REPORT ON EXAMINATION

OF THE

RESPONSE INDEMNITY COMPANY

AS OF

DECEMBER 31, 2008

DATE OF REPORT	SEPTEMBER 14, 2009
EXAMINER	SHEIK H. MOHAMED

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

September 14, 2009

Honorable James J. Wrynn
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 30337 dated May 19, 2009, attached hereto, I have made an examination into the condition and affairs of Response Indemnity Company as of December 31, 2008, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Response Indemnity Company.

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

The examination was conducted at the Company’s administrative office located at 500 South Broad Street, Meriden, CT 06450.

1. SCOPE OF EXAMINATION

The Department has performed as a single-state examination of Response Insurance Company. The previous examination was conducted as of December 31, 2003. This examination covered the five-year period from January 1, 2004 through December 31, 2008. 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, which 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. 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company's own control environment. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

Significant subsequent events
Company history
Corporate records
Management and control
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Financial statements
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, which involve departures from laws, regulations or rules, or 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. It was organized and granted a certificate of authority pursuant to the New York Insurance Law on May 9, 1997. On September 17, 1997, Adirondack Insurance Company changed its name to Response Indemnity Company. The Company began operations as a direct writer of private passenger automobile on October 15, 1997.

On February 13, 2009, Trinity Universal Insurance Company acquired the Company's ultimate parent, Direct Response Corporation ("DRC") and its subsidiaries. Trinity Universal Insurance Company is a wholly-owned subsidiary of Unitrin, Inc. Accordingly, Unitrin, Inc. became the ultimate controlling person of DRC and its subsidiaries, including Response Indemnity Company. In connection with the acquisition, Trinity Universal Insurance Company has agreed to sell, liquidate or merge out of existence Response Indemnity Company by the second anniversary of the acquisition. Presently, the Company is in runoff.

At December 31, 2008, capital paid in was $1,000,500 consisting of 4,350 shares of $230 par value per share common stock. Pursuant to an amendment to the Company's charter effective March 3, 2008, capital paid in was increased from $1,000,000 to $1,000,500 by decreasing the number of issued and outstanding shares from 10,000 to 4,350 and increasing the par value per share from $100 to $230. At December 31, 2008, Gross paid in and contributed surplus was $4,933,803. Changes to Gross paid in and contributed surplus and Capital paid in during the examination period were as follows:

		Gross paid in and contributed surplus	Capital paid in
1/1/2004	Beginning balance	$12,136,328	$1,000,000
2008	Surplus distribution	(7,422,025)	
2008	Surplus contribution	220,000	
2008	Change in capital stock	(500)	500
12/31/2008	Ending balance	$ 4,933,803	$1,000,500

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. The board met four times during each calendar year. At December 31, 2008, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
John Ammendola Farmington, CT	President and Director, Response Indemnity Company
Susan Stonehill Claflin Cheshire, CT	Vice President, General Counsel and Secretary, Response Indemnity Company Direct Response Corporation
Danny Alan Collins Meriden, CT	Vice President and Director, Response Indemnity Company
Steven Hancock Parkland, FL	Vice President and Director, Response Indemnity Company
Colleen Mary Granahan Newton, MA	Director, Response Indemnity Company
Mory Katz Katonah, NY	Chairman, Chief Executive Officer and Director, Response Indemnity Company
George Kowalsky Portland, CT	Vice President and Treasurer, Director, Response Indemnity Company
Eileen Ann Lehman Hamden, CT	Director, Response Indemnity Company
Jayshree Maurantonio Dobbs Ferry, NY	Director, Response Indemnity Company

Name and Residence	Principal Business Affiliation
Sean Phillip Payne Meriden, CT	Director, Response Indemnity Company
Francis Michael Quido North Branford, CT	Vice President and Director, Response Indemnity Company
David Isaac Schonbrun White Plains, NY	Director, Response Indemnity Company
Clifford Wess Cheshire, CT	Vice President and Chief Actuary, Director, Response Indemnity Company

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

As of December 31, 2008, the principal officers of the Company were as follows:

Name	Title
John Ammendola	President
Susan Stonehill Claflin	Secretary
George Kowalsky	Treasurer
Danny Alan Collins	Vice President
Steven Hancock	Vice President & Chief Marketing Officer
Mory Katz	Chairman & Chief Executive Officer
Francis Michael Quido	Vice President
Clifford Wess	Vice President & Chief Actuary

B. Territory and Plan of Operation

As of December 31, 2008, the Company was licensed to write business in New York only.

