

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

M. DIANE KOKEN,
Insurance Commissioner of the
Commonwealth of Pennsylvania,

Plaintiff,

v.

RELiance INSURANCE CO.,

Defendant.

No. 269 M.D. 2001

RECEIVED AND FILED
PHILADELPHIA
COMMONWEALTH COURT
OF PENNSYLVANIA
OCT 15 3 45 PM '01

SPECIAL SUPPLEMENTARY STATUS REPORT DATED OCTOBER 10, 2001
OF M. DIANE KOKEN, INSURANCE COMMISSIONER OF THE
COMMONWEALTH OF
PENNSYLVANIA IN HER CAPACITY AS THE COURT APPOINTED
LIQUIDATOR OF RELIANCE INSURANCE COMPANY

I. INTRODUCTION

This is a special supplementary report related to the liquidation of Reliance Insurance Company ("Reliance" or the "Company").

II. REPORT

The purpose of this report is to inform the Court on an interim basis of certain developments and issues related to the liquidation of Reliance.

A. Reinsurance Receipts.

As previously reported, reinsurance receipts have been below forecast since the date of the Rehabilitation Order and appear to have been negatively affected by the events of

September 11. Following the Order of Liquidation on October 3, 2001, receipts have not improved.

B. Completion of Negotiations for Bear Stearns Credit Facility.

On October 11, 2001, the Liquidator filed an Emergency Petition For Approval Of A Secured Credit Facility, reflecting the completion of negotiations and execution of the agreement with Bear Stearns for a credit facility secured by the pledge of Symbol Technology common stock owned by Reliance.

C. Procedures for Payment of Workers Compensation Claims.

In the Petition for Liquidation filed on October 3, 2001, notwithstanding that the guaranty associations are responsible for assuming payment of workers compensation and PIP claims, the Liquidator sought authority for Reliance to continue workers compensation and personal injury protection payments, since guaranty associations often require several months before they are in a position to begin to make those payments. The request was granted and the Liquidation Order provides the authority, but does not compel, the continued payments.

The Petition described the conditions necessary to be met in order to enable the Liquidator, in her discretion, to continue to pay workers compensation and PIP. Specifically, paragraphs 40 through 47 of the Petition explained that the Liquidator intended to seek agreements with the various guaranty associations, whose participation in the claims payment process is triggered by the Order of Liquidation, that any such payments by the Liquidator would be treated as "early access" payments, thereby eliminating the possibility of double liability for the estate of Reliance by the making of such payments. Thus, the

Liquidation Order specifically granted the Liquidator the authority to continue to pay these claims as "advances" to the guaranty associations, conditioned upon the guaranty associations agreeing to treat the advances as early access distributions under 40 P.S. §221.36.

The Order provides:

18. For a period not to exceed 90 days from entry of this Order, the Liquidator is authorized but not obligated, in her sole discretion, to make arrangements for the continued payment in full of the claims under policies of workers compensation and under policies providing personal injury protection (PIP) by making the facilities, computer systems, books, records and arrangements with third party administrators (to the extent possible) of Reliance available for the processing and payment of such claims, to any affected guaranty association (or other entity that is the functional equivalent) and to states and state officials holding statutory deposits for the benefit of such workers compensation and PIP claimants, provided, however, that such guaranty associations, states or state officials shall provide or make available the funds to make the actual payment of such claims. In circumstances where a guaranty association certifies in writing to the Liquidator that it does not have the immediate ability to fund the payment of workers compensation and PIP claims that are its obligation by law, the Liquidator is authorized to advance the funds, if available, from Reliance to pay such claims on a temporary basis for a period not to exceed 90 days, provided that the guaranty association enters into a written agreement that such advances shall be treated as a distribution pursuant to 40 P.S. §221.36. The Liquidator shall have the discretion to accept such interim assurances as she deems adequate in lieu of a formal agreement.

(Emphasis added.)

Since October 3, 2001, the Liquidator has endeavored to obtain the agreements of the guaranty associations to the procedure outlined in the Petition. The guaranty associations have agreed to the procedure with respect to the indemnity or lost time payments portion of the workers compensation payments which are paid directly to the claimants. Accordingly, the Liquidator is empowered to and intends to continue to pay workers compensation claims for indemnity payments. However, the guaranty associations did not accept the Liquidator's suggestion that they similarly treat medical benefits payments

and PIP payments as early access distributions under 40 P.S. §221.36. Accordingly, the Liquidator is not authorized to and will not be able to pay the medical benefits portions of workers compensation claims to medical providers, and will not be able to continue to pay PIP claims. These claims will not go unpaid, however. Rather, these medical and PIP payments will be made by the appropriate guaranty association at the time the guaranty associations begin payments. The Liquidator is, of course, assisting in this transition process.

