

**REPORT ON EXAMINATION
OF THE**

RESPONSE INDEMNITY COMPANY OF DELAWARE

AS OF

DECEMBER 31, 2004

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2004 of the

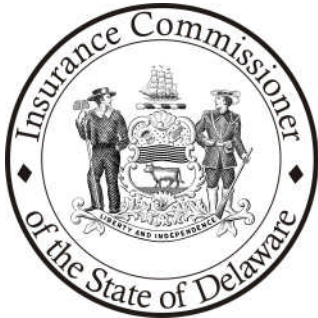
RESPONSE INDEMNITY COMPANY OF DELAWARE

is a true and correct copy of the document filed with this Department.

ATTEST BY:

Antoinette Handy

DATE: 18 MAY 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 18TH DAY OF MAY 2006.

Matthew Denn

Insurance Commissioner

REPORT ON EXAMINATION
OF THE
RESPONSE INDEMNITY COMPANY OF DELAWARE
AS OF
December 31, 2004

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written in a cursive style.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 18TH Day of MAY 2006.

RESPONSE INDEMNITY COMPANY OF DELAWARE

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SALUTATION

March 1, 2006

Honorable Alfred W. Gross
Chairman, Financial Condition (E) Committee
NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
1330 East Main Street
Richmond, Virginia 23218

Honorable Julie Bowler
Secretary, Northern Zone (I), NAIC
Division of Insurance
Commonwealth of Massachusetts
One South Station, 5th Floor
Boston, Massachusetts 02110

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 05.025, an examination has been made of the affairs, financial condition and management of the

RESPONSE INDEMNITY COMPANY OF DELAWARE

hereinafter referred to as the “Company”, or “RID”, incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington,

RESPONSE INDEMNITY COMPANY OF DELAWARE

Delaware 19801. The examination was conducted at the main administrative office of the Company, located at 500 South Broad Street, Meriden, Connecticut 06450.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination of the Company was conducted as of December 31, 1999, by the Delaware Insurance Department. Although the Company was not subject to a regularly scheduled statutory examination by the Delaware Insurance Department, at the Company's request and based on consideration of its business plan to seek insurance licensing in additional states, an examination was conducted that covered the period from its date of incorporation, November 4, 1997 through December 31, 1999. This examination was also conducted by the Delaware Insurance Department and covered the period from January 1, 2000 through December 31, 2004, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

As part of this examination, an evaluation of controls over the Company's Information Technology and an independent analysis of Losses and Loss Adjustment Expenses were also performed.

Pursuant to Delaware Regulation 50, Section 12, the Company's independent accounting firm made available for review, all workpapers concerning procedures followed, tests performed, information obtained and conclusions reached pertinent to the firm's statutory audit of the Company's financial statements for the year ended December 31, 2004. The workpapers of the independent accounting firm were reviewed in order to ascertain the procedures employed to

RESPONSE INDEMNITY COMPANY OF DELAWARE

determine compliance with statutory guidelines. To the extent possible, the workpapers and analyses were utilized to supplement the examination process.

This report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The general procedures of the examination followed the rules established by the NAIC Committee on Financial Condition Examiners Handbook (Handbook), and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the State of Delaware.

In addition to items hereinafter incorporated as part of the written report, the following were reviewed and made part of the workpapers of this examination:

Fidelity Bond and Other Insurance
Salary, Wages and Employee Benefits
Insurance Department Correspondence
All asset and liability items not mentioned

No other states (zones) participated in this examination. The examination was conducted concurrently with its parent, Response Insurance Company.

HISTORY OF COMPANY

The Company was incorporated on November 5, 1997, under the laws of the State of Delaware as the Response Indemnity Company of Delaware. The Insurance Commissioner of

RESPONSE INDEMNITY COMPANY OF DELAWARE

Delaware issued a Certificate of Authority for the Company to commence its business on January 13, 2000.

CAPITALIZATION

The Certificate of Incorporation, as amended, provides that the authorized capital stock is \$150,000,000, consisting of 30,000 shares of \$5,000 par value common stock. At December 31, 2004, there were 200 shares issued and outstanding reflecting paid up capital of \$1,000,000. Response Insurance Company owned all of the outstanding shares.

The Company paid the following dividends during the exam period.

