REPORT ON EXAMINATION

OF THE

RESPONSE INSURANCE COMPANY

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 INSURANCE COMPANY

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

ATTEST BY: ______________________

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.

____

Insurance Commissioner

REPORT ON EXAMINATION

OF THE

RESPONSE INSURANCE COMPANY

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.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 18TH Day of MAY 2006.

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<u>**SALUTATION**</u>

March 1, 2006

Honorable Alfred Gross
Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
1300 East Main Street
Richmond, Virginia 23218

Honorable Julie Bowler
Secretary, Northeastern 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
841 Silver Lake Boulevard
Dover, Delaware 19904

Honorable Eleanor Kitzman
Secretary, Southeastern Zone (II), NAIC
State of South Carolina
Post Office Box 100105
Columbia, South Carolina 29202

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 INSURANCE COMPANY

hereinafter referred to as the “Company”, or “RIC”, incorporated under the laws of the State of Delaware as a stock company on May 26, 1983. The Company’s home office address was changed on September 5, 2000 to 2711 Centerville Road Suite 400, Wilmington, Delaware 19808. 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. 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 was 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 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 the examination of the Company's Delaware subsidiary, Response Indemnity Company of Delaware (RID).

HISTORY OF COMPANY

The Company was incorporated as the John Hancock Indemnity Company, under the laws of the State of Delaware on May 26, 1983, and commenced business on September 1, 1984. The Company was formerly owned by Hanseco Insurance Company. Hanseco Insurance Company changed its name in May of 1988 to John Hancock Property and Casualty Company, a direct writer of personal lines property and casualty insurance.

On July 26, 1996, a stock purchase agreement was entered into between John Hancock Property and Casualty Insurance Company and Direct Response Corporation (DRC), a Delaware holding company incorporated on September 18, 1995, for the purpose of acquiring RIC and other insurance companies (as opportunities presented) in order to write auto lines of business direct to the public.

On September 4, 1996, the Delaware Insurance Department approved the sale of the Company to DRC. On September 12, 1996, DRC acquired control of the Company and the Company's name was changed to Direct Response Insurance Company. The Company's name was changed again on December 23, 1996, to Response Insurance Company (RIC).

Please see the Holding Company section of this report for the information related to individual acquisition, sales and transactions of the Company since its acquisition by DRC.

CAPITALIZATION

The Certificate of Incorporation, as amended, provides that the authorized capital stock is $6,000,000, consisting of 30,000 shares of $200 par value common stock. At December 31, 2004, there were 25,000 shares issued and outstanding, reflecting paid up capital of $5,000,000. Direct Response Corporation owned all of the outstanding shares.

On June 14, 2000, the sole shareholder consented to a resolution pursuant to the Amended Certificate of Incorporation that the Company issue new stock certificates reflecting the change in the common stock par value that had been was adopted previously.

The paid in and contributed surplus changes for the examination period was as follows:

Surplus and Other Funds	As of 12/31/00	As of 12/31/01	As of 12/31/02	As of 12/31/03	As of 12/31/04
Common capital stock	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000
Gross paid in and contributed surplus *	36,233,961	63,121,861	63,121,861	91,121,861	91,121,861
Unassigned funds	(21,743,746)	(30,962,765)	(30,728,994)	(24,392,641)	(27,370,787)
Surplus as regards policyholders	$19,490,215	$37,159,096	$37,392,867	$71,729,220	$68,751,074

* See the Holding Company section of this report for information related to contributions to surplus during the examination period.

As noted above, all shares issued and outstanding at December 31, 2004, were owned by Direct Response Corporation. There were no dividends paid to the stockholders during the examination period.

MANAGEMENT AND CONTROL

Stockholder

The Company is a wholly owned subsidiary of 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 company and several of the Company's affiliates and/or subsidiaries):

Name	**Title**
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
Steven Brian Oakley	Vice President
Francis Michael Quido	Vice President
Clifford Wess *	Vice President and Chief Actuary

* No middle name

Officers

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

Name	**Title**
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 not amended during the period covered by this examination, January 1, 2000 through December 31, 2004.

