

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL S. ARIO,
Insurance Commissioner of the
Commonwealth of Pennsylvania,
in his official capacity as Liquidator
of Reliance Insurance Company,

Plaintiff,

v.

RELiance INSURANCE COMPANY,

Defendant.

No. 269 M.D. 2001

2009 SEP 17 P 12:13

RECEIVED AND FILED
COMMONWEALTH COURT
OF PA (PHILA)

*IN RE: Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and
Munich Reinsurance America, Inc. formerly known as
American Re-Insurance Company II*

ORDER

AND NOW, this ___ day of _____ 2009, upon consideration of the
Liquidator's Petition for Approval of the Commutation, Settlement Agreement and Release
("Settlement Agreement") between Reliance Insurance Company ("Reliance" or "Estate")
and Munich Reinsurance America, Inc. formerly known as American Re-Insurance
Company ("Reinsurer") submitted by the Liquidator of Reliance Insurance Company

("Liquidator") regarding certain reinsurance agreements specifically identified in the Settlement Agreement ("Reinsurance Agreements"):

The Court ACCEPTS the Liquidator's representations that the Settlement Agreement is in the best interest of the Estate, as the Settlement Agreement allows the Liquidator to terminate and commute the Reinsurance Agreements and the Estate will receive an economic benefit amounting to \$77,000,000;

Further, the Court accepts the Liquidator's representations that the Settlement Agreement is a fair and reasonable settlement of the Reinsurers' obligations to the Estate under the Reinsurance Agreements, and that the payment contemplated under the Settlement Agreement constitutes fair and reasonable value to the Estate;

Accordingly, the Petition for Approval is hereby **GRANTED** and the Commutation, Settlement Agreement and Release attached hereto and marked as Exhibit A is hereby **APPROVED**.

Further, counsel for the Liquidator is directed to serve a copy of this Order upon those listed on the Master Service List and file with the Court an affidavit that service has been effectuated.

BONNIE BRIGANCE LEADBETTER
President Judge

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL S. ARIO,
Insurance Commissioner of the
Commonwealth of Pennsylvania,
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of Reliance Insurance Company,

Plaintiff,

v.

RELiance INSURANCE COMPANY,

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Reliance Insurance Company (In Liquidation) and
Munich Reinsurance America, Inc. formerly known as
American Re-Insurance Company II*

**Liquidator's Petition For Approval Of
Commutation, Settlement Agreement And Release**

Petitioner Joel S. Ario, Insurance Commissioner for the Commonwealth of Pennsylvania, in his capacity as Statutory Liquidator ("Liquidator") of Reliance Insurance Company ("Reliance" or "Estate"), respectfully requests that this Court enter an Order approving the Commutation, Settlement Agreement and Release ("Settlement Agreement"), attached hereto as Exhibit A, between Reliance and Munich Reinsurance America, Inc. formerly known as American Re-Insurance Company ("Reinsurer"). This Petition is unrelated to the petition approved by this Court on July 15, 2009 regarding the commutation between Reliance and Munich Reinsurance America, Inc. formerly known as American Re-Insurance Company. In support of this Petition, the Liquidator avers the following:

1. On October 3, 2001, this Court found Reliance insolvent and appointed the Commissioner as Liquidator of Reliance pursuant to Article V of the Insurance Department Act of 1921, 40 P.S. §221.1 et seq. (“Act”). The Act confers broad powers on the Liquidator to marshal the assets of Reliance in order to maximize the value of the insolvent insurer’s estate for eventual distribution to its policyholders and creditors.

2. The Act authorizes the Liquidator to take such actions as deemed “necessary or expedient to . . . conserve or protect [the insolvent insurer’s] assets or property[,]” including the power to “compromise” claims involving assets of the insolvent insurer in order to accomplish or aid in achieving the purposes of liquidation. See 40 P.S. §221.23(6, 9, and 23).

