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**Office of the Special Deputy Receiver**

To: Jennifer Hammer, Director of Insurance  
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Illinois Department of Insurance  
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From: J. Kevin Baldwin  
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**Executive Summary**

Under Article XIII of the Illinois Insurance Code, the Illinois Director of Insurance (“Director”) serves as the statutory conservator, rehabilitator and liquidator of financially impaired and insolvent Illinois domestic insurers, of unauthorized insurers, and as ancillary receiver of certain foreign or alien insurers doing business in the state. In accordance with Section 202 of the Code, Illinois’ Office of the Special Deputy Receiver (“OSD”) assists the Director in performing her duties under Article XIII, as well as the employer for the personnel that assist the Director in these capacities.

**OSD Mission**

Achieving consumer protection through receivership resolution expertise and the execution of a resolution strategy appropriate to the unique circumstances of each troubled company is the critical mission of the OSD. Since the creation of the office, OSD has developed resolution plans for the Director in 169 insurer receiverships and company supervisions, and completed and closed 147 estates. These assignments have included receiverships and supervisions of the following types of insurance entities:

Property & Casualty Insurers  
Mortgage Guaranty Insurers  
Captive Insurers  
Life Insurers  
Health Insurers  
HMOs  
Accident & Health Insurers  
Fraternal Benefit Societies  
Burial Societies

Group Worker’s Compensation Pools  
Religious & Charitable Risk Pooling Trusts  
Farm Mutual Insurers  
Insurance Exchange Syndicates  
Unauthorized Insurers

## Recent Results

Receivership estate distributions and the expenses associated with their completion are the single most important measure for achieving success for the consumers that are affected by the impairment or insolvency of their insurer. During 2016, the OSD serviced 26 receivership estates for the Director, marshalling and distributing \$307 million to consumers and other estate creditors. 2016 distributions brought OSD's total distributions to consumers and creditors since 2010 to \$1.7 billion. OSD staff directly handled 53,000 consumer telephone calls, and resolved and adjudicated 15,000 policyholder claims. In addition to these direct consumer benefits, an additional \$75 million in claim payments by state insurance guaranty associations to consumers were facilitated. OSD's 2016 administrative expenses totaled \$8.5 million, resulting in an annual distribution to expense ratio of 2.8%. OSD's "all-in" average hourly professional services rate, including payroll, benefits, taxes, rent, insurance, and information technology costs, achieved its targeted rate of \$90.00 per hour.

OSD also assisted the Director at the National Association of Insurance Commissioners ("NAIC") through participation in the work of the NAIC's Receivership & Insolvency Task Force, Receivership Financial Analysis Working Group, Receivership Model Law Working Group, and the Receivership Technology & Administration Working Group.

Quarterly statutory financial statements for all pending receivership estates were audited by the independent public and governmental accounting firm of Kerber Eck and Braeckel, filed with the Supervising Court, and published on the OSD's website. Annual financial information for each estate was also reported to the NAIC's Global Receivership Information Database.

The OSD currently has 52 employees. In addition to OSD staff, through the utilization of OSD's scalable and flexible staffing model, four receivership estates continue to employ legacy personnel who assist the OSD in winding down their former company's operations.

Excluding confidential conservations and supervisions, the following receivership estates were serviced for the Director by OSD in 2016:

1. Administrative Employer Group, Inc., In Liquidation
2. Affirmative Insurance Co., In Liquidation
3. American Manufacturers Mutual Insurance Co., In Liquidation
4. American Motorists Insurance Co., In Liquidation
5. Centaur Insurance Co., In Rehabilitation
6. Concert Health Plan Insurance Co., In Liquidation
7. Constitutional Casualty Co., In Liquidation
8. Copco, Inc., In Conservation
9. Employers' Consortium V, Inc., In Liquidation
10. IL Movers & Warehousemen's Risk Mgmt. Group, In Liquidation
11. IL Restaurant Risk Mgmt. Assoc., Inc., In Liquidation