By-Laws

A review of the minutes of the September 30, 2004 Board of Directors meeting, by consent, revealed that the Company's Bylaws were amended. The amendments to Bylaw Sections 1.1, 3.1 and 4.7 relate to changes in locations for the Company's principal office and place of meetings of its shareholders and Board of Directors. These amended Bylaws were filed with the Delaware Insurance Department on October 15, 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 September 12, 1996, when it was acquired by its immediate parent, Direct Response Corporation, a Delaware holding company incorporated on September 18, 1995, hereinafter also referred to as DRC.

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, 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 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:

- On July 19, 2001, RIC acquired 780 shares or eighty percent (80%) of the authorized and outstanding common stock of D.E. Love Associates, Inc. (“DEL”), a Pennsylvania insurance agency (par value $1.00 per share).

- On August 31, 2001, DRC contributed the outstanding 200 shares of RID’s common stock, par value $5,000 per share, to RIC.

- On October 31, 2001, DRC contributed to RIC the outstanding 10,000 shares of the common stock of Response Indemnity Company, a New York insurance company and an affiliate of the registrant, par value $100.00 per share.

- Effective July 1, 2003, RIC purchased the authorized and outstanding shares of the common stock (no par value) of Andrews & Murray Associates, Inc. (“A&M”), a Connecticut insurance agency, from D. E. Love Services, Inc. (“DEL”), a Pennsylvania insurance agency.

- Effective July 1, 2003, RIC, which previously held 780 shares or 80% of the outstanding shares of the common stock of DEL (par value $1.00 per share), purchased an additional 30.08 shares (3%) of DEL’s common stock.

- On April 25, 2003, RIC purchased from Great American Insurance Company (“GAIC”) the authorized and outstanding shares of the common stock of Worldwide Insurance Company (“Worldwide”), which then was an Ohio insurance company (par value $1,500.00 per share) and which later changed its name to Response Worldwide Insurance Company (“RWI”).

- Effective December 12, 2003, RIC sold the authorized and outstanding shares of the common stock of A&M to Response Worldwide Direct Auto Insurance Company (RWD), which then was an Ohio insurance company that was wholly owned by RIC’s affiliate, Warner Insurance Company (“Warner”), which then was an Illinois isurer..

- Effective December 12, 2003, RIC sold its interest in the common stock of DEL (i.e., 810.08 shares or 83% of the outstanding shares), to Response Worldwide Insurance Company (“RWI”).

- Effective January 1, 2004, RIC purchased the authorized and outstanding shares of the common stock of National Merit Insurance Company (“NMIC”), a Washington insurance company, from Unigard Insurance Company.

In addition to the comments above, DRC also had the following activities:

- On January 12, 2001, DRC acquired the authorized and outstanding common stock (20,000 shares) of CL&C Holding Incorporated (the “Stock), a Connecticut corporation (“CL&C Holding”), which DRC had incorporated as a wholly owned subsidiary.

- On June 7, 2001, CL&C Holding purchased the stock of Weiss Financial Corporation (“WFC”), the corporate parent of Connecticut Life and Casualty Insurance Company (“CL&C”), a Connecticut insurance company, and thereby acquired control of CL&C. WFC contributed the stock of CL&C to CL&C Holding and was later dissolved.

- On July 27, 2001, Connecticut Casualty Insurance Agency, Inc. (“CCIA”), a Connecticut corporation and wholly owned subsidiary of CL&C, was incorporated. On August 10, 2001, CL&C contributed $200.00 to CCIA and was issued 100 shares of CCIA's authorized and outstanding common stock (par value $0.01 per share).

- On October 5, 2001, DRC purchased from Fireman's Fund Insurance Company ("FFIC") the authorized and outstanding shares of the common stock of Warner (par value $1.00 per share) and thereby acquired control of Warner.

- On January 14, 2002, DEL acquired the outstanding common stock of A&M.

