

IN THE COMMON PLEAS COURT OF FRANKLIN COUNTY, OHIO

MARY TAYLOR, Ohio Superintendent of Insurance, in her capacity as Liquidator of Credit General Insurance Company and Credit General Indemnity Company,	:	
	:	
Plaintiff,	:	
	:	
v.	:	Case No. 00CVH-11-9867
	:	
Credit General Insurance Company, et al.	:	Judge Mark Serrott
	:	
Defendants.	:	

REPORT ON STATUS OF LIQUIDATION

I. INTRODUCTION

The Liquidator files this report 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 liquidations and the Liquidator's progress on her closing plan. The Liquidator filed her last status report on June 24, 2011.

As in all nearly all liquidations, estate liabilities exceed assets. Assets will continue to shrink because asset recovery is nearly complete. Even with the Liquidator's implementation of drastic cost-reduction and cost-containment initiatives since 2008, the near-zero percent interest rate that the Liquidator has been earning on her conservative investments cannot offset the ongoing necessary expenses of estate administration. It is in the best interest of policyholders, creditors and the estates to close these estates as promptly as possible.

To that end, the Liquidator established a closing plan under which she hopes to file before the end of 2013, a motion requesting authority to make one final distribution and then the

closing of these estates. The Liquidator's closing plan is ambitious, notwithstanding that these cases have been pending since 2000. The closing plan is ambitious because the liquidation process often takes 15 years or more where the liabilities include long tail claims and where significant asset recovery litigation occurs. Yet, the plan serves the best interests of all claimants who will receive a distribution because it conserves estate assets and is consistent with the mandates of the Ohio Insurance Liquidation Statutes, Ohio Revised Code ("R.C.") §§3903.01-.59.

Substantial progress has been made, and continues to be made, toward the closing plan by the Liquidator, participating insurance guaranty associations, the Court and others. However, it appears at this time that full implementation of the closing plan by the current target dates requires, at a minimum, that all of the following occur by June 30, 2013: 1. the Liquidator collects all remaining reinsurance owed the estates; 2. the Liquidator determines all remaining proofs of claims that have not yet been adjudicated; 3. all existing and future claims objections are resolved; and, 4. the Liquidator obtains the required release of claims from the federal government. These and other items are explained more fully throughout this report. The Liquidator will continue to keep the Court and claimants apprised of her progress and of any necessary adjustments to the current closing plan and timeline.

II. BACKGROUND

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 (The "Notices"). The Notices 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"). In 2008, the Court established 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 proofs of claims (including late filed claims) or allow claimants to substantiate previously unspecified or "blanket" proofs of claims. The establishment of the Absolute Final Bar Date is one of the tools available to the Liquidator for determining the classification, validity and value of the totality of the proofs of claims and the estates' overall claims liability in relation to assets so that distributions to creditors can be made and the estates closed.

In this regard, R.C. §3903.42 governs the priority of the distribution of claims from an insurer's estate. Under the statute:

The priority of distribution of claims from the insurer's estate shall be in accordance with the order in which each class of claims is set forth in this section. Every claim in each class shall be paid in full or adequate funds retained for such payment before the members of the next class receive any payment.

R.C. § 3903.42 establishes nine (9) classes of claims that must be paid in priority order. Within a class, all claims are paid equal pro-rata shares if there are insufficient assets to pay the class in full. The classes are fully defined in R.C. § 3903.42. To highlight some examples, the first priority is payment of the administrative expenses of the estate; followed by the payment of claims arising under the policies or contracts of insurance written by the company (including claims paid by the insurance guaranty associations as described more fully below). The third priority is claims of the federal government. The last priority is payment to the owners of the company.

III. STATUS OF ASSET RECOVERY

As of December 31, 2011, the Credit General Insurance Company Estate had \$102,679,220.78 in assets. As of December 31, 2011, the Credit General Indemnity Company Estate had \$10,939,462.64 in assets. The largest assets collected to date in both Estates remain over \$124,729,626 in reinsurance recoveries, the majority of which was collected after 2008, as well as \$22,982,631 in premiums and \$11,783,725.80 collectively under various settlement agreements.

