

REPORT ON EXAMINATION

OF

TRI-STATE CONSUMER INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

FEBRUARY 23, 2015

EXAMINER

VERONICA DUNCAN BLACK

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## Department of Financial Services

ANDREW M. CUOMO  
Governor

LINDA A. LACEWELL  
Acting Superintendent

May 7, 2019

Honorable Linda A. Laceywell  
Acting Superintendent  
New York State Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31130 dated March 24, 2014, attached hereto, I have made an examination into the condition and affairs of Tri-State Consumer Insurance Company as of December 31, 2013, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Tri-State Consumer Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s previous home office located at 575 Jericho Turnpike, Jericho, New York 11753.

## **1. SCOPE OF EXAMINATION**

The Department has performed a single-state examination of the Company. The previous examination was conducted as of December 31, 2008. This examination covered the five-year period from January 1, 2009 through December 31, 2013. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify current and 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. This 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 New York law statutory accounting principles, and annual statement instructions.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants where deemed appropriate.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Holding Company description
- Reinsurance
- Accounts and records
- Financial statement presentation
- Loss review and analysis
- Summary of recommendations

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

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

## **2. DESCRIPTION OF COMPANY**

The Company was incorporated under the laws of the State of New York on November 30, 1982. It became licensed on October 28, 1985 and commenced business on March 9, 1986. The Company is a wholly-owned subsidiary of Tri-State Consumer, Inc., a New York Corporation, which is 97% owned by WT Holdings, Inc., a Tennessee Corporation, and 3% owned by Penny Fern Hart. WT Holdings, Inc. is owned proportionately by WBL Partners, LLC, a Tennessee Limited Liability Corporation, other limited liability corporations, trust companies, and individuals.

Effective November 16, 2007, Tri-State Consumer, Inc.'s previous owners, Penny Fern Hart and Dean Hart, entered into a stock purchase agreement with WBL Partners, LLC, Mr. Charles K. Slatery, and Mr. James D. Lackie for the acquisition of Tri-State Consumer Inc. and its subsidiaries. The Department approved the acquisition of control on April 16, 2008. Effective April 30, 2008, WBL Partners, LLC through its subsidiary, WT Holdings Inc., acquired all of the shares of Tri-State Consumer, Inc.

### A. Corporate Governance

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 seven nor more than forty members. The board meets four times during each calendar year. At December 31, 2013, the board of directors was comprised of the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Bruce Cohen Woodbury, New York	Director, Citigroup
Shepard Doniger Delray Beach, Florida	Director, CPA
Emmel Golden Memphis, Tennessee	Director, NCF Investments, LLC

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Penny Fern Hart New York, New York	Director, Tri-State Consumer Insurance Company
Patrick Kerney Riverside, Connecticut	Director, National Football League
James Lackie Memphis, Tennessee	Director, WT Holdings, Inc.
Milo Pinckney Stone Mountain, Georgia	Director, Graduate Medical Consultants
David Schwartz Great Neck, New York	Director, First Capital Equities
Charles K. Slatery Memphis, Tennessee	Chairman of the Board and Director, NCF Investments
David Sterling Muttontown, New York	Director, Sterling & Sterling
William Van Thompson III Memphis, Tennessee	Director, NCF Investments, LLC

A review of the minutes of the board of directors' meetings held during the examination period indicate that the meetings were generally well attended and that each board member had an acceptable record of attendance.

#### Amendments to By-Laws and Charter

The board of directors adopted a resolution at the March 17, 2009 board meeting to amend Article II - Section 2 and Section 5, and Article III - Section 6 of the Company's by-laws. The amendment to Article II – Section 2 changed the date and time of the annual shareholders' meeting from the “second Monday of each January” to the “third Tuesday of each March;” the amendment to Article II – Section 5 changed the record date from “the 15<sup>th</sup> day of December” to “15<sup>th</sup> day of February;” and finally the amendment to Article III – Section 6 changed the time of the regular scheduled board of directors meeting from “September, December and March” to “June, September and December.” The Company did not amend its by-laws and charter to agree to the resolutions promulgated by the board of directors. It is

recommended that the Company amend its by-laws and charter as to agree to the resolutions adopted by the board of directors at the March 17, 2009 meeting.