12. IL State Bowling Proprietors & Recreational Ind. Workers Comp. Trust, In Rehabilitation
13. Interstate Bankers Casualty Co., In Liquidation
14. Land of Lincoln Mutual Health Insurance Company
15. Legion Indemnity Co., In Liquidation
16. Life Services Network Trust, In Rehabilitation
17. Lumbermens Mutual Casualty Co., In Liquidation
18. Millers Classified Insurance Co., In Rehabilitation
19. Millers First Insurance Co., In Rehabilitation
20. Polish Women's Alliance of America, In Rehabilitation
21. Reinsurance Company of America, In Liquidation
22. Statewide Insurance Co., In Liquidation
23. Triad Guaranty Assurance Corp., In Rehabilitation
24. Triad Guaranty Insurance Corp., In Rehabilitation
25. United Capital Insurance Co., In Liquidation

State insurance guaranty associations also serve as a vital component of the resolution process for insolvent insurers, providing consumer protection and replacement of benefits for certain covered insurance lines. Twelve of the receivership estates administered on behalf of the Director during 2016 triggered guaranty association protection for consumers in Illinois and other states. The OSD effectively coordinated with these guaranty associations in each estate and, where appropriate, their national organizations, the National Organization of Life & Health Insurance Guaranty Associations and the National Conference of Insurance Guaranty Funds. In one particular large insolvency that triggered guaranty association protection in several states, OSD completed the initial transfer of electronic records necessary for the guaranty associations to begin responding to consumer claims within five business days of the entry of the Order of Liquidation. In another insolvency that had previously triggered fifty four separate guaranty associations, prompt claim payment reporting protocols and other information sharing platforms established between the Liquidator and the guaranty associations were developed and used to facilitate accurate financial reporting, guaranty association claim reimbursement, large deductible collateral need establishment, release, recovery, and guaranty association reimbursement, and prompt reinsurance recoveries to the liquidation estate from the estate's reinsurers.

Readiness and the ability to assume the supervision and management of financially troubled insurers is a critical function for state insurance regulators, as is the ability to reform and improve the financial and consumer-oriented results of troubled insurers, preventing against insolvency and providing consumer protection. The OSD stood ready to assist the Director in discharging these responsibilities in 2016. Two troubled companies were placed in liquidation, and one was placed under enhanced supervision. A successful merger agreement for another company was reached in order to facilitate its release from rehabilitation while fully protecting its policyholders and creditors. Two solvent subsidiaries of companies in liquidation were also sold to new owners.

The OSD and the pending receivership estates are subject to an annual statutory audit requirement by an independent outside certified public accountant, who is currently engaged in the conduct of audits under the State Auditing Act. The Auditor General of the State of Illinois, pursuant to an agreed-upon procedure, further reviews the audit work papers of the OSD's outside auditor and approves the audit for adequacy. The OSD and the receivership estates it administered on behalf of the Director were audited in 2016 for the year ending December 31, 2015 by the audit firm of Kerber Eck & Braeckel ("KEB"). KEB rendered clean audit opinions on the financial statements of the OSD and the pending receivership estates, finding that the financial statements of OSD present fairly, in all material respects the assets, liabilities, revenue and expenses as of December 31, 2015, and with respect to each audited receivership estate that the financial statements present fairly, in all material respects their cash and invested assets as of December 31, 2015. KEB also found that there were no deficiencies in OSD's internal controls considered to be a material weakness as of December 31, 2015, and that OSD management's assertion of compliance with Articles XIII and XIII1/2 of the Illinois Insurance Code for calendar year 2015 was fairly stated in all respects. The Auditor General, pursuant to the agreed-upon procedure, further reviewed and approved the adequacy of KEB's statutory audits of the OSD and the pending receivership estates. Copies of KEB's annual audit report of the OSD and each pending receivership estate can be found at [www.osdchi.com](http://www.osdchi.com)

## Receivership Estate Summary

A summary of each of the pending receivership estates is presented below, excluding any confidential matters. Additional information on the OSD as well as pending and closed receivership estates can be found at [www.osdchi.com](http://www.osdchi.com)