- On April 25, 2003, Warner purchased from GAIC the authorized and outstanding shares of the common stock of Worldwide Direct Auto Insurance Company ("WDAIC"), then an Ohio insurance company (par value $175.00 per share), and thereby acquired control of WDAIC.

- Effective May 27, 2003, Worldwide changed its name to Response Worldwide Insurance Company ("RWI").

- Effective May 27, 2003, WDAIC changed its name to Response Worldwide Direct Auto Insurance Company ("RWD").

- Effective October 29, 2004, RWD sold the assets of A&M to Plymouth Rock Assurance Corporation, a Massachusetts insurance company, and Neighborhood Insurance of Connecticut, LLC, a Connecticut limited liability company and insurance broker. A&M was thereafter renamed "500 South Broad Street Insurance Agency, Inc." and dissolved effective December 20, 2004.

- Effective November 30, 2004, the assets of DEL in which RWI held 83% of the issued and outstanding common stock, were sold to FirstService Insurance Agency, Inc., a Pennsylvania corporation. DEL was thereafter renamed "301 Oxford Valley Insurance Agency, Inc."

Subsidiary Dividends Received

In addition to the $2,163,274 dividend received on April 1, 2004 by the Company from its subsidiary, National Merit Insurance Company, the Company also received a dividend from an affiliate, Response Insurance Company of America, a District of Columbia insurer, amounting to $343,052 on or about December 10, 2003. The Company also received a dividend from another affiliate, Response Indemnity Company of Delaware, amounting to $656,626 on or about April 19, 2004. Both of these dividends were reported to the Delaware Department of Insurance on a Form B Filing made within the time limit prescribed in Title 18, Section 5004, Delaware Code.

Dividends Paid to Parent

The Company did not pay any dividends to its parent company, DRC, during the five-year period covered by this examination.

Contributions to Surplus

During the period covered by this examination, the Company received the following contributions from its parent company, DRC, to its surplus (all were cash contributions unless otherwise indicated):

Date of Contribution	Amount
January 1, 2000 (Adjustment of investment in Response Insurance Company of America, a District of Columbia Insurer, reflected as a contribution from DRC)	$ 50,133
March 31, 2000	5,000,000
December 21, 2000	8,450,000
March 29, 2001	1,500,000
August 31, 2001 (200 shares of Response Indemnity Company of Delaware stock)	5,504,232
September 28, 2001	15,000,000
October 31, 2001 (10,000 shares of Response Indemnity Company, a New York insurer, common stock)	4,883,668
April 23, 2003	21,000,000*
December 18, 2003	4,000,000
December 24, 2003	3,000,000
Total	$68,388,033

* In its Annual 2003 Form B Filing, the Company erroneously reported that DRC contributed $36,750,000 to the surplus of the Company. However, such contribution was only made to the extent of $21,000,000 in cash. In fact, the Company paid the Company what it had intended to contribute (i.e., $21,000,000), but erred in its report to the Department as to the amount of the contribution. The Company amended its annual registration statement filing in November 2005 to clarify the amount of DRC's contribution.

MANAGEMENT AND SERVICE AGREEMENTS

Intercompany Agreements

Service Agreement

Effective January 1, 1999, 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 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 1999, 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.

<u>Tax Sharing Agreement</u>

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 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 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 June 1, 1998, the Company and SRB Corporation entered into an investment advisory agreement of which the development of investment policies and guidelines, 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 licensed in all states and the District of Columbia, except for Hawaii and Michigan. As of the examination date, the Company has policies in Arizona, California, District of Columbia, Delaware, Florida, Georgia, Illinois, Indiana, Maryland, Missouri, New York, Ohio, Pennsylvania, Texas, Virginia and Wisconsin.

