

IN THE COMMON PLEAS COURT OF FRANKLIN COUNTY, OHIO

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COMMON PLEAS COURT
FRANKLIN COUNTY, OHIO
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CLERK OF COURTS

MARY TAYLOR, Ohio Superintendent of
Insurance, in her capacity as Liquidator of
Credit General Insurance Company and
Credit General Indemnity Company,

Plaintiff,

v.

Credit General Insurance Company, et al.

Defendants.

Case No. 00CVH-11-9867

Judge Mark Serrott

REPORT ON STATUS OF LIQUIDATION

I. INTRODUCTION

This report is filed to apprise the Court and claimants in the Credit General Insurance Company and Credit General Indemnity Company (collectively "Credit General") liquidation cases of the status of the case. On December 12, 2000, this Court ordered Credit General Indemnity Company liquidated. On January 5, 2001, this Court ordered Credit General Insurance Company liquidated. At that time, the Liquidator issued notices of liquidation pursuant to R.C. 3903.22 and the Liquidation Orders that notified all potential claimants in Credit General that January 31, 2002 was the deadline for filing timely proofs of claims against Credit General (the "Bar Date"). As in all cases, claims filed after the Bar Date are classed as late-filed (Class 7) claims.

The Liquidator continued to receive new claims after the Bar Date. Specifically, certain claimants attempted to assert new claims either as late filed claims or sometimes claiming that the new claims relate back to a timely-filed "blanket" proof of claim form,

even though "blanket" proofs of claim are not permitted under the Liquidation Statutes or the Orders entered in this case. As in other cases where certain claimants file "blanket" and unspecified proofs of claim and it is certain that assets will be insufficient to pay even Class 2 policyholder claimants in full, the Liquidator in this case obtained court approval of an Absolute Final Bar Date of March 31, 2009. An Absolute Final Bar Date is, by its terms, not a modification or extension of the Bar Date. Rather, the Absolute Final Bar Date is a new date that represents the date after which the Liquidator will not receive any new or previously unspecified claims (including Class 7 claims).

The establishment of the Absolute Final Bar Date allows the Liquidator to quantify, by class, all claims made against the assets of the Credit General liquidation estates. Only then can the Liquidator determine the validity and value of the totality of the proofs of claims and the estates' overall claims liability in relation to assets so that ultimately distributions to creditors can be made in accordance with the Ohio Insurance Liquidation Statutes and the estates closed. Without the Absolute Final Bar Date cutting off claims, these estates will remain open indefinitely. During that time few additional new assets will be recovered because they have, with the few exceptions noted below, already been recovered during the ten years of this liquidation. The amount of future income that could be earned on the Liquidator's conservative investments of the estates' assets if the estates are kept open longer than planned is speculative, but in recent years the income from investments has been near zero. In contrast, liabilities will increase. The costs of administration will continue and the overall claims liability will increase.

II. CLAIMS

A. Status of Credit General Policyholder Claims Administered By Insurance Guaranty Funds

Prior to liquidation, Credit General wrote various lines of business throughout the United States, including principally long-tail workers' compensation insurance. As a result, Credit General's liquidation proceedings have actively involved 55 separate insurance guaranty associations ("IGAs") from all 50 of the United States (some states having a property and casualty insurance guaranty fund, and a separate guaranty fund for workers' compensation), each of which became statutorily obligated upon liquidation to administer, process and pay Credit General's Class 2 (policyholder) claims up to each IGA's applicable statutory limits. In nearly all states, the minimum guaranty association limit is \$300,000 per policyholder, with some states having higher limits. However, there are generally no statutory caps and policy limits whatsoever on workers' compensation claims.

As a result, Credit General's liquidation process is extended and complicated by numerous long tail workers' compensation claims that necessarily remain at the IGAs that are paying the claims and other factors including significant asset recovery litigation. As of the time of this Report, the IGAs are not finished paying all policyholder claims because of the long tail nature of Credit General's policyholder claims liabilities.

At the point in time when the IGA has paid up to its applicable cap on a Credit General policyholder claim, the IGA returns the claim to the Liquidator for further adjudication. When there is no cap, the claim is returned when the claim is concluded. While the IGAs have resolved the majority of the thousands of Credit General policyholder claims, the Liquidation Office Claims Department advises that there are still

approximately 644 open claim files at IGAs around the country as of June 21, 2011. This number is continually shrinking as files are returned to the Liquidator on a rolling basis. To date, the IGAs have reported that as of May 24, 2011, they have collectively paid \$367,135,554.63 in Class 2 (policyholder level) claims.

B. Status of Proofs of Claims Administered by the Liquidator

The Liquidator obtained court approval of an Absolute Final Bar Date of March 31, 2009. The establishment of this date allows the Liquidator to quantify, by class, all claims made against the assets of the estate, determine the validity and the value of all such claims so that ultimately distributions may be made in accordance with the Ohio Insurance Liquidation Statutes. In total, the Liquidator's Claims Department records show that the Liquidator received 18,399 proofs of claims from various classes of claimants as of the Absolute Final Bar Date. Of those, 12,817 claims are "claim file related," which means they arise out of a pre-liquidation Class 2 (policyholder level) claim. To date, the Liquidator has adjudicated/determined through the issuance of determination letters 12,990 of the 18,399 total proofs of claims pursuant to Ohio R.C. 3903.35, *et seq.*

Among the undetermined proofs of claim are the individual proofs of claims filed by each of the IGAs that paid or are paying covered policyholder claims. In this case, as in others where there is guaranty fund protection, the proofs of claim filed on behalf of the IGAs are the largest claims against the estate. IGAs expend monies to pay policyholder claims long before resolution of the ultimate financial condition of the liquidating insurer's estate. In turn, IGAs are granted Class 1 and Class 2 priority claim status in the liquidation estate. *See* R.C. 3903.42 Class 1 claims include the IGAs'

reasonable expenses in handling claims. *See* R.C. 3903.42(A). The IGAs' Class 2 claims include all insured loss claims paid by the IGAs. *See* R.C. 3903.42(B).