2004	\$656,626	Ordinary Dividend
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MANAGEMENT AND CONTROL

Stockholder

The Company is a wholly owned subsidiary of Response Insurance Company (RIC), a Delaware insurer, which is owned by Direct Response Corporation (DRC), a privately owned company incorporated in Delaware.

Board of Directors

At December 31, 2004, the members of the Board of Directors were as follows (all are officers of the Company, its parent, the ultimate parent company and several of its affiliates):

<u>Name</u>	<u>Title</u>
Mory Katz *	Chairman and Chief Executive Officer
August Paul Alegi	Vice President, General Counsel and Secretary
George Kowalsky *	Vice President and Treasurer

* No middle name

RESPONSE INDEMNITY COMPANY OF DELAWARE

Officers

At December 31, 2004, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Mory Katz *	Chairman of the Board and Chief Executive Officer
John Joseph Javaruski	President
August Paul Alegi	Vice President, Secretary, and General Counsel
Danny Alan Collins	Vice President
Kathleen Anne Gleeson	Vice President
George Kowalsky *	Vice President and Treasurer
Adam James Kreuser	Vice President
Steven Brian Oakley	Vice President
Francis Michael Quido	Vice President
Clifford Wess *	Vice President and Chief Actuary
Yvonne Mansfield *	Controller

* No middle name

Conflict of Interest

The Board of Directors of DRC, the parent company, had adopted a conflict of interest policy. The Company's directors and officers also serve as officers of DRC, except for Adam Kreuser and Yvonne Mansfield, the Company's Vice President and Controller, respectively. Moreover, Mory Katz is the sole Company director or officer who also serves as a director of DRC.

Articles of Incorporation

The Company's Articles of Incorporation were amended on June 10, 2004 by the sole shareholder. This amendment added the following paragraph to the Articles of Incorporation, Paragraph THIRD:

“Effective as of the date of this amendment, the Company shall issue insurance policies solely to active and retired employees of a duly licensed educational institution who reside in a State in which the Corporation is licensed to transact insurance, including permanent, permanent part-time, and substitute teachers

RESPONSE INDEMNITY COMPANY OF DELAWARE

and other paid employees of such institution, together with the family members of all such persons who live in the same household; and”

The purpose of this amendment was to restrict the writings exclusively to the Teachers’ Insurance Plan (TIP) business. This amendment was properly filed with the Delaware Department of Insurance and with the Delaware Secretary of State on June 16, 2004.

Corporate Records

The Company is required pursuant to Title 18, Section 4919, Delaware Code to "...promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers." The review of Board of Directors and Stockholders meeting minutes deemed that the Company did not comply with Title 18, Section 4919, Delaware Code in all instances.

It is recommended that the Company comply with the provisions of Title 18, Section 4919, Delaware Code and promptly notify the Commissioner in writing of any and all changes of personnel among its directors or principal officers.

HOLDING COMPANY

The Company became part of a new holding company on November 5, 1997, when it was incorporated by its ultimate parent company Direct Response Corporation, a Delaware holding company incorporated on September 18, 1995, hereinafter also referred to as DRC. On August 31, 2001, DRC contributed the outstanding 200 shares of the Company’s common stock, par value \$5,000 per share, to Response Insurance Company (RIC).

DRC was formed by the following: James Stone, Chairman of Plymouth Rock Assurance Corporation; Peter Wood, former Chairman of Direct Line Insurance, PLC; and The Plymouth Rock Company Incorporated, along with the following limited partnerships: Morgan Stanley Capital Partners III, LP; MSCP III 892 Investors, LP; Morgan Stanley Capital Investors,

RESPONSE INDEMNITY COMPANY OF DELAWARE

LP; and DR Investors, LP. The limited partners are collectively known as the MSCP Funds and have a common general partner named Morgan Stanley Capital Partners III, Inc. The Plymouth Rock Company Incorporated is a holding company for other insurance companies including the lead company, Plymouth Rock Assurance Corporation.

Morgan Stanley Capital Partners III, LP has a 40.14% share of the total outstanding common and preferred stock of DRC. DR Investors, LP has a 39.02% share of the total outstanding common and preferred stock of DRC. The remaining entities, The Plymouth Rock Company; MSCP III 892 Investors, LP; Morgan Stanley Capital Investors, LP; and the above named individuals, each had less than a ten percent (10%) ownership interest of DRC as of December 31, 2004. DRC was established for the purpose of operating insurance companies that write private passenger automobile insurance and owned ten insurance subsidiaries as of December 31, 2004.

