

REPORT ON EXAMINATION

OF THE

TRI-STATE CONSUMER INSURANCE COMPANY

AS OF

DECEMBER 31, 2002

DATE OF REPORT

DECEMBER 19, 2003

EXAMINER

VERONICA DUNCAN BLACK

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

December 19, 2003

Honorable Gregory V. 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 22048 dated April 29, 2003 attached hereto, I have made an examination into the condition and affairs of Tri-State Consumer Insurance Company as of December 31, 2002, and submit the following report thereon.

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

Wherever the designations "Company" or "Tri-State" appear herein without qualification, they 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 Insurance Department.

Wherever the designation "Parent" appears herein without qualification, it should be understood to indicate Tri-State Consumer, Inc.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1997. This examination covered the five year period from January 1, 1998 through December 31, 2002. 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, 2002. 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
- Loss experience
- 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 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

The Company was incorporated under the laws of the State of New York on November 30, 1982. It was licensed on October 28, 1985 and commenced business on March 9, 1986.

During 2000, pursuant to the terms of a trust agreement, 100% ownership of the Company's parent company, Tri-State Consumer Inc., was transferred equally to both Penny Fern Hart and Dean Evan Hart.

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. The total gross paid in capital and contributed surplus as of December 31, 2002, was \$1,347,003.

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 forty members. The exact number of the directors is to be determined in accordance with by the provisions of the Company's by-laws. The board of directors met four times during each of the years under examination. At December 31, 2002, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Lynda Cruise Plainview, NY	Vice President and Secretary, Tri-State Consumer Insurance Company
Shepard Doniger Roslyn Estates, NY	Advertising/Public Relation Professional
Barbara R. Elis Syosset, NY	Vice President and Controller, Tri-State Consumer Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ronald Fishman New York, NY	Lawyer, Wander & Golden
Dean E. Hart Jericho, NY	Optometrist, Woodbury Optical
Penny F. Hart New York, NY	President, Tri-State Consumers Insurance Company
Ronald W. Hart Tamarac, FL	Retired President, Tri-State Consumer Insurance Company
Donna Hourigan East Meadows, NY	Operations Manager, Tri-State Consumer Insurance Company
Murray Lemonik Valley Stream, NY	Attorney, Tri-State Consumer Insurance Company
Mindy Levenberg Jericho, NY	Lawyer
Milo Pinckney St. Albans, NY	Marketing Consultant
Jeffrey Raff New York, NY	Investments, Morgan Keegan
Richard Sumner Hicksville, NY	Branch Manager, Haylor Freyer

The minutes of all meetings of the board of directors held during the examination period were reviewed. A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended, with the exception of Ronald Hart and Shepard Doniger, each of whom attended 50% or less 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.

As of December 31, 2002, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Penny Fern Hart	President and Treasurer
Lynda Cruise	Secretary
Barbara Elis	Vice President and Controller
Dean Evan Hart	Vice President

B. Territory and Plan of Operation

As of December 31, 2002, 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 damage
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

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

<u>Calendar year</u>	<u>Direct Premiums Written</u>
1998	\$17,043,598
1999	\$17,052,916
2000	\$17,005,693
2001	\$18,159,450
2002	\$21,190,971

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 Company is a property and casualty insurer. The Company writes predominately preferred risk passenger auto coverage with the exception of a small book of homeowners and umbrella business. The Company's writings are concentrated in the five boroughs of New York City, and Nassau and Suffolk counties. The Company's policies are marketed exclusively through the Company's parent company, Tri-State Consumer, Inc., a licensed agent of the Company. In addition, the New York State assigned risk pool supplements a small percentage of the Company's business.

C. Reinsurance

Assumed

The Company assumes a relatively minor volume of business as compared to its direct writings. In 2002, the Company's assumed premiums represented approximately 0.7% of its total book of business for the year. As of December 31, 2002, the Company was party to only one assumed reinsurance agreement. This reinsurance agreement provided the Company's affiliate, Drivers Insurance Company ("Drivers"), with excess of loss coverage with a loss limit of \$850,000 excess of \$150,000.

