

3. Commissioner M. Diane Koken and her successors in office (the "Commissioner") are hereby **APPOINTED** Liquidator of Reliance and the Liquidator or her designees (the "Liquidator") are directed immediately to take possession of Reliance's property, business and affairs as Liquidator, and to liquidate Reliance in accordance with Article V of the Insurance Department Act of 1921, as amended (40 P.S. §§211 et seq.) (the "Act"), and to take such action as the interest of the policyholders, creditors or the public may require.

4. The Liquidator is hereby **VESTED** with all the powers, rights, and duties authorized under the Act and other applicable law.

ASSETS OF THE ESTATE

5. The Commissioner, as Liquidator, is vested with title to all property, assets, contracts and rights of action ("assets") of Reliance, of whatever nature and wherever located, whether held directly or indirectly, as of the date of the filing of the Petition for Liquidation. All assets of Reliance are hereby found to be in custodia legis of this Court; and this Court specifically asserts, to the fullest extent of its authority, (a) in rem jurisdiction over all assets of the Company wherever they may be located and regardless of whether they are held in the name of the Company or any other name; (b) exclusive jurisdiction over all determinations of the validity and amount of claims against Reliance; and (c) exclusive jurisdiction over the determination of the distribution priority of all claims against Reliance.

6. The filing or recording of the Order with the clerk of the Commonwealth Court or with the recorder of deeds of the county in which the principal business of Reliance is conducted, or the county in which its principal office or place of business is located, shall

impart the same notice as a deed, bill of sale or other evidence of title duly filed or recorded with that recorder of deeds would have imparted.

7. All banks, investment bankers, companies, other entities or other persons having in their possession assets which are, or may be, the property of Reliance, shall, unless otherwise instructed by the Liquidator, deliver the possession of the same immediately to the Liquidator, and shall not disburse, convey, transfer, pledge, assign, hypothecate, encumber or in any manner dispose of the same without the prior written consent of, or unless directed in writing by, the Liquidator.

8. All persons and entities are enjoined from disposing of or destroying any records pertaining to any transactions between Reliance and any party.

9. The amount recoverable by the Liquidator from any reinsurer shall not be reduced as a result of this Order of Liquidation, regardless of any provision in a reinsurance contract or other agreement. Payment made directly by the reinsurer to an insured or other creditor of Reliance shall not diminish the reinsurer's obligation to Reliance, except to the extent provided by law.

10. All agents, brokers, and other persons having sold policies of insurance issued by Reliance shall account for and pay all unearned commissions and all premiums, collected and uncollected, for the benefit of Reliance directly to the Liquidator, within 30 days of notice of this Order. No agent, broker, reinsurance intermediary or other person shall disburse or use monies which come into their possession and are owed to, or are claimed by, Reliance for any purpose other than payment to the Liquidator.

11. If requested by the Liquidator, all attorneys employed or retained by Reliance or performing legal services for Reliance as of the date of this Order shall, within 30 days of such request, report to the Liquidator the name, company claim number (if applicable) and status of each matter they are handling on behalf of Reliance. Said report shall include the full caption, docket number and name and address of opposing counsel in each case and an accounting of any funds received from or on behalf of Reliance for any purpose and in any capacity.

12. Any entity furnishing telephone, water, electric, sewage, garbage, delivery, trash removal, or utility services to Reliance shall maintain such service and create a new account for the Liquidator as of the date of this Order upon instruction by the Liquidator.

13. Any entity (including any affiliate of Reliance) which has custody or control of any data processing information and records (including but not limited to source documents, all types of electronically stored information, master tapes or any other recorded information) relating to Reliance, shall transfer custody and control of such records in a form readable by the Liquidator to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

14. Any entity (including any affiliate of Reliance) furnishing claims processing or data processing services to Reliance shall maintain such services and transfer any such accounts to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

15. Reliance, its affiliates, and their officers, directors, trustees, employees, consultants, agents, and attorneys, shall: surrender peacefully to the Liquidator the premises

where Reliance conducts its business; deliver all keys or access codes thereto and to any safe deposit boxes; advise the Liquidator of the combinations or access codes of any safe or safekeeping devices of Reliance or any password or authorization code or access code required for access to data processing equipment; and shall deliver and surrender peacefully to the Liquidator all of the assets, books, records, files, credit cards, and other property of Reliance in their possession or control, wherever located, and otherwise advise and cooperate with the Liquidator in identifying and locating any of the foregoing.

16. Except for contracts of insurance and for reinsurance, all executory contracts to which Reliance is a party as of the date of this Order may be affirmed or disavowed by the Liquidator within 90 days of the date of this Order.

CONTINUATION AND CANCELLATION OF COVERAGE

17. All policies and contracts of insurance, whether issued within this Commonwealth or elsewhere, in effect on the date of this Order shall continue in force only with respect to risks in effect at that time, for the lesser of the following: (a) thirty days from the date of this Order; (b) until the normal expiration of the policy or contract providing insurance coverage; (c) until the insured has replaced the insurance coverage with equivalent insurance with another insurer or otherwise terminated the policy; or (d) until the Liquidator has effected a transfer of the policy obligation pursuant to Section 221.23(8). All policies or contracts of insurance issued by Reliance are hereby cancelled and terminated for all purposes effective thirty days from the date of this Order.