### Audit Committee

New York State Regulation 118 (Part 89) promulgates certain requirements for an audit committee. In particular, Part 89.2 (c) states the following,

“Every company required to file an annual audited financial report pursuant to this Part shall designate a group of individuals to constitute its audit committee.”

Further, Part 89.12 (e) states the following,

“The company shall give written notice to the superintendent of the selection of its audit committee within 30 days of the effective date of this Part and within 30 days of any change in membership of the audit committee. The notice shall include a description of the reason for the change.”

A review of the Company’s records shows that the board of directors established an audit committee as required by Regulation 118 (Part 89.2 (c)) in 2010. The Company, however, has not complied with Regulation 118 (Part 89.12 (e)), as the Company did not provide notice to the Superintendent of the selection of its audit committee members or any changes thereof. It is recommended that the Company provide proper notice to the Superintendent of the selection of its audit committee members.

As of December 31, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Penny Fern Hart	President and Treasurer
Parikshit Majumder	Secretary
Deborah Collazo	Vice President

### B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business only in the State of New York.

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>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

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, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,500,000.

The following schedule shows the direct premiums written by the Company in New York for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2009	\$37,081,774
2010	\$37,911,550
2011	\$37,478,913
2012	\$36,799,422
2013	\$35,563,439

The Company's predominant lines of business are homeowners' multiple peril insurance and private passenger automobile insurance. The Company also participates in the FAIR Plan and in the New York Auto Insurance Plan underwriting pools. For the period under examination, the Company's business was produced directly through its affiliate, TSC>Direct, Inc., marketed through captive agents of Allstate and solicited through a limited number of independent brokers and agents. The Company's premium writings are produced in the five boroughs of New York City, Nassau and Suffolk Counties.

The Company did not assume any premiums during the examination period.



C. Reinsurance Ceded

As of December 31, 2013, the Company has structured its ceded reinsurance program to limit its maximum exposure on any one risk as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<p><u>Property Catastrophe Excess of Loss Reinsurance</u></p> <p>Three Layers 36.08% Authorized 63.92% Unauthorized</p>	<p>Limit of \$52,500,000 excess \$2,000,000 ultimate net loss as respect to each loss occurrence for business classified automobile physical damage (comprehensive only) inland marine and Section I of the homeowner multiple peril business.</p>
<p><u>Multi-Line Excess of Loss Reinsurance</u></p> <p><u>Separate coverages:</u> Property, Casualty, Clash, and CAT coverages</p> <p>100% Authorized</p>	<p><u>First Excess of Loss</u></p> <p><u>Coverage A:</u></p> <p>Limit of \$1,400,000 excess \$500,000 ultimate net loss each loss, each risk, subject to a further limit of \$1,400,000 for each occurrence for all business classified as property.</p> <p><u>Coverage B:</u></p> <p>Limit of \$1,500,000 excess \$300,000 ultimate net loss each loss occurrence for all business classified as casualty.</p> <p><u>Coverage C – Clash Coverage:</u></p> <p>Limit of \$500,000 excess \$500,000 ultimate net loss each loss occurrence for all business classified as property subject to Coverage A and business classified as casualty subject to Coverage B. (Recoveries under Coverage under coverages A, B and D shall inure to the benefit of coverage C).</p> <p><u>Coverage D – CAT coverage:</u></p> <p>Limit of \$500,000 excess \$500,000 ultimate net loss each loss occurrence, subject to a maximum liability of \$1,000,000 as respect all occurrences during any one contract year.</p>
<p><u>Personal Umbrella Quota Share Reinsurance</u></p> <p>100% Authorized</p>	<p>95% quota share participation of \$1,000,000 as respect of each policy, and each occurrence.</p>

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. For the period ended December 31, 2013, the Company obtained the appropriate letters of credit for cessions to unauthorized reinsurers. It was determined that the letters of credits were in compliance with Department Regulation 133.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

It was determined that the Company's reinsurance agreements "offset clause" did not contain the appropriate and/or specific language as required by Section 7427 of the New York Insurance Law. The offset clause contained in the contracts read as follows:

"The Company and the reinsured shall have the right to offset any balances or amounts due from party to the other under the terms of this Agreement. The party asserting the right may exercise such right any time whether the balances due are on account of premiums or losses or otherwise."