Ceded

The Schedule F data as contained in the Company's filed annual statements was found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2002. The contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Company had the following ceded reinsurance program in effect at December 31, 2002:

<u>Type of treaty</u>	<u>Cession</u>
<u>Property / Casualty:</u>	
Excess of Loss Multiple Line 100% Authorized	All business classified as Property and Casualty. <u>Coverage A:</u> Limit of \$700,000 excess of \$300,000 ultimate net loss any one risk, each loss, subject to a limit of \$2,100,000 as respect all risks involved in any one occurrence for business classified as property. <u>Coverage B:</u> Limit of \$700,000 excess of \$300,000 ultimate net loss any one loss occurrence for business classified as casualty. <u>Coverage C:</u> Limit of \$300,000 excess \$300,000 ultimate net loss any one occurrence involving one or more classes of property business subject to coverage A and one or more of the classes of casualty business subject to coverage B <u>Coverage D:</u> Limit of \$700,000 excess \$300,000 ultimate net loss any one occurrence, subject to a limit of \$1,400,000 as respect all occurrences commencing during any contract year for business classified as property
Property and Casualty Quota share treaty 100% Authorized	95% of the company net liability under policies, contracts and binders of insurance classified by the Company as personal umbrella liability business.
Catastrophe Excess of Loss Reinsurance 100% Authorized	Automobile Physical Damage (comprehensive only) and Inland Marine and Section I of the Homeowner's Multiple Peril. Limit of \$2,000,000 excess of \$1,000,000 ultimate net loss any one occurrence, subject to a limit of \$4,000,000 during the term of the contract.

<u>Type of treaty</u>	<u>Cession</u>
<u>Property/Casualty:</u>	
Quota Share Treaty	Standard automobile business
Retrocession	100% quota share part (i.e. \$850,000) under the Standard Personal
100% Authorized	Automobile Excess of Loss Reinsurance contract issued to Drivers Insurance Company, effective January 1, 2002.

The Company's reinsurance program has changed since the last report on examination. While the Company's retention has remained the same, the Company's overall reinsurance limits have increased compared with the prior examination period. The change was in the multiple excess of loss agreement, catastrophe reinsurance coverage and retrocession quota share agreement which now provides coverage for property losses on an occurrence basis. This additional coverage provides the Company with some catastrophe protection within the working layers of the agreement. The Company has also purchased a catastrophe excess of loss reinsurance coverage for its automobile physical damage, inland marine and homeowner perils business.

In addition to the above changes in the Company's reinsurance program, the Company has also reinsured 100% of its assumed business via a retrocession reinsurance agreement. This arrangement was entered into in order for Drivers Insurance Company to obtain access to the Company's current reinsurers. The percentage of cessions to authorized reinsurers has remained the same compared with the prior examination period. The Company cedes only to authorized reinsurers.

The Company is not a party to any facultative reinsurance arrangements at this time.