As pool leader, the Company participates in the Response Reinsurance Pooling Agreement effective January 1, 2004. Under the terms of the Agreement pool members reinsure business with non-affiliated reinsurers prior to ceding to the pool leader all lines of business net underwriting activity. The Company assumes remaining net liabilities and premium from all pool members and retrocedes the net activity to the pool participants based on the pool participation percentages. The Pooling participants' names, NAIC codes and participation percentages are as follows:

Member Company	NAIC Code	Pool %
Response Insurance Company (DE)	43044	15%
Connecticut Life and Casualty Insurance Company (CT)	36609	12%
National Merit Insurance Company (WA)	39004	13%
Response Insurance Company of America (DC)	10727	8%
Response Worldwide Insurance Company (OH)	26050	32%
Response Worldwide Direct Auto Ins Co (OH)	20133	14%
Warner Insurance Company (IL)	26085	6%
		100%

The Provisions for Reinsurance are calculated and recorded by each company independently. Write-offs of uncollectible reinsurance are shared in accordance with the pooling participation percentages.

Company Brands

Response Insurance

Insurance is available directly by calling a toll-free number into one of the call centers, through the Company's web site, "Response.com", several Internet portals, and selected affinity relationships.

The Response Insurance group is currently marketing the Response brand in a number of states. Marketing channels include direct mail and the Internet, supported selectively by outbound telemarketing, print, radio and, television advertising.

Teachers' Insurance Plan

A major component to Company development has been the significant growth in the teacher market (Auto). The Teachers' Insurance Plan (TIP), which was a New York based program when it was acquired in 2000, has since been expanded into a number of other states including Arizona, California, Connecticut, Delaware, Florida, Illinois, Maryland, Missouri, Ohio, Pennsylvania, Texas, Virginia and Washington.

The program is marketed through TIP using various direct marketing techniques including direct mail, local print advertising, outbound telemarketing and the Internet.

Marketing Plan

As represented by Management, its plan is to grow the current book of business, which has primarily been used to support the Teachers' Insurance Plan. They will continue to write new Teachers' business in Arizona, California, District of Columbia, Delaware, Florida, Illinois, Maryland, Missouri, New York, Ohio, Pennsylvania, Virginia and Texas. The Company is also the underwriting company for broad market business in Indiana and Wisconsin. The current plan is to only maintain the current volumes in these two states.

The Company plans to continue its traditional and direct marketing techniques including direct mail, the Internet, outbound telemarketing, print, radio and television advertising as warranted by market conditions. Broad direct marketing began during the third quarter of 2004 in three select states (Pennsylvania, Connecticut and New York) and the plan is to continue as opportunities present themselves.

GROWTH OF COMPANY

The following represents the growth of the Company since the previous examination and was obtained from filed Annual Statements.

Year	Net Admitted Assets	Total Liabilities	Total Capital and Surplus	Net Premiums Written	Net Income
2004	$87,953,216	$19,202,142	$ 68,751,074	$ 18,264,191	$ 1,957,669
2003	107,476,939	35,747,719	71,729,220	23,876,356	8,376,074
2002	90,257,771	52,864,904	37,392,867	29,244,685	1,111,501
2001	96,643,940	89,484,844	37,159,096	40,340,627	(8,361,632)
2000	85,602,381	66,112,166	19,490,215	37,495,524	(10,562,482)
1999	48,954,057	32,406,647	16,547,410	29,998,113	(10,997,941)

During the examination period, net admitted assets increased by 80.0% to $87,953,216, and total liabilities decreased by 40.75% to $19,202,142. During the same period, capital and surplus increased by 315.48% to $68,751,074. After reporting net loss of $(10,997,941) in 1999, the Company's net income increased to $1,957,669, 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 two (2) unusual values from a total of eleven (11) ratios. The unusual values are shown and accounted for as follows:

	Description Of NAIC Financial Ratios	Percentage of Unusual Values
6)	Investment Yield	3.8%
8)	Liabilities to Liquid Assets	145.0%

6. Investment Yield. Results under 4.5% are unusual: result 3.8%

The 3.8% result is under the 4.5% usual range. The Company’s cash and invested assets consisted primarily of 20% bonds, 100% of which are investment grade; and 80% common stock, 96% of which is investment in affiliates.