Together, the participating IGAs alone have submitted claims against the Credit General estates totaling \$397,337,457.35 as of May 24, 2011, which sum includes Class 1 claims totaling \$30,201,902.72 and, as referenced above, Class 2 claims (loss payments and paid allocated LAE) totaling \$367,135,554.63. These amounts will increase as reporting of payments continues. The Liquidator is reviewing the proofs of claim, which review includes confirming the claims and expenditures of the IGAs who are handling the claims after Credit General's liquidation. In 2010, the Credit General Liquidator made its first payments to the IGAs. In July 2010 and November 2010, the Liquidator paid a combined total of \$24,832,487 to the IGA's as early access payments in accordance with R.C. 3903.34 and the court-approved Early Access Plan, which payments represent payment of 100% of the IGAs Class 1 claims as of December 31, 2009.

Not all Class 2 proofs of claim are filed by IGAs. The Liquidator also adjudicated Class 2 claims filed by claimants whose Class 2 claims are not covered in whole or in part by insurance guaranty associations ("non-IGA Class 2 claims"). In addition to the Class 2 liability to IGAs, the Credit General estates have \$9,982,080.09 in allowed non-IGA Class 2 claims arising under insurance policies or bonds. This sum includes \$20,289.51 in unearned premium claims determined as of June 21, 2011. However, the Liquidator has not yet determined over 5,000 unearned premium claims. Therefore, the total non-IGA Class 2 claims liability is not yet known.

Based on all of the foregoing, the estates' combined Class 2 IGA and non-IGA claims liability as of June 21, 2011 is \$377,117,634.72. The total Class 1 (IGA only, excluding the Liquidator's prior and ongoing Class 1 expenses) and Class 2 liability of the estates as of June 21, 2011 is \$407,301,839.95.

There has been no adjustment in the proof of claim filing deadline (Bar Date) or the Absolute Final Bar Date in the Credit General liquidation proceedings. As a result, no one can file claims after March 31, 2009 (all claim forms will be returned to sender) and all claims filed after the January 31, 2002 Bar Date are late filed, Class 7 claims that are unlikely to receive any distribution. See R.C. 3903.42.

III. ASSET RECOVERY

Although the Liquidator has collected the vast majority of assets as reflected in the Liquidator's periodic accountings filed with this Court, the Liquidator has not completed asset recovery. The Liquidator is still engaged in pursuing reinsurance recoveries, which must be completed before any final distribution of assets to claimants in the liquidation may occur. The largest assets collected to date include over \$115,000,000 in reinsurance recoveries, the majority of which was collected since 2008, as well as \$21,271,121.86 in premiums and \$11,783,725.80 collectively under various settlement agreements.

IV. CLOSING THE ESTATE

The liquidation process often takes 15 years when the liabilities include long tail claims and when there is significant asset recovery litigation. Although the Liquidator cannot precisely determine the Estate's exact claims liability and corresponding exact distribution percentage until all remaining claims and other active matters in the

liquidation are finally resolved years from now, the Liquidator is making an effort to try to provide claimants with good faith estimates of the time in which the Liquidator hopes to close a mature estate and make a final distribution to claimants other than IGAs and, when possible, a preliminary distribution percentage estimate based on current projections of assets and liabilities. This new practice of posting good faith estimates in mature estates when appropriate is part of this Liquidator's commitment to the creditors of the estates the Liquidator manages. This information is provided because it might be useful to consumers or lead to more informed consumer decisions, such as for example, in the event consumers are approached by claims buyers. In all circumstances, however, all persons receiving this information must be aware that the good faith estimates are estimates, and that they are based upon information and the circumstances known at the precise time they were made which is subject to change. The underlying facts and circumstances upon which the good faith estimates are based, and therefore the good faith estimates and the actual distribution percentages that will be made years from now, are subject to change.

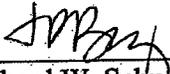
As of and effective June 1, 2011, the Liquidator estimates in good faith that she will file a motion for authority to make one final distribution to claimants in or after 2015. The Liquidator further *presently estimates* in good faith that she will pay 100% of allowed claims in Class 1 and that, based on information available today she could pay a small percentage of allowed Class 2 claims. At this particular time, the Liquidator does not expect to make any distributions to claimants in classes 3 through 9. These good faith estimates *are expected to change* prior to the actual distribution and closing of the Credit General estates. The actual pro-rata distributions will be reflected in the Liquidator's

Motion for Order Approving Final Report of Claims to be filed at or near the time of the final distribution of assets of Credit General. Interested persons may check the Liquidator's website www.ohliq.com -> Open Liquidations -> Credit General Ins Co-> Documents and www.ohliq.com -> Open Liquidations -> Credit General Ind Co.-> Documents to see key documents and monitor the liquidation cases.

Respectfully submitted,

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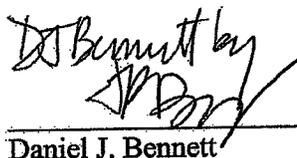
CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing Report on the Status of Liquidation was emailed to the persons on the attached CGIC Courtesy Copy E-Mail List and served upon the following via Regular Mail, postage prepaid, on this 24 day of June, 2011:

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