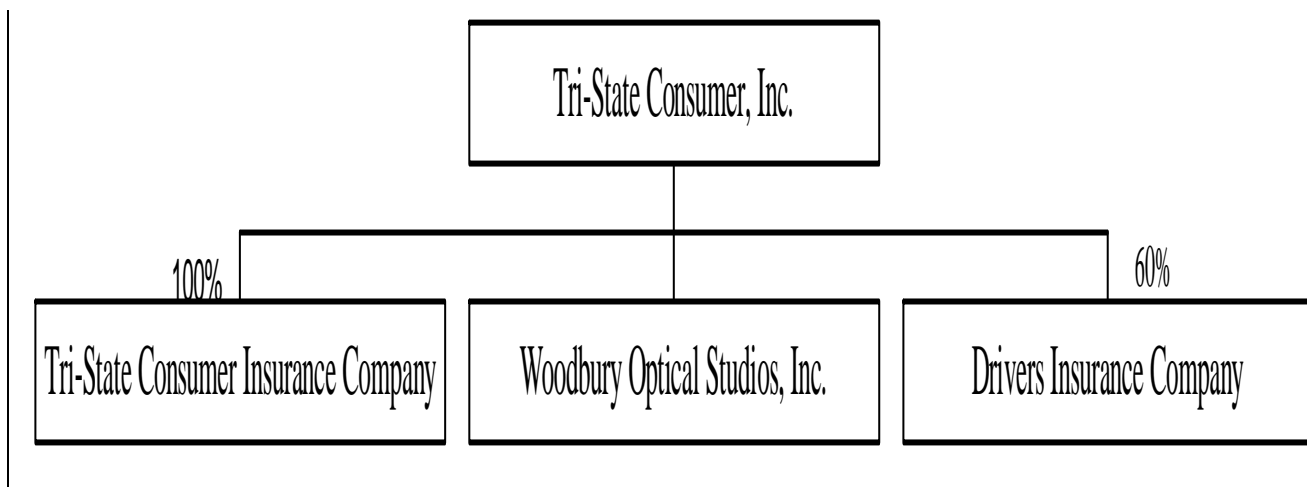
D. Holding Company System

The Company is wholly-owned subsidiary of Tri-State Consumer Inc., a New York corporation, which is ultimately controlled by Penny Fern Hart and Dean Evan Hart. Pursuant to a trust agreement,

100 percent of Tri-State Consumer Inc., was transferred equally to Penny Fern Hart and Dean Evan Hart during the period under examination,.

The Company files registration statements pursuant to the requirements of Section 1503 of the New York Insurance Law and Department Regulations 52 and 52A.

The following is a chart of the holding company system at December 31, 2002:



At December 31, 2002, the Company was party to several inter-company agreements with other members of its holding company system.

Agency Agreement

The Company and its Parent entered into an agency agreement effective March 5, 1986. Under the terms of this agreement, the Company grants to its Parent the authority to sell policies of insurance and collect premiums. All of the business written by the Company, with the exception of assigned risk, is generated through its Parent. Effective March 24, 1999, the Company amended the agreement retroactive to July 1, 1998 for Tri-State to share advertising expense in excess of 10% of the agency's commission for the prior calendar year subject to a 65% limitation of the total amount spent for advertising in any one quarter. The Department approved this amendment on April 12, 1999.

Cost Sharing Agreement

On August 29, 1994, the Company and its Parent entered into a cost sharing agreement. Under the terms of the agreement, the Company and its Parent agree to share cost for personnel, telephone, postage, general office equipment, computer hardware and software, and miscellaneous expenses. According to the agreement, the allocation of such expenses shall be consistent with the provisions of Regulation 30. The prior report on examination stated that the Company did not provide the examiners with evidence that the Department approved this agreement in accordance with Section 1505(d)(3) of the New York Insurance Law. The Company subsequently filed this agreement with the Department. The Department found this agreement to be non-objectionable.

Lease Agreement with Parent

The Company entered into a lease agreement with its Parent dated December 1, 1995. Under this agreement, the Company agrees to lease to the Parent 5,618 square feet of premises located at 2 Robbins Lane, Jericho, New York or 575 Jericho Turnpike, Jericho, New York. The prior report on examination indicated that the Company did not file this agreement with the Department in accordance with Section 1505(d)(3) of the New York Insurance Law. The Company subsequently filed this agreement with the Department. The Department found this agreement to be non-objectionable by a letter dated November 20, 1998.

Lease Agreement with Drivers

The Company entered into a lease agreement with Drivers effective January 1, 2002. This agreement was later amended as of September 1, 2002 and May 15, 2003. It was noted that the Company did not submit the lease agreement to the Department for approval pursuant to Section 1505(d)(3) of the New York Insurance Law. At the examiner's request, the Company submitted the captioned agreement along with all the amendments thereto to the Department for approval on August 26, 2003. In a letter dated October 30, 2003, the Department found the amended agreement to be non-objectionable.

The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to submit this agreement 30 days prior to entering into the lease. It is recommended that in the future that the Company notify the Superintendent in writing at least thirty days prior to entering into transactions that fall within Section 1505(d)(3) of the New York Insurance Law.