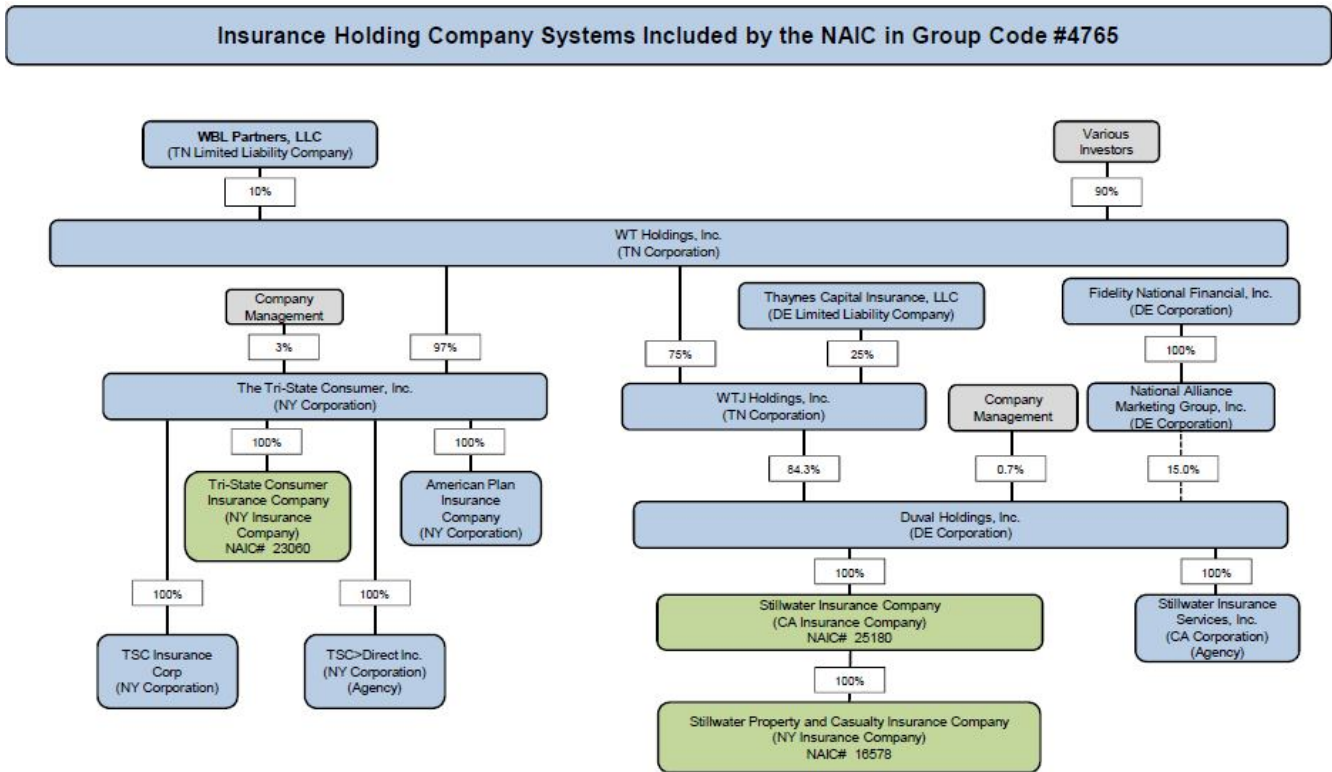
It is the Department's position that when an offset clause is included in a reinsurance contract the clause should include the language of Section 7427 of the New York Insurance Law. It is recommended that the Company amend its reinsurance agreements to include the language which states that in the event of the insolvency by either party to the agreement then the offset shall be allowed to the extent permitted by the provisions of Section 7427 of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