### **ADMINISTRATIVE EMPLOYER GROUP, INC. ("AEG") and EMPLOYER'S CONSORTIUM V, INC. ("ECI")**

AEG and ECI were originally placed in liquidation based on the Director's determination that the companies were transacting unauthorized insurance business. AEG and ECI were wholly owned by Professional Employer Holdings, L.L.C. Although the two entities were licensed in Illinois as professional employer organizations ("PEOs"), they were never licensed for purposes of transacting the business of insurance yet began providing their client companies with unauthorized workers compensation coverage in August of 2005. Since their insurance certificates were issued by an unauthorized company, guaranty fund coverage was not available to consumers caught up in the illegal business activity. Further compounding matters, neither AEG nor ECI had sufficient assets to stand behind their unauthorized insurance commitments.

The Liquidator had previously sued an entity known as Leading Edge Group Holdings, Inc. to recover funds fraudulently transferred from AEG and ECI to Leading Edge and

obtained default judgments in AEG and ECI's favor in the amounts of \$7,176,619 and \$7,090,387, respectively. Recovery on the judgments was obtained in July of 2014 in a federal civil forfeiture and remission proceeding conducted by the United States Department of Justice Asset Forfeiture and Money Laundering Section in the amounts of \$1,882,745.37 and \$1,900,906.90, respectively.

All timely-filed claims have been reviewed and adjudicated in both the AEG and ECI estates. Distributions representing 80% of the amount due to AEG's consumers was completed in 2015, and 100% of the amount due to ECI's consumers in 2016. The Liquidator is seeking to resolve each estate's federal income tax liabilities, and upon conclusion may be capable of distributing additional monies to AEG's consumers.

### **AFFIRMATIVE INSURANCE COMPANY, IN REHABILITATION ("AIC")**

AIC was placed in rehabilitation in September of 2015 after the company was required to record in excess of \$40 million in adverse development on pending claim reserves. The company was subsequently placed in liquidation in March of 2016 after the completion of a further review of its financial condition and the adequacy of its reserves, triggering guaranty associations in fifteen states. Covered claims are being paid by the guaranty associations. Early access agreements permitting early estate distributions to guaranty associations for expense and claim reimbursement have been put in place for participating guaranty associations.

Upon entry of the rehabilitation order AIC had 174,224 policies in force. Non-renewal notices were issued during rehabilitation to the company's policyholders in accordance with applicable state law, prior to the policy anniversary, minimizing the impact of the policy cancellations at liquidation.

Several asset recovery actions have been commenced by the Liquidator, including a settlement agreement reached in September of 2015 with the company's former managing general agent, Confie Seguros Holding II Co. ("Confie"), in connection with Confie's contested contingent liability to the company under the terms of a June 30, 2015 purchase agreement. Under the settlement, Confie contributed \$15 million to the AIC estate in consideration for the estate's release of a contested contingent payment of a similar amount due to AIC under the purchase agreement, and the grant of a non-interest bearing surplus note from AIC to Confie for the amount of its contribution.

A bar date for presenting timely-filed claims against the estate has been established as August 27, 2017. Timely-filed contingent claims must be liquidated on or before August 28, 2018.

**AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY (“AMM”),  
AMERICAN MOTORISTS INSURANCE COMPANY (“AMICO”), and LUMBERMENS  
MUTUAL CASUALTY COMPANY (“LMC”)**

AMM, AMICO and LMC were placed in rehabilitation in 2012. The rehabilitation was successfully used to provide a seamless transition at liquidation for the ongoing payment and administration of 6500 pending workers’ compensation claims to the state insurance guaranty associations and large net worth employers excluded from the guaranty system without disruption in the payment of claims or provision of medical services to the injured workers. The estates were transitioned to liquidation in 2013 and substantively consolidated by judicial order to equitably distribute their combined assets to consumers and policyholders consistent with their pre-receivership financial operations. A merger of the three companies was effective as of December 31, 2014. LMC is the surviving legal entity.

