

IN THE COURT OF COMMON PLEAS  
FRANKLIN COUNTY, OHIO

HAROLD T. DURYEE  
Superintendent of Insurance  
State of Ohio  
2100 Stella Court  
Columbus, Ohio 43266-0566,

Plaintiff,

vs.

GOVERNMENTAL CASUALTY INSURANCE  
COMPANY  
45659 Halyard Drive  
Plymouth, Michigan 48170,

Defendants.

92CVH02-1110  
CASE NO. \_\_\_\_\_

JUDGE Thompson

92 FEB 10 AM 10:50  
CLERK OF COURTS

COMPLAINT FOR REHABILITATION OF  
GOVERNMENTAL CASUALTY INSURANCE COMPANY

1. This motion is filed pursuant to R.C. 3903.12 requesting the appointment of Plaintiff Harold T. Duryee, Superintendent of Insurance for the State of Ohio, as Rehabilitator of Defendant Governmental Casualty Insurance Company (hereinafter referred to as "GCIC") and to obtain appropriate relief to protect its policyholders, creditors, and the public. This Court has jurisdiction of this matter pursuant to R.C. 3903.04(E).

2. Plaintiff states that he is the duly appointed Superintendent of Insurance of the State of Ohio and is charged with the responsibility of executing and enforcing the insurance laws of this state. R.C. 3901.011.

3. Defendant GCIC is a domestic stock, fire and casualty company licensed in the State of Ohio. It is subject to

proceedings authorized by R.C. 3903.01 to 3903.59 pursuant to R.C. 3903.03, and is an insurer as defined in R.C. 3903.01(L).

4. Plaintiff states that Defendant upon examination by Plaintiff was found to be in such condition that the further transaction of business would be hazardous, financially or otherwise, to its policyholders, creditors, or to the public, as described in R.C. 3903.12(A). (See Affidavit of Dana Rudmose, appended hereto as Attachment A.)

5. Plaintiff further states that on February 10, 1992, Defendant GCIC (A) consented to the appointment of a Rehabilitator, and (B) waived both service of process and the holding of a formal hearing to show cause in connection in said appointment pursuant to R.C. 3903.12(~~1~~). (GCIC's Consent for Rehabilitation is appended hereto as Attachment B.)

WHEREFORE, Plaintiff, pursuant to the provisions of R.C. Chapter 3903 and specifically R.C. 3903.12 and 3903.13, prays for the following:

A. A finding that sufficient cause exists for the rehabilitation of Defendant GCIC and appointment of Plaintiff as Rehabilitator.

B. An Order of Rehabilitation against Defendant GCIC.

C. An Order appointing Plaintiff Harold T. Duryee, Superintendent of Insurance for the State of Ohio, as Rehabilitator of Defendant GCIC and directing him to take possession of all assets, property, business and affairs of Defendant GCIC.

D. An Order appointing Dana W. Rudmose, Assistant Director, Office of Financial Regulation Services, as Chief Deputy Rehabilitator and vesting him with all authority given him pursuant to the provisions of R.C. Chapter 3903.

E. An Order vesting Plaintiff as Rehabilitator with the title to all property, contracts and rights of action of Defendant GCIC and directing that the Rehabilitator shall have all the powers of the directors, officers and managers, whose authority shall be suspended, except as they are specifically redelegated by the Rehabilitator.

F. An Order directing Plaintiff to secure all of the assets, property, books, records, accounts and other documents of Defendant GCIC.

G. An Order prohibiting the officers, directors, agents, employees, servants, representatives and the persons acting in concert with Defendant GCIC from disposing, using, transferring or concealing any property of Defendant without the express written authority of the Rehabilitator.

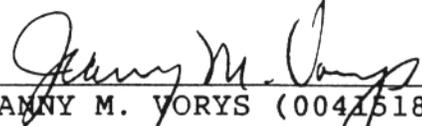
H. An Order prohibiting any bank, savings and loan association or other financial institution or other legal entity from disposing of, allowing to be withdrawn or concealing in any manner any property or asset of Defendant GCIC, except under the express authorization of the Rehabilitator or by further order of this Court.