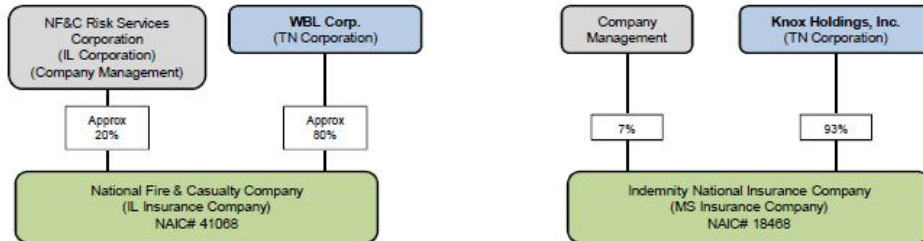
D. Holding Company System

The Company is a member of the WT Holdings Inc. Group. The Company is 100% owned by Tri-State Consumer, Inc., which is owned by WT Holdings, Inc., a Memphis, Tennessee corporation, and Ms. Penny Fern Hart. On August 31, 2010, Ms. Penny Hart acquired six shares of the 200 authorized/outstanding shares of Tri-State Consumer, Inc. This transaction reduced WT Holdings Inc., ownership of Tri-State Consumer Inc., from 100% to 97%, giving Ms. Hart a 3% ownership. Further, WT Holdings Inc.'s is owned by WBL Partners, LLC, the controlling shareholder, which is ultimately controlled by Charles K. Slatery and James D. Lackie.

The following is an abridged chart of the holding company system at December 31, 2013:



**Insurance Holding Company Systems Included by the NAIC in Group Code #4765**



At December 31, 2013, the Company was party to the following agreements with other members of its holding company system:

Investment Advisory Agreement

Effective April 30, 2008, the Company entered into an advisory service agreement with NFC Investments, LLC (“Advisor”), whereby the Advisor agreed to provide certain advisory and/or consulting services to the Company. Pursuant to the terms of the agreement, the Advisor shall have the power to supervise and direct the investment and reinvestment of the Company’s securities portfolio (including all additions, substitutions, and alterations thereto) subject to the New York Insurance Law and written investment guidelines adopted by the Company’s board of directors. This agreement was approved by the Department on April 18, 2008 pursuant to Section 1505 of the New York Insurance Law.

Agency Agreement - (Cost Sharing Agreement)

Effective April 3, 2009, the Company entered into an agency agreement with TSC>Direct, Inc., (“Agent”). Pursuant to the terms of the agreement, TSC>Direct, Inc., has been appointed the agent of the insurer. The Company has granted the Agent authority to receive, solicit, sell and accept proposals and/or requests for insurance covering personal automobile and homeowner's insurance in return for a commission. The binding authority of all policies resides solely with the Company.

Moreover, the Agency Agreement comprises a Cost Sharing Agreement. Pursuant to the terms of the Cost Sharing Agreement, the Company and the Agent have agreed upon certain cost sharing expenses. For example, the agreement requires the Company and the Agent to occupy the same premise, share the

use of the telephone system, postage equipment, general office expenses, supplies and personnel. Furthermore, the agreement requires the cost allocation method selected to be consistent with the provisions of Regulation 30 of the New York Department (11 NYCRR 105 through 109). The Agency Agreement was approved by the Department on February 18, 2009 pursuant to Section 1505(d)(2) of the New York Insurance Law.

#### Tax Sharing Agreement

Effective April 29, 2008, the Company, Tri-State Consumer, Inc., WBL, WT Holding Inc., WBL Partners, and TSC Acquisition Corporation entered into a Tax Sharing Agreement. Pursuant to the terms of the agreement, the parties agreed to file a consolidated tax return for each taxable year which the Company or subsidiary qualified to be included in such tax return in accordance with the requirements of Department Letter Circular No. 33 (1979). This agreement was approved by the Department on April 18, 2008 pursuant to Section 1505 of the New York Insurance Law.

During the review of the Company's consolidated tax return, it was determined that the Company's affiliate, TSC>Direct, Inc., was included in the consolidated tax return, but was not included in the Tax Sharing Agreement. Moreover, the Tax Sharing Agreement also included TSC Acquisition Corporation as a participant to the agreement, although the company has since been dissolved.

It is recommended that the Company amend its Tax Sharing Agreement to include TSC>Direct, Inc. as a participant pursuant to Section 1505(d)(3) of the New York Insurance Law and delete TSC Acquisition Corporation from the said agreement. The Company has accepted this recommendation and will submit an amended Tax Sharing Agreement to this Department for approval.

#### E. Significant Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to surplus as regards policyholders	65%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	66%
Premiums in course of collection to surplus as regards policyholders	0%

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

### Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 96,399,803	61.76%
Other underwriting expenses incurred	51,564,134	33.04
Net underwriting gain	<u>8,120,363</u>	<u>5.20</u>
Premiums earned	<u>\$156,084,300</u>	<u>100.00%</u>

## F. Accounts and Records

### (i) Annual Statement Schedule BA Investments

The examiner notes that the Company did not complete Schedule BA Parts 1 and 2 of the annual statement correctly, as the ownership percentage was not indicated for 19 of the 21 investments held. The 2013 NAIC Annual Statement Instructions states that the percentage of ownership of investments in joint ventures, partnership, and limited liability companies as provided in Schedule BA should be determined in the following manner:

“Includes: The shares that the company’s current investment represents of the total outstanding amount of this investment. Applies only to such investments as hedge funds and limited partnerships.”