A claim filing deadline of November 10, 2014 was established by the Supervising Court. Late claims may still be filed, but participate in estate distributions at a lower priority level. The deadline for the liquidation of timely-filed contingent claims was recently extended to November 10, 2017.

Significant ongoing administrative activity includes the administration of 5600 open guaranty association claims pending with 54 state insurance guaranty associations and 7900 non-covered guaranty association claims, as well as the adjustment and defense of 130 active insurance claims that are subject to a reinsurance cut through arrangement with Berkshire Hathaway. The estate carries \$245 million in outstanding reinsurance recoverables at year end 2016, which come due as claims are allowed against the estate or paid by a guaranty association. 2016 reinsurance recoveries totaled \$35 million. The Liquidator’s timely reinsurance recovery rate to date is running at 94% of the amounts due. Collateral need review and collection activity for 629 large deductible policyholder accounts remains ongoing. Escrow administration also continues for 47 policyholder accounts that are subject to pre-receivership large deductible buy-up agreements.

Significant progress was achieved in 2016 on the wind-down of the estate’s four solvent subsidiaries Long Grove Insurance Company of Australia, Lumbermens Casualty Insurance Company, Specialty Surplus Insurance Company, and the Delta Wetlands water reclamation project.

2016 estate distributions totaled \$58 million to LMC’s policyholders, guaranty associations and other estate creditors through the adjustment and return of excess collateral, payment of guaranty association administrative expenses and large deductible reimbursements, and the payment of policyholder claims on fully collateralized business segments.

### **CENTAUR INSURANCE COMPANY (“Centaur”)**

In accordance with the court approved Plan of Rehabilitation, Revised Plan of Rehabilitation Plan and Second Revised Plan of Rehabilitation, all of Centaur’s timely-filed policyholder obligations were paid as they came due. Centaur’s general creditor obligations on assumed reinsurance claims have also all been fixed and adjudicated, but not paid. In total, \$131 million in policyholder claims and defense obligations were paid or discharged and \$103 million in general creditor claims have been fixed. Payment on the general creditor claims is subject to the resolution and release of the federal-priority claims of the United States, including in excess of 100 claims asserted by the U.S. Environmental Protection Agency (“EPA”).

In 2016 the Rehabilitator and the EPA successfully negotiated a settlement in principle of one EPA claim for \$8.75 million, which is pending approval of the United States Department of Justice and the Supervising Court. As the federal claims are brought to resolution, the Rehabilitator will cede and collect any reinsurance due from Centaur’s reinsurers.

### **CONCERT HEALTH INSURANCE COMPANY (“Concert Health”)**

Concert Health was a small health insurer that wrote business in Illinois through year end 2012. It was placed in conservation in December of 2013 and in liquidation in August of 2014, based in part on market conduct related to its settlement practices in closing out its final remaining claims. Concert Health’s pending policyholder priority claims were discharged during conservation. In addition to the pre-liquidation claim settlements by the Conservator, 100% dividends in the amount \$181,392.76 were distributed on policyholder claims as they came due in 2015 and 2016, and a dividend distribution in the amount of 40.735% was distributed on general creditor claims. No claims were identified for transfer to or payment by the Illinois Life and Health Insurance Guaranty Association. The liquidation was completed and the estate closed in October of 2016.

### **CONSTITUTIONAL CASUALTY COMPANY (“CCC”) and COPCO, INC.**

CCC was a single state Illinois auto insurer placed in liquidation in 2011. The Liquidator completed the review and resolution of 1500 loss claims and 11,000 return premium claims. The Illinois Insurance Guaranty Fund was triggered as a result of the insolvency and continues to administer approximately 80 remaining claims. All outstanding litigation has been settled including a \$5.4 million dollar settlement and recovery from the company’s former ultimate control person. The liquidation is now substantially complete including the closing and asset consolidation of CCC’s former holding company COPCO, Inc. The estate is expected to close in 2017.