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:

Paragraph	Line of Business
3(i)	Accident & health
4	Fire
5	Miscellaneous property
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	Marine and inland marine
26	Gap

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 $3,700,000.

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

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a Percentage of Total Premium
2004	$1,679,981	$1,679,981	100.00%
2005	$1,321,451	$1,321,451	100.00%
2006	$ (4,208)	$ 4,208)	100.00%
2007	$ (194)	$ (194)	100.00%
2008	$ 0	$ 0	0.00%

The Company is currently in runoff, as stated in Item Number 1 of this report.

C. Reinsurance

The Company does not assume any reinsurance business.

All 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.

The Company was a party to the following ceded reinsurance program in effect at December 31, 2008:

- The casualty excess of loss agreement provides coverage for private passenger auto losses of $650,000 in excess of $350,000, with the next layer providing coverage of $1 million in excess of $1 million and the third layer of coverage being $3 million in excess of $2 million.

- The auto physical damage agreement provides coverage of $3 million in excess of $2 million, with the next layer providing coverage of 85% of $5 million in excess of $5 million and the third layer providing coverage of 57.5% of $10 million in excess of $10 million.

The reinsurance programs described above were part of a contract in connection with reinsurance for the Company's holding Company. The Company has not written any premium since 2005 and had no active policies since 2006. Accordingly, no premiums were paid by the Company as there were no risks reinsured.

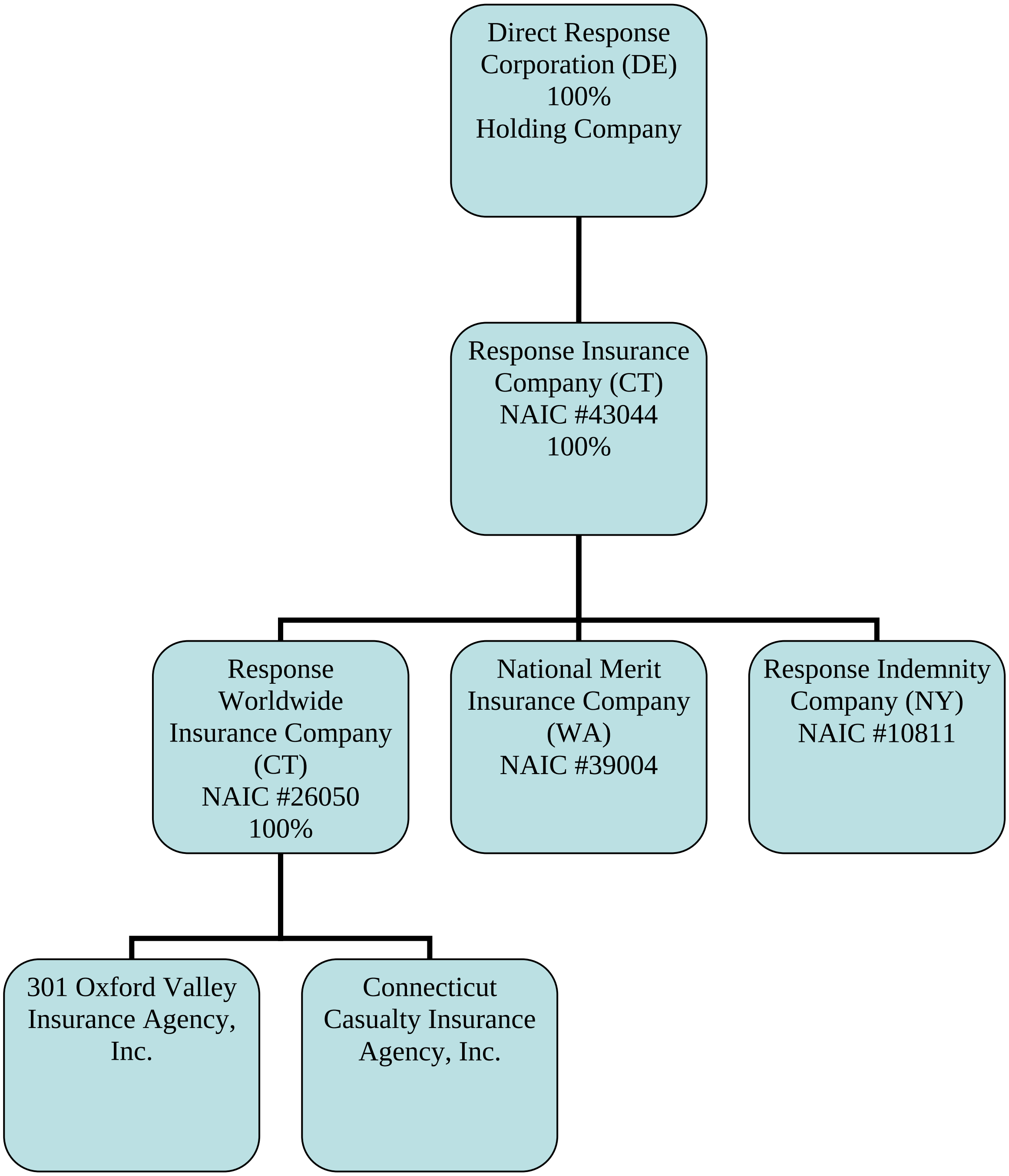
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions.