The following organizational chart reflects the identities and interrelationships between the Company, the parent company Response Insurance Company and the ultimate parent company, DRC, and other members of the holding company system as of December 31, 2004.

- Direct Response Corporation (DE) (Holding Company)
 - Response Insurance Company (DE)
 - Response Indemnity Company of Delaware (DE)
 - Response Insurance Company of America (DC)
 - Response Worldwide Insurance Company (OH)
 - National Merit Insurance Company (WA)
 - Response Indemnity Company (NY)
 - Response Indemnity Company of California (CA)
 - Warner Insurance Company (IL)
 - Response Worldwide Direct Auto Insurance Company (OH)
 - Connecticut Life and Casualty Insurance Company (CT)

Holding Company Activity/History

The Company had the following activities during the period covered by this Examination:

RESPONSE INDEMNITY COMPANY OF DELAWARE

- On January 13, 2000, the Company received its certificate of authority from the Delaware Department of Insurance.
- On August 31, 2001, DRC contributed the outstanding 200 shares of the Company's common stock, par value \$5,000 per share, to RIC.

MANAGEMENT AND SERVICE AGREEMENTS

Intercompany Agreements

Service Agreement

Effective January 1, 2000, the Company entered into a Service Agreement with DRC. The companies in the DRC insurance group share the same office space and facilities with one another and DRC provides per the Service Agreement the administrative, underwriting, accounting, marketing, customer service and other functions on behalf of the Company. At inception of the Service Agreement, costs of services provided were determined based upon eighteen percent (18%) of the Company's net direct written premium.

It was noted during the prior examination of the Company that the billing and settlement terms of the Service Agreement were not being followed. A review of the matter during this examination showed that the Service Agreement was amended, with proper regulatory approval, numerous times during the interim exam period, specifically regarding billing and settlement as well as reimbursement rates. However, upon examination the following material discrepancies were noted regarding billing, settlements, over payments and, unauthorized payments made under the Service Agreement:

- The Service Agreement contains the mandatory provision pursuant to Title 18, Section 4921 (b), Delaware Code, that requires DRC, ninety (90) days after the expiration of each calendar year, shall furnish the Company's board of directors a written statement of amounts received under the Service Agreement. A review of the meeting minutes of the Board of Directors of the Company during the five-year period covered by this examination, revealed no evidence that DRC did present to the Board of Directors of the Company, nor was an attachment noted, of a written statement of the amounts received

RESPONSE INDEMNITY COMPANY OF DELAWARE

by DRC. As such, the Company is not in compliance with the provisions of Title 18, Section 4921(b), Delaware Code.

It is recommended that the Company require DRC to comply with the provisions of Title 18, Section 4921(b), Delaware Code, and with paragraph five of the Service Agreement, to provide the written statement of amounts received by DRC within ninety (90) days of the end of the calendar year.

- The Service Agreement provides that monthly calculations are to be made for the amount due to DRC for services provided and that the Company is to pay to DRC the amount due within sixty (60) days of the end of the month during which the services were provided by DRC. A review of the accounting records revealed that the Company did not adhere to this provision of the Service Agreement.

It is recommended that the Company adhere fully with the Service Agreement and promptly pay, monthly to DRC the amount of fees calculated by DRC.

At inception of the Service Agreement in 2000, the Company utilized the claim adjustment services of several third party administrators. During the period covered by this examination the Company cancelled at various times all third party administrator agreements, effectively, and currently, having a majority of claims processing functions thereafter being performed by the Company for allocated loss adjustment expenses and by DRC for any unallocated loss adjustment expenses.

Tax Sharing Agreement

Under the terms of its Tax Sharing Agreement, effective December 31, 2000, the Company appoints DRC to be its sole and exclusive agent duly authorized to act on its behalf in all matters relating to the consolidated federal income tax return for each taxable year. DRC in its sole discretion shall make any and all decisions and take any and all actions incident to preparing and filing the consolidated return, making elections under the Internal Revenue Service Code and compromising, settling or litigating disputes (including any claim for refund). Nothing shall, however, be construed under this agreement as requiring DRC to file combined state or local income tax returns for any period. The Company shall pay to DRC the amount of federal income

RESPONSE INDEMNITY COMPANY OF DELAWARE

tax that the Company would have paid had it filed a separate federal income tax return calculated by applying to the separate return taxable incomes of the Company the maximum federal corporate tax rate, without regard to graduated tax rates or exemptions. DRC shall pay to the Company any refund to which the Company would have been entitled had the Company filed a separate federal tax return.