**WORKERS COMPENSATION AND
PERSONAL INJURY PROTECTION CLAIMS**

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.

NOTICE AND PROCEDURE FOR FILING CLAIMS

19. The Liquidator shall give notice by first-class mail to all persons which or who may have claims against Reliance, contingent or otherwise, as disclosed by its books and records, and advising claimants to file with the Liquidator their claims together with proper proofs thereof on or before the date (which shall be no earlier than one year from the date of the notice) the Liquidator shall specify therein. The Liquidator shall also cause a notice to be published in newspapers of general circulation where Reliance has its principal places of business, as well as in the national edition of the Wall Street Journal; (a) specifying the last day for the filing of claims; (b) advising all persons of the procedure by which all persons may present their claims to the Liquidator; (c) advising all persons of the Liquidator's office wherein they may present their claim; and (d) advising all persons of their right to present their claim or claims to the Liquidator. Any and all persons, firms, or corporations having or claiming to have any accounts, debts, claims or demands against Reliance, contingent or otherwise, or claiming any right, title, or interest in any funds or property in the possession of the Liquidator are required to file with the Liquidator at the location designated in the above-described notices, on or before the date specified by the Liquidator as the last date upon which to file a claim (which shall be no earlier than one year from the date of the notice), a properly completed proof of claim or be thereafter barred as claimants against any assets in the hands of the Liquidator, unless a late filing is permitted under 40 P.S. §221.37. No person shall participate in any distribution of the assets of Reliance unless such claims are filed and presented in accordance with and within the time limit established by the Liquidator, subject to the provisions for the late filing of claims in 40 P.S. §221.37.

EXPENSES, PAYMENTS AND LAWSUITS

20. Without filing a petition for distribution, the Liquidator shall have the discretion to pay as costs and expenses of administration, pursuant to 40 P.S. §221.44, the actual, reasonable and necessary costs of preserving or recovering assets of Reliance and the costs of goods or services provided to and approved by Reliance (In Rehabilitation) or this Court during the period of Rehabilitation and that are unpaid as of the date of this Order. The rights and liabilities of Reliance and of its creditors, policyholders, trustees, shareholders, members, and all other persons interested in this estate shall be determined in accordance with the Act as of the date of the filing of the Petition for Liquidation.

21. Reliance, its affiliates, or their directors, officers, trustees, employees, attorneys, brokers, consultants, agents, insureds, creditors, and any other persons, wherever located, are enjoined from: (a) the transaction of further business; (b) transferring, selling, concealing, terminating, canceling, destroying, disbursing, disposing of or assigning any assets, funds or other property of any nature; (c) any interference, in any manner, with Commissioner M. Diane Koken or her successors, or any of her designees in liquidating Reliance's business and affairs; (d) any waste of Reliance's assets or property; (e) the dissipation and transfer of bank accounts and negotiable instruments; (f) the institution or further prosecution of any actions in law or equity on behalf of or against Reliance; (g) the obtaining of preferences, judgments, attachments, garnishments or liens against Reliance's assets, property and policyholders; (h) the levy of execution process against Reliance and its assets, property and policyholders; (i) the negotiation or execution of any agreement of sale or deed conveying personal or real property for nonpayment of taxes or assessments or for

any other purpose; (j) withholding from the Liquidator or her designees or removing, concealing, transferring or destroying books, accounts, documents, policies or policy related documents or other records relating to Reliance's business; (k) making any assessments or indirectly collecting such assessments by setting them off against amounts otherwise payable to Reliance; (l) attempting to collect unpaid premiums, deductibles or self insured retentions from Reliance's insureds; and (m) the taking of any other action which might lessen the value of Reliance's assets or property, prejudice the rights and interests of policyholders and creditors, or interfere in the administration of the proceeding.

22. Unless the Liquidator consents thereto in writing, no action at law or equity, or arbitration or mediation, shall be brought against Reliance or the Liquidator, whether in this Commonwealth or elsewhere, nor shall any such existing action be maintained or further prosecuted after the date of this Order. All actions, including arbitrations and mediations, currently pending against Reliance in the courts of the Commonwealth of Pennsylvania or elsewhere are hereby stayed. All actions, arbitrations and mediations, against Reliance or the Liquidator shall be submitted and considered as claims in the liquidation proceeding.

23. All proceedings in which Reliance is obligated to defend a party in any court of this Commonwealth are hereby stayed for ninety (90) days from the date this Order. The Liquidator, pursuant to 40 P.S. §221.5(a), her designees and/or the Pennsylvania Property and Casualty Insurance Guaranty Association may petition this Court for extensions as needed in the exercise of their respective discretion. With respect to suits and other proceedings in which Reliance is obligated to defend a party, pending outside the Commonwealth of Pennsylvania and in federal courts of the United States, this Order

constitutes the request of this Court for comity in the imposition of a 90-day stay by such courts or tribunals, and that those courts afford this order deference by reason of this Court's responsibility for and supervisory authority over the rehabilitation of Reliance, as vested in this Court by the Pennsylvania Legislature. The Liquidator is authorized to cooperate in assisting any guaranty association in any jurisdiction to enforce any stay of any action provided for in any relevant law of another state. Any person that fails to honor a stay ordered by this Court or violates any provision of this Order, where such person has a claim against Reliance, shall have their claim subordinated to all other claims in the same class, with no payment being made with respect to such claim until all others in the same class have been paid in full, in addition to any other remedies available at law or in equity.