“Exclude: Commitment for additional investment.”

It is recommended going forward that the Company take the necessary steps to prepare Schedule BA in accordance with the NAIC annual statement instructions.

(ii) Regulation 95 (Part 86.6)

Regulation 95 (Part 86.6 (d)) states, in part, the following:

“Every insurer required to file a fraud prevention plan shall file an annual report with the Department’s Criminal Investigations Unit no later than January 15 of each year...describing the insurer’s experience, performances and cost effectiveness in implementing the plan and its proposals for modification to the plan to amend its operations, to improve performance or to remedy observed deficiencies.”

The examiner notes that the Company filed its annual Regulation 95 filing with the Department’s Criminal Investigation’s Unit for all years under examination except for calendar year 2013. The Company has acknowledged that the 2013 annual Regulation 95 filing was not completed and will take the necessary steps to ensure that all annual filings will be done in the future. It is recommended that the Company continue its efforts to ensure the compliance and the completion of its annual Regulation 95 filings.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as reported by the Company:

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 49,533,819	\$ 0	\$ 49,533,819
Preferred stocks	10,919,354	0	10,919,354
Common stocks	25,912,410	0	25,912,410
Properties occupied by the company	2,702,435	0	2,702,435
Cash, cash equivalents and short-term investments	4,245,821	0	4,245,821
Other invested assets	13,995,168	0	13,995,168
Investment income due and accrued	709,278	0	709,278
Uncollected premiums and agents' balances in the course of collection	240,121	49,386	190,735
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,820,228	0	4,820,228
Amounts recoverable from reinsurers	112,015	0	112,015
Net deferred tax asset	430,950	0	430,950
Electronic data processing equipment and software	143,726	74,630	69,096
Furniture and equipment, including health care delivery assets	22,946	22,946	0
Receivables from parent, subsidiaries and affiliates	37,241	0	37,241
Aggregate write-ins for other than invested assets	<u>57,695</u>	<u>12,777</u>	<u>44,918</u>
Total assets	<u>\$113,883,207</u>	<u>\$159,739</u>	<u>\$113,723,468</u>



Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 44,817,204
Commissions payable, contingent commissions and other similar charges	197,394
Other expenses (excluding taxes, licenses and fees)	1,042,821
Taxes, licenses and fees (excluding federal and foreign income taxes)	166,420
Current federal and foreign income taxes	1,182,000
Unearned premiums	17,575,169
Advance premium	665,083
Ceded reinsurance premiums payable (net of ceding commissions)	(706,636)
Funds held by company under reinsurance treaties	73,753
Aggregate write-ins for liabilities	<u>30,875</u>
Total liabilities	\$ 65,044,083

Surplus and Other Funds

Common capital stock	\$ 1,001,000
Gross paid in and contributed surplus	1,347,003
Unassigned funds (surplus)	<u>46,331,381</u>
Surplus as regards policyholders	<u>48,679,384</u>
Total liabilities, surplus and other funds	\$ <u>113,723,468</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns for tax years 2008 and 2009. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. 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. Statement of Income

The net income for the examination period as reported by the Company was \$27,417,400 as detailed below:

Underwriting Income

Premiums earned		\$156,084,300
Deductions:		
Losses and loss adjustment expenses incurred	\$96,399,803	
Other underwriting expenses incurred	51,564,134	
Total underwriting deductions		<u>147,963,937</u>
Net underwriting gain or (loss)		\$ 8,120,363

Investment Income

Net investment income earned	\$24,487,016	
Net realized capital gain	<u>2,688,322</u>	
Net investment gain or (loss)		\$ <u>27,175,338</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (423,561)	
Finance and service charges not included in premiums	1,583,518	
Aggregate write-ins for miscellaneous income	<u>283,409</u>	
Total other income		\$ <u>1,443,366</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ <u>36,739,067</u>
Federal and foreign income taxes incurred		<u>9,321,669</u>
Net income		\$ <u>27,417,400</u>

