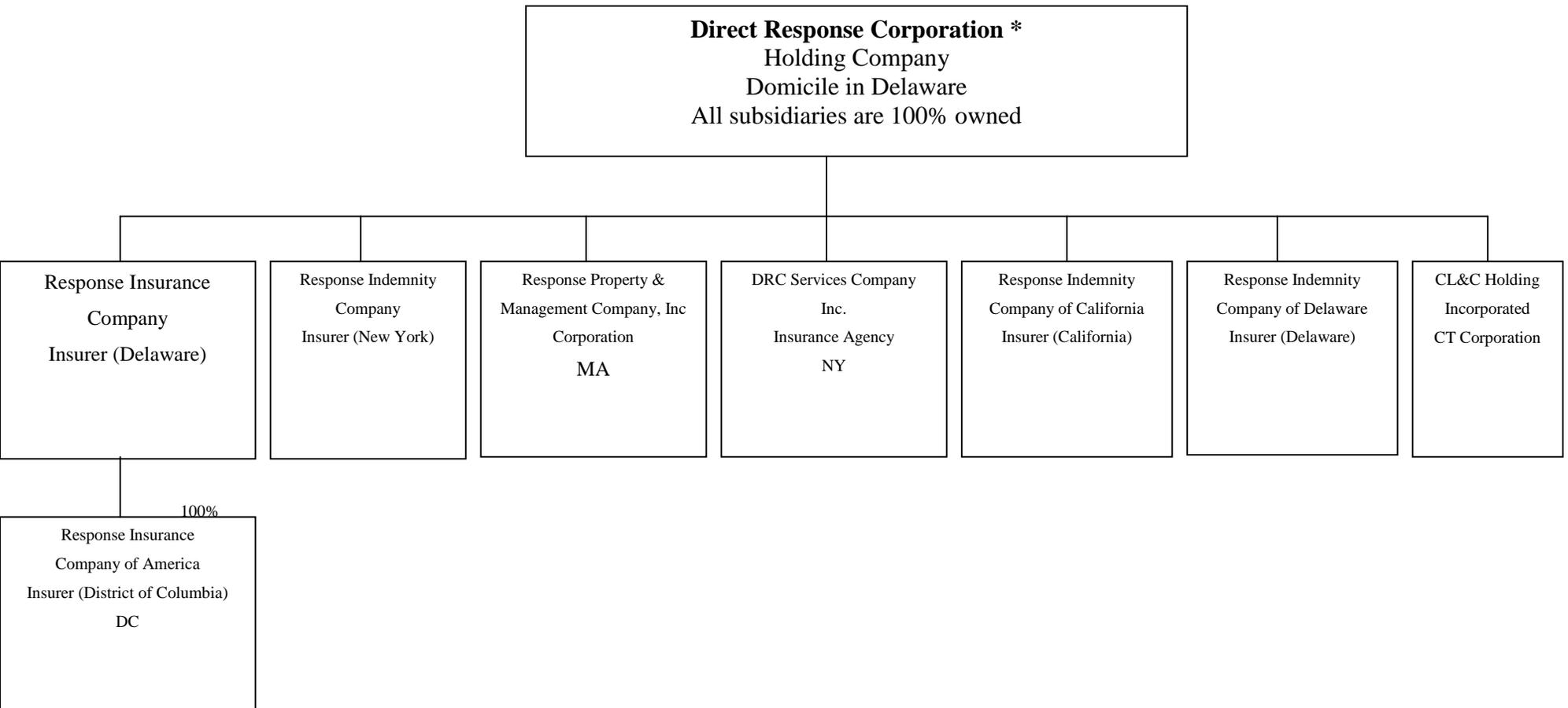
It is recommended that an agreement indicating how ceded reinsurance premiums shall be allocated be established. This agreement should meet the standards of Section 1505(a) and be submitted to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.

D. Holding Company System

The Company is a wholly-owned subsidiary of Direct Response Corporation.

As a member of a holding company system, the Company files registration statements pursuant to the requirements of Article 15 of the New York Insurance Law and Department Regulation 52. All pertinent files were reviewed and no problem areas were encountered.

The following is a chart of the holding company system:



* The following persons or entities own 10% or more of the total outstanding common and preferred stock (the "Stock") of DRC: (i) Morgan Stanley Capital Partners III, L.P. (39.7%), a Delaware limited partnership; and (ii) DR Investors, L.P. (38.5%), a Delaware limited partnership. The general partner of: (i) Morgan Stanley Capital Partners III, L.P., is MSCP III, LLC; and (ii) DR Investors, L.P., is Morgan Stanley Capital Partners III, Inc.