8. Liabilities to Liquid Assets. Results over 105% are unusual: result 145%

This Company was not sufficiently liquid at year-end 2004. A comparison to prior year's ratio components indicated overall total adjusted liabilities decreased 48.7% and liquid assets decreased 63.7% over the same period. During 2004 the rate increase was due to liquid assets decreasing at a faster rate than total liabilities over prior year.

In the ratio calculation, investment in affiliates is subtracted. In 2004 the Company purchased National Merit Insurance Company for $16.4 million. Therefore, liquid assets excluding investment in affiliates decreased $16.4 million over prior year. The Loss and LAE reserves decreased materially over prior year as well as Cash and Invested Assets.

REINSURANCE

The following is a summary of the principal reinsurance agreements in place as of the examination date.

Assumed

Response Insurance Group Pooling Agreement

On August 2, 2004, retroactive to January 1, 2004, the Company and six of its affiliates entered into a reinsurance pooling agreement with the Company as the Pool Leader with a 15% participation. These affiliated companies were as follows with their respective participation percentage:

Response Insurance Company – 15%
Connecticut Life & Casualty Insurance Company - 12%
National Merit Insurance Company - 13%
Response Insurance Company of America - 8%
Response Worldwide Insurance Company - 32%
Response Worldwide Direct Auto Insurance Co. - 14%, and
Warner Insurance Company - 6%

The Pooling Agreement has been approved by the Delaware Department of Insurance.

Each pool member in the Response Insurance Group Pooling Agreement cedes, from inception, 100% of its net written premium to the Company. The Company in turn retrocedes to each participating member its respective pool percentage as detailed above. The participating pool members have authorized RIC to arrange for general reinsurance applicable for all or any portions of the pooled business not otherwise required. Such reinsurance is detailed below as the Private Passenger Automobile 1st and 2nd Excess of Loss with General Reinsurance Corporation and American Re-Insurance Company (even though that reinsurance terminated on July 1, 2005).

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 is another affiliate, Warner Insurance Company, making five insurers ceding business on this reinsurance agreement to the 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 Response Insurance Group companies and is in compliance with the guidelines as established by the NAIC (SSAP No. 62. paragraph 8). This agreement has been amended numerous times for premium increases and decreases along with the adding of a number of other Response Insurance Group companies: namely; Worldwide Insurance Company and Worldwide Direct Auto Insurance Company on April 25, 2003 (names subsequently changed to Response Worldwide Insurance Company and Response Worldwide Direct Auto Insurance Company), Connecticut Life & Casualty Insurance Company on July 1, 2003, and National Merit Insurance Company on January 1, 2004. This agreement was also endorsed to include for American Re a Third Excess of Loss reinsurance cover. This entire agreement was terminated effective July 1, 2005.

Quota Share

Effective May 1, 2000, the Company entered into a Quota Share Reinsurance Agreement with General Reinsurance Corporation to cover the personal umbrella business that it had issued. Subsequently, the following Company affiliates were also added to this agreement - Connecticut Life & Casualty Insurance Company (effective July 1, 2002); Warner Insurance Company (effective September 1, 2002, Worldwide Insurance Company and Worldwide Direct Automobile Insurance Company (both effective April 23, 2003); and, National Merit Insurance Company (effective January 1, 2004). The participating companies retention is 10% of the first $5,000,000 each occurrence for specific policies as listed with all other policies of the companies remaining at 10% quota share of the first $2,000,000 per occurrence.

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

Analysis of Assets
As of December 31, 2004

Bonds	$ 11,269,407		$11,269,407	(1)
Stocks:				
Common	72,099,001	7,102,029	64,996,972	(2)
Cash, cash equivalents and short-term investments	5,047,726		5,047,726	
Receivable for securities	12,656		12,656	
Investment income due and accrued	140,731		140,731	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	1,668,604		1,668,604	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,561,748		1,561,748	
Reinsurance:				
Funds held by or deposited with reinsurance companies	166,667		166,667	
Net deferred tax asset	8,229,076	8,229,076		
Receivables from parent, subsidiaries and affiliates	3,088,706		3,088,706	
Aggregate write-ins for other than invested assets:				
Leasehold improvement	11,565	11,565		
Total Assets, per Examination	$ 103,295,887	$15,342,670	$87,953,217	