3. One way in which the Liquidator “compromises” claims and “conserves” assets is through commutation. A commutation is a settlement agreement reached between a reinsured and its reinsurer by which the reinsurance obligation is terminated through an agreement by the reinsurer to pay funds that are both due and not yet due under the reinsurance agreement.

4. Prior to entering into a commutation, Reliance staff takes several steps, including the following, to ensure that the commutation is fair and reasonable to the Estate and in the best interests of its policyholders, claimants and the general public:

(a) Reliance staff develops a complete list of reinsurance agreements to be included in the commutation;

(b) Reinsurance accounting specialists for Reliance verify balances and reconcile differences with the reinsurer;

(c) The Reliance claims staff reviews ceded case reserves;

(d) Actuaries for Reliance determine the projected ultimate loss, discounted and undiscounted, taking into consideration specific contract features such as

reinstatement premiums, sliding scale rates, commission adjustments and/or loss corridors¹ as well as the impact of other applicable reinsurance and off-sets;

(e) Reliance staff and the reinsurer exchange commutation proposals and discuss justifications;

(f) Reliance staff evaluate the commutation proposal based on nominal results, the discounted results, the volatility and trends of the business, disputed issues and any administrative savings; and

(g) Reliance staff and the reinsurer secure any required approvals.

5. The Liquidator also has established a Commutation Working Group which performs accounting and data reconciliations, actuarial analyses, and claims reviews and analyses. The Commutation Working Group is largely comprised of several key senior management employees each of whom has over 20 years of insurance and reinsurance experience.

6. In addition, the Liquidator has established a Commutation Committee, consisting of the Chief Liquidation Officer, the Liquidation Team Reinsurance Manager and the Chief Actuary, who, along with the Vice-President for Commutations and the Executive Vice-President for Reinsurance, review all commutation proposals. Any commutation in excess of \$1,000,000 must be approved by the Commutation Committee.

7. In addition, Reliance's independent consulting actuaries, PricewaterhouseCoopers ("PwC"), have reviewed Reliance's commutation approach both generally and with respect to

¹ A loss corridor is a mechanism contained in certain reinsurance agreements that requires the ceding insurer to be responsible for a certain amount of the ultimate net loss that is above the company's designated retention and below the designated limit, and which would otherwise be reimbursed under the reinsurance agreement. A loss corridor is usually expressed as a loss ratio percentage of the reinsurer's earned premium, or a combined ratio if the reinsurance agreement provides for a ceding commission to the company. Loss corridors are employed to mitigate the volatility of reinsurance agreements.

certain individual transactions and have concluded that the process Reliance utilizes to estimate liabilities ceded to reinsurers is reasonable for commutation purposes.

Reinsurance Agreements

8. This commutation concerns the participation of the Reinsurer with Reliance in the 9 different reinsurance agreements listed on Exhibit "A" of the Settlement Agreement which were effective from 1992 through 2000 ("Reinsurance Agreements"). Eight of the Reinsurance Agreements provided coverage for workers' compensation and employers' liability ("WC Agreements"), and one agreement provided coverage for business (including workers compensation) written through the Risk Management Services Division ("RMS Agreement").

The WC Agreements

9. Treaty numbers 2Z11AA, 3Q46AA, 3X43AA and 4X95AA were labeled the WC Variable Excess of Loss treaties and provided reinsurance coverage for workers compensation policies written through Reliance's Reliance National profit center. These treaties cover losses arising under policies with inception dates from March 1, 1992 through December 31, 1994. For policies incepting between March 1, 1992 and December 31, 1992, the Reinsurer provides coverage for 75% of up to \$2,000,000 for each accident in excess of a minimum of \$250,000 for each accident, depending on risk characteristics. For policies incepting between January 1, 1993 and December 31, 1994, the Reinsurer provides coverage for 75% of up to \$2,250,000 for each accident excess of a minimum of \$250,000 for each accident, depending on risk characteristics. Except for losses arising under policies covering professional sports teams, these treaties cover an unlimited number of losses.