### **ILLINOIS MOVERS' & WAREHOUSEMEN'S RISK MANAGEMENT GROUP ("Illinois Movers")**

Illinois Movers was an Illinois domestic qualified group workers' compensation pool that was placed in liquidation in 2012. Based on its licensing status, traditional guaranty association protection was not available to its policyholder members or their workers' compensation claimants. A limited guaranty fund mechanism administered by the Illinois Group Self-insurers Insolvency Fund is available to make up the shortfall that injured workers receive on their distributions from the liquidation estate. 345 claims have been settled and 3 claims are pending contested hearings before the Supervising Court. The Liquidator is marshalling assets to pay the policyholder claims by levy of contractual assessments upon its member employers. An interim dividend on policyholder claims is expected to be made in 2017. A final distribution and estate closing will take place after the collection of the assessment levy is exhausted.

### **ILLINOIS RESTAURANT RISK MANAGEMENT ASSOCIATION, INC. ("IRRMA")**

IRRMA was an Illinois domestic qualified group workers' compensation pool that was placed in liquidation in 2011. Based on its licensing status, traditional guaranty association protection was not available to its policyholder members or their workers' compensation claimants. A limited guaranty fund mechanism administered by the Illinois Group Self-insurers Insolvency Fund ("GSIF") is available to make up the shortfall that injured workers receive on their distributions from the liquidation estate.

A claim filing deadline of January 31, 2013 was established by order of the Supervising Court. The final of 63 allowed claims was settled in November of 2014. Dividend distributions totaling 70% of the amount due on claims were paid to all of the claimants by year-end 2014, based on the assets marshaled for the estate to date. The 30% shortfall in payment was thereafter transmitted to the GSIF for payment.

The estate is expected to be close in 2017 upon final collection of the outstanding assessments due from the pool's former policyholder members, and the distribution of any remaining assets to the GSIF after it discharges its obligations to the injured workers of IRRMA's policyholders.

### **ILLINOIS STATE BOWLING PROPRIETORS & RECREATIONAL INDUSTRY WORKERS' COMPENSATION TRUST ("ILLINOIS BOWLING TRUST")**

The Illinois Bowling Trust was an Illinois domestic qualified group workers' compensation pool that was placed in rehabilitation in 2011. Based on its licensing status, traditional guaranty fund protection was not available to its policyholder members or their workers' compensation claimants. A limited guaranty fund mechanism administered by the Group

Self-insurers Insolvency Fund (“GSIF”) is available to make up the shortfall that injured workers receive on their distributions from the liquidation estate.

The estate is currently operating pursuant to a Plan of Rehabilitation, which provides for the continued payment of claims of policyholders, insureds, medical service providers and other creditors properly made under any liability policies at the rate of 70% of the amount due, and the continued defense of claims against policyholder members. The GSIF paid the 30% shortfall in rehabilitation plan payments to the claimants, and as a result is entitled to reimbursement from the rehabilitation estate. The last outstanding workers’ compensation claim was settled and paid in 2015.

An assessment was levied by the Rehabilitator upon Illinois Bowling Trust members in a total amount of \$820,000 pursuant to the members Pooling Agreement. The amount of the Rehabilitator’s assessment was contested and litigated before the Supervising Court. The litigation concluded with a 2015 Order from the Supervising Court reducing the total amount of the assessment to \$649,000. The amount of the assessment is accordingly now final, and the Rehabilitator is seeking to collect each pool member’s assessment share from those members that have failed to make payment in order to reimburse the GSIF for its 30% payment on the claims.

The estate is expected to close in 2017.

### **INTERSTATE BANKERS CASUALTY COMPANY (“INTERSTATE”)**

Interstate was a regional auto carrier writing non-standard auto insurance in the Chicagoland area. It was placed in rehabilitation in July of 2014 after losing financial statement credit for an unqualified deferred tax asset.

The Rehabilitator immediately ceased selling new business and commenced the non-renewal of Interstate’s 11,000 in-force policies as of April 2014. The final policy expired in May of 2015. Claims for unearned premium and insurance losses were discharged in the ordinary course of business during the rehabilitation.