C. Capital and Surplus Accounts

Surplus as regards policyholders as reported by the Company as of December 31, 2008				\$33,190,247
		<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$27,417,400			
Net unrealized capital gains or (losses)	7,871,460			
Change in net unrealized foreign exchange capital gain (loss)			55,804	
Change in net deferred income tax			1,702,701	
Change in non-admitted assets	652,086			
Cumulative effect of changes in accounting principles	580,591			
Dividends to stockholders			18,790,000	
Aggregate write-ins for gains and losses in surplus	<u>0</u>		<u>483,895</u>	
Net increase (decrease) in surplus	\$36,521,537	\$21,032,400		<u>15,489,137</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2013				<u>\$48,679,384</u>

The Company's paid up capital of \$1,001,000 consists of 700,000 shares of common stock at a par value of \$1.43 per share. All authorized shares are outstanding. Gross paid in and contributed surplus was \$1,347,003 and did not change during the examination period.

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$44,817,204 is the same as reported by the Company as of December 31, 2013. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 ("SSAP No. 55").

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained six recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Disaster Recovery Plan</u>	
It is recommended that the Company's business continuity/disaster recovery plan contain a list of critical computer application programs, operating systems and data files. It is further recommended that the plan contain a list of supplies, which would be needed in the event of a disaster together with names and telephone numbers of suppliers.	11
B. <u>Information Technology</u>	
i. It was recommended that the Company find an alternative storage facility to protect its files in the event of a disaster.	12
ii. It is recommended that the Company establish a password policy, which would prompt users to change their passwords at least quarterly to prevent the passwords from being reused by the same individuals or misused by unauthorized users. It is further recommended that the passwords be transmitted in an encrypted state across the network during authentication and authorization process.	12
iii. It was recommended that the Company follow-through with the implementation of its new programming procedures to ensure premium rate updates.	13
C. <u>Risk Management and Internal Controls</u>	13
i. It was recommended that the Company comply with its new premium write-off policy pursuant to SSAP No. 5 of the Accounting Practices and Procedures Manual.	
ii. It was recommended that the Company act on the examiner's recommendation to amend its claims manual to include homeowners' specific references so that it can have the proper and the necessary procedures in place to process its homeowners' claims.	13

The Company has complied with all six of the above recommendations.

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Corporate Governance</u>	
i.	It is recommended that the Company amend its by-laws and charter as to agree to the resolutions adopted by the board of directors at the March 17, 2009 meeting.	4
ii.	It is recommended that the Company provide proper notice to the superintendent of the selection of its audit committee members.	5
B.	<u>Reinsurance</u>	
	It is recommended that the Company amend its reinsurance agreements to include the language which states that in the event of the insolvency by either party to the agreement then the offset shall be allowed to the extent permitted by the provisions of Section 7427 of the New York Insurance Law.	8
C.	<u>Holding Company System</u>	
	It is recommended that the Company amend its tax sharing agreement to include TSC>Direct, Inc., as a participant pursuant to Section 1505(d)(3) of the New York Insurance Law and delete TSC Acquisition Corporation as a participant to the agreement.	11
D.	<u>Accounts and Records</u>	
i.	It is recommended that going forward that the Company take the necessary steps to prepare Schedule BA in accordance with the NAIC annual statement instructions.	12
ii.	It is recommended that the Company continue its efforts to ensure the compliance and the completion of its Regulation 95 filings.	12

Respectfully submitted,

\_\_\_\_\_  
/S/  
Veronica Duncan Black  
Senior Insurance Examiner

STATE OF NEW YORK    )  
                                  )ss:  
COUNTY OF NEW YORK )

Veronica Duncan Black, being duly sworn, deposes and says that the foregoing report, subscribed by her,  
is true to the best of her knowledge and belief.

\_\_\_\_\_  
/S/  
Veronica Duncan Black

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2019.

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

**Veronica DuncanBlack**

as a proper person to examine the affairs of the

**Tri-State Consumer Insurance Company**

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

**COMPANY**

with such other information as he shall deem requisite.

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

this 24th day of March, 2014

**BENJAMIN M. LAWSKY**  
Superintendent of Financial Services

By:



Rolf Kaumann  
Deputy Chief Examiner

