

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

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

v.

Reliance Insurance Company,
Defendant

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: No. 269 M.D. 2001

ORDER

AND NOW, this 6th day of August, 2001, the affidavit of William S. Taylor, Deputy Insurance Commissioner, and the declaration of William S. Taylor, Deputy Insurance Commissioner, received by the Court on August 3, 2001, are considered a motion to supplement the Rehabilitator's Motion to Extend the 60-day Stay; further, said motion is granted.


JAMES GARDNER COLINS, Judge

Certified from the Record

AUG - 7 2001

and Order Exit

**AFFIDAVIT OF WILLIAM S. TAYLOR
IN SUPPORT OF STAY**

I, William S. Taylor, do depose and state that I have personal knowledge of the following:

1. I am Deputy Insurance Commissioner of the Pennsylvania Insurance Department, Office of Liquidations, Rehabilitations and Special Funds.

2. On May 29, 2001, the Commonwealth Court of Pennsylvania entered its Order ("Order") placing Reliance Insurance Company ("Reliance") in rehabilitation pursuant to 40 P.S. §§ 221.1 - 221.63.

3. The Order appointed M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, and her successors in office, Rehabilitator of Reliance ("Rehabilitator").

4. The Rehabilitator was empowered and directed to take immediate possession of Reliance's property, business and affairs and to take such action as the nature of this case and interests of policyholders, certificateholders, creditors or the public may require.

5. By letter dated May 29, 2001, the Rehabilitator vested me with authority to act on her behalf, stating that:

This letter will confirm that you, as my employee and agent, are authorized, on my behalf as Rehabilitator of Reliance, to: transfer, receive, sell and disperse the property and assets of Reliance, and to

otherwise exercise my authority as Rehabilitator as vested in the law and in the Order of the Court, that you, in your judgment, deem necessary to conduct business of Reliance in Rehabilitation.

6. Since May 29, 2001, I and my staff on the Reliance Rehabilitation Team have been engaged in the ongoing attempt to know and understand the nature and extent of the currently pending litigation, including claims in litigation, that implicate or may implicate the assets of Reliance.

7. Given the extremely limited source of new income for Reliance, the nature, extent and outcome of litigation involving Reliance policies, including claims directly against Reliance, as well as claims against its insureds that it is defending, or for whom it will be or may be responsible for indemnifying, is a principal focus of the efforts of the Rehabilitation Team.

8. The magnitude of the financial exposure from the pending litigation will have a direct and substantial effect on the efforts of the Rehabilitator to protect the interests of policyholders and other creditors. Our efforts are presently focused on this analysis and a stay of litigation for at least 60 days will afford time to obtain necessary information.

9. Only with a thorough analysis and understanding of the claims involving Reliance assets will the Rehabilitator be able to devise a Plan of Rehabilitation that deals with all policyholders, claimants, creditors and others in a fair and equitable manner, and one which does not involve a "race to the courthouse" or "race to judgment" that might be detrimental to Reliance and its constituents.

10. It was recognition of this issue that led the Insurance Commissioner to seek and obtain the Order from the Commonwealth Court that includes the stay of all actions in the Commonwealth of Pennsylvania and elsewhere.

11. Reliance wrote policies throughout the United States and beyond, and therefore has claims litigation in virtually every state in the United States.

12. The Rehabilitation Team believes that there are over 190,000 claims, and 15,000 lawsuits pending against Reliance and its insured. Further, there are over 4,500 outside counsel handling claims throughout the United States, many or most of whom are handling multiple claims and/or multiple lawsuits. Some of those outside counsel may be handling dozens or more of such suits.

13. The Rehabilitator is in the process of communicating with each of the law firms that have the responsibility for handling Reliance cases to determine the volume of cases and their status. In addition, sums owed to outside counsel by Reliance for work performed before May 29, 2001, will not be processed for payment, but will be claims against the estate of Reliance to be addressed in any Rehabilitation Plan. This may or may not affect each lawyer's willingness to continue to act as counsel for Reliance or for a Reliance insured. Those issues are in the process of being addressed.

14. The stay Order sought by the Rehabilitator and issued by the Commonwealth Court was intended to permit the Rehabilitator time to perform the appropriate analysis of pending litigation so as to approach resolution of issues and demands upon Reliance assets in an orderly and fair manner.

16. The Rehabilitator and the Insurance Department believe that a stay of litigation involving Reliance insureds is necessary for at least 60 days to allow for the appropriate evaluation necessary to preserve the assets of Reliance.