The Company is party to several agreements with members of its holding company group as follows:

Tax Allocation Agreement

The Company is party to a tax allocation agreement with Direct Response Corporation, effective December 31, 2000. The agreement was submitted to the Department on December 6, 2000 for review and non-disapproval as required by Section 1505(d)(2) of the New York Insurance Law.

Service Agreement with Direct Response Corporation

Effective January 1, 1999, the Company entered into a service agreement with Direct Response Corporation. The agreement was established to provide RNY with all the necessary administrative, production, marketing, underwriting, investment, and accounting functions with respect to Response Indemnity Company's business operations.

The agreement was submitted to the Department for review and non-disapproval as required by Section 1505(d)(3) of the New York Insurance Law.

Unallocated Loss Adjustment Expense Payments

The review of the accounting activity related to the Company's unallocated expense account disclosed that payments associated with such account are made to outside vendors/third-party administrators ("TPA"), and to the parent company, Direct Response Corporation. Both the TPA and Direct Response Corporation provide claim services not only to the Company but also to the Company's affiliates.

During the review of the transactions, it was noted that one of the TPA submits its billing statement without identifying and allocating the expense to the individual company. The Company indicated that expense cost is divided among the affiliates using certain percentages based on a cost analysis conducted by DRC's accounting and claims department. The Company did not keep any records of this analysis. The Company was therefore not in compliance with Department Regulation 30, Part 106.6, which requires insurers to keep records on the method and bases followed in allocating joint expenses.

It is recommended that the Company comply with Department Regulation 30, Part 106.6. Further, sharing expenses among affiliated companies qualify as transactions subject to Section 1505 of the New York Insurance Law, and as such they should be submitted to the Department prior to implementation.

In addition, Direct Response Corporation allocates the operating cost of its claims department to all its insurance subsidiaries using an allocation percentage equal to the earned premium of each individual insurance company divided by total earned premium of all companies. The percentage is then applied to the total cost of DRC's claim cost centers.

This allocation method is contrary to Part 109.3(d) of Department Regulation 30, which prescribes that premiums shall not be used as a basis of allocation. Additionally, payment of unallocated loss adjustment expenses to the parent company constitutes a transaction subject to the provisions of Section 1505 of the New York Insurance Law. It also should be noted that the service agreement in place with the parent company does not include claim processing as one of the services to be provided to the Company nor does it specify the allocation method described herein.

Based on the foregoing, it is recommended that the service agreement with DRC be amended to include claim functions as part of the services provided to the Company. If claim services are also provided to the Company's affiliates, such amendment should include provisions that set forth the basis upon which the allocation percentages of each company is calculated. This amendment should meet the standards of Section 1505(a) of the New York Insurance Law, comply with Department Regulation 30, and be submitted to the Department pursuant to Section 1505(d)(2) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2000, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.94:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	73%
Premiums in course of collection to surplus as regards policyholders	33%

The above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$15,590,494	140.73%
Other underwriting expenses incurred	2,469,087	22.29
Net underwriting loss	<u>(6,981,772)</u>	<u>(63.02)</u>
Premiums earned	<u>\$11,077,809</u>	<u>100.00%</u>

F. Abandoned Property Law

During the examination period the Company filed with the State Comptroller abandoned property reports as required by Section 1316 of the New York Abandoned Property Law.

G. Accounts and records

(i) Investments

As of December 31, 2000, the Company reported in its annual statement, Schedule DA Part 1, an investment in excess of 10% of its admitted assets. Section 1409 (a) of the New York State Insurance Law states in part the following:

“ no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposits, partnership interests and any other equity interests) of any one institution.”

This issue was brought up to the Company's attention, at which point management corrected the violation by transferring the excess investment into government securities. Thus, on September 30, 2001, the Company redeemed the shares that were invested in the mutual fund and invested the proceeds in short-term US Treasury Bills in the amount of \$12,002,725, bringing down the balance of the mutual fund investment to \$677,591.

It is recommended that the Company monitor its investment portfolio to ensure compliance with Section 1409(a) of the New York Insurance Law.