Tax Allocation Agreement

Effective June 24, 1988, the Company entered in to a tax allocation agreement with its Parent to file its federal income tax returns on a consolidated basis. The Department approved this agreement on June 17, 1988.

It was noted that the Company included its affiliate, Woodbury Optical, Inc. in its consolidated federal income tax return filing. It appears that the Company has not complied with the provisions of Department Circular Letter No. 33 (1979) by failing to file its amended tax allocation agreement prior to its implementation.

By a letter dated November 11, 2003, the Company submitted an amended tax allocation agreement to the Department for approval, to include Woodbury Optical, an affiliate, in its consolidated federal income tax returns.

It is recommended that the Company comply with the provisions of Department Circular Letter No. 33 (1979).

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

A review of the Company's records show that the Company made the appropriate abandoned property filings with the Office of the State Comptroller as required by Section 1316 of the New York Abandoned Property Law for the period under examination.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002, based upon the results of this examination:

Net premiums written to Surplus as regards policyholders	.86 to 1
Liabilities to Liquid assets (cash and invested assets less investment in affiliates)	72%
Premiums in course of collection to Surplus as regards policyholders	8%

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:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expense incurred	\$58,929,347	68.40%
Other underwriting expense	29,760,687	34.55
Net underwriting gain (loss)	<u>(2,541,320)</u>	<u>(2.95)</u>
Premiums earned	<u>\$86,148,714</u>	<u>100.00%</u>

G. Disaster Recovery Plan

The prior report on examination recommended that the Company develop a disaster recovery plan. According to the Company's response to this Department's information systems internal control questionnaire, the Company has stated that it has a disaster recovery or contingency plan; however, this plan has not been formalized. The purpose of a disaster recovery plan is to ensure that key personnel

know their responsibility in the event of a disaster. The existence of a disaster recovery plan is part of a sound internal control environment.

It is recommended that the Company develop a formalized disaster recovery plan. Subsequent to the completion of this examination, the company adopted a formal disaster recovery plan.

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, 2002 and as reported by the Company:

<u>Assets</u>	Ledger <u>Assets</u>	Not-Admitted <u>Assets</u>	Admitted <u>Assets</u>
Bonds	\$56,550,757	\$ 0	\$56,550,757
Common Stocks	1,599,353		1,599,353
Real estate	3,244,188		3,244,188
Cash and short-term investments	6,642,915		6,642,915
Other invested assets	431,833		431,833
Agents' balances or uncollected premiums	7,329,582	105,803	7,223,779
Electronic data processing equipment	53,066	6,901	46,165
Interest, dividends and real estate income and due and accrued	833,357		833,357
Equities and deposit in pools and associations	14,110		14,110
Other assets non-admitted	147,294	147,294	
Escrow account received	<u>166,500</u>	<u> </u>	<u>166,500</u>
Total assets	<u>\$77,012,955</u>	<u>\$259,998</u>	<u>\$76,752,957</u>

Liabilities, Surplus and Other Funds

Losses	\$31,547,485
Loss adjustment expenses	9,799,193
Commissions payable, contingent commissions and other similar charges	291,719
Other expenses (excluding taxes, licenses and fees)	325,000
Federal and foreign income taxes	117,326
Unearned premiums	10,575,867
Ceded reinsurance premiums payable (net of ceding commissions)	96,517
Payable to parent, subsidiaries and affiliates	9,765
Security deposits	36,181
Accounts payable	<u>26,888</u>
Total liabilities	\$52,825,941

Surplus and Other Funds

Common capital stock	\$ 1,001,000
Section 1307 subordinated surplus loan	3,269,690
Gross paid in and contributed surplus	1,347,003
Unassigned funds (surplus)	<u>18,309,323</u>
Surplus as regards policyholders	<u>23,927,016</u>

Total liabilities, surplus and other funds	<u>\$76,752,957</u>
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Note: The Internal Revenue Service has completed its audits of the Company's (consolidated) federal income tax returns through tax year 1998. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$9,810,194 during the five-year examination period January 1, 1998 through December 31, 2002, detailed as follows:

Underwriting Income

Premiums earned		\$86,148,714
Deductions:		
Losses incurred	\$40,603,811	
Loss adjustment expenses incurred	18,325,536	
Other underwriting expenses incurred	<u>29,760,687</u>	
Total underwriting deductions		<u>88,690,034</u>
Net underwriting gain or (loss)		\$(2,541,320)

Investment Income

Net investment income earned	\$14,656,913	
Net realized capital gains	<u>(620,116)</u>	
Net investment gain or (loss)		14,036,797

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (4,735)	
Finance and service charges not included in premiums	750,705	
Gain on litigation settlement	1,148,557	
Management fee	218,297	
Miscellaneous income	<u>87,371</u>	
Total other income		<u>2,200,195</u>
Net income before federal and foreign income taxes		\$13,695,672
Federal and foreign income taxes incurred		<u>3,259,420</u>
Net income		<u>\$10,436,252</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 1997			\$14,116,822
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$10,436,252		
Net unrealized capital gains or (losses)	311,687		
Change in net deferred income tax	22,648		
Change in non-admitted assets		\$105,555	
Change in surplus notes		480,000	
Cumulative effect of changes in accounting principles		190,006	
2001 adjustment to surplus for Prior Year 2000		259,832	
1999 profit share on reinsurance treaty for prior year 1998	<u>75,000</u>		
Total increases and decreases	<u>\$10,845,587</u>	<u>\$1,035,393</u>	
Net increase (decrease) in surplus			<u>9,810,194</u>
Surplus as regards policyholders per report on examination as of December 31,			<u>\$23,927,016</u>

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$41,346,678 is the same as reported by the Company as of December 31, 2002. The examination 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. **MARKET CONDUCT ACTIVITIES**

In the course of this examination, a review was made of the manner in which the Company conducts its business practices 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:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

The Company does not maintain written underwriting guidelines or standards that establish the level of risk that it is willing to underwrite. The Company's president, Penny Hart, informally maintains the Company's underwriting guidelines. The examiners could not review the Company's underwriting decisions against its established guidelines.

Chapter VIII of the NAIC Market Conduct Examiners Handbook, Conducting the Property and Casualty Examination establishes standards to assist examiners in conducting market conduct examinations. The relevant standards are cited below:

Section F. Underwriting and Rating Standards

“Standard 11: Underwriting Practices

The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks.

Standard 15: Underwriting Practices

File documentation adequately supports decisions made.

Standard 20: Underwriting Practices

The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations in application of mass marketing plans.”

Section A. Company Operations/Management

“Standard 11

The company had developed and implemented written policies, standards and procedures for the management of insurance information.”

The Company’s failure to establish and maintain written underwriting guidelines has been referred to the Market Conduct Division of the Property Bureau for resolution.

On March 1, 1999, the Department’s Market Conduct Unit conducted a market conduct investigation of the Company. The investigation noted violations of Section 65.15(g)(1) (now Section 65 Paragraph 3.7) and Section 65.15(h) (now Section 65 Paragraph 3.9)

The examiner conducted a limited follow-up of the Market Conduct Unit’s 1999 investigation consisting of a sample of six claims paid during 2002. This follow-up revealed potential areas of non-compliance with Department Regulation No. 68 as follows:

	<u>No. of Instances</u>	<u>Total Sample</u>
Application for Benefits sent late [Part 65 3.4 (b)]	3	6
Verification forms sent within 10 business days after receipt of application [Part 65 3.5 (a)]	2	6
Additional Verification forms requested within 15 business days [Part 65 3.5 (b)]	1	6
A second request for verification shall be sent within 10 calendar days for verifications not received 30 calendar days after the original mailing [Part 65 3.6 (b)]	2	6
Late Payment of Claims [Part 65 3.7]	4	6
Interest on Overdue Payments [Part 65 3.9]	1	6

It is recommended that the Company comply with the provisions of Part 65 of Department Regulation No. 68 when processing no-fault claims.

6. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Board of Directors' Meetings</u></p> <p>It is recommended that board members who are unable to attend meetings consistently should resign or be replaced.</p> <p>The Company has complied with this recommendation with respect to the individuals mentioned in the previous report. However, a similar condition was noted during the current examination.</p>	<p>4</p>
<p>B. <u>Holding Company System</u></p> <p>It is recommended that the Company comply with Section 1505(d)(3) of the New York Insurance Law in all future transactions within its holding company system.</p> <p>The Company has not complied with this recommendation. A similar recommendation is being made in this Report.</p>	<p>9-10</p>
<p>C. <u>Investments</u></p> <p>It is recommended that the Company comply with the NAIC's annual statement instructions and properly disclose its hedging transactions in the notes to the annual statements filed with the Department.</p> <p>The Company has complied with this recommendation.</p>	<p>11</p>
<p>D. <u>Computer Back-up Facilities</u></p> <p>It is recommended that the Company enter into a formal agreement with a back-up facility in case of a shut down of the Company's operations.</p> <p>The Company has complied with this recommendation.</p>	<p>12</p>
<p>E. <u>Disaster Recovery Plan</u></p> <p>It is recommended that the Company develop a disaster recovery plan to ensure that key personnel know their responsibility in the event of a disaster.</p> <p>Th Company has stated that it has a disaster recovery plan; however, it has not been formalized.</p>	<p>12</p>

<u>ITEM</u>		<u>PAGE NO.</u>
	<u>Market Conduct Activities</u>	
F.	<u>Advertising</u>	
i.	It is recommended that the Company comply with New York Regulation 152 and maintain complete, accurate and chronological advertising files.	18-22
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company discontinue the misleading practices of implying that the Department's Consumer Guide recommends Tri-State Consumer Insurance Company for automobile insurance.	18-22
	The Company has complied with this recommendation.	
iii.	It is recommended that the Company refrain from making incomplete comparisons of premiums, which can result in misleading advertisements.	18-22
	The Company has complied with this recommendation.	
iv.	In accordance with a stipulation entered into with the New York Insurance Department dated November 30, 1999, the Company has agreed to comply with the standard above, in addition to standards set forth in the stipulation.	20
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Board of Directors' Meetings</u></p> <p>It is recommended that the board members who are unable or unwilling to attend meetings consistently should resign or be replaced.</p>	<p>5</p>
<p>B. <u>Holding Company System</u></p> <p>i. It is recommended that in the future that the Company notify the superintendent in writing at least thirty days prior to entering into transactions that fall within Section 1505(d)(3) of the New York Insurance Law.</p> <p>ii. It is recommended that the Company comply with the provisions of Department Circular Letter No. 33 (1979).</p>	<p>11</p> <p>12</p>
<p>C. <u>Disaster Recovery Plan</u></p> <p>It is recommended that the Company develop a formalized disaster recovery plan to ensure that key personnel know their responsibility in the event of disaster. Subsequent to the completion of this examination, the company adopted a formal disaster recovery plan.</p>	<p>14</p>
<p>D. <u>Market Conduct Activities</u></p> <p>It is recommended that the Company comply with the provisions of Part 65 of Department Regulation No. 68 when processing no-fault claims.</p>	<p>20</p>

Appointment No 22048

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

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

Veronica Duncan Black

as proper person to examine into the affairs of the

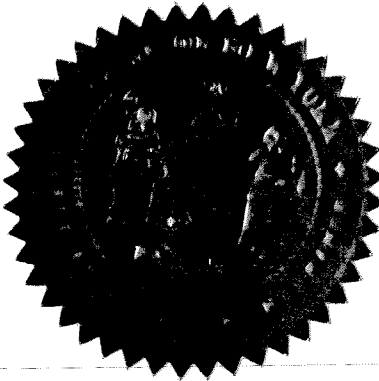
TRI-STATE CONSUMER INSURANCE COMPANY

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 29th day of April, 2003



GREGORY V. SERIO
Superintendent of Insurance