D. Holding Company System

The Company is a wholly-owned subsidiary of Response Insurance Company, a Connecticut domiciled insurer, which is ultimately controlled by Direct Response Corporation.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2008:


Direct Response Corporation (DE) 100% Holding Company
Response Insurance Company (CT) NAIC #43044 100%
Response Worldwide Insurance Company (CT) NAIC #26050 100%
National Merit Insurance Company (WA) NAIC #39004
Response Indemnity Company (NY) NAIC #10811
301 Oxford Valley Insurance Agency, Inc.
Connecticut Casualty Insurance Agency, Inc.

At December 31, 2008, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

The Company is party to a tax allocation agreement with Direct Response Corporation, effective March 7, 2001. Pursuant to the term of the agreement, the parties will file consolidated federal income tax returns. The agreement stipulates that the Company's tax liability, on a consolidated basis, would be no more than what it would have been if the Company filed a separate return. The agreement was submitted to the Department on March 2, 2001, for review and non-disapproval as required by Circular Letter No. 33 (1979).

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 the Company with all the necessary administrative, production, marketing, underwriting, investment, and accounting functions with respect to its business operations. The agreement and its amendments were submitted to the Department for review and non-disapproval as required by Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2008, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	6%
Premiums in course of collection to surplus as regards policyholders	0%

All of 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 five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$1,645,938	46.75%
Other underwriting expenses incurred	1,087,777	30.90
Net underwriting loss	786,786	22.35
Premiums earned	$3,520,501	100.00%

F. Accounts and Records

Contract with PricewaterhouseCoopers LLP

A review of the Company's 2008 contract with its certified public accountants ("CPA") revealed that the contract did not comply with the requirements in Section 89.2 of Department Regulation 118 and with Section 243.2 of Department Regulation 152. Section 89.2 of Department Regulation 118 states, in part, that:

> "….Such contract must specify that:
>
> (a) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b)(1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer's and any such subsidiary's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;
>
> (b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and
>
> (c) the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in sections 243.2(b)(7) and (c) of this Title."