10. The other four WC Agreements relate to particular programs for Odyssey Resource Management, Inc. (Treaty 78E1AA), Aon Risk Services - Houston (Treaty 817VAA),

and Covenant Management, Inc. (Treaties 586FAA and 77C7AA). For all four treaties, workers' compensation coverage was provided for losses arising under policies with inception dates during the 1995 to 2001 period. Treaty 817VAA also included a small amount of automobile liability and general liability business in addition to workers' compensation for the same period. These reinsurance agreements are more particularly described below, but essentially they all provide primary layer coverage for all losses.

11. Treaty number 78E1AA covers 100% of \$249,000 of each occurrence in excess of \$1,000 of each occurrence arising under policy number NWA0142732-00 issued by Reliance to Odyssey Resource Management, Inc. The maximum amount recoverable for all losses under this treaty is \$11 million.

12. Treaty number 817VAA covers 100% of the first \$250,000 of each occurrence for workers' compensation losses and 100% of the first \$1 million of each occurrence for automobile liability and general liability losses arising under policies with inception dates between June 1, 1998 and September 30, 1999 and written through Aon Risk Services - Houston, an agent of Reliance. The maximum amount recoverable for all losses under this treaty is \$9.8 million.

13. Treaty number 586FAA covers 100% of the first \$1,000,000 of each accident for workers' compensation losses arising under policies with inception dates between September 22, 1995 and March 31, 1997 and written through Covenant Management, Inc., an agent of Reliance. The maximum amount recoverable for all losses under this treaty is unlimited.

14. Treaty number 77C7AA covers 100% of the statutory workers' compensation limits for each accident arising under policies with inception dates between April 1, 1997 and

March 31, 2001 and written through Covenant Management Inc., an agent of Reliance. The maximum amount recoverable for all losses under this treaty is unlimited.

15. As of December 31, 2008, all reported claims relevant to the Reinsurer's participations in the WC Agreements have been identified. As part of its due diligence for this Settlement Agreement, senior Reliance actuarial and claims personnel conducted a review of relevant claims under the WC Agreements in order to both verify the accuracy of the reserves and to project the timing of payments for each relevant claim.

16. With this information Reliance actuaries conducted an in-depth analysis to determine appropriate commutation values. The majority of the exposure on the WC Agreements relates to serious, lifetime workers' compensation claims. As such, Reliance used a pension actuarial model to estimate ultimate losses and reserves for such claims under these treaties. Using data as of December 31, 2008, Reliance identified 340 workers' compensation claims that would likely result in claims against the WC Agreements. For these claims, Reliance actuaries projected future payments for individual claims using a mortality table (for life expectancies) and considered potential life impairments, average annual medical and indemnity gross payments, lifecare plans, statutory indemnity awards, and several different medical escalation rates. Future payment amounts related to the reinsured layer were determined and an allocated loss adjustment expense amount was added in a manner consistent with the specific provisions of the WC Agreements. For non-lifetime workers compensation claims (primarily less severe, non-permanent workers' compensation injuries) and the auto and general liability claims, Reliance actuaries developed estimates of projected losses based upon a variety of traditional and generally accepted property/casualty actuarial methods.

17. Reliance applied varied assumptions to the same actuarial methods in developing its range of estimates. When there is an overall limit to the amount the reinsurance agreement will cover, the valuation of the claims is compared to this overall amount and capped as appropriate. The resulting value is then discounted by Reliance's actuaries for the time value of money. In so doing, Reliance's actuaries developed reinsurance agreement level estimates of ultimate liability for the WC Agreements that are the subject of this commutation.

The RMS Agreement

18. Under the RMS Agreement from 1996 through 2000, the Reinsurer assumed the bad debt risk incurred by Reliance in its large account portfolio. The coverage was triggered when an insured or captive reinsurer would become bankrupt or insolvent and the collateral Reliance held from such insured or reinsurer was inadequate to cover the amount of losses for which Reliance was seeking reimbursement under relevant policy or reinsurance agreement provisions. When Reliance incurred bad debt, the RMS Agreement would reimburse Reliance up to a loss ratio² cap of 176%. Thus, pursuant to its terms, the maximum aggregate limit of reinsurance available to Reliance under the RMS Agreement is \$38.5 million, of which \$1.8 million was previously paid by the Reinsurer to Reliance, leaving \$36.7 million still available to pay losses.