The Rehabilitator determined that the company was insolvent and obtained an Order of Liquidation for the company in August of 2015, which triggered the Illinois Insurance Guaranty Fund to assume financial responsibility for Interstate’s covered claims obligations.

From commencement of the rehabilitation proceedings through December 31, 2016, the Receiver has distributed in excess of \$9 million on claims by or against Interstate’s policyholders, guaranty funds and other estate creditors.

## **LAND OF LINCOLN MUTUAL HEALTH INSURANCE COMPANY (“LLH”)**

LLH was established in 2013 under the Affordable Care Act (ACA) as a consumer oriented and operated health plan. The United States federal government ultimately contributed \$160 million to LLH through a start-up loan in the amount of \$16 million, which was converted to a surplus note in February 2016, and access to \$144 million in additional surplus notes that had been fully drawn by February 2016. Under the express terms of the surplus notes, repayment of LLH’s federal obligations is subordinate to claims of policyholders and all other general creditors.

LLH lost at least \$160 million its first three years of operation from 2014 through 2016. The company was determined to be insolvent on June 30, 2016 when the result of its 2015 risk adjustment liability under Section 1343 of the Affordable Care Act was released by the federal Centers for Medicare and Medicaid Services. The company was accordingly placed in rehabilitation by the Circuit Court of Cook County, Illinois on July 14, 2016, and in liquidation effective October 1, 2016. The rehabilitation was used to establish an “Advance Special Enrollment Period” in order to transition LLH’s 40,000 policyholders to new insurers, prior to the immediate cancellation of their coverage upon liquidation.

Liquidation of the company triggered the Illinois Life and Health Insurance Guaranty Association, which became responsible for the payment of covered claims and for providing limited continuing coverage to a few policyholders who did not transfer or otherwise cancel their LLH coverage during the Advance Special Enrollment Period. The Guaranty Association’s continuing coverage concluded under Illinois law on November 15, 2016 for group business and on December 31, 2016 for individuals.

The Liquidator has been assisting the Guaranty Association in discharging its obligation to process and pay covered LLH claims and has retained LLH’s former third party claims administrator, Valence Health Systems, key LLH staff and information systems to do so. Since liquidation the Guaranty Association has paid out in excess of \$26 million in claim payments. Claims will continue to be received and processed throughout 2017.

The Liquidator’s ability to fully discharge LLH’s policyholder obligations and reimburse the Guaranty Association is dependent upon whether recovery is had in LLH’s lawsuit seeking in excess of \$76 million in federal risk corridor payments due under Section 1342 of the ACA.

## **LEGION INDEMNITY COMPANY (“LEGION INDEMNITY”)**

Legion Indemnity was placed in liquidation in 2003 on or about the time that its affiliate Legion Insurance Co. entered receivership in Pennsylvania. As a surplus lines insurer, guaranty fund coverage was not available to policyholders and claimants residing outside of the states of Illinois and New Jersey where Legion Indemnity was licensed.

Claim payments exceeding \$104 million and 100% of the amount due on timely-filed claims at all priority levels, and 16% of the amount due on late-filed policyholder priority claims, have been distributed by the Liquidator as of December 31, 2016. The late-filed policyholder priority claims that have been allowed currently total approximately \$18 million and will be entitled to share in a *pro rata* distribution of the estates remaining assets and any additional assets marshalled. The estate is expected to close after the settlement and resolution of three remaining late-filed policyholder priority claims, final collection of the outstanding reinsurance recoverables due to the estate, and the satisfaction and release of Legion Indemnity's federal income tax obligations.

### **LIFE SERVICES NETWORK TRUST ("LSNT")**

LSNT is a Religious and Charitable Risk Pooling Trust that was placed in rehabilitation in late 2009. No guaranty fund protection was available to its policyholders and creditors, whose claims resulted from workers' compensation injuries.

A Rehabilitation Plan was approved by the Supervising Court and commenced in April 2010. The Rehabilitation Plan called for the collection of approximately \$11.2 million in assessments levied by the Rehabilitator upon the LSNT's members settled under judicially approved payment plan options. The Rehabilitation Plan provided for claims against the estate to be paid as they came due at a rate of 70% of the amount due. Through calendar year 2016 \$15.5 million has been distributed in satisfaction of policyholder obligations under the Rehabilitation Plan. Claim payments under the plan are currently expected to continue through 2017.