It is recommended that the Company ensure that all future contracts with its independent certified public accountants comply with Department Regulation 118.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2008 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 778,353	$ 0	$ 778,353
Cash, cash equivalents and short-term investments	3,154,377	0	3,154,377
Investment income due and accrued	27,821	0	27,821
Current federal and foreign income tax recoverable and interest thereon	114	0	114
Net deferred tax asset	809,919	709,499	100,420
Total assets	$4,770,584	$709,499	$4,061,085

Liabilities, Surplus and Other Funds		
Losses		$128,486
Loss adjustment expenses		56,897
Other expenses (excluding taxes, licenses and fees)		5,000
Payable to parent, subsidiaries and affiliates		54,335
Unclaimed property		1,887
Total liabilities		$246,605
Surplus and other Funds		
Common capital stock	$1,000,500	
Gross paid in and contributed surplus	4,933,803	
Unassigned funds (surplus)	(2,119,823)	
Surplus as regards policyholders		3,814,481
Total liabilities, surplus and other funds		$4,061,086

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2004 through 2008. 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 $4,532,433 during the five-year examination period January 1, 2004 through December 31, 2008, detailed as follows:

Underwriting Income		
Premiums earned		$3,520,501
Deductions:		
Losses incurred	$ 921,844	
Loss adjustment expenses incurred	724,094	
Other underwriting expenses incurred	1,087,777	
Total underwriting deductions		2,733,715
Net underwriting gain or (loss)		$ 786,786
Investment Income		
Net investment income earned	$1,491,182	
Net realized capital gain	133,858	
Net investment gain or (loss)		1,625,040
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (81,574)	
Finance and service charges not included in premiums	47,215	
Aggregate write-ins for miscellaneous income	75,528	
Total other income		41,169
Net income before dividends to policyholders and before federal and foreign income taxes		$2,452,995
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$2,452,995
Federal and foreign income taxes incurred		(66,023)
Net income		$2,519,018

C. Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2003			$8,346,914
Net income	$2,519,018		
Net unrealized capital gains or (losses)	137,263		
Change in net deferred income tax		$1,534,780	
Change in nonadmitted assets	1,548,091		
Capital changes paid in	500		
Surplus adjustments paid in	0	7,202,525	
Total gains and losses	$4,204,872	$8,737,305	
Net increase (decrease) in surplus			$(4,532,433)
Surplus as regards policyholders per report on examination as of December 31, 2008			$3,814,481

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $185,383 is the same as reported by the Company as of December 31, 2008. The analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. SUBSEQUENT EVENTS

It is noted that the Company's filed quarterly statement as of March 31, 2009 indicated that its required to be maintained surplus of $3,700,000 was impaired in the amount of $245. Additionally, the Company's filed quarterly statement as of June 30, 2009 indicated that the impairment of its required to be maintained surplus had increased to $2,219.

It is recommended that the Company maintain its minimum required surplus to policyholders pursuant to the provisions of Section 4103(a)(1) of the New York Insurance Law.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Service Agreement with Direct Response Corporation	
	It was recommended that the Company adhere to its service agreement clauses as stated.	11
	The Company has complied with this recommendation.	
B.	Abandoned Property Law	
	It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.	11
	The Company has complied with this recommendation.	
C.	Custodian Agreement	
	It is recommended that the Company amend its custodian agreement to comply with NAIC guidelines.	12
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records	
	It is recommended that the Company ensure that all future contracts with its independent certified public accountants comply with Department Regulation 118.	10
B.	Minimum Required Surplus to Policyholders	
	It is recommended that the Company maintain its minimum required surplus to policyholders pursuant to the provisions of Section 4103(a)(1) of the New York Insurance Law.	13

Respectfully submitted,

_____________/s/____________
Sheik H. Mohamed, CFE, CPCU
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

SHEIK H. MOHAMED, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____________/s/____________
Sheik H. Mohamed

Subscribed and sworn to before me

this__________ day of ___________________, 2009.

Appointment No. 30337

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Sheik Mohamed

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 he 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 19th *day of* May, *2009*

ERIC R. DINALLO
Superintendent of Insurance