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

		Notes
Losses	$ 8,381,813	(3)
Reinsurance payable on paid loss and loss adjustment expenses	86,152	
Loss adjustment expenses	2,086,034	(3)
Other expenses (excluding taxes, licenses and fees)	173,087	
Taxes, licenses and fees (excluding federal and foreign income taxes)	104,884	
Unearned premiums	6,319,396	
Advance premiums	229,813	
Ceded reinsurance premiums payable	15,672	
Amounts withheld or retained by company for account of others	269,022	
Payable to parent, subsidiaries and affiliates	1,521,476	
Aggregate write-ins for liabilities:		
Guaranty fund assessment	14,794	
Total Liabilities	$ 19,202,143	
Common capital stock	5,000,000	
Gross paid-in and contributed surplus	91,121,861	
Unassigned funds (surplus)	(27,370,787)	
Surplus as regards policyholders	$ 68,751,074	
Total Liabilities and Surplus, per Examination	$ 87,953,217	

Underwriting and Investment Exhibit
As of December 31, 2004

STATEMENT OF INCOME

		Notes
Premiums earned	$ 18,058,416	
Losses incurred	9,676,697	
Loss expenses incurred	2,327,832	
Other underwriting expenses incurred	6,757,852	
Total underwriting deductions	18,762,381	
Net underwriting gain (loss)	(703,965)	
Net investment income earned	3,470,079	
Net realized capital gains (losses)	(929,084)	
Net investment gain (loss)	2,540,995	
Net gain (loss) from agents' or premium balances charged off	(67,719)	
Finance and service charges not included in premiums	177,636	
Aggregate write-ins for miscellaneous income:		
Miscellaneous income	7,398	
Other fees and income	3,325	
Total other income	120,640	
Net income before div to policyholders and before fed and foreign income taxes	1,957,670	
Dividend to policyholders	-	
Net income, after div to policyholders and before fed and foreign income taxes	1,957,670	
Federal and foreign income taxes incurred	-	
Net income	$ 1,957,670	

Capital and Surplus Account

		Notes
Surplus as regards policyholders, December 31, 1999	$ 16,547,410	
Net income	(7,478,870)	
Change in net unrealized capital gains or (losses)	(1,585,631)	
Change in net deferred income taxes	11,090,049	
Change in nondmitted assets	(18,100,936)	
Cumulative effect of changes in accounting principles	(108,981)	
Surplus adjustment - Paid in	68,388,033	
Change in surplus as regards policyholders for the examination period	52,203,664	
Surplus as regards policyholders, December 31, 2004	$ 68,751,074	

Schedule of Examination Changes

There were no adjustments for the current Examination Report.

NOTES TO FINANCIAL STATEMENTS

Assets

1. Bonds $11,269,407

As of December 31, 2004, 80% of the Company's bond portfolio was comprised of industrial and miscellaneous bonds with a book adjusted valuation of $9,009,830. The other 20% of the bond portfolio was comprised of government, special revenue and public utility bonds with a book adjusted valuation of $2,259,577. All of the bonds in which the Company has invested have been designated by the NAIC as either Class 1 or Class 2.

2. Common Stocks $64,996,972

As of December 31, 2004, the book adjusted valuation of the Company's stock portfolio, was determined to be $72,099,001. Non-admitted goodwill, in the amount of $7,102,029, which is an amount in excess of the 10% allowance permitted per SSAP's #68, reduced the recorded valuation to the amount cited above. Ninety-six percent (96%) of the Company's stock portfolio is comprised of stock ownership in five (5) closely controlled affiliates, all of which have been valued utilizing the "statutory equity method," as prescribed in SSAP #46. The other four percent (4%) of its stock portfolio consists of well known entities traded on either the New York Stock Exchange or the NASDAQ.