Settlement Agreement

19. Based on due diligence conducted as described above, Reliance negotiated with the Reinsurer to commute its obligations under the Reinsurance Agreements for an agreed amount of \$77,000,000, which is acceptable based upon the range of values established by the Reliance actuaries, and entered into the Settlement Agreement effective July 2, 2009, subject to

² This is the ratio of losses incurred by the Reinsurer to premiums earned by the Reinsurer.

the approval of this Court. The Settlement Agreement settles with certainty the claims against the Reinsurer for losses under the Reinsurance Agreements identified in Exhibit "A" to the Settlement Agreement.

20. Specifically, the Settlement Agreement provides that the Reinsurer shall pay Reliance \$77,000,000 ("Commutation Amount") to commute its obligations under the Reinsurance Agreements within 10 calendar days from when the Reinsurer is notified that this Court has approved the Settlement Agreement. The Commutation Amount was negotiated with the Reinsurer, and the Liquidator has taken the necessary steps to determine, and has concluded, that the terms of the Settlement Agreement are fair and reasonable to the Estate and in the best interests of its policyholders, claimants and the general public. See 40 P.S. §§221.1(c), 221.23(9).

21. Based on the analysis of the terms of the Settlement Agreement, and the evaluation of the transaction as a whole by the Liquidator's staff and Reliance staff members familiar with the business dealings under the Reinsurance Agreements, the Liquidator has determined that payment of the Commutation Amount by the Reinsurer is a fair and reasonable commutation of the Reinsurer's obligations to Reliance under the Reinsurance Agreements. In the event the Court does not grant the approval sought in the Petition, the Settlement Agreement will become null and void.

22. Keith Kaplan, Executive Vice President for Reinsurance at Reliance, is responsible for all facets of ceded and assumed reinsurance at Reliance including accounting, billing, claims, commutations, coverage analysis, and dispute management. He has specific knowledge regarding the risks to the Estate of attempting to collect reinsurance through billing, negotiation or the dispute resolution process. As set forth in his Confidential Affidavit (attached

as “Sealed Exhibit B”), Mr. Kaplan has identified several specific advantages to the Estate arising from the consummation of the transaction memorialized in the Settlement Agreement.

23. The Settlement Agreement will further achievement of the liquidation objectives under the Act. The commutation transaction will assist the Liquidator in marshalling and maximizing Reliance’s immediately available assets while minimizing any unavoidable loss to policyholders, claimants and creditors resulting from the Reliance insolvency. See 40 P.S. §221.1(c).

(a) First, the Settlement Agreement converts future reinsurance obligations into immediate cash for the Estate. Specifically, the Estate receives \$77,000,000 which can be invested until it is distributed.

(b) Second, the Settlement Agreement eliminates both the internal and external administrative costs associated with continued reporting and collection efforts, including legal fees.

(c) Third, this commutation eliminates any potential future credit risk associated with collection of the reinsurance proceeds in the event that the reinsurer becomes insolvent.

(d) Fourth, no person or firm has earned or will earn any contingent fee or extra remuneration of any type as a result of this transaction.

24. Under the terms of the Settlement Agreement, the Commutation will be fully consummated upon satisfaction of the following conditions:

- (a) approval of the transaction by this Court;
- (b) appropriate notice to the Reinsurer of Court approval, and
- (c) payment by the Reinsurer of \$77,000,000.

WHEREFORE, the Liquidator respectfully requests that this Court enter an Order in the form attached hereto:

(a) Finding that the Settlement Agreement and Commutation Amount are in the best interest of the Estate;

(b) Finding that the Settlement Agreement is a fair and reasonable settlement of the Reinsurer's obligations under the Reinsurance Agreement;

(c) Finding the payment contemplated by the Settlement Agreement constitutes fair and reasonable value for the Estate; and

(d) Approving the terms of the Settlement Agreement attached as Exhibit A.