24. No judgment or order against Reliance or its insureds entered after the date of filing of the Petition for Liquidation, and no judgment or order against Reliance entered at any time by default or by collusion, need be considered as evidence of liability or quantum of damages by the Liquidator.

25. No action or proceeding in the nature of an attachment, garnishment, or execution shall be commenced or maintained in this Commonwealth or elsewhere against Reliance or the Liquidator, or their assets.

26. All secured creditors or parties, pledges, lienholders, collateral holders or other person claiming secured, priority or preferred interests in any property or assets of Reliance are hereby enjoined from taking any steps whatsoever to transfer, sell, assign, encumber, attach, dispose of, or exercise, purported rights in or against any property or assets of Reliance except as provided in 40 P.S. §221.43.

27. All references to "Reliance" herein shall include the former subsidiaries which were previously merged into Reliance Insurance Company with approval of the Commissioner, including Reliance National Indemnity Company, Reliance National Insurance Company, United Pacific Insurance Company, Reliance Direct Company, Reliance Surety Company, Reliance Universal Insurance Company, United Pacific Insurance Company of New York and Reliance Insurance Company of Illinois.

28. This Order shall be effective on the date of entry specified above and supercedes this Court's Order of May 29, 2001.

James Gardner Colins, J.

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

RECEIVED AND FILED
PHILADELPHIA
COMMONWEALTH COURT
OF PENNSYLVANIA
Oct 3 11 22 AM '01

PETITION FOR LIQUIDATION

Petitioner M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania (the "Commissioner"), in her capacity as Rehabilitator of Reliance Insurance Company (the "Rehabilitator"), hereby seeks an order of liquidation of the business and affairs of Reliance Insurance Company (in Rehabilitation) ("Reliance" or the "Company"), effective immediately, pursuant to Article V of the Insurance Department Act of 1921 (the "Act"), 40 P.S. §§221.14, 221.18(a), 221.19, and 221.20.

INTRODUCTION

The serious financial difficulties faced by Reliance, which were worse than known by the Commissioner on May 29, 2001 when the Order of Rehabilitation was entered, were exacerbated recently by the ramifications of the terrorist attack on the World Trade Center. Specifically, Reliance's main source of cash to pay claims, reinsurance receivables, has slowed seriously since the attack from already unacceptable levels. This obviously unanticipated development occurred in the context of the Commissioner's receipt, during the last week, of

financial statements as of March 31, 2001 showing a negative surplus of \$1.05 billion (a much more negative level than was known on May 29), and financial modeling results that indicate that Reliance will run out of cash as early as the current quarter of 2001 (assuming no extraordinary sources of cash). The coalescing of these three factors, any one of which renders impossible a successful rehabilitation where all policyholder claims are paid in full, has forced the difficult conclusion that Reliance should be placed in liquidation immediately.

Accordingly, the Commissioner, after extensive and diligent effort, has determined that there is no alternative to the liquidation of Reliance, for the following reasons, as explained more fully herein: the Commissioner has determined, pursuant to §221.18(a) of the Act, that due to a variety of circumstances, any further attempts to rehabilitate Reliance would substantially increase the risk of loss to creditors, policyholders and the public, and would be futile. Specifically, among other things, it has been determined that the assets of Reliance will be insufficient to pay all policyholder claims in full, and accordingly, that the equitable pro-rata distribution of assets in liquidation is in the public interest. The Commissioner has further determined, pursuant to §221.14(1) of the Act, that Reliance is insolvent, and that absent the possibility of a viable rehabilitation plan, the further transaction of business would be hazardous, financially, to its policyholders, creditors and the public. In addition, §221.19 of the Act provides that all grounds for rehabilitation under §221.14, including consent of the insurer, are grounds for liquidation. Reliance, through the Rehabilitator, acting pursuant to her authority under 40 P.S. §221.16(b), has consented to the entry of the proposed Order of Liquidation due to the futility of further efforts at rehabilitation and the Company's insolvent and financially hazardous condition.

JURISDICTION

1. Jurisdiction is founded upon 42 Pa. C.S. §761(a) and 40 P.S. §221.4(d).

PARTIES

2. Plaintiff is M. Diane Koken, acting in her official capacity as Insurance Commissioner of the Commonwealth of Pennsylvania and as Rehabilitator of Reliance. The Commissioner maintains her principal office at 1326 Strawberry Square, Harristown State Office Building No. 1, Harrisburg, Pennsylvania 17120.

3. Under the Act, the Commissioner is vested with the authority and charged with the duty to execute the insurance laws of the Commonwealth of Pennsylvania for the protection of policyholders, creditors and the public, generally. 40 P.S. §221.1 et seq.; see 40 P.S. §§41-42.