William S. Taylor
WILLIAM S. TAYLOR

Sworn to and subscribed
before me this 26 day of
August, 2001.

Jane M. Miglionico
Notary Public

NOTARIAL SEAL
Jane M. Miglionico, Notary Public
City of Rednor, County of Delaware
My Commission Expires Jul. 26, 2003

DECLARATION OF WILLIAM H. TAYLOR

1. I am Deputy Insurance Commissioner of the Pennsylvania Insurance Department, Office of Liquidations, Rehabilitations and Special Funds. I am over the age of majority and under no legal disability. The facts set forth herein are based upon my personal knowledge and are true and correct to the best of my knowledge and belief.

2. On May 29, 2001, the Commonwealth Court of Pennsylvania entered its Order ("Order") placing Reliance Insurance Company ("Reliance") in rehabilitation pursuant to 40 P.S. §§ 221.1 - 221.63. Attached hereto as Tab 1 is a true and correct copy of the Order.

3. The Order appointed M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, and her successors in office Rehabilitator of Reliance ("Rehabilitator").

4. The Rehabilitator was empowered and directed to take immediate possession of Reliance's property, business and affairs and to take such action as the nature of this case and interests of policyholders, certificateholders, creditors or the public may require.

5. By letter dated May 29, 2001, the Rehabilitator vested me with authority to act on her behalf, stating that:

This letter will confirm that you, as my employee and agent, are authorized, on my behalf as Rehabilitator of Reliance, to: transfer, receive, sell and disperse the property and assets of Reliance, and to otherwise exercise my authority as Rehabilitator as vested in the law and in the Order of the Court, that you, in your judgment, deem necessary to conduct business of Reliance in Rehabilitation.

6. Since May 29, 2001, I and my staff on the Reliance Rehabilitation Team have been engaged in the ongoing attempt to know and understand the nature and extent of the currently pending litigation, including claims in litigation, that implicate or may implicate the assets of Reliance.

7. Given the extremely limited source of new income for Reliance, the nature, extent and outcome of litigation involving Reliance policies, including claims directly against Reliance, as well as claims against its insureds that it is defending, or for whom it will be or may be responsible for indemnifying, is a principal focus of the efforts of the Rehabilitation Team.

8. The magnitude of the financial exposure from the pending litigation will have a direct and substantial effect on the efforts of the Rehabilitator to protect the interests of policyholders and other creditors.

9. Only with a thorough analysis and understanding of the claims involving Reliance assets will the Rehabilitator be able to devise a Plan of Rehabilitation that deals with all policyholders, claimants, creditors and others in a fair and equitable manner, and one which does not involve a "race to the courthouse" or "race to judgment" that might be detrimental to Reliance and its constituents.

10. It was recognition of this issue that led the Insurance Commissioner to seek and obtain the Order from the Commonwealth Court that includes the stay of all actions in the Commonwealth of Pennsylvania and elsewhere against Reliance.

11. Reliance wrote policies throughout the United States and beyond, and therefore has claims litigation in virtually every state in the United States.

12. The Rehabilitation Team believes that there are over 190,000 claims, 15,000 lawsuits pending against Reliance and its insureds, but has not completed its analysis of the magnitude of the exposure. There are over 4,500 outside counsel handling claims throughout the United States, many or most of whom are handling multiple claims and/or multiple lawsuits. Some of those outside counsel may be handling dozens or more of such suits.

13. The Rehabilitator is in the process of communicating with each of the law firms that have the responsibility for handling Reliance cases to determine the volume of cases and their status. In addition, sums owed to outside counsel by Reliance for work performed before May 29, 2001, will not be processed for payment, but will be claims against the estate of Reliance to be addressed in any Rehabilitation Plan. This may or may not affect each lawyer's willingness to continue to act as counsel for Reliance or for a Reliance insured. Those issues are in the process of being addressed.

14. The stay Order sought by the Rehabilitator and issued by the Commonwealth Court was intended to permit the Rehabilitator time to perform the appropriate analysis of pending litigation so as to approach resolution of issues and demands upon Reliance assets in an orderly and fair manner.

15. The Rehabilitator and the Insurance Department believe that a stay of litigation involving Reliance insureds is necessary for at least 60 days to allow for the appropriate evaluation necessary to preserve the assets of Reliance.

16. The Rehabilitator is requesting a 60 day stay of this litigation, to run from the date of this court's entry of the stay order.

I declare under penalty of perjury of the State of West Virginia that the foregoing is true and correct.

Executed on this 27 day of July, 2001 at

William S. Taylor
William S. Taylor