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10 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
11 **FOR THE COUNTY OF LOS ANGELES**

12 INSURANCE COMMISSIONER OF THE
STATE OF CALIFORNIA,

13
14 Applicant,

15 v.

16 GOLDEN STATE MUTUAL LIFE
INSURANCE COMPANY, a California
17 corporation,

18 Respondent.

Case No. BS123005

Assigned to Hon. David P. Yaffe, Dept. 86

**DECLARATION OF JOSEPH B.
HOLLOWAY, JR. IN SUPPORT OF
CONSERVATOR'S MOVING PAPERS
AND APPLICATION RE: ORDER TO
SHOW CAUSE AND FOR ORDERS
APPROVING REHABILITATION PLAN
OF GOLDEN STATE MUTUAL LIFE
INSURANCE COMPANY AND
AUTHORIZING CONSERVATOR TO
ENTER INTO RELATED
AGREEMENTS WITH IA AMERICAN
LIFE INSURANCE COMPANY**

Date: June 24, 2010

Time: 9:30 a.m.

Dept: Dept 86

Judge: Honorable David P. Yaffe

1 I, Joseph B. Holloway, Jr., declare as follows:

2 1. I am over 18 years of age and have personal knowledge of the facts and
3 circumstances set forth in this declaration, and if called upon to do so, I could and would
4 competently testify thereto.

5 2. I have a Bachelor of Arts degree in accounting from North Carolina State
6 University, and hold the designation of Certified Financial Examiner from the Society of
7 Financial Examiners.

8 3. From 2005 through the present, I have been employed as a consultant by INS
9 Consultants, Inc., assigned to work with the Insurance Commissioner's Conservation &
10 Liquidation Office ("CLO"). From 1985 to 2005, I worked for the North Carolina Department of
11 Insurance as an examiner, regulatory specialist and then as chief forensic accountant. Through
12 my employment with the North Carolina Department of Insurance and INS Consultants, Inc.
13 assigned to work with the CLO, I have more than 25 years of experience working with financially
14 troubled insurance companies, including without limitation companies in supervision,
15 conservation, rehabilitation and liquidation.

16 4. Starting on September 30, 2009, and continuing through March 2010, I was the
17 On-Site Manager for the Special Deputy Insurance Commissioner on behalf of the Insurance
18 Commissioner in his Statutory Capacity as Conservator ("Conservator") of Golden State Mutual
19 Life Insurance Company ("Golden State"). Since March 2010 and continuing to the present, I
20 have remained as a consultant involved in the conservation and rehabilitation plan for Golden
21 State. As the On-Site Manager of Golden State, I was responsible for the on-site supervision and
22 management of all matters pertaining to the conservation and business of Golden State, including
23 without limitation Golden State's day-to-day operations, the marshalling of Golden State's assets,
24 the reducing of Golden State's expenses and liabilities, and other numerous functions and duties
25 of the Conservator.

26 5. Based on my duties as the On-Site Manager of Golden State and as a consultant
27 for the CLO involved in the conservation and rehabilitation plan for Golden State, I am very
28 familiar with Golden State's financial condition, the Conservator's conservation and

1 rehabilitation efforts, the proposed rehabilitation plan for Golden State, and the events leading up
2 to the proposed plan and rehabilitation agreements. My experience with financially trouble
3 insurance companies, coupled with my experience as On-Site Manager of Golden State gives me
4 hands-on knowledge to analyze the financial effect of the Conservator's proposed rehabilitation
5 plan and, specifically, the four agreements comprising the rehabilitation plan, which are exhibits
6 attached to the accompanying Declaration of David E. Wilson and submitted here for approval,
7 which are: (1) Agreement and Plan of Rehabilitation, (2) Assumption Reinsurance Agreement,
8 (3) Service Agreement and (4) Novation Agreement. The four agreements are collectively
9 referred to herein as the "Rehabilitation Plan."