4. Reliance is primarily a property and casualty insurer organized and existing under the laws of the Commonwealth of Pennsylvania. Reliance is domiciled in Pennsylvania and maintains principal places of business at Three Parkway, Philadelphia, Pennsylvania, 19103, and 5 Hanover Street, 17th Floor, New York, New York, 10004.

BACKGROUND

5. Based upon its financial condition reported on November 16, 2000, the Commissioner, with Reliance's consent, placed Reliance under the formal supervision of the Department on January 29, 2001. See 40 P.S. § 221.11.

6. On May 29, 2001, this Court, with the consent of Reliance, issued an Order of Rehabilitation, appointing the Commissioner as statutory Rehabilitator of Reliance pursuant

to the Act. See 40 P.S. §221.15. The Commissioner now brings this Petition for Liquidation pursuant to the authority conferred on her by 40 P.S. §§ 221.18(a), 221.19 and 221.20.

7. At the inception of the rehabilitation on May 29, 2001, more than halfway through the second quarter of 2001, Reliance had not completed or delivered to the Department its year-end December 31, 2000 financial statement. Reliance's failure to deliver timely financial information to the Department prevented the Commissioner from accurately evaluating the Company's financial condition until well after the Commissioner took control of the Company in rehabilitation. Only after May 29, when the Commissioner and the Rehabilitation Team moved into Reliance's offices and had unfettered access, for the first time, to Reliance's books, records and employees (as were still available and cooperative), did the Rehabilitator have the opportunity to assess objectively Reliance's claims exposure, Reliance's claims reserve adequacy, and Reliance's reinsurance assets.

8. The Commissioner, as Rehabilitator, estimated that up to six months would be needed to evaluate the financial condition of Reliance in sufficient detail to make a reasonable assessment of the feasibility of a Plan of Rehabilitation for Reliance or whether liquidation was necessary. After four months of diligent efforts, the Commissioner has determined (a) that the continued rehabilitation of Reliance would substantially increase the risk of loss to policyholders, creditors and the public, and would be futile; and (b) that the Company is insolvent as that term is defined in the Act. See 40 P.S. §§ 221.3, 221.18(a). These conclusions are supported by: (a) the just-completed first quarter (3/31/01) financial statements of Reliance, which show a significantly worse financial position than was known to the Rehabilitator as of May 29, 2001; (b) the ongoing shortfall in cash receipts (especially

reinsurance) needed to pay Reliance policyholder claims and administrative expenses; and (c) output from the long-term financial model prepared by Ernst & Young which shows, as of September 29, 2001 and considering the recent rate of reinsurance collections, that Reliance will be unable to pay policyholder claims as early as this fourth quarter of 2001.

GROUNDS FOR LIQUIDATION

A. Further Attempts to Rehabilitate Reliance Would Be Futile

9. Section 221.18(a) of the Act provides:

Whenever [s]he has reasonable cause to believe that further attempts to rehabilitate an insurer would substantially increase the risk of loss to creditors, policy and certificate holders, or the public, or would be futile, the rehabilitator may petition the Commonwealth Court for an order of liquidation. . . .

40 P.S. §221.18(a). The Commissioner, as Rehabilitator of Reliance, has determined that further attempts to rehabilitate Reliance would substantially increase the risk of loss to the policyholders, claimants and creditors of Reliance and would be futile. Specifically, there will be insufficient assets to pay all policyholder claims in full.

1. First Quarter Financial Statements Disclosed A Financial Condition Worse Than Previously Known

10. On November 16, 2000, Reliance provided the Department with a copy of its 2000 third quarter financial statements showing that as of September 30, 2000, the Company had a surplus of approximately \$624 million. Because the reported surplus had decreased dramatically, the Department informed Reliance that supervision under the Act would be required, and the Department and the Company began negotiating the terms of a supervisory order. On January 29, 2001, with the agreement of the Company, the Commissioner entered an order placing Reliance under statutory supervision.

11. In February, 2001, the Company notified the Department that its December 31, 2000 year-end audited financial statements were not complete and would not be provided. In response, the Department demanded additional information from Reliance's officers, directors and managers regarding whether and how much the Company's financial condition had deteriorated as compared with the 2000 third quarter financial statements.

12. In April 2001, the Department placed a representative at Reliance to monitor the Company while a consent to formal rehabilitation proceedings was negotiated between the Department and the directors of Reliance. Reliance reported to the Department on April 4, 2001 that the 2000 year-end financial statements remained incomplete and further confirmed that, as of December 31, 2000, the Company's surplus was negative \$220 million. The Department immediately took steps to finalize Reliance's consent to rehabilitation (which was believed desirable to avoid a potentially lengthy contested proceeding) and place Reliance in rehabilitation.

13. On May 29, 2001, the Company's board of directors consented to the entry of an Order of Rehabilitation. The Commissioner, as Rehabilitator, then took control of the Company.