I. An Order vesting Plaintiff with all other authority given him pursuant to R.C. Chapter 3903.

J. An Order including such further and other relief as this Court may deem just and proper under the circumstances.

Respectfully submitted,

ATTORNEY GENERAL LEE FISHER



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JEANNY M. VORYS (0041518)  
Assistant Attorney General  
Health and Human Services  
Section

30 East Broad Street, 15th Floor  
Columbus, Ohio 43266-0410  
(614) 466-8600

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AFFIDAVIT OF DANA W. RUDMOSE

STATE OF OHIO

)

COUNTY OF FRANKLIN

)

) SS:

Now comes Dana W. Rudmose, being duly cautioned and sworn, and deposes and states that:

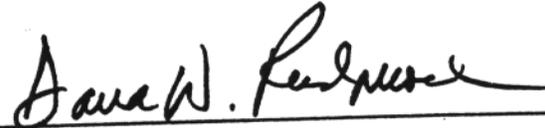
1. I am Assistant Director of the Office of Financial Regulation Services of the Ohio Department of Insurance.
2. In my capacity as Assistant Director of the Office of Financial Regulation Services, I am familiar with the financial condition of the Governmental Casualty Insurance Company ("GCIC"), which is a domestic stock, fire and casualty company licensed in the state of Ohio.
3. In my capacity as Assistant Director of the Office of Financial Regulation Services, I also am familiar with the financial records of GCIC, and assisted in the preparation of the Report Of Examination Of GCIC, as of September 30, 1991, dated December 20, 1991, a copy of which is attached hereto.
4. As of September 30, 1991, GCIC had a negative statutory surplus of \$<2,253,199> which is \$4,753,199 below the \$2,500,000 minimum required by Ohio Revised Code Section 3929.011.
5. In my capacity as Assistant Director of the Office of Financial Services, I issued a directive to GCIC on August 3, 1990 advising it that until further notice GCIC, without the prior approval of the Superintendent, was not to: advance monies to affiliated companies or persons; dispose of, convey or encumber any of its assets; lend any of its funds; invest any of its funds; transfer any of its property; incur any debt, obligations, or liabilities; merge or consolidate with any other company or enter into any new reinsurance contract or treaty. My

directive was based on the determination by ODI examiners that over the previous year and a half, GCIC's surplus had fallen below the required \$2,500,000 on at least three separate occasions. I also directed GCIC to advise ODI as to the corrective actions which had been or would be taken to improve GCIC's surplus condition.

6. One of the corrective actions taken by GCIC was to enter into a certain Reinsurance Agreement ARA 1704 with Frankona Reinsurance Company, United States Branch.
7. On August 19, 1991, the Superintendent of the Ohio Department of Insurance made the determination to supervise GCIC, pursuant to Ohio Revised Code Section 3903.09, based upon the Superintendent's reasonable belief that GCIC was in such condition as to render the condition of its business hazardous to the public or to holders of its policies or certificates of insurance. That belief was based upon GCIC's attempt to nullify the reinsurance agreement with Frankona Reinsurance Company, referred to in Paragraph Six above.
8. GCIC has remained under the supervision of the Superintendent due to its continuing insolvency, which constitutes a hazardous financial condition.
9. Based upon Paragraphs Three through Eight, further attempts to supervise GCIC would substantially increase the risk of loss to its policyholders, creditors and the public and also would be futile.
10. Based upon Paragraphs Three through Eight, GCIC is insolvent and the further transaction of GCIC's business would be hazardous financially to its policyholders, creditors or the public.
11. The board of directors consent to rehabilitation under Ohio Revised Code §3903.01 to 3903.59, copies of which are attached hereto.

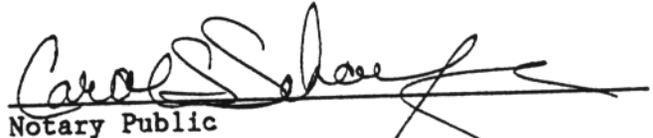
12. It is my recommendation as Assistant Director of the Office of Financial Regulation Services that the Ohio Department of Insurance immediately place GCIC into rehabilitation.

FURTHER AFFIANT SAYETH NAUGHT.



DANA W. RUDMOSE  
Assistant Director  
Office Of Financial Regulation

Personally appeared before, me, the aforesaid Dana W. Rudmose, who swore to the truth of the foregoing Affidavit on the 10<sup>th</sup> of February, 1992.