(ii) Underwriting and Investment Exhibit Part -4 Expenses

During the review of the Company's loss adjustment expenses and fees paid to its parent company for services provided by the parent company under the agreement described in Section D of this report, it was noted that service fee was reported in the Miscellaneous line of the Underwriting & Investment

Exhibit Part-4 Expenses, as a one-line item. Annual statement instructions for the Underwriting & Investment Exhibit Part 4-Expenses, states that a company that pays an affiliated entity for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification items such as salaries, rent, postage, etc., as if the costs had been borne directly by the company. Management, administration or service fees should not be reported as a one-line item expense. Also, this reporting method is contrary to Department Regulation 30, Part 105.23, which states in part:

“(a) *Joint expenses.* (1)Whenever personnel or facilities are used in common by two or more companies, or whenever the personnel or facilities of one company are used in the activities of two or more companies, the expenses involved shall be apportioned in accordance with Part 106 relating to Joint Expenses, and such apportioned expenses shall be allocated by each company to the same operating expense classifications as if the expenses had been borne wholly.”..

This review also disclosed that the amount reported as unallocated loss adjustment expenses was not allocated to the appropriate expense classification items as prescribed by annual statement instructions for the Underwriting & Investment Exhibit Part 4-Expenses.

It is recommended that the Company comply with Department Regulation 30 and annual statement instructions when completing its Underwriting and Investment Exhibit Part-4 Expenses and allocate its service fee and unallocated loss adjustment expense to the appropriate expense account item.

(iii) Schedule P; Reporting of Loss Adjustment Expense Reserves

The Company does not establish allocated loss adjustment expenses on a case basis. Reserves reported as allocated loss adjustment expenses represent incurred but not reported (“IBNR”) estimates calculated by the Company’s chief actuary. The review of the Company’s Schedule P for the year 2000

disclosed that this reserve was erroneously reported as unpaid case loss adjustment reserve rather than as IBNR.

It is recommended that for future filings the Company properly categorize its allocated loss adjustment expense reserves.

(iv) Disaster Recovery Plan

The Company is in the process of formalizing a disaster recovery plan that outlines procedures to prepare the Company for continuing critical business operations in the event of a disastrous occurrence affecting the daily operations of its corporate offices.

Currently the plan is in a draft format. Therefore, it is recommended that the Company ensure that the plan be approved, finalized and implemented. Once this plan is established, the Company should perform periodic testing to ensure that formulated procedures will operate as intended.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2000 and as reported by the Company:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Assets Not Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$3,104,950	\$	\$	\$3,104,950
Cash and short-term investments	10,007,843			10,007,843
Premiums and agents' balances in course of collection (after deducting ceded reinsurance balances payable of \$35,446)	1,770,578		43,904	1,726,674
Interest, dividends and real estate income due and accrued		97,498		97,498
Aggregate write-ins for other than invested assets	<u>40,685</u>	_____	<u>33,140</u>	<u>7,545</u>
Total assets	<u>\$14,924,056</u>	<u>\$97,498</u>	<u>\$77,044</u>	<u>\$14,944,510</u>

<u>Liabilities</u>	<u>Exam</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses & loss adjustment expenses	\$6,419,584	\$5,739,584	\$(680,000)
Other expenses	20,326	20,326	
Taxes, licenses & fees	1,329	1,329	
Unearned premiums (after deducting ceded unearned premium of \$37,594)	2,691,781	2,691,781	
Payable to parent, subsidiaries and affiliates	500,887	500,887	
Aggregate write-ins for liabilities	<u>13,898</u>	<u>13,898</u>	
 Total liabilities	 <u>\$9,647,805</u>	 <u>\$8,967,805</u>	 <u>\$(680,000)</u>
 Common capital stock	 \$1,000,000	 \$1,000,000	
Gross paid in and contributed surplus	9,636,328	9,636,328	
Unassigned surplus	<u>(5,339,623)</u>	<u>(4,659,623)</u>	<u>(680,000)</u>
 Surplus as regards policyholders	 <u>\$5,296,705</u>	 <u>\$5,976,705</u>	 <u>\$(680,000)</u>
 Total liabilities and surplus	 <u>\$14,944,510</u>	 <u>\$14,944,510</u>	

Note: The Internal Revenue Service has never conducted an audit of the Company's consolidated federal income tax returns. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$1,249,978 during the four-year examination period January 14, 1997 through December 31, 2000, detailed as follows:

Underwriting Income

Premiums earned:		\$11,077,809
Deductions:		
Losses and loss adjustment expenses incurred	\$15,590,494	
Other underwriting expenses incurred	<u>2,469,087</u>	
Total underwriting deductions		<u>18,059,581</u>
Net underwriting loss		\$(6,981,772)