Respectfully submitted,



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Attorney for Plaintiff, Joel S. Ario, Insurance
Commissioner of the Commonwealth of
Pennsylvania, in his official capacity as Liquidator
of Reliance Insurance Company

Dated: September 17, 2009

VERIFICATION

I, David S. Brietling, Chief Liquidation Officer for Reliance Insurance Company, in liquidation, am authorized by Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania, pursuant to 40 P.S. §221.23, to act on his behalf in his capacity as the Statutory Liquidator of Reliance Insurance Company. I hereby verify that the facts set forth in the foregoing pleading 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.

Executed on September 16, 2009

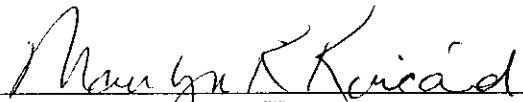


DAVID S. BRIETLING

CERTIFICATE OF SERVICE

I, Marilyn K. Kincaid, hereby certify that on or about this day, pursuant to the Court's Order of December 12, 2008, service of the foregoing was made on the attached Master Service List through the transmission of a Notice of Filing and through posting of a true and correct copy in PDF file format on the Reliance Documents website at www.reliancedocuments.com.

Dated: September 17, 2009


MARILYN K. KINCAID

Master Service List

Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania

v.

Reliance Insurance Company

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

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(Counsel for Republic Western Insurance Company)

Exhibit A

COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE

THIS COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE (“Agreement”), made effective and entered into this 2nd day of July, 2009, by and between Munich Reinsurance America, Inc., formerly known as American Re-Insurance Company, Princeton, New Jersey, USA (hereinafter known as the “Reinsurer”) and Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania, in his capacity as Statutory Liquidator of Reliance Insurance Company (In Liquidation) (hereinafter known as the “Cedant”). David S. Brietling, Chief Liquidation Officer, is acting on behalf of Joel S. Ario, who is acting on behalf of the Cedant pursuant to the powers granted to him under Title 40, Purdon’s Statutes, Section 221.20, et seq. and other applicable statutes, regulations and laws.

RECITALS

A. The Reinsurer and the Cedant entered into contracts of reinsurance wherein the Reinsurer obligated itself to accept from the Cedant the cession of a certain percentage of liabilities with respect to risks written or assumed by the Cedant and/or agents of the Cedant, and;

B. The reinsurance agreements referred to in Recital A above are set out on Exhibit A attached hereto and are herein collectively referred to as “the Contracts”, and;

C. Pursuant to the Contracts, there are loss developments, the total amount of which are not fully known or not yet capable of determination, representing liabilities which are or may come due from the Reinsurer to the Cedant, and;

D. The parties hereto recognize and understand that, based upon current economic projections, a substantial portion of the Reinsurer’s obligations to the Cedant may become payable in the future rather than at present; that the Reinsurer’s future liabilities and obligations to the Cedant pursuant to the Contracts have been evaluated, but cannot be determined in an amount certain at this time; and that a settlement and commutation of the Reinsurer’s obligations to the Cedant based upon

present calculations of outstanding losses, including incurred but not reported losses, will eliminate the uncertainty of contingent liabilities for presently unresolved or unasserted claims, and;

E. The Reinsurer and the Cedant agree that it is in each of their best interests and in the best interests of their respective policyholders and creditors to adjust and settle their differences and to enter into this Agreement.