14. Shortly after the commencement of rehabilitation, when it became apparent that Deloitte & Touche could not predict when the audited December 31 financials would be completed, the Rehabilitator discharged the auditors and directed the Company to immediately complete the 2000 year-end financial statements. In mid-August, 2001, the Company provided the Rehabilitator with unaudited financial statements showing that, as of

December 31, 2000, Reliance's surplus was actually negative \$730 million -- not the negative \$220 million reported by the Company in April, 2001.

15. The Rehabilitator directed the Company to prepare the 2001 first quarter financial statements for the period ending March 31, 2001. On September 28, 2001, Reliance completed the financial statements, which showed that as of March 31, 2001, the total admitted assets of Reliance were \$8.8 billion. The total liabilities of the Company, as of that same date, were approximately \$9.9 billion, **leaving a negative surplus of \$1,053,700,000**. See Attachment "A", First Quarter 2001 Balance Sheet.

16. Since March 31, 2001, the financial condition of Reliance has continued to deteriorate. Consequently, the negative surplus reflected on the March 31 balance sheet likely underestimates the present financial condition of the Company. Reliance's total assets of \$8.8 billion assumes that all reinsurance recoverables (approximately \$5.1 billion) are collectible from the Company's over 1000 reinsurers. The delays Reliance is experiencing in collection have increased since the World Trade Center tragedy on September 11, 2001, which has caused significant uncertainty in the insurance industry. Other assets have also declined in value.

17. Given that Reliance's liabilities exceeded its assets by well over \$1 billion as of March 31, 2001, combined with the deteriorating reinsurance collections, the continued rehabilitation of Reliance would likely increase the risk of loss to the Company's insureds, creditors and the general public and would be futile. See 40 P.S. §221.18(a).

2. Crippling Delays in Receipt of Reinsurance Proceeds

18. Reinsurance receivables and recoverables comprise Reliance's largest pool of assets and account for over 65% of Reliance's cash receipts. Reliance's ability to meet its daily policyholder claims and expense obligations depends on timely and continuing receipt of reinsurance proceeds. Since the beginning of 2001, and throughout the period of the rehabilitation, Reliance has been experiencing greater delays in receipt of reinsurance proceeds from its reinsurers than it had experienced as a matter of course over the years. The Rehabilitator made concerted efforts to expedite the payment of reinsurance proceeds upon taking over Reliance, but has not seen improvement.

19. Recent events have made timely collections even more difficult. The World Trade Center complex housed several of Reliance's reinsurers and reinsurance intermediaries, and the destruction of those buildings and the loss of life on September 11 exacerbated the delay in receipt of reinsurance proceeds. Reinsurance receipts in September were lower than projected, and lower than the receipts in July and August.

20. Although Reliance holds some non-reinsurance assets, most of these assets are not readily marketable and considerable time will be required to accomplish sales of these assets at commercially reasonable prices. The delays in collection of reinsurance proceeds will result, in the very near future, in Reliance being unable to pay claims as they become due, threatening to increase the risk of loss to Company policyholders, absent the orderly liquidation process set forth in the Act.

3. Claims Payment Requirement in Coming Months Cannot Be Met

21. Reliance's current weekly cash needs for claims and expenses average between \$35 and \$40 million. This figure increased from the last status report due to the expiration of stays and the increase in litigation activity after the end of the summer slow-down. Projections reflect that reinsurance receipts are expected to average only between \$12 and \$18 million per week in the near future. Reliance's residual premium income is projected to shrink from approximately \$17 million in the month of September to only \$5 million in December 2001.

22. Cash flow projections show that Reliance will lack available cash from all ordinary sources to meet its obligations as they come due over the course of the next three months. Indeed, without the projected but uncertain asset sales, commutations and borrowings, Reliance has insufficient cash resources to meet its present financial obligations.

23. The most currently available information shows that for the month of September, 2001, Reliance's paid losses, payroll and operating expenses totaled over \$111 million. Reliance's cash receipts in the month of September, including the proceeds from the sale of certain pieces of real estate and business operations, totaled only approximately \$80 million, resulting in a cash deficit of over \$31 million. Reliance was forced to cover September's deficit with, inter alia, borrowings from two of its wholly-owned subsidiaries and utilizing most of its remaining available cash.

24. Cash flow projections for the months of October, November and December, 2001 reveal ever larger cash deficits resulting from anticipated delays in reinsurance receipts and an increase in claims payments. The expected increase in claims payments results as

previously stayed suits against insureds proceed to trial, result in verdicts or settle prior to trial. Over 170 cases pending against Reliance insureds are scheduled for trial in the next sixty days. Payment of these claims in the next few months, either by settlement or after judgment, assuming coverage, will deplete Reliance's limited cash resources even further.

25. Reliance's cash requirements are also expected to rise in the future due to the release from stays of the backlog of large-dollar cases in litigation. Reliance will run out of all available cash early in the fourth quarter of 2001.

4. Inability to Access Statutory Deposits Held in Other States

26. Despite efforts of the Rehabilitator to obtain the types of agreements approved by this Court's August 2, 2001 Order regarding statutory deposits, many states, including those holding the most significant deposits, have refused to release Reliance's statutory deposits (amounting to over \$400 million) to the Rehabilitator to pay appropriate claims. The inability of the Rehabilitator to obtain access to these statutory deposits has contributed to Reliance's serious cash flow deficiencies and supports the conclusion that further efforts to rehabilitate Reliance would be futile.