Investment Income

Net investment income earned	<u>\$1,762,071</u>	
Net investment gain		1,762,071

Other Income

Net loss from agents' balances charged off	\$(168,115)	
Finance & Service charges	<u>315,798</u>	
Total other income		<u>147,683</u>
Net loss before dividends to policyholders and federal and foreign income taxes		\$(5,072,018)
Dividends to policyholders		<u>0</u>
Net loss after dividends to policyholders but before federal and foreign income taxes		\$(5,072,018)
Federal and foreign income taxes incurred		<u>205,703</u>
Net loss		<u>\$(5,277,721)</u>

Capital and Surplus Account

Surplus as regards policyholders per report on organization as of January 15, 1997		\$6,546,683
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>
Net loss	\$	\$5,277,721
Change in non-admitted assets		77,044
Miscellaneous adjustment		31,541
Paid in surplus additions	<u>4,136,328</u>	
Total gains and losses	<u>\$4,136,328</u>	<u>\$5,386,306</u>
Net decrease in surplus as regards policyholders		<u>\$(1,249,978)</u>
Surplus as regards policyholders per report on Examination as of December 31, 2000		<u>\$5,296,705</u>

4. LOSSES & LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned accounts of \$6,419,584 is \$680,000 more than the \$5,739,584 reported by the Company as of December 31, 2000. The examination reserves were the result of an analysis conducted by the Department's actuary performed in accordance with generally accepted actuarial principles and practices and were based on statistical information contained in the Companies internal records and in its filed annual statements.

6. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review

was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

1. Sales and advertising
2. Underwriting

No problem areas were encountered.

In addition to this review, the Company was recently subject to a market conduct investigation conducted by the Market Conduct Unit of the Department's Property Bureau. The results of the investigation have not been finalized yet.

7. COMPLIANCE WITH PRIOR REPORT ON ORGANIZATION

The prior report on organization contained one recommendation as follows (page number refers to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
<p>It is recommended that the Company amend its custodial agreement to include the provisions recommended by the New York State Insurance Department.</p> <p>The Company complied with this recommendation.</p>	6

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A <u>Management</u>	
i. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
ii. It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law, which requires that investments be approved and authorized by the Company's board of directors or any committee thereof.	6
iii. It is recommended that the Company exercise care when answering general interrogatories of its filed and sworn to annual statements.	6
B <u>Reinsurance</u>	
i. It is recommended that the Company amend its reinsurance agreements to revise the insolvency clause so that it complies with the requirements of Section 1308 of the New York Insurance Law.	9
ii. It is recommended that an agreement indicating how ceded reinsurance premiums shall be allocated be established. This agreement should meet the standards of Section 1505(a) of the New York Insurance Law and be submitted to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.	10
C <u>Holding Company System</u>	
<u>Unallocated Loss Adjustment Expense Payments</u>	
(a) It is recommended that the Company comply with Department Regulation 30, Part 106.6 and Section 1505 of the New York Insurance Law.	13
(b) It is recommended that the service agreement with DRC be amended to include claim functions as part of the services provided to the Company. If claim services are also provided to the Company's affiliates, such amendment should include provisions that formally	14

set forth the basis upon which the allocation percentages of each company is calculated. Amendments to inter-company agreements should meet the standards of Section 1505(a), comply with Department Regulation 30, and be submitted to the Department pursuant to Section 1505(d)(2) of the New York Insurance Law.

D Accounts and Records

i. Investments

It is recommended that the Company monitor its investment portfolio for compliance with Section 1409(a) of the New York Insurance Law. 15

ii. Underwriting and Investment Exhibit Part 4-Expenses

It is recommended that the Company comply with Department Regulation 30 and annual statement instructions when completing its Underwriting and Investment Exhibit Part-4 Expenses and allocate its service fee and unallocated loss adjustment expense to the appropriate expense account item. 16

iii. Schedule P: Reporting of Loss Adjustment Expense Reserves

It is recommended that for future filings the Company properly categorize its allocated loss adjustment expense reserves. 17

iv. Disaster Recovery Plan

It is recommended that the Company ensure that its Disaster Recovery Plan be finalized and implemented. Once this plan is established, the Company should perform periodic testing to ensure that formulated procedures will operate as intended. 17

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, First Deputy Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Glenda Gallardo

as proper person to examine into the affairs of the

RESPONSE INDEMNITY COMPANY

and to make a report to me in writing of the condition of the said

Company

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 4th day of April, 2001





GREGORY V. SERIO
First Deputy Superintendent of Insurance