D. Reliance's Accident and Health Insurance Line of Business.

Reliance's accident and health insurance line of business consists of four groups of policies. The first group is comprised of approximately 234 policies which are the subject of co-insurance agreements with Combined Insurance, an affiliate of AON ("the Combined co-insurance policies"). These are primarily group policies covering student health and accident risks, business travel and foreign travel accident and health risks. Under the Combined Insurance co-insurance agreements with Reliance, 100% of the risk of loss arising from these policies has been assumed by Combined, and Combined is entitled to the premiums generated. The claims administration is handled by Combined, as well. The co-insurance agreements contemplate that over time, the policyholders would be converted to direct policies with Combined. However, the Liquidation Order was entered before all policyholders were converted from Reliance policyholders to Combined policyholders.

Paragraph 17 of the Liquidation Order provides that all in force Reliance policies will be cancelled, at the latest, on November 2, 2001. Combined has expressed the desire to assume these 234 policies and transfer the policyholders to Combined. The Liquidator

believes that this transfer is in the best interests of these policyholders and provides a better alternative than canceling the Reliance policies and requiring the policyholders to enter into new contracts of insurance. The Liquidator and Combined intend to proceed expeditiously to accomplish the transfer, if possible, before November 2, 2001.

The Liquidator anticipates handling the other three categories of accident and health policies similarly. The second category of accident and health insurance policies consists of Reliance policies of the same type described above, administered by Combined as a third party administrator ("the Combined TPA policies"). These 100 policies are not among those which Combined wishes to assume, primarily based upon renewal dates.

The third category consists of "association" group accident and health policies written in seven states, covering 6341 persons. (An example of this type of policy would be an American Automobile Association group policies offered to its members). These policies are written by Reliance, and Antares Management Solutions is engaged as the third party administrator ("the Antares TPA policies").

Finally, the fourth category consists of 103 weekly disability policies issued to individuals who are not covered by workers compensation insurance by employers ("the independent disability policies"). (An example would be a free lance truck driver). These policies mirror the coverage provided by workers compensation insurance. While the policies have expired, Reliance has engaged a third party administrator to administer pending and future claims arising from this business.

With respect to the Combined TPA policies, the Antares policies and the independent disability policies, Reliance intends to enter into an Early Access Agreement

with the National Organization of Life and Health Insurance Guaranty Associations (“NOLHGA”) on behalf of its participating guaranty associations. The purpose of this agreement will be to permit Reliance to continue to administer and pay the claims for these accident and health policies and to avoid any disruption in the claims administration and payment that would be caused by the transfer of this obligation to the 52 NOLHGA participating life and health guaranty associations. In exchange, NOLHGA would agree on behalf of all participating guaranty associations that these payments and expenses would be treated as early access payments. In addition, upon request of the Liquidator, the participating associations would return to the Liquidator amounts previously distributed if required by the Liquidator to pay administrative expenses, secured claims or to achieve pro rata distributions to other policyholders of the same priority level.

The Liquidator and NOLHGA are currently negotiating the terms of this agreement, which the Liquidator will present to the Court for approval prior to execution. The Liquidator believes that such an agreement would be in the best interests of the policyholders affected, as well as the estate of Reliance, and that the estate will expend no more in carrying out the terms of this agreement than it would if it turned the administration of these claims over to the NOLHGA participating guaranty associations. All agreements by the Liquidator to continue payments are, of course, subject to the availability of funds to do so.

E. Transfers of Other Policies.

The Liquidator is considering, under certain circumstances, the transfer, assumption or novation of policies in a variety of lines of business to other insurers. These transfers, if

effectuated, would benefit both policyholders and the Reliance estate, by transferring certain risks to other insurers without the policyholders having to procure new policies after November 2, 2001.

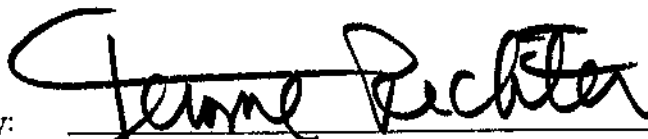
F. Letter of Delegation to William S. Taylor.

In order to efficiently manage and administer the Liquidation proceeding of Reliance, on October 5, 2001, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania in her capacity as Liquidator of Reliance Insurance Company signed a letter delegating certain authority in the Reliance Liquidation proceedings to William S. Taylor, Deputy Insurance Commissioner, Office of Liquidations, Rehabilitations and Special Funds. A copy of the letter is attached hereto as Exhibit A.

Respectfully submitted,

BLANK ROME COMISKY & McCAULEY LLP

By:



JEROME R. RICHTER
ANN B. LAUPHEIMER
One Logan Square
Philadelphia, PA 19103
(215) 569-5500 (Phone)
(215) 569-5555 (Facsimile)

Counsel for
M. DIANE KOKEN, Insurance Commissioner of the
Commonwealth of Pennsylvania and Rehabilitator of
RELIANCE INSURANCE COMPANY

OF COUNSEL:

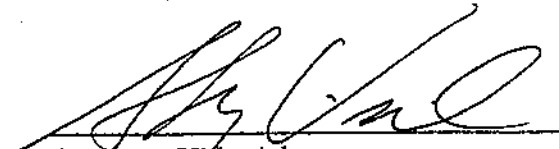
DAVID F. SIMON
CHIEF COUNSEL
INSURANCE DEPARTMENT OF
THE COMMONWEALTH OF PENNSYLVANIA
1321 Strawberry Square
Harrisburg, PA 17120
(717) 787-6009

Dated: October 15, 2001

CERTIFICATE OF SERVICE

I, Anthony Vidovich, hereby certify that this day a true and correct copy of the foregoing Special Supplementary Status Report Dated October 15, 2001 Of M. Diane Koken, Insurance Commissioner Of The Commonwealth Of Pennsylvania In Her Capacity As The Court Appointed Liquidator Of Reliance Insurance Company was served on all persons listed on the attached Master Service List by U.S. Mail, postage prepaid.

