

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

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

Plaintiff,

v.

RELIANCE INSURANCE COMPANY,

Defendant.

DOCKET NO. 269 MD 2001

JAN 4 3 45 PM '02

RECORDED AND FILED  
PHILADELPHIA  
COMMONWEALTH COURT  
OF PENNSYLVANIA

**ORDER**

This matter having come before the Court on the Petition of M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania as Liquidator of Reliance Insurance Company ("the Liquidator") to Approve Guidelines For Subsidiary Transactions, on this \_\_\_\_\_ day of \_\_\_\_\_, 2002, IT IS HEREBY ORDERED that the Petition is GRANTED.

The Liquidator shall obtain advance Court approval in the event she, Reliance Insurance Co. (in Liquidation) or any first tier subsidiary of Reliance Insurance Co. (in Liquidation) intends to dispose of a controlling interest in all or substantially all the assets of a first tier subsidiary of Reliance. A "first tier subsidiary" means a company in which Reliance directly holds a majority of the voting stock.

The Liquidator, Reliance Insurance Co. (in Liquidation) and subsidiaries of Reliance Insurance Co. (in Liquidation) need not, but may on an elective basis, obtain advance Court approval for other transactions entered into by direct and indirect subsidiaries of Reliance

Insurance Co. (in Liquidation), including but not limited to, sales by subsidiaries of subsidiaries, or their assets, partial asset sales or pledges, financings, including borrowings against assets, fold-in acquisitions, or foreign insurance company commutations and settlements, provided, however, that any such proposed transaction be subject to the board approval requirements, if any, of the relevant corporate entity, and further that any such proposed transaction involving more than \$5,000,000 has been specifically approved in writing by the Liquidator.

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James Gardner Colins, Judge

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**PETITION TO APPROVE  
GUIDELINES FOR SUBSIDIARY TRANSACTIONS**

Petitioner M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), in her capacity as Liquidator of Reliance Insurance Company ("Liquidator"), respectfully requests that this Court enter an order, in the form attached hereto, approving certain guidelines for subsidiary transactions. In support of this Petition, the Liquidator avers the following:

1. On May 29, 2001, this Court entered an Order of Rehabilitation with respect to Reliance Insurance Company ("Reliance") pursuant to the Pennsylvania Insurance Department Act, 40 P.S. § 221.1 – 221.63 ("the Act").
2. On October 3, 2001, this Court entered an Order of Liquidation with respect to Reliance, which included a finding that Reliance is insolvent. See Liquidation Order, ¶2.

3. Section 221.20 of the Act, 40 P.S. § 221.20, provides that a Liquidation Order shall direct the liquidator to “take possession of the assets of the insurer” and that the liquidator is “vested by operation of law with the title to all of the property, contracts and rights of action and all of the books and records of the insurer.” She may “recover and reduce the same to possession. . . .”

4. Section 221.23(6) of the Act empowers the Liquidator to “collect all debts and moneys due and claims belonging to the insurer which it is economical to collect. . . . to do such other acts as are necessary or expedient to collect, conserve or protect its assets or property. . . .” 40 P.S. § 221.23(6).

5. Section 221.23(9) of the Act empowers the Liquidator to “acquire, hypothecate, encumber, lease, improve, sell, transfer, abandon or otherwise dispose of or deal with, any property of the insurer at its market value or upon such terms and conditions as are fair and reasonable.” (emphasis added). Section 221.23(8) permits the Liquidator to “conduct public and private sales of the property of the insurer.”

**A. The Nature And Extent Of Reliance Subsidiary Holdings.**

6. Reliance currently has 41 first tier subsidiaries. Of these, five are foreign insurance companies, 6 are operating companies (*i.e.*, have business operations and personnel), 29 are asset holding companies which do not own operating companies, and one is an asset holding company which does own operating companies.

7. Reliance also currently has 16 second tier subsidiaries. Three of these are foreign insurance companies, 11 are asset holding companies which do not own operating companies, and 2 are asset holding companies that do own operating companies. A number of the operating companies are significant businesses in their own right.