Notary Public

Attorney At Law

(my commission does not  
expire pursuant to R.C. 147.03)

STATE OF OHIO, DEPARTMENT OF INSURANCE

REPORT OF EXAMINATION

OF THE

GOVERNMENTAL CASUALTY INSURANCE COMPANY

2025 E. Beltline, Suite 400

Grand Rapids, Michigan 49546

December 20, 1991

Honorable Harold T. Duryee  
Director of Insurance  
State of Ohio  
Department of Insurance  
2100 Stella Court  
Columbus, Ohio 43266-0566

Sir:

An examination has been made of the Governmental Casualty Insurance Company ("GCIC"). The examination disclosed GCIC's surplus is a negative \$2,253,199 at September 30, 1991.

The accompanying report contains GCIC's balance sheet at September 30, 1991 as determined by this examination. The not admitted column from this exhibit shows the assets which were either transferred by GCIC to affiliated entities or persons without obtaining the prior approval of this Department or which were disallowed due to uncertainties regarding the ultimate collectability of the amount. These transfers occurred primarily in December 1990 through June 1991. The remaining pages of this report provides additional information regarding the balance sheet items.

Governmental Casualty Insurance Company

Balance Sheet  
at September 30, 1991

	<u>ASSETS</u>		
	<u>Assets</u>	<u>Not Admitted</u>	<u>Admitted Assets</u>
1. Securities-Frankona/GCIC escrow	\$2,873,045		\$2,873,045
2. Common stocks	850,000	850,000	
3. Mortgage loans	328,000	328,000	
4. Real estate	54,900	54,900	
5. Cash transferred to affiliates	2,717,813	2,717,813	
6. Cash on deposit	29,163		29,163
7. Certificate of deposit-Ohio deposit	200,000		200,000
8. Federal income taxes recoverable	265,972	265,972	
9. EDP equipment	4,231	4,231	
10. Interest due and accrued	14,655	14,655	
11. Receivable from parent and affiliates	279,753	279,753	
12. Premium receivable	431,979	431,979	
<b>Total Assets</b>	<u>\$8,049,511</u>	<u>\$4,947,303</u>	<u>\$3,102,208</u>

LIABILITIES AND SURPLUS

13. Losses and allocated loss adjustment expenses payable		\$3,041,778
14. Unallocated loss adjustment expenses payable		285,500
15. Other expenses payable (including \$595,264 to affiliate)		695,264
16. Payable to affiliate (ACLIC)		455,588
17. Lease payable (Ohio office)		260,000
18. Premium payable		617,277
<b>Total Liabilities</b>		<u>\$5,355,407</u>
Capital Stock	\$1,120,000	
Paid in and contributed surplus	2,738,379	
Unassigned funds	<u>&lt;6,112,078&gt;</u>	<2,253,199>
Surplus as regards policyholders		<u>                    </u>
<b>Total Liabilities and Surplus</b>		<u>\$3,102,208</u>

ASSETS

1. Securities-Frankona/GCIC escrow \$2,873,045.  
This amount is the balance held in escrow at a Toledo, Ohio bank pursuant to a reinsurance agreement between GCIC and Frankona Reinsurance Corp. GCIC reinsured its claim liabilities with Frankona. Claims in excess of this reinsurance are assumed by ACLIC. The escrow amount represents Frankona's limit of liability. This liability is discussed at #13 below.
2. Common Stock \$850,000.  
GCIC transferred 2,350 shares of common stock to its parent, Governmental Risk Managers of Ohio, Inc., ("GRMO"). This stock represents a 23.5% ownership of Waterman Investments, Inc. ("WII"). The only asset of WII is 100% of the stock of American Commercial Liability Insurance Company ("ACLIC").
3. Mortgage loans \$328,000.  
Two mortgage loans held by GCIC were transferred in 1991. One loan debt for \$196,000 was forgiven. The second loan for \$132,000 was transferred to GRMO and ultimately to ACLIC.

4. Real estate \$54,900.  
A Dublin, Ohio condominium was transferred from GCIC to GRMO and ultimately to ACLIC on June 6, 1991.