### **MILLERS FIRST INSURANCE COMPANY ("MFIC") AND MILLERS CLASSIFIED INSURANCE COMPANY ("MCIC")**

MFIC is a wholly owned subsidiary of Affiliated Mutual Holding Company ("AMHC"), based in Alton IL. Under its mutual holding company structure, the assets of AMHC were held in trust for the benefit of MFIC and its policyholders and creditors.

MFIC entered rehabilitation in 2012 based upon its failure to meet Illinois' minimum and capital surplus requirements, after experiencing significant catastrophe storm losses during the 2010 to 2012 time period in its key markets in Missouri and Illinois. At rehabilitation, the company ceased writing new business, and was also required to stop the renewal of its in-force business. The last policy expired in July 2013.

At the commencement of the rehabilitation, MFIC's primary business focus had shifted to personal lines insurance (auto and homeowners), but it was continuing to service the run-off of discontinued operations that included long tail workers' compensation claims resulting from its agricultural business segment that had entered run off in the late 1990s.

Due to its long history, the company also supported a traditional defined benefit pension fund for its former employees. Although the pension fund was frozen several years prior to MFIC's rehabilitation, legacy obligations, both administrative and financial remained and were transitioned by the Rehabilitator to a third party provider Principal Financial Group in early 2015. After that transition was completed, the Pension Benefit Guaranty Corp. invoked the involuntary termination of the pension plan, and assumed all plan assets and liabilities as of September 30, 2015. MFIC's liability for funding its terminated pension plan is a general creditor obligation of the estate, subordinate to the payment of its policyholder obligations.

MFIC's wholly owned subsidiary, MCIC, was placed in rehabilitation in January of 2015, after its redomestication from Wisconsin to Illinois in late 2014. MCIC's policyholder claims continued to be paid as they come due under the terms of the Order of Rehabilitation.

AMHC was dissolved in February 2015 and its assets of approximately \$1.6 million were transferred to the MFIC estate pursuant to the applicable provisions of Illinois' Mutual Holding Company Act.

#### **POLISH WOMENS ALLIANCE OF AMERICA, IN REHABILITATION ("PWA")**

PWA is an Illinois domestic fraternal benefit society that was placed in rehabilitation in November 2015. PWA provides life insurance and annuity products to its members and had approximately \$53 million in insurance obligations in-force at December 31, 2016. The sale of new products were suspended prior to rehabilitation. As a fraternal benefit society, PWA is not a member of the Illinois Life and Health Insurance Guaranty Association. Guaranty association coverage is accordingly not available to its members.

The PWA had negative surplus of approximately \$1.25 million at December 31, 2016. The Rehabilitator continues to pay policyholder claims and other insurance benefits as they come due, and has implemented restructuring measures in order to reduce administrative expenses.

Merger proposals were solicited by the Rehabilitator from four fraternal benefit societies. The Rehabilitator selected a proposal from the Ohio based First Catholic Slovak Ladies Association ("FCSLA") as the best and most competitive proposal. The FCSLA merger proposal included the assumption of 100% of PWA's insurance and general creditor obligations. The Rehabilitator's selection was unanimously affirmed by an advisory committee formed by the Rehabilitator of interested stakeholders. The proposed merger is now in the due diligence phase and is expected to close as of March 31, 2017.

## **REINSURANCE COMPANY OF AMERICA, INC. (“RCA”)**

Prior to its liquidation in April of 2011, RCA was running-off its discontinued workers’ compensation operations, insuring a small book of large deductible workers’ compensation business, and underwriting one month non-standard auto liability policies in the State of Texas. Claims are being paid by state insurance guaranty funds. Early access distributions have been made to the guaranty funds for reimbursement of their administrative expenses.