Although the Liquidator has collected the vast majority of assets in the Credit General Estates, the Liquidator has not completed all asset recovery. The Liquidator is still engaged in pursuing certain reinsurance recoveries, which must be completed before any final distribution of assets to claimants in the liquidation may occur.

IV. STATUS OF CLAIMS

A. Summary of Claims Liabilities

The Credit General Insurance Company Estate has \$313,059,673.43 in total Class 2 liabilities (not including reserves) as of December 31, 2011. The Credit General Indemnity Company Estate has \$67,016,697.26 in total Class 2 liabilities (not including reserves) as of December 31, 2011. These numbers will increase because the Liquidator continues to value Class 2 proofs of claims, in particular the claims of the participating insurance guaranty funds, and the insurance guaranty funds continue to pay claims. Neither Estate has valued proofs of claims in Classes 4 through 9 because there are insufficient assets to pay Class 2 in full. *See* R.C. §3903.42, *supra*.

B. Status of Credit General Policyholder Level Claim Files 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 insurance guaranty funds ("IGAs") from all 50 of the United States, each of which became statutorily obligated upon liquidation to administer, process and pay Credit General's Class 2 (policyholder level) claims up to each IGA's applicable statutory limits. In turn, the IGAs have Class 1 and Class 2 claims against the Credit General Liquidation Estates. See R.C. §3903.42(A).

In nearly all states, the IGA coverage limit is \$300,000 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 in part by numerous long tail workers' compensation claims that necessarily remain at the IGAs that are paying the claims. Some of these workers' compensation claims are for catastrophic injury and lifetime awards.

As of the time of this Report, the IGAs have made substantial progress in paying and closing policyholder level claims. As of February 29, 2012, there were a total of 404 open Credit General Insurance Company claims remaining at thirty-five (35) IGAs, and a total of 198 open Credit General Indemnity Company claims remaining at two (2) IGAs. Except for four (4) open claims in Credit General Insurance Company, the open IGA claims involve workers' compensation claims. The number of open claims will shrink as claim files are closed by the IGAs and returned to the Liquidator. This will in turn allow the Liquidator to resolve associated proofs of claim on a rolling basis. Together, the 602 open policyholder level claim files in both Estates (down from 644 as of June 21, 2011) represent only 2.2% of the claim files open at the

time the liquidations. Thus, the Liquidator and the IGAs have fully and finally resolved over 97% of policyholder level claims.

C. Status of Insurance Guaranty Funds' Proofs of Claims

As referenced above, IGAs pay policyholder claims long before resolution of the ultimate financial condition of the liquidating insurer's estate. The IGAs also pay claims seeking the return of unearned premium ("UEP Claims"). 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 and covered UEP claims. *See* R.C. §3903.42(B). 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 estates. The Liquidator reviews these proofs of claim, which review includes confirming the claims and expenditures of the IGAs who are handling the claims after Credit General's liquidation.

1. IGA Class 1 Administrative Expense Claims

As of December 31, 2011, the IGAs reported that they have collectively incurred \$28,086,317.10 in Credit General Insurance Company and \$6,364,407.38 in Credit General Indemnity Company in Class 1 administrative expenses, which forms the basis for the IGAs' Class 1 proofs of claims against the Credit General estates. *See* R.C. §3903.42(A).

In 2010, the Credit General Liquidator made her first payments to the IGAs on these claims. In July 2010 and December 2010, the Liquidator paid to the IGAs a total of \$24,832,488.31 in Credit General Insurance Company and \$4,115,960.04 in Credit General Indemnity Company as partial distributions on the IGAs' Class 1 claims. These payments represented 100% of the IGAs Class 1 claims as of December 31, 2009.

An additional \$5,502,276.13 in IGA administrative expenses have been reported since the 2010 partial distributions. The Liquidator hopes to make an additional payment to the IGAs on their Class 1 claims in or around October 2012.