8. Reliance has, in addition, 47 third tier or lower subsidiaries.

9. The subsidiaries referred to in paragraphs 6, 7 and 8 are not directly subject to the Liquidation Order. Although Reliance does not directly own the assets of these subsidiaries, it does own the stock of (or controlling interests in) its first tier subsidiaries, and those subsidiaries have assets which include the stock of lower tier subsidiaries.

10. Over the next year or two, the Liquidator will be working toward maximizing and realizing the value in the subsidiaries for purposes of enhancing the Reliance estate for the ultimate benefit of policyholders and creditors. These efforts may involve the Liquidator and/or her appointed directors approving the subsidiaries entering into various transactions, including but not limited to, asset sale transactions, financing transactions (including borrowing against assets), fold-in acquisitions, and additionally in the case of foreign insurance companies, commutations or settlements of litigation.

11. Other subsidiary transactions that may result in the pledge, sale, disposal, or transfer of assets of subsidiaries of Reliance may be entered into in the ordinary course of the subsidiaries' business or asset management operations, without significant direct input from the Liquidator.

**B. Application Of Guidelines To Subsidiary Transactions.**

12. While the sale of the stock or sale of all or substantially all of the assets of a first tier subsidiary would fall within the parameters of the Guidelines for the Sale of Reliance Assets ("the Guidelines") approved by this Court on November 30, 2001, the Liquidator believes that the Guidelines do not otherwise specifically address the pledge, sale, disposal, or transfer of assets of the subsidiaries of Reliance referred to in paragraphs 6, 7 and 8 hereof.

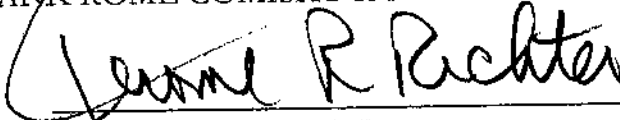
13. Given the broad discretion afforded the Liquidator to sell, pledge or otherwise dispose of assets of the liquidating insurer, the number of Reliance subsidiaries not directly subject to the Liquidation Order, the volume and scope of assets owned by Reliance's subsidiaries, either directly or through other subsidiaries, the Liquidator believes that it is in the best interests of the administration of the estate of Reliance to permit Reliance's subsidiaries to enter into transactions of the type referenced herein, except for the sale of stock or all or substantially all of the assets of a first tier subsidiary, without prior Court approval.

14. The Liquidator would propose to have advance Court approval be a requirement only for the sale of the stock or all or substantially all of the assets of a first tier subsidiary. In major transactions (involving more than \$5,000,000) the interests of the estate would be protected through a requirement that the Liquidator provide prior written approval of the proposed transaction. In addition, corporate formalities, such as approval of the relevant Board(s) of Directors, would have to be followed. A proposed order to this effect is submitted along with this Petition.

WHEREFORE, the Liquidator respectfully requests that this Court grant the Petition, enter an Order in the form attached hereto, and order such other relief as this Court deems necessary and appropriate.

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Dated: January 4, 2002

VERIFICATION

I, William S. Taylor, Deputy Insurance Commissioner of the Pennsylvania Insurance Department, Office of Liquidations, Rehabilitations and Special Funds, am authorized by M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, pursuant to 40 P.S. § 221.23, to act on her behalf in her capacity as the Liquidator of Reliance Insurance Company. I hereby verify that the facts set forth in the foregoing Petition are true and correct to the best of my knowledge, information and belief.

I understand that this Verification is made subject to the penalties of 18 P.S. § 4904 relating to unsworn falsification to authorities.

Date: \_\_\_\_\_

1/4/02

William S. Taylor  
William S. Taylor  
Deputy Insurance Commissioner of the  
Pennsylvania Insurance Department

CERTIFICATE OF SERVICE

I, Daniel H. Wheeler, hereby certify that this day a true and correct copy of the foregoing Petition was served on all persons listed on the attached Master Service List by U.S. Mail, postage prepaid.

Dated: January 4, 2002

  
DANIEL H. WHEELER

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Reliance Insurance Company

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