NOW THEREFORE, in consideration of the mutual benefits to be received by the parties hereto and the mutual covenants and agreements herein contained, the parties hereto hereby agree as follows:

Commutation of Reinsurance Agreements

1. Subject to the receipt by the Cedant of the Consideration as set out in Article 4 herein, together with any collection expenses and accrued interest due as is more particularly described in Article 8 (c) and 9 below, and in further consideration of the release contained in Article 2 herein the Cedant hereby irrevocably releases the Reinsurer, its predecessors, successors, assigns, affiliates, shareholders, officers, directors, agents, sub-agents, brokers and sub-brokers from One Hundred Percent (100%) of all adjustments, obligations, liabilities, offsets, actions, causes of action, proofs of claim, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, costs, agreements, promises, damages, expenses, judgment claims, and demands whatsoever, whether based in tort, contract, equity or other legal theory, and whether known or unknown or suspected or unsuspected by either or both parties, fixed or contingent, arising out of, or in connection with the Reinsurer's participations on the Contracts, whether or not any of such contracts are void or voidable. The releases contained herein are made on behalf of Reliance Insurance Company in its own right and as successor in interest by merger to its former subsidiaries other than the Canadian Branch of Reliance Insurance Company, Reliance National Insurance Co. (Europe) Limited, Reliance National Asia RE PTE, Ltd., Reliance National Compania Argentina de Seguros S.A., Reliance National de Mexico S.A. (formerly Seguros Renamex), and RENASA Insurance Company Limited (together, the International Subsidiaries) and do not apply to claims

arising from business written by the International Subsidiaries.

Release of the Cedant

2. In consideration of the release set out in Article 1 herein, the Reinsurer hereby irrevocably releases the Cedant, its predecessors, successors, assigns, affiliates, shareholders, officers, directors, receivers, liquidators, administrators, agents, sub-agents, brokers and sub-brokers from One Hundred Percent (100%) of all adjustments, obligations, liabilities, offsets, actions, causes of action, proofs of claim, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, costs, agreements, promises, damages, expenses, judgment claims, and demands whatsoever, whether based in tort, contract, equity or other legal theory, and whether known or unknown or suspected or unsuspected by either or both parties, fixed or contingent, arising out of, or in connection with the participation of the Cedant on the Contracts, whether or not any of such contracts are void or voidable.

Warranties

3. To the best information and belief of each of the parties to this Agreement, the following express warranties apply:

a. There are no pending agreements, transactions, negotiations, regulatory actions or lawsuits in which any of the parties are involved nor are there any threatened regulatory actions or lawsuits of which any of the parties are aware that would render this Agreement or any part thereof void, avoidable, or unenforceable;

b. No party hereto has transferred, assigned, or contracted to transfer or assign to any person, corporation, company or entity any of its rights, title, benefit or obligations directly arising out of or in connection with the Contracts, including without limitation any balances, accounts, costs, claims, counterclaims or demands which are within the contemplation of this Agreement;

c. The Reinsurer has not commuted or otherwise settled with or contracted to commute or settle with any person, corporation, company or entity any of their respective rights, title,

benefit or obligations directly arising out of or in connection with the Contracts, including without limitation any balances, accounts, costs, claims, counterclaims or demands which are within the contemplation of this Agreement;

d. The Cedant warrants and represents that all entities that constituted the “Company” or “Reinsured” as defined in the Reinsurance Agreements, with the exception of Sable Insurance Company and the International Subsidiaries set forth above, have merged into Reliance Insurance Company and are included in this Agreement.

Consideration

4. The Reinsurer agrees to pay the Cedant the total sum of Seventy Seven Million United States Dollars (US\$77,000,000.00) (“the Consideration”). Said payment shall be made no later than the Completion Date which shall be ten (10) calendar days following the Reinsurer’s receipt of (i) notice to the Reinsurer by facsimile of the execution of this Agreement by the Cedant or its assignee and (ii) the approval of the Agreement by the Commonwealth Court of Pennsylvania in accordance with Article 15 herein. Notwithstanding the foregoing, if the ten (10) day period expires on a weekend or a holiday, then the transfer must be completed by the end of the next business day. Reinsurer shall transfer the Consideration to the following account:

Name of Bank:	Mellon Bank Pittsburgh, PA
ABA Number:	043000261
Credit:	Reliance Insurance Company
CHIPS No.:	044840
Account Number:	079-7806
S.W.I.F.T.:	MELN US 3P
Ref:	Kathy Lee

The parties also agree that any claim recoveries including but not limited to salvage and subrogation, any escrow funds with third party claim administrators and any unremitted cash with intermediaries that relate to the Contracts is the property of the Cedant.