The Company's separate tax shall be paid to DRC not later than thirty (30) days after the filing of the applicable estimated or actual consolidated federal income tax return is required to be filed. Any payments made shall be applied against the amount due and any excess payments shall be refunded to the Company within the same thirty (30) day period. At the option of DRC, the Company shall pay to DRC, not later than five (5) days prior to each date that the Company would be required to make a payment of estimated federal income taxes as if the Company filed a separate return. All such payments shall be in cash. DRC shall pay to the Company any refund not later than thirty (30) days after the consolidated federal income tax return is filed. In the event DRC is entitled to a refund under the consolidated return, DRC may defer payment of the Company's portion of the refund to the Company within thirty (30) days of DRC's receipt of such refund. All settlements shall be in cash or securities eligible as investments for the Company at a fair value at date of payment.

External Agreements

The Company had the following external agreements in effect at December 31, 2004:

Investment Advisory Agreement

Effective December 18, 1998, the Company and SRB Corporation entered into an investment advisory agreement of which the development of investment policies and guidelines,

RESPONSE INDEMNITY COMPANY OF DELAWARE

the investment and management of assets and other related administrative and investment services are provided to the Company.

Investment Management Agreement

Effective September 24, 2001, the Company and Standish Mellon Asset Management Company, LLC (Standish Mellon) entered into an investment management agreement of which the management of the portfolio and execution of orders will be provided to the Company.

Glass Claim Service

Effective March 24, 2004, the Company and Safelite Solutions LLC, Columbus, Ohio, entered into an agreement for the processing of glass replacement and glass repair claims incurred by insureds of the Company.

TERRITORY AND PLAN OF OPERATION

The Company is a direct to the consumer auto insurance company licensed and writing business in only Delaware, New York and Pennsylvania. The Company does not participate in the Response Reinsurance Pool.

Marketing Plan

The Company's plan is to not significantly grow the current book of business; however, the Company does look to maintain the current volumes.

GROWTH OF COMPANY

The following represents the growth of the Company since its inception in 2000 and was obtained from its filed Annual Statements.

RESPONSE INDEMNITY COMPANY OF DELAWARE

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Premiums Written</u>	<u>Net Income</u>
2004	\$ 17,320,418	\$ 11,214,398	\$ 6,106,020	\$ 8,436,710	\$ 721,161
2003	16,602,518	10,545,889	6,056,629	9,029,372	979,791
2002	14,626,176	9,543,053	5,083,123	8,846,001	(407,350)
2001	9,717,039	4,312,859	5,404,180	4,481,204	(531,082)
2000	5,840,402	148,081	5,692,321	5,475	181,063

During the examination period, net admitted assets increased by 196.56% to \$17,320,418, and total liabilities increased by 7,473.15% to \$11,214,398. During the same period, capital and surplus increased by 7.27% to \$6,106,020. After reporting net income of \$181,063 in 2000, the Company's net income increased to \$721,161, in 2004.

NAIC FINANCIAL RATIOS

The Company's 2004 NAIC Financial Ratios from the Insurance Regulatory Information System (IRIS) and the inclusion of the amounts as determined by this examination indicated one (1) unusual value from a total of eleven (11) ratios. The unusual values are shown and accounted for as follows:

	<u>Description of NAIC Financial Ratios</u>	<u>Percentage of Unusual Values</u>
6)	Investment Yield	2.3%

6. Investment Yield. Results under 4.5% are unusual: result 2.3%

The 2.3% result is under the 4.5% usual range. The Company's cash and invested assets consisted primarily of 84% bonds (100% of which are investment grade); 13% cash and short-term investments, (91% of which are US Treasury Notes); and, 3% common stock; the invest results of which reflect the low yield environment during 2004.