5. Decline in Value of Symbol Technology Common Stock

27. The most substantial, readily marketable asset of Reliance consists of its holdings of approximately 11.2 million shares of Symbol Technologies Inc. common stock. By May 2001, just prior to the filing of the Petition for Rehabilitation, the stock was trading at \$26 a share. Since May 2001, Symbol Technologies' stock price has declined, trading at approximately \$10 a share on September 28, 2001.

6. Reliance Group Continues to Hold \$95 Million in Reliance Assets

28. The Rehabilitator's efforts, in both this Court and federal bankruptcy court, to obtain \$95 million in Reliance assets held by RGH have been vigorously resisted by RGH and its attorneys. The inability to obtain these funds has also contributed to Reliance's liquidity crisis.

7. The Financial Model Shows Rehabilitation Is Not Feasible

29. After the entry of the May 29 Order, the Rehabilitator hired the accounting and consulting firm of Ernst & Young to develop a financial model (the "model") that would project the ability of Reliance to meet its policyholder obligations over a period of years under continued rehabilitation by the Commissioner. The model prepared by Ernst & Young, based on data and assumptions provided by Reliance and the Rehabilitation staff, was delivered within the last week to the Rehabilitator. It shows that Reliance will have insufficient cash assets to fund claims payments on a monthly basis as early as the current quarter of 2001. The model also shows, with less precision due to the inherent unpredictability of future claims activity and potential loss exposure, that Reliance's assets will be insufficient to meet its projected policyholder claims, in the aggregate.

30. Given the financial condition of Reliance as of March 31, 2001, adverse developments in Reliance's reinsurance collections, the refusal of key states to release the Company's statutory deposits to the Rehabilitator for the payment of appropriate claims, the decline in value of the primary marketable asset of Reliance, the inability to obtain the \$95 million held by RGH, and the projections set forth in the model, the continued rehabilitation

of Reliance is futile and not in the best interest of the Company's policyholders, claimants and creditors.

B. Reliance Is Insolvent

31. Section 221.19 of the Act provides that "[a]ny ground on which an order of rehabilitation may be based, as specified in section [221.14], whether or not there has been a prior order of rehabilitation of the insurer, shall be grounds for liquidation." See 40 P.S. §221.19. Section 221.14 provides that an appropriate ground for liquidation is the insolvency of the insurer. See 40 P.S. §221.14(1). The section states, "An order of [liquidation] may be based on . . . the following ground[:] . . . the insurer is insolvent, or in such condition that the further transaction of business would be hazardous, financially, to its policyholders, creditors or the public." Id.; see 40 P.S. §221.19.

32. For an insurer such as Reliance, the Act defines insolvency as:

[t]he inability to pay its obligations when they are due, or whose admitted assets do not exceed its liability plus the greater of (i) any capital and surplus required by law for its organization, or (ii) its authorized and issued capital stock.

See 40 P.S. §221.3

33. Reliance's total liabilities exceed its total assets by approximately \$1,053,700,000. (This deficit does not take into account the statutorily determined minimum level of capital and surplus Reliance is required to maintain for the purpose of ensuring sufficient assets to protect the interests of the Company's insureds, creditors and the public. See 40 P.S. §221.3; see also 40 P.S. §§221.1-A et seq. If the required capital and surplus were considered, the deficit would be considerably more than \$1.1 billion).

34. Based on the output of the Ernst & Young financial model, the sale of Reliance's non-cash assets will not improve the financial position of the Company to the point where Reliance would be able to meet its policyholder liabilities at 100% while maintaining the required minimum level of statutory capital and surplus.

35. In addition, Reliance presently has insufficient cash assets to pay its obligations as they come due. See 40 P.S. §221.3.

36. Under 40 P.S. §§221.3 and 221.14(1), Reliance is insolvent, and the entry of an Order of Liquidation is necessary for the equitable protection of policyholders.

C. Reliance Consents To Liquidation

37. Sections 221.14 and 221.19 provide that an Order of Liquidation may be entered where "[t]he board of directors . . . request or consent to [liquidation] under this article." 40 P.S. §221.14(12).

38. The Commissioner, as Rehabilitator, is vested with "all the powers of the directors, officers and managers, whose authority shall be suspended, except as they are redelegated by the rehabilitator." See 40 P.S. §221.16(b). Pursuant to her authority under 40 P.S. §221.16(b), the Rehabilitator of Reliance consents to the entry of an Order of Liquidation in accordance with 40 P.S. §§221.14(12) and 221.16(b), as reflected in the executed Consent to Entry of Order Liquidation and Waiver of Notice and Hearing.

39. The consent provides independent and sufficient grounds for the entry of an Order of Liquidation.

**WORKERS COMPENSATION AND
PERSONAL INJURY PROTECTION CLAIMS**

40. Upon entry of the proposed order of liquidation, relevant state guaranty association statutes are triggered and guaranty associations become obligated, to the extent of their statutory coverage, for payment of the claims of Reliance insureds and claimants under policies of insurance.