Liabilities

3. Losses	$ 8,381,813
3. Loss Adjustment Expenses	$ 2,086,034
Total	$10,467,847

The total liability of $10,467,847 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:

	Losses	LAE	Total
Allied Lines	$ 20	$ -	$ 20
Farmowners Multiple Peril	79,149	18,976	98,125
Inland Marine	858	150	1,008
Other Liability	13,281	750	14,031
Private Passenger Auto Liability	8,040,083	1,995,213	10,035,296
Auto Physical Damage	248,422	70,945	319,367
Totals	$ 8,381,813	$ 2,086,034	$ 10,467,847

Loss and LAE reserves represent 54.5% of the Company's liabilities as of December 31, 2004. Incurred but not reported reserves (IBNR) constituted 28% 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. 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 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 12)

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 13)

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:

Description	Per Exam 12/31/04	Per Exam 12/31/99	Increase (Decrease)
Net Admitted Assets	$ 87,953,216	$ 48,954,057	$ 38,999,159
Total Liabilities	$ 19,202,142	$ 33,457,433	$ (14,255,291)
Common Capital Stock	$ 5,000,000	$ 5,000,000	$ -
Gross Paid-In And Contributed Surplus	91,121,861	22,733,828	68,388,033
Unassigned Funds (Surplus)	(27,370,787)	(12,237,204)	(15,133,583)
Total Capital and Surplus	68,751,074	15,496,624	53,254,450
Total Liabilities, Surplus and Other Funds	$ 87,953,216	$ 48,954,057	$ 38,999,159

Since the last examination made as of December 31, 1999, admitted assets have increased by $38,999,159, liabilities have decreased by $14,255,291, and total capital and surplus has increased by $53,254,450.

The examination of Response Insurance Company 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 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,

Robert C. Murphy

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Examiner-In-Charge
State of Delaware
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SUBSEQUENT EVENTS

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

- Effective March 21, 2005: (a) RWI and RWD were re-domesticated from Ohio to Connecticut; and (b) Warner was re-domesticated from Illinois to Connecticut.

- On May 23, 2005, the Company's external audit firm and preparer of the parent company's, DRC, and all subsidiaries income tax returns advised the Company that the capital and surplus reflected in the statement of admitted assets, liabilities, and capital and surplus as of December 31, 2004, as reported on the 2004 Annual Statement as filed with the Insurance Department of Delaware of $68,751,073 should be increased by $667,254. This difference results because of adjustments to federal income tax expense.

- On June 14, 2005, DRC contributed $2,400,000 in cash to the Company's surplus.

- Effective July 1, 2005, the Company terminated its Private Passenger Automobile 1st, 2nd and 3rd Excess of Loss reinsurance agreements effective July 1, 2005.

- On July 18, 2005, DRC contributed $500,000 in cash to the Company's surplus, which the Company then contributed $500,000 in cash to its affiliate, Response Insurance Company of America ("RICA"), a District of Columbia insurer.

- On July 20, 2005, the participants in the reinsurance pooling agreement amended the reinsurance pooling agreement to clarify the termination paragraph therein and to indicate that the liability under the agreement is joint and several among the pool participants.

- Effective August 1, 2005, RIC paid an extraordinary dividend to DRC in the form of the outstanding 15,000 shares (par value $100.00) of RICA's common stock (the "RICA Stock").

- On August 1, 2005, DRC contributed the RICA stock to Warner.

- Effective November 1, 2005, RICA merged with and into RWD.

- The Company amended its Service Agreement with 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 and subsidiaries for the period between the inception of the service agreement effective on January 1, 1999 and the effective date of the Fourth Amendment to the service agreement effective January 1, 2004. The parties agreed to amend the service agreement (as the Fifth Amendment) 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 between January 1, 1999 and December 31, 2003.

- On December 20, 2005, the Board of Directors of Response Indemnity Company of Delaware, a Delaware insurer, adopted a resolution to pay a dividend of $450,000 to RIC. The Company indicated that the dividend would be received on December 30, 2005.