5. Cash transferred to affiliates \$2,717,813.  
The following shows cash transfers by GCIC:

<u>Transaction</u>	<u>Transferred to</u>	<u>Amount</u>	<u>Date</u>
a. To redeem GRMO stock.	Former GRMO Stockholders	\$ 940,000	12/12/90
b. Allocation of expenses.	ACLIC	\$ 100,000	12/12/90
c. IRS refund.	ACLIC	\$ 95,000	5/23/91
d. To fund a GRMO checking acct.	GRMO	\$ 21,000	6/26/91
e. Interest on CD which is on deposit with Ohio.	GRMO Ultimately to ACLIC	\$ 43,854	4/26/91
f. Advances to GRMO.	GRMO	\$1,099,115	1989 & 1990
g. Advances from ACLIC to GCIC to GRMO (Corresponding liability- see #16 below-"Payable to affiliate").	GRMO	\$ 418,344	1/91 & 2/91
		<u>2,717,813</u>	

6. Cash on deposit \$29,163.  
Four checking accounts currently exist in GCIC's name with balances totalling \$29,163.

7. Certificate of deposit \$200,000.  
A \$200,000 certificate of deposit is on deposit with the State of Ohio.
8. Federal income taxes recoverable \$265,972.  
This recoverable was assigned by GCIC to GRMO to MIT to ACLIC on March 29, 1991. The tax return for this recoverable has not been filed with the IRS.
9. EDP equipment \$4,231.  
Computer software was transferred to GRMO.
10. Interest due and accrued \$14,655.  
This interest income on the \$200,000 certificate of deposit was subsequently received by ACLIC.
11. Receivable from affiliates \$279,753.  
The following two receivables were written off by GCIC in December 1990:

Governmental Risk Managers, Inc.	\$ 38,829
ACLIC	240,753
Total	<u>\$279,753</u> =====

12. Premium receivable \$431,979.  
The \$431,979 represents premium for October 1990 which was receivable by GCIC from Midwest Intermediaries (MIT) and then payable to ACLIC due to a reinsurance agreement between ACLIC and the risk plans executed in early 1991 and retroactive to July 1, 1990. A corresponding liability exists which is described at #18 below. The amount was written off by GCIC as the premium was not received.

LIABILITIES

13. Losses and allocated loss adjustment expenses payable \$3,041,778.  
This reserve amount was projected by a consulting actuary. The escrow account described in #1 above was insufficient to cover this reserve by \$168,733 at September 30, 1991. Approximately \$108,000 was paid by a third party who has asserted a claim for reimbursement.
14. Unallocated loss adjustment expenses payable \$285,500.  
Two contracts have been proposed for processing expenses for the claims under the GCIC/Frankona reinsurance agreement. The \$285,500 represents the cost of the contracts over two years.

15. Other expenses (including \$595,264 to affiliates) \$695,264.  
Other expenses consists of the following:

Allocation of expenses from ACLIC to GCIC for 1/1/91 thru 9/30/91	\$595,264
Other expenses (Examination expenses, etc.)	<u>\$100,000</u>
Total	<u><u>\$695,264</u></u>

16. Payable to affiliate \$455,588.  
This payable consists of the following:

Advances from ACLIC in 1991	\$418,844
Loss payments by ACLIC for GCIC in 1991	\$131,744
GCIC IRS refund paid to ACLIC	< 95,000 >
Total	<u><u>\$455,588</u></u>

From above, the advances from ACLIC to GCIC were subsequently transferred to GRMO. A corresponding asset exists and is described at #5 g above.

17. Lease payable \$260,000.  
GCIC vacated an office in Dublin, Ohio in May 1991 and stopped making monthly payments. Forty-two monthly payments remain under the lease at \$4,919 per payment for a total of \$206,598. The landlord has demanded payment of \$260,000.

18. Premium payable \$617,277.

This amount is for September and October 1990 premium owed by GCIC to ACLIC. Of this amount, \$431,979 was never received by GCIC from Midwest Intermediaries and was subsequently written off due to the reinsurance agreement between ACLIC and the risk plans executed in early 1991. A corresponding asset is explained in #12 above.

Submitted By,



Edwin P. Shidaker, CFE  
Examiner,  
Office of Financial Regulation Services

VERIFICATION

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true report of examination of The Governmental Casualty Insurance Company.