RESPONSE INDEMNITY COMPANY OF DELAWARE

REINSURANCE

The following is a summary of the principal reinsurance agreements in place as of December 31, 2004, the as of date of this examination:

Assumed

The Company does not assume any reinsurance.

Ceded

Excess of Loss

Effective October 1, 2001, the Company entered into a Private Passenger Automobile 1st Excess of Loss (Excess \$250,000 to \$750,000) and 2nd Excess of Loss (Excess \$1,000,000) reinsurance agreements. Included in this agreement are other affiliates, making five insurers ceding business on this reinsurance agreement to two reinsurers American Re-Insurance Company and General Reinsurance Corporation, each assuming reinsurer with a separate 50% interests and liabilities contract. This agreement does provide for separation of business ceded by the companies and is in compliance with the guidelines as established by the NAIC (SSAP No. 62. paragraph 8). This agreement was endorsed to include for American Re a Third Excess of Loss reinsurance cover. This entire agreement was terminated effective July 1, 2005.

LEGAL ACTIONS

The Company's Parent, DRC, is a party to various litigation and claims, common to its business. Management believes that the outcome of such matters will not have a material adverse impact on the financial position or results of operations of the Company.

ACCOUNTS AND RECORDS

Accounting System

All accounting records of the Company are maintained on electronic data processing equipment, which is also shared by DRC and its subsidiaries. The Company maintains its general ledger on a statutory basis with additional accounts for accruals used to generate its statutory reports.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2004, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2004

Statement of Liabilities, Surplus and Other Funds, December 31, 2004

Underwriting and Investment Exhibit, December 31, 2004

Capital and Surplus Account, December 31, 1999 to December 31, 2004

Schedule of Examination Changes

RESPONSE INDEMNITY COMPANY OF DELAWARE

**Analysis of Assets
As of December 31, 2004**

	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 12,331,641		\$ 12,331,641	(1)
Stocks:				
Common	368,872		368,872	
Cash, cash equivalents and short-term investments	1,974,917		1,974,917	
Investment income due and accrued	109,268		109,268	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	737,855		737,855	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,154,999		1,154,999	
Net deferred tax asset	450,356	123,600	326,756	
Receivables from parent, subsidiaries and affiliates	<u>316,111</u>		<u>316,111</u>	
Total Assets, per Examination	<u>\$ 17,444,019</u>	<u>\$ 123,600</u>	<u>\$ 17,320,419</u>	

RESPONSE INDEMNITY COMPANY OF DELAWARE

**Statement of Liabilities, Surplus and Other Funds
As of December 31, 2004**

		<u>Notes</u>
Losses	\$ 4,487,230	(2)
Loss adjustment expenses	1,489,372	(2)
Other expenses (excluding taxes, licenses and fees)	30,374	
Taxes, licenses and fees (excluding federal and foreign income taxes)	6,678	
Current federal and foreign income taxes	906,706	
Unearned premiums	4,108,331	
Advance premiums	68,131	
Ceded reinsurance premiums payable	8,262	
Amounts withheld or retained by company for account of others	35,553	
Payable to parent, subsidiaries and affiliates	65,716	
Aggregate write-ins for liabilities:		
Guaranty fund assessment	8,044	
	<hr/>	
Total Liabilities	\$ 11,214,397	
	<hr/>	
Common capital stock	1,000,000	
	<hr/>	
Gross paid-in and contributed surplus	4,400,000	
Unassigned funds (surplus)	706,020	
	<hr/>	
Surplus as regards policyholders	\$ 6,106,020	
	<hr/>	
Total Liabilities and Surplus, per Examination	\$ 17,320,417	
	<hr/> <hr/>	

RESPONSE INDEMNITY COMPANY OF DELAWARE

**Underwriting and Investment Exhibit
As of December 31, 2004
STATEMENT OF INCOME**

		<u>Notes</u>
Premiums earned	\$ 8,708,423	
Losses incurred	3,903,790	
Loss expenses incurred	1,324,852	
Other underwriting expenses incurred	<u>2,833,575</u>	
Total underwriting deductions	<u>8,062,217</u>	
Net underwriting gain (loss)	646,206	
Net investment income earned	333,540	
Net realized capital gains (losses)	<u>9,453</u>	
Net investment gain (loss)	342,993	
Net gain (loss) from agents' or premium balances charged off	(24,605)	
Finance and service charges not included in premiums	<u>75,427</u>	
Total other income	<u>50,822</u>	
Net income before div to policyholders and before fed and for income taxes	1,040,021	
Dividend to policyholders	<u>-</u>	
Net income, after div to policyholders and before fed and for income taxes	1,040,021	
Federal and foreign income taxes incurred	<u>318,860</u>	
Net income	<u><u>\$ 721,161</u></u>	