41. Upon entry of an order placing Reliance in liquidation, delays of sixty to ninety days or more may be experienced before the guaranty associations in the states and territories of the United States are able to administer, process and begin paying the covered claims of Reliance's policyholders.

42. To maintain continued confidence in the insurance system, the Commissioner seeks the approval of the Court to continue timely to pay workers compensation and personal injury protection ("PIP") claims of claimants. The Commissioner's request to pay these claims would be subject to the conditions that (1) sufficient funds exist to make the payments; (2) the guaranty associations would endeavor to assume the payment obligations expeditiously; and (3) the Commissioner would have the discretion to pay for a period up to 90 days and the discretion to cease payments at any time.

43. Workers compensation and PIP claimants are particularly prejudiced by delay in the processing of claims payments. These individuals rely upon benefits payments to cover medical and living expenses. A delay of sixty to ninety days could create significant hardship for these claimants, as they may not have sufficient resources to meet these expenses.

44. Under all guaranty association statutes in every state, claims for workers compensation are covered 100% without limit. Effectively all PIP claims are also covered. Due to the inability to give the associations any significant advance warning as to the filing of this petition for liquidation, there is a need for the Liquidator to cooperate with guaranty associations in transitioning covered claims.

45. There also exist for the benefit of workers compensation claimants certain statutory deposits in certain states that may be available to pay workers compensation claims.

46. The petitioner seeks authority to make the facilities, computer systems, books, records and arrangements with third party administrators of Reliance available for the processing and payment of such claims, for a period not to exceed 90 days, if she determines, in her discretion, that to do so is in the best interests of the policyholders and the public interest.

47. To avoid the potential creation of preferences, as well as the possibility of double recovery by some claimants, the Commissioner further requests that the Order of Liquidation provide that the Liquidator is authorized in exercising her discretion to enter into agreements with guaranty associations to have the guaranty associations fund the payments of such workers compensation and PIP claims, but to use the systems, facilities, third party administrators and books and records of Reliance to effectuate payment, for a period not to exceed 90 days. The Commissioner anticipates that some guaranty associations may not have funds available on an immediate or short-term basis. In such instances, the Liquidator should be authorized to exercise her discretion, if she chooses to do so, to advance such funds from the estate, if the advancement is treated as an early

access payment as described in 40 P.S. §221.36. The Liquidator will eventually require written agreements memorializing the commitment by the guaranty associations to treat advancement of moneys as early access.

STAY OF LITIGATION

48. Section 221.26 of the Act provides that upon entry of an Order appointing the Commissioner liquidator of a domestic insurer, all existing actions brought against the insurer are prohibited from continuing. The Section states: "Upon issuance of an order appointing the liquidator of a domestic insurer[,] . . . no action at law or equity shall be brought by or against the insurer, whether in this Commonwealth or elsewhere, nor shall any such existing actions be continued after issuance of such order." 40 P.S. §221.26(a).

49. Pursuant to 40 P.S. §221.26, the Commissioner requests that the Order of Liquidation provide that all actions pending against Reliance, in the Commonwealth of Pennsylvania or elsewhere, be stayed indefinitely.

50. Upon entry of an order declaring an insurer insolvent, 40 P.S. §991.1819(a) provides that actions pending in the Commonwealth of Pennsylvania against the company's insureds are stayed for ninety days "to permit proper defense by the [guaranty] association of all pending causes of action." 40 P.S. §991.1819(a). Given the size of Reliance and the fact that Reliance has over 75,000 policyholders, many with claims that may be covered by the Pennsylvania Property and Casualty Insurance Guaranty Association ("PPCIGA"), and many with actions pending against them in this Commonwealth, the Commissioner reserves the right to petition the Court for an extension of this ninety day stay under Section 991.1819 as needed to protect the interests of insureds, the PPCIGA, the estate of the

insurer, or the public. Other state guaranty association acts contain similar stay provisions and the Liquidator requests the authority to cooperate with such associations in seeking the implementation of such stays in other states. With respect to suits and other proceedings outside the Commonwealth of Pennsylvania and in federal courts of the United States, the Commissioner requests that the Order of Liquidation include a request by this Court for comity in the imposition of a 90-day stay by such courts or tribunals, and that those courts afford this order deference by reason of this Court's responsibility for and supervisory authority over the rehabilitation of Reliance as vested in this Court by the Pennsylvania Legislature.