2. IGA Class 2 Proofs of Claims – Policyholder Level Loss and Allocated LAE

As of December 31, 2011, the IGAs reported that they have collectively paid \$295,825,972.83 in Class 2 (policyholder level) claims (loss and allocated LAE) in the Credit General Insurance Company estate and \$65,166,344.37 in Class 2 (policyholder level) claims (loss and allocated LAE) in the Credit General Indemnity Company estate, which forms the basis for the IGAs' Class 2 proofs of claims against the Credit General estates. However, this amount will increase as the IGAs continue to pay claims and expenses where they still have open claims. The Liquidator recently discussed with the IGAs a plan that would permit the Liquidator and the IGAs to reach agreement on the value of the open claims, with the goal to finalize the Liquidator's liability to the IGAs on the remaining 2% of open claim files and facilitate the Credit General closing plan.

3. IGA Class 2 Proofs of Claims – Unearned Premium

Since the last status report, the Liquidator completed her review and certification to the IGAs of all remaining unearned premium claims in February 2012. At that time, the Liquidator certified an additional \$2,226,287.84 in unearned premium claims against Credit General Insurance Company and an additional \$314,481.49 in unearned premium claims against Credit General Indemnity Company, for a total of \$2,540,769.33. As of December 31, 2011, the IGAs reported that they have collectively paid \$6,265,376.86 in Class 2 UEP claims in the Credit General Insurance estate and \$815,876.80 in Class 2 UEP claims in the Credit General Indemnity estate during the life of the liquidations. This amount will increase as the IGA's review of the

Liquidator's recent certifications and reports of expenses and payments of those UEP claims continues.

D. Status of Class 2 Proofs of Claims Administered by the Liquidator

In total, the Liquidator's Claims Department records show that in the Credit General Insurance Company liquidation proceeding, the Liquidator received 15,939 proofs of claims from various classes of claimants as of the Absolute Final Bar Date, of which 12,387 were timely filed. To date, the Liquidator has adjudicated/determined through the issuance of determination letters 12,667 of the 15,939 total proofs of claims pursuant to R.C. §3903.35, *et seq.*

In total, the Liquidator's Claims Department records show that in the Credit General Indemnity Company liquidation proceeding, the Liquidator received 2,584 proofs of claims from various classes of claimants as of the Absolute Final Bar Date, of which 2,436 were timely filed. To date, the Liquidator has adjudicated/determined through the issuance of determination letters 2,074 of the 2,584 total proofs of claims pursuant to R.C. §3903.35, *et seq.*

1. Liquidator Class 2 Proofs of Claims – Policyholder Level Loss and Allocated LAE

Many of the Class 2 policyholder level proofs of claims are "claim file related," which means they arise out of a pre-liquidation Class 2 policyholder level claim. As explained in Section IV.B. *supra*, virtually all of the remaining open IGA claims in the Credit General liquidation are workers' compensation claims that will be handled by the IGAs¹ and not the Liquidator. Other Class 2 proofs of claim are unearned premium claims and are discussed further in Section IV.D.2, *infra*.

In November 2011, the Liquidator issued determination letters to claimants with workers' compensation related proofs of claims notifying them that their Class 2 proofs of claims in the

¹ Coverage and payment of the claim is the responsibility of the applicable IGA.

Credit General liquidation were being denied and valued at zero (\$0) because the coverage and payment of their workers' compensation claims is the responsibility of the IGA instead of the Liquidator. The Liquidator did not receive any objections to these denials.

There are some Class 2 policyholder claims that, for one reason or another, are not covered in whole or in part by IGAs ("non-IGA Class 2 claims"). The Liquidator has the responsibility to administer and adjudicate non-IGA Class 2 claims arising under Credit General insurance policies or bonds. In addition to the Class 2 liability to IGAs, the Credit General Insurance Company Estate has \$9,071,887.91 in allowed non-IGA Class 2 (policyholder level) claims (loss and allocated LAE) as of December 31, 2011. The Credit General Indemnity Estate has \$964,947.23 in allowed non-IGA Class 2 (policyholder level) claims (loss and allocated LAE) as of December 31, 2011. Together, these liabilities equal \$10,036,835.14 as of December 31, 2011.