RESPONSE INDEMNITY COMPANY OF DELAWARE

CAPITAL AND SURPLUS ACCOUNT

Notes

Surplus as regards policyholders, December 31, 1999	\$ 5,111,858
Net income	943,613
Change in net unrealized capital gains or (losses)	(19,583)
Change in net deferred income taxes	449,908
Change in nonadmitted assets	(123,599)
Dividends to stockholders	(656,626)
Cumulative effect of changes in accounting principles	1,049
Change in excess of statutory reserves over statement reserves	(600)
Surplus adjustment - Paid in	<u>400,000</u>
Change in surplus as regards policyholders for the examination period	<u>994,162</u>
Surplus as regards policyholders, December 31, 2004	<u><u>\$ 6,106,020</u></u>

Schedule of Examination Changes

There were no adjustments for the current Examination Report.

RESPONSE INDEMNITY COMPANY OF DELAWARE

Notes to Financial Statements

Assets

1. Bonds \$12,331,641

As of December 31, 2004, 66% of the Company's bond portfolio was comprised of industrial and miscellaneous bonds with a book adjusted valuation of \$8,171,279. The other 34% of its bond portfolio was comprised of government, special revenue and public utility bonds with a book adjusted valuation of \$4,160,362. All of the bonds in which the Company has invested have been designated by the NAIC as either Class 1 or Class 2.

Liabilities

2. <u>Losses</u>	<u>\$ 4,487,230</u>
2. <u>Loss Adjustment Expenses</u>	<u>\$ 1,489,372</u>
<u>Total</u>	<u>\$ 5,976,602</u>

The total liability of \$5,976,602 for the captioned accounts as determined by this examination is the same amount as reported by the Company in its 2004 Annual Statement. The Net Loss and LAE reserves by line of business are summarized as follows:

	<u>Losses</u>	<u>LAE</u>	<u>Total</u>
Private Passenger Auto Liability	\$ 4,500,796	\$ 1,478,179	\$ 5,978,975
Auto Physical Damage	(13,566)	11,193	(2,373)
Totals	<u>\$ 4,487,230</u>	<u>\$ 1,489,372</u>	<u>\$ 5,976,602</u>

Loss and LAE reserves represent 53.3% of the Company's liabilities as of December 31, 2004. Incurred but not reported reserves (IBNR) constituted 31.2% of loss reserves at year-end. The Delaware Department of Insurance conducted its own independent actuarial analysis in accordance with generally accepted actuarial principles and practices by retaining the actuarial consulting firm, INS Consultants, Inc. (INS), to review the Company's loss and LAE reserves.

RESPONSE INDEMNITY COMPANY OF DELAWARE

INS evaluated the Company's book of business by line of business for loss and allocated LAE. The conclusions reached by INS are largely based upon information supplied by the Company's actuarial staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross basis and net of reinsurance and did not address the collectibility of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

The underlying data was tested through a review of open and paid claim files and actual payments made with no exceptions noted. The aggregated actuarial data provided by the Company was verified and reconciled to Schedule P of the Company's filed annual statement.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. As a result of this study, the reserves were accepted.

MARKET CONDUCT ACTIVITIES

Based upon direction received from the Delaware Insurance Department, the Exam did not conduct a review of Market Conduct Activities.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The Company's compliance with the prior examination recommendations was reviewed for each account in the current examination for which prior examination recommendations were applicable. All prior examination recommendations were either directly or indirectly addressed

RESPONSE INDEMNITY COMPANY OF DELAWARE

in the current examination. In those instances where the Company was not in full compliance with the prior examination recommendation, a repeat recommendation was made in this report.