Dated: October 15, 2001



Anthony Vidovich

Master Service List

M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania

v.

Reliance Insurance Company

No. 269 M.D. 2001 (Commonwealth Court of Pennsylvania)

Jerome R. Richter
Ann B. Laupheimer
Blank Rome Comisky & McCauley LLP
One Logan Square
Philadelphia, PA 19103
(215) 569-5500
(Attorneys for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

David F. Simon
Chief Counsel
Pennsylvania Insurance Department
1341 Strawberry Square
Harrisburg, PA 17120
(717) 787-6009
(Attorneys for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

Marilyn K. Kincaid
Reliance Insurance Company
(in Liquidation)
5 Hanover Street
New York, NY 10005
(212) 858-6500
(Attorney for Reliance Insurance
Company (in Liquidation))

Hillary C. Steinberg
James Michael Matour
Hangley Aronchick Segal & Pudlin, P.C.
One Logan Square
Philadelphia, PA 19103
(215) 568-6200
(Attorneys for Reliance Group
Holdings, Inc.)

Jeffrey B. Rotwitt
Obermayer Rebmann Maxwell & Hippel
1 Penn Center, 19th Floor
Philadelphia, PA 19103-1895
(215) 665-3000
(Attorneys for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

Edward A. Perell
Debevoise & Plimpton
875 Third Avenue
New York, NY 10005
(212) 909-6000
(Attorneys for Reliance Group
Holdings, Inc.)

William Charles Bensley
George Whittaker Howard
Edward M. Nass
Howard Brenner & Nass, P.C.
1608 Walnut Street, Suite 1700
Philadelphia, PA 19103
(215) 546-8200
(Attorneys for Francine and Ted Forman)

Brad S. Karp
Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, NY 10019
(212) 373-3000
(Attorneys for Reliance Group
Holdings, Inc.)

Robert H. Levin
Adelman Lavine Gold & Levin, P. C.
1900 Two Penn Center Plaza
Philadelphia, PA 19102
(215) 568-7515
(Attorneys for Committee of Policyholders)

Richard E. Poole
Potter Anderson & Corroon LLP
1313 North Market Street
P.O. Box 951
Wilmington, DE 19899-0951
(302) 984-6006
(Attorneys for Jason Pauley)

Richard P. Coe
Weir & Partners, LLP
1339 Chestnut Street, Suite 500
Philadelphia, PA 19107
(215) 665-8181
(Attorneys for Forestal Village Community
Services Association, Inc.)

Theodore E. Huenke
Huenke & Rodriguez
One Huntington Quadrangle, Suite 2S02
Melville, NY 11747
(631) 756-2024
(Attorneys for Hanover Ins. Co.)

Andrew K. Stutzman
David Carl Franceski
Stradley, Ronon, Stevens & Young, LLP
2600 One Commerce Square
Philadelphia, PA 19103-7098
(215) 564-8008
(Attorneys for Citicorp North America, Inc.)

Roy S. Cohen
Nicole L. Herman
Cohen, Segalis, Pallas & Greenhall, P.C.
1515 Market Street, 11th Floor
Philadelphia, PA 19102
(215) 564-1700
-and-
Richard D. Batchelder, Jr.
Ropes & Gray
One International Place
Boston, MA 02110-2624
(617) 951-7000
(Attorneys for Miami Cruiseline
Holdings LLC)

Adam B. Kutinsky
Hertz, Schram & Saretsky
1760 S. Telegraph Road, Suite 300
Bloomfield Hills, MI 48302
(248) 335-5000
(Attorneys for Trustee of FPA Creditor
Trust)

Frank F. McGinn
Bartlett Hackett Feinberg, P.C.
Suite 920
10 High Street
Boston, MA 02110
(617) 422-0200
(Attorneys for Flatley Company)

James W. Creenan
Francis X. McTiernan
Wayman, Irvin & McAuley
1624 Frick Building
Pittsburgh, PA 15219
(412) 566-2970
(Attorneys for Consolidated Freightways)

Janet S. Baer
Kirkland & Ellis
200 East Randolph Drive, Suite 6500
Chicago, IL 60601
(312) 861-2200
(Attorneys for AmeriServe Food
Distribution, Inc.)

Robert D. Rhoad
Dechert Price & Rhoads
Princeton Pike Corporate Center
P.O. Box 5218
Princeton, NJ 08543
(609) 620-3200
(Attorneys for Acumen Re Management
Corporation)