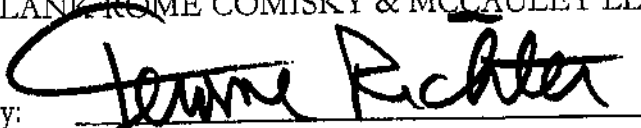
EFFECTIVE DATE OF LIQUIDATION

51. The Commissioner requests that the liquidation of Reliance be effective immediately.

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

BLANK, ROME, COMISKY & MCCAULEY LLP

By:


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Attorneys for Plaintiff
M. Diane Koken, Insurance Commissioner
of the Commonwealth of Pennsylvania, as
Rehabilitator for Reliance Insurance Company

OF COUNSEL:

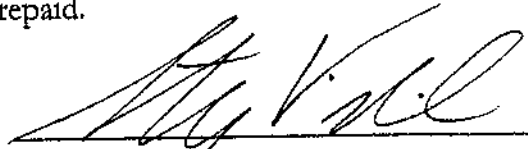
David F. Simon
Chief Counsel
The Pennsylvania Insurance Department
1341 Strawberry Square
Harrisburg, PA 17120
(717) 787-6009

Dated: October 3, 2001

CERTIFICATE OF SERVICE

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

Dated: October 3, 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)

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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. § 221.16(a), to act on her behalf in her capacity as the Rehabilitator of Reliance Insurance Company. I hereby verify that the facts set forth in the foregoing Petition for Liquidation are true and correct to the best of my knowledge, information and belief.

I understand that the facts stated in the Petition are made subject to the penalties of 18 P.S. § 4904 relating to unsworn falsification to authorities.

Date: October 2, 2001



William S. Taylor
Deputy Insurance Commissioner for
Liquidations, Rehabilitations and
Special Funds

Exhibit A

RELIANCE INSURANCE COMPANY
CONSOLIDATED DOMESTIC STATEMENT OF ASSETS AND LIABILITIES (EXCLUDING CANADA)
MARCH 31, 2001 - UNAUDITED

(In Millions)

	<u>Domestic Consolidated - Gross Basis</u>
ASSETS	
Cash and bank deposits	\$ 50.5
Bonds and ST investments	1,154.1
Preferred stocks	122.8
Symbol Technologies C/S	285.3
LandAmerica	13.7
Other common stocks and options	22.8
Real estate related investments	135.2
Other invested assets	<u>17.1</u>
Invested assets excluding affiliates	<u>1,801.4</u>
Reliance Life	11.0
Garnet - at market	46.0
Reliance Consulting Group	81.6
Foreign Insurance Affiliates	248.6
Non Consolidated Affiliates	<u>26.6</u>
Investments in affiliates	<u>413.9</u>
Total invested assets	2,215.3
Premium balances	142.2
Accrued retrospective premiums	165.3
Accrued interest and dividends	30.9
Reinsurance recoverables - paid losses/LAE	852.9
Reinsurance recoverables - Direct	4,673.8
Reinsurance recoverables - Assumed	385.8
Other assets	<u>345.0</u>
Total admitted assets	<u>\$ 8,811.2</u>
LIABILITIES & SURPLUS	
Losses and loss adjustment expenses - Direct	\$ 7,219.3
Losses and loss adjustment expenses - Assumed	1,293.5
Unearned premiums	327.1
Unauthorized reinsurance	201.1
Reinsurance funds held	553.0
Other liabilities	<u>270.9</u>
Total liabilities	9,864.9
Total policyholders' surplus	<u>(1,053.7)</u>
Total liabilities and surplus	<u>\$ 8,811.2</u>

For internal use only. This data should not be used without fully understanding Reliance's financial situation and accounting basis.

Exhibit B

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

**CONSENT OF RELIANCE INSURANCE COMPANY
TO ENTRY OF ORDER OF LIQUIDATION
AND WAIVER OF NOTICE AND HEARING**

Petitioner M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania (the "Commissioner"), in her capacity as Rehabilitator of Reliance Insurance Company (the "Rehabilitator"), through William S. Taylor, Deputy Insurance Commissioner, hereby consents to the entry upon petition of an order of liquidation for Reliance Insurance Company ("Reliance" or the "Company"), and waives notice and hearing thereon, as follows:

1. On May 29, 2001, the Commissioner petitioned the Commonwealth Court of Pennsylvania for an order placing Reliance in rehabilitation under the provisions of the Insurance Department Act of 1921 (the "Act"), 40 P.S. §§221.1 *et seq.* The Board of Directors of Reliance consented to the entry of said order. Immediately after consenting to the Order of Rehabilitation, all of Reliance's directors resigned. On that same day, the Court

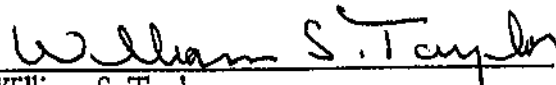
issued an Order of Rehabilitation appointing the Commissioner statutory Rehabilitator of Reliance.

2. The Rehabilitator has "all of the powers of the directors, officers and managers" of Reliance in rehabilitation as well as the "full power to direct and manage . . . the property and business of . . ." Reliance. 40 P.S. §221.16(b).

3. Pursuant to the aforesaid authority of the Rehabilitator, Reliance hereby agrees and consents to the entry of the proposed Order of Liquidation attached to the Petition for Liquidation, filed October 2, 2001, including the declaration of insolvency contained therein, and waives its right to any hearing before the Commonwealth Court with respect to said Petition and the proposed Order for Liquidation (including the declaration of insolvency contained therein). See 40 P.S. § 221.20(b), (f).

4. I am duly authorized to execute this consent on behalf of the Rehabilitator.

Date: October 2, 2001


William S. Taylor
Deputy Insurance Commissioner for
Liquidations, Rehabilitations and
Special Funds