The estate is administratively insolvent primarily due to the failure and liquidation of the reinsurer of RCA’s auto liability program, and its unsecured and uncollectible policyholder large deductible obligations on workers’ compensation policies. Administrative expenses of the liquidation and the state insurance guaranty funds will exhaust the assets of the estate.

A final distribution of assets and closing of the estate are expected to occur in 2017.

## **STATEWIDE INSURANCE COMPANY (STATEWIDE”)**

Statewide was placed in liquidation in 2004. Prior to its liquidation Statewide was licensed to sell insurance in 26 states and wrote commercial multiple peril, commercial auto, general liability, umbrella, workers’ compensation, inland marine and fidelity and surety bond business. Its policies were primarily marketed to small general contractors and artisans in the Midwest and Western states.

Claims of Statewide’s creditors at all priority levels have been settled and paid. Payments totaling just over \$32 million and 100% of the amount due on allowed claims were distributed to both timely and late-filed policyholder, guaranty fund, and general creditor claimants, including a final dividend of \$2 million to the company’s shareholder Statewide Holding Company. The estate was closed in June 2016.

## **TRIAD GUARANTY INSURANCE CORPORATION (“TGIC”) AND TRIAD GUARANTY ASSURANCE CORPORATION (“TGAC”)**

TGIC and its wholly owned subsidiary TGAC were placed in rehabilitation in December of 2012.

The companies are based in Winston-Salem, North Carolina and were authorized to transact the business of mortgage guaranty insurance. After encountering financial troubles stemming from the historic national housing collapse that began in 2007, the companies ceased issuing new insurance commitments in 2008 and were operating in run-off under corrective orders issued by the Director in 2009. The corrective orders provided that TGIC could only pay 60% of the amount due on mortgage insurance

claims, and required TGIC to hold escrow funds for the remaining 40%. In early 2012, due to its further financial deterioration, TGIC sought relief from the provision in the corrective order that required the 40% escrow. In connection with TGIC's request for relief from the escrow requirement of the corrective order, the Director conducted a public administrative hearing, which resulted in the Director's denial of relief from the escrow requirement and the placement of TGIC and TGAC in rehabilitation.

A Plan of Rehabilitation was approved by the Supervising Court in October of 2013. As of year-end 2016, \$946,699 million in estate assets had been distributed to consumers under the Plan of Rehabilitation. Claims are being paid in the ordinary course of business at the rate of 75% of the amount due, with a deferred payment obligation created and carried as a liability of the estate for the remaining 25%. Due to the nature of the mortgage guaranty business, approximately 80% of TGIC's obligations are due to the government service entities known as Fannie Mae and Freddie Mac, which in turn are under the conservatorship of the Federal Housing Finance Authority.

TGIC was wholly owned by Triad Guaranty Inc. ("TGI"), which was a publically traded Delaware corporation. TGI sued the Rehabilitator in an adversary proceeding brought in TGI's federal bankruptcy proceeding over the ultimate ownership and control of TGIC's carry-forward net operating losses ("CNOL") of approximately \$900 million. TGI asserted that as TGIC's parent and as its consolidated federal income tax filer, it retained ultimate control of TGIC's CNOLs and was seeking payment from the Rehabilitator in order for the TGIC estate to continue to use its CNOL to offset taxable income. The federal Bankruptcy Court ruled in the Rehabilitator's favor in August of 2014. The U.S. District Court for the District of Delaware affirmed the lower court ruling in June of 2016. The decision is now final, preserving the rehabilitation estate's CNOL to offset federal income tax liability on estate income.

### **UNITED CAPITOL INSURANCE COMPANY ("UCIC")**

UCIC was first placed in liquidation in 2001. During the course of the liquidation \$41,208,176 million in policyholder and general creditor claims were settled and paid by the Liquidator. Settlement of the final two disputed reinsurance claims was completed in June 2014, clearing the way to discharge the estate's general creditor liabilities and close the liquidation estate. The estate was closed in August 2016 upon the final recovery and distribution to the estate's general creditors of a \$3 million statutory deposit released by the State of New Hampshire to the Liquidator.