Successors and Assigns

5. This Agreement shall inure to the benefit of and bind the Reinsurer and its successors and assigns and the Cedant and its respective successors and assigns.

Independent Investigation

6. Each of the parties acknowledges that it has entered into this Agreement in reliance upon its own independent investigation and analysis of the Contracts and its respective rights and obligations thereunder, and not on the basis of any representation made or not made by the other party hereto. Each of the parties further acknowledges that it has read this Agreement, that it has had the opportunity to discuss it with legal counsel, and that it fully understands all of the terms herein.

Integration and Waiver

7. This Agreement shall constitute the entire agreement between the parties pertaining to the subject matter hereof, and supersedes any and all prior or contemporaneous understandings or agreements. No supplement, modification, waiver or termination hereof shall be binding or enforceable unless executed in writing by the parties to be bound thereby. No delay, omission or forbearance on the part of any party to this Agreement in exercising or enforcing any right, power or remedy under this Agreement shall impair such right, power or remedy or operate as a waiver thereof. The single or partial exercise or enforcement of such right, power or remedy shall not preclude any other or further exercise or enforcement thereof or of any other right, power or remedy. The rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

Remedies

8. In the event that the Reinsurer fails to pay the Consideration to the Cedant by the Completion Date, the Cedant shall have all rights and remedies available at law or in equity. In addition, the Cedant shall have the express right to

a. deem the entire Agreement null and void by notice in writing to the Reinsurer per Article 11 herein and to seek recovery of all sums due or to become due under the Contracts, or;

b. bring suit on the Agreement including interest on the agreed-upon but unpaid amount as set out in Article 8(c).

c. Without prejudice to the Cedant's rights to rescind this Agreement pursuant to Article 8(a) above, if Reinsurer does not pay all of the Consideration recited herein to the Cedant by the Completion Date, the Reinsurer shall pay interest on any unpaid sums at a rate which is equal to one percentage point (1.00%) over the Prime Rate (the base rate on corporate loans at large U.S. money center commercial banks) as published in *The Wall Street Journal*, but in no event shall said interest be calculated at less than six percent (6%) per annum.

Expenses of Collection

9. Subject to the provisions of Article 8(c) herein, if the Reinsurer fails to pay the Consideration to the Cedant by the Completion Date, Reinsurer agrees to reimburse the Cedant for all reasonable expenses including, without limitation, attorney fees which are incurred by the Cedant in the enforcement of this Agreement and collection of the consideration together with any interest accrued upon such reasonable expenses from the date of payment of such expenses at the rate set out in Article 8(c) above.

Choice of Laws

10. The performance and interpretation of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania with respect to any dispute arising under this Agreement between

the Reinsurer and the Cedant;

Notices

11. All notices required under this Agreement shall be as follows:

a. Any notice or other communication under or in connection with this Agreement shall be in writing and shall be delivered personally or sent by first class post/mail (or by air mail if overseas) or by overnight courier service, to the addresses of the parties as set out in Exhibit B attached hereto or to such other person or address as any party may specify by notice in writing to the others.

b. In the absence of evidence of earlier receipt, any notice or other communication shall be deemed to have been duly served if (i) sent by first class post on the second business day after posting; (ii) sent by overnight courier on the next business day after mailing (iii) sent by air mail, six (6) days after posting, and; (iv) if delivered personally, when left during normal business hours at the address set out in Exhibit B or any alternative address specified by the receiving party.

Interpretation

12. The language of this Agreement is the result of negotiation between all parties hereto, and any ambiguities in said language shall not be presumptively construed against or in favor of any party or parties hereto.

Execution and Approval

13. Except as disclosed in Article 15, each party to this Agreement represents that it is authorized to enter into this Agreement and the transactions contemplated herein.