SUMMARY OF RECOMMENDATIONS

1. It is recommended that the Company comply with the provisions of Title 18, Section 4919, Delaware Code and promptly notify the Commissioner in writing of any and all changes of personnel among its directors or principal officers.
(Management and Control - Corporate Records – Pg 7)
2. It is recommended that the Company require DRC to comply with the provisions of Title 18, Section 4921 (b), Delaware Code, and with paragraph five of the Service Agreement, to provide the written statement of amounts received by DRC within ninety (90) days of the end of the calendar year.
(Management and Service Agreements – Intercompany Agreements - Pg 10)
3. It is recommended that the Company adhere fully with the Service Agreement and promptly pay, monthly to DRC the amount of fees calculated by DRC.
(Management and Service Agreements – Intercompany Agreements - Pg 10)

RESPONSE INDEMNITY COMPANY OF DELAWARE

CONCLUSION

The following schedule reflects the financial condition of the Company as a result of this examination, and the results of the prior examination conducted as of December 31, 1999, with changes between the examination periods:

<u>Description</u>	<u>Per Exam 12/31/04</u>	<u>Per Exam 12/31/99</u>	<u>Increase (Decrease)</u>
Net Admitted Assets	<u>\$ 17,320,418</u>	<u>\$ 5,207,401</u>	<u>\$ 12,113,017</u>
Total Liabilities	<u>\$ 11,214,398</u>	<u>\$ 95,543</u>	<u>\$ 11,118,855</u>
Common Capital Stock	\$ 1,000,000	\$ 1,000,000	\$ -
Gross Paid-In And Contributed Surplus	4,400,000	4,000,000	400,000
Unassigned Funds (Surplus)	<u>706,020</u>	<u>111,858</u>	<u>594,162</u>
Total Capital and Surplus	<u>6,106,020</u>	<u>5,111,858</u>	<u>994,162</u>
Total Liab, Surplus And Other Funds	<u>\$ 17,320,418</u>	<u>\$ 5,207,401</u>	<u>\$ 12,113,017</u>

Since the last examination made as of December 31, 1999, admitted assets have increased by \$12,113,017, liabilities have increased by \$11,118,855, and total capital and surplus has increased by \$994,162.

The examination of Response Indemnity Company of Delaware was made in accordance with the requirements set forth by the National Association of Insurance Commissioners and fairly presents the financial condition of the Company in accordance with those requirements.

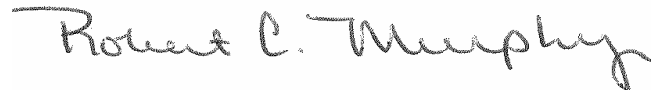
Based upon the procedures performed, it was determined that the Company's investments have been made in accordance with statutory requirements and have been valued as required by applicable regulatory bodies, except as noted. The liabilities reported in the balance sheet of this report indicate adequate provision for the Company's obligations.

Acknowledgment is hereby made of the courteous cooperation extended by Company personnel to the examination staff during the course of the examination. Acknowledgment is

RESPONSE INDEMNITY COMPANY OF DELAWARE

also made of the assistance provided by the examiners representing the Delaware Insurance Department, INS Consultants, Inc. and INS Services, Inc., Philadelphia, Pennsylvania.

Respectfully submitted,

A handwritten signature in cursive script that reads "Robert C. Murphy".

Robert C. Murphy, CFE, CIE, FLMI
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

The following represents actions/events subsequent to year-end December 31, 2004:

- The Company amended its Service Agreement with its ultimate parent Company, Direct Response Corporation (DRC) to have DRC perform certain claims related services on behalf of the Company. During the course of the examination of the Company, it was ascertained that DRC had been charging the Company for the Company's share of unallocated loss adjustment expenses that DRC had incurred on behalf of the Company and its insurance company affiliates for the period since inception of the service agreement effective on January 1, 2000. The parties agreed to amend the service agreement to include language that allows DRC a fee on a monthly basis that shall be equal to all direct and directly allocable expenses, reasonably and equitably determined to be attributable to the Company by DRC (the claims service fee). This amendment was filed with and approved by the Delaware Department of Insurance and was effective January 1, 2000.
- December 20, 2005, RID by unanimous written consent of the Board of Directors, in lieu of a formal meeting, adopted a resolution to pay a dividend of \$450,000 to the Company's sole shareholder RIC on or after December 30, 2005. The Delaware Department was notified via fax on December 20, 2005. The Company filed Amendment No. 6 to the Form B, Insurance Holding Company filing on January 9, 2006.