Edwin P. Shidaker

Edwin P. Shidaker, CFE  
Examiner-In-Charge  
Ohio Department of Insurance

12/20/91

Date

Michael F. Motil

Michael F. Motil, CFE  
Assistant Chief Examiner  
Ohio Department of Insurance

12/20/91

Date

State of Ohio

County of Franklin

Personally appeared before me the above named Edwin P. Shidaker personally known to me, who, being duly sworn, deposes and says that he executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 20th day of December, 1991.

(Seal)

Stephen J. Vamos, Jr.

(Notary Public)  
STEPHEN JOSEPH VAMOS, JR.  
ATTORNEY - NOTARY PUBLIC  
NO EXPIRATION DATE - R.C. 147.03

My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named Michael F. Motil personally known to me, who, being duly sworn, deposes and says that he executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 20th day of December, 1991.

(Seal)

Stephen J. Vamos, Jr.

(Notary Public)  
STEPHEN JOSEPH VAMOS, JR.  
ATTORNEY - NOTARY PUBLIC  
NO EXPIRATION DATE - R.C. 147.03

My Commission Expires

**WAIVER OF CERTAIN PROCEDURAL RIGHTS  
AND CONSENT AS TO  
ORDER FOR APPOINTMENT OF REHABILITATOR**

WHEREAS, Government Casualty Insurance Company (the "Company") is a domestic insurance company licensed in the State of Ohio; and

WHEREAS, the Company is an insurer as defined in Section 3903.01(L) of the Ohio Revised Code ("ORC"); and

WHEREAS, pursuant to Section 3903.03 of the ORC, the Company is subject to the proceedings authorized in Sections 3903.01 to 3903.59 of the ORC;

NOW THEREFORE the Company hereby consents, acknowledges and agrees to the following:

1. The Company consents and agrees to the appointment, by the Court of Common Pleas of Franklin County, Ohio, of the Honorable Harold T. Duryee, Superintendent of Insurance, as rehabilitator of the Company (the "Rehabilitator") pursuant to Sections 3903.01 to 3903.59 of the ORC;
2. The Company waives any right to receive service of process and any right to a formal hearing to show cause in connection with the appointment of the Rehabilitator;
3. The Company acknowledges that its board of directors consents to the Journal Entry and Order Appointing Rehabilitator;
4. The Company agrees to take all actions, produce all books, records, and other documents, and to cooperate fully in any other manner with the Rehabilitator regarding the Journal Entry and Order Appointing Rehabilitator; and
5. This consent shall not prejudice the authority of the Superintendent of Insurance to exercise any right under ORC Chapter 3903.

IN WITNESS WHEREOF, the undersigned execute and acknowledge this Waiver and Consent this 6<sup>th</sup> day of February, 1992.

GOVERNMENT CASUALTY INSURANCE COMPANY

By: Wade R. Waterman

President

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FEB- 8-92 THU 16:22

Siebers & Kivell, P.C.

FAX NO. 6169403271

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82/06/92 16:19

8 616 459 5121 CLARY, NANTZ. 62.

WAIVER OF NOTICE

The undersigned, being a director of Government Casualty Insurance Company, hereby waives notice of a Special Meeting of the Board of Directors, held in Plymouth, Michigan on FEB 6, 1992, at 3:00 P.M. for the purpose of considering an Agreement and Consent (attached hereto as Exhibit A) with the Ohio Department of Insurance.

Walter Watson  
Director

2-6-92  
Date

RESOLUTION

of

The Board of Directors

of

The Government Casualty Insurance Company

I, the undersigned, being the secretary of the Government Casualty Insurance Company (the "company"), duly organized and existing under the laws of the State of Ohio, do hereby certify that the following is a true and correct copy of a resolution duly passed by the Board of Directors of the Company:

Resolved, that the appropriate officer of the Company hereby is authorized and empowered to execute the Agreement and Consent attached hereto as Exhibit "A."

In Witness Whereof, we have set our hands as of this 6<sup>th</sup> day of February, 1992.

[Signature]  
Secretary

STATE OF Michigan )  
COUNTY OF Wayne ) ss.

Subscribed and sworn to before me this 7<sup>th</sup> day of February, 1992.

Marsha L. Ledbetter  
Notary Public  
Wayne County,  
My commission expires: Nov. 21, 1992

MARSHA L. LEDBETTER  
Notary Public, Wayne County, MI  
My Comm. Expires Nov. 21, 1992