2. Liquidator Class 2 Unearned Premium, Other Return Premium Claims

As referenced above, IGAs cover most unearned premium ("UEP") claims and, in turn, have Class 2 claims against the estates for the amounts of the claims paid. As with loss claims, however, there are circumstances under which an IGA does not cover and pay, in whole or in part, a UEP claim. In those circumstances, the claim is returned to the Liquidator to administer, adjudicate and determine under R.C. §3903.42. The IGAs are still in process of reviewing the Liquidator's certifications of UEP claims and determining which of those claims are covered by the IGAs and which of those claims should be returned to the Liquidator. Once that process is complete, the Liquidator will begin to issue determination letters of the UEP proofs of claims. The total liability for UEP claims (IGA and non-IGA) will be known at the point in time when the 60-day statutory objection period for the Liquidator's determinations of UEP claims expires

and/or all timely objections are resolved. The IGAs and the Liquidator are aggressively working toward a December 31, 2012 completion date for the completion of all UEP proofs of claim. However, unforeseen events may require an extension of the completion date. An extension of the December 31, 2012 completion date will materially impact the current closing plan and likely extend it past 2013.

3. Status of Class 3 Claims of the Federal Government and the Federal Release

Among the various classes of claims established under R.C. §3903.42, “Class 3” claims are limited to claims of the federal government. *See* R.C. §3903.42(C). The United States filed two proof of claim forms against the Credit General Insurance Company Estate and one proof of claim form against the Credit General Indemnity Company Estate, including one “blanket” (unspecified and unstated) proof of claim in an unstated amount in each of the Credit General Estates. In all liquidation cases, the Liquidator obtains a release from the United States prior to making any final distributions.² To review the Liquidator’s request for a federal release, the United States requires that the Liquidator prepare a comprehensive “release submission package,” including an affidavit and other documents, for its review and determination as to whether it has any specific claims against the liquidation estate. Once the federal government’s review is complete, the Liquidator and the United States enter into a standard Release Agreement to facilitate distributions and ultimate closure of the estate. The Release Agreement provides for a release of the Liquidator and the liquidation estate from any and all liability under §31 U.S.C. §3713(b), subject to the terms and conditions therein.

The Liquidator submitted her federal release submission packages in this case to the United States Department of Justice on April 27, 2012. The Release Agreement must be executed and filed for court approval no later than June 30, 2013 in order for the Liquidator to

² All receivers or liquidators of insolvent U.S. insurers follow this process as a best practice.

file a motion requesting approval to make a final distribution to allowed claimants and proceed to close the estates.

E. Status of Proofs of Claims in Classes 4 through 9

The Liquidator issued determination letters at various points in time on and prior to March 30, 2012, to the vast majority of claimants with proofs of claims Classes 4 through 9, as defined in R.C. §3903.42. Objection periods vary, but all of the objection periods on Determination Letters issued prior to March 30, 2012 will expire by the end of May 2012.

On or near June 30, 2012, the Liquidator will file her first report under R.C. §3903.43 of proofs of claims where no timely objection to the classification is filed. At that time, the Liquidator will also request that this Court set dates for objection hearings under R.C. §3903.39 for any unresolved timely objection she has already received or that she receives prior to the latest statutory objection date in May.

There are a handful of remaining proofs of claims in Classes 4 through 9 that are simply not ripe for adjudication (for example, because the claim is in run-off or in issue in separate bankruptcy proceedings). The Liquidator hopes to be able to issue determination letters on those remaining proofs of claims within the current closing plan.

V. CLOSING THE ESTATE

The liquidation process often takes 15 years or more when the liabilities include long tail claims and when significant asset recovery litigation occurs. Although the Liquidator cannot precisely determine the Estate's exact claims liability and correspondingly the exact distribution percentage until all remaining claims and other active matters in the liquidation are finally resolved, the Liquidator is making an effort to expedite closure of the Credit General estates. The Liquidator is also making efforts to try to provide claimants with good faith estimates of the

time in which the Liquidator hopes to close the mature estates 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 we manage. 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 April 30, 2012, the Liquidator estimates in good faith that she will file a motion for authority to make one final distribution to claimants in or after 2013, depending on the time in which the Liquidator can complete the tasks outlined above, many of which involve other parties the Liquidator does not control and her other obligations. 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 if 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 these 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 7th day of May, 2012:

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