14. Except as disclosed in Article 15, each signatory to this Agreement represents that said signatory is authorized and empowered to execute this Agreement and the transactions contemplated herein and that any and all required corporate approval on behalf of the Reinsurer has been properly

executed and that the Agreement is entered into voluntarily.

15. This Agreement is subject to final approval by the Commonwealth Court of Pennsylvania (the "Court"), which has jurisdiction over the liquidation of Cedant. Upon execution by all parties hereto, the Liquidator of Cedant shall promptly make application to the Court to secure said approval. In the event the Court does not approve this Agreement, then upon such notice of disapproval, the Liquidator of Cedant shall notify the Reinsurer and this Agreement will become null and void and have no further force or effect as between the Reinsurer and the Cedant.

16. This Agreement may be signed and exchanged in counterpart by facsimile and this Agreement as so signed and exchanged will constitute the binding Agreement of the parties.

Miscellaneous

17. For a period of twenty four (24) months following the effective date of this Agreement, the parties agrees to cooperate with each other in providing the other party with such financial information, loss notices, proofs of loss and other data, copies of documents and other materials and information that such party may reasonably request with respect to the Contracts to assist the other party so as to enable it to pursue recovery of losses ceded to the Contracts from the parties' retrocessionaires.

IN WITNESS WHEREOF, the parties have hereunto set their hands as of the dates set forth.

RELIANCE INSURANCE COMPANY (In Liquidation)

By: Ernest S. Smith

Title: Chief Liquidation Officer

Date: July 10, 2009

**MUNICH REINSURANCE AMERICA, INC., FORMERLY KNOWN AS
AMERICAN RE-INSURANCE COMPANY**

By: Peter J. Payne

Title: Senior Vice President

Date: July 2, 2009

EXHIBIT A

<u>RELIANCE REF.</u>	<u>REINSURER REF.</u>	<u>CONTRACT DESCRIPTION</u>	<u>EFFECTIVE DATE</u>
2Z11AA	1407-0094	WC Variable XOL	3/1/1992
3Q46AA	1407-0094	WC Variable XOL	1/1/1993
3X43AA	1407-0094	WC Variable XOL - Spec. Acceptance	7/1/1993
4X95AA	1407-0094	WC Variable XOL	1/1/1994
78E1AA	3255-0030	Odyssey Facultative	12/15/1997
817VAA	3255-0035	Aon Houston Facultative Aggregate QS	6/1/1998
586FAA	1407-0194/0233	Covenant WC & Employers Liability	9/22/1995
77C7AA	1407-0233	Covenant WC & Employers Liability	4/1/1997
653GAA	1407-0198	Risk Management Services QS	1/1/1996

EXHIBIT B

For Reliance/The Liquidator

Keith Kaplan
Reliance Insurance Company (In Liquidation)
Three Parkway
Philadelphia, PA 19102
Phone: 215-864-4250
Fax : 215-864-4955

For Munich Reinsurance America, Inc.

General Counsel
Munich Reinsurance America, Inc.
Princeton, NJ 08543-5241
Phone: 609-243-4200
Fax: 609-243-4257

Exhibit B

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

Joel Ario
Acting Insurance Commissioner of the
Commonwealth of Pennsylvania,

Plaintiff,

v.

RELIANCE INSURANCE COMPANY,

Defendant.

DOCKET NO. 269 MD 2001

IN RE: Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and Munich Reinsurance America, Inc.
formerly known as American Re-Insurance Company II

**SEALED EXHIBIT B TO THE PETITION FOR APPROVAL OF
COMMUTATION, SETTLEMENT AND RELEASE AGREEMENT**

**THIS ENVELOPE IS SEALED AND CONTAINS INFORMATION DESIGNATED
CONFIDENTIAL IN THIS CASE. IT IS NOT TO BE OPENED OR THE CONTENTS
THEREOF TO BE DISPLAYED OR REVEALED EXCEPT BY OR UPON ORDER OF
THE COURT OR PURSUANT TO STIPULATION OF BOTH PARTIES TO THIS ACTION.**