10 6. I have read the Conservator's Moving Papers And Application Re: Order To Show
11 Cause And For Orders Approving Rehabilitation Plan Of Golden State Mutual Life Insurance
12 Company And Authorizing Conservator To Enter Into Related Agreements With IA American
13 Life Insurance Company ("Conservator's Rehabilitation Application"), the accompanying
14 Declaration of David E. Wilson, and the Conservator's *ex parte* application for an Order to Show
15 Cause filed and heard by the Court on May 12, 2010, and the Court's Order thereon.

16 7. Based on my on-site supervision and management of matters pertaining to Golden
17 State, my experience with financially troubled insurance companies, my review and
18 understanding of the events related to the conservation of Golden State and the proposed
19 rehabilitation plan and agreements for Golden State, my review of the Conservator's
20 Rehabilitation Application, Declaration of David E. Wilson and related agreements and
21 documents, and my qualifications stated above, I state the following:

22 8. In October 2010, based on Golden State's financial condition and its current
23 operational capabilities, I, the Conservator and the Conservator's staff determined that the
24 business operations of Golden State are not sustainable. We determined that the best course of
25 action for Golden State's policyholders, annuity contract holders and creditors is for the
26 Conservator to position Golden State for a sale, merger or an assumption of its insurance book of
27 business by a third party. We commenced a Request for Proposals Process to evaluate and
28 recommend proposals for the contemplated sale, merger or assumption of Golden State's

1 insurance and annuity business.

2 9. During November 2009, I helped the Conservator and his staff to prepare a
3 comprehensive bid and request for proposal package for the purpose of soliciting interest from
4 potential bidders for the purchase of Golden State's in-force blocks of life, annuity and health
5 business (including bids for the sale of the entire company). Solicitations were sent on an
6 invitation-only basis to forty-one potential bidders identified as organizations that write business
7 similar to Golden State, that have the required financial strength for such a purchase, and that
8 indicated an interest in Golden State. Thirteen potential bidders submitted the required
9 solicitation responses to receive further information.

10 10. On December 14, 2009, we sent a more detailed Request for Proposal ("RFP")
11 package to the thirteen interested parties. The RFP package contained detailed information
12 concerning Golden State and established a timeline for undertaking due diligence evaluations,
13 receipt of proposals, selection of recommended bidder(s), negotiation and execution of purchase,
14 assumption and other necessary agreements, and submission to the Court for evaluation and
15 approval. In January 2010, potential bidders visited Golden State's offices and conducted due
16 diligence evaluations. Thereafter, on January 29, 2010, five companies submitted bids. The
17 bidding process successfully generated bids from qualified, capable insurers, through a
18 competitive process.

19 11. All five prospective bidders were subject to strict financial and operation
20 disclosure requirements to ensure the successful transition of Golden State's business.
21 Specifically, we evaluated each bid based upon a defined set of criteria that included the
22 following considerations:

23 1. Whether the potential bidder seeks to acquire all of Golden State's
24 insurance business;

25 2. Whether the potential bidder is currently licensed in the jurisdictions in
26 which Golden State is licensed to conduct business;

27 3. Whether the potential bidder is willing to accept Golden State's bonds,
28 stocks and mortgage loan portfolio;

- 1 4. The size, financial strength and ratings of the potential bidder;
- 2 5. Whether the potential bidder would seek policy restructuring;
- 3 6. The potential bidder’s experience and infrastructure to administer the types
- 4 of business to be assumed from Golden State; and
- 5 7. Compliance with all financial and legal requirements associated with the
- 6 RFP process as well as adequate pricing for the assets required to be transferred to the bidder.
- 7 12. After evaluation of all the bids, it was determined that the bid by IA American Life
- 8 Insurance Company (“IA American”) offered the most favorable bid and rehabilitation plan for
- 9 the policy and annuity contract holders of Golden State. IA American was the only bidder that
- 10 substantially satisfied all key components of the selection criteria. In particular, IA American is
- 11 rated “A-” by insurance rating firm A.M. Best Company; IA American is owned by Industrial
- 12 Alliance Insurance and Financial Services which is the fourth largest Canadian life insurer; IA
- 13 American’s bid is to assume all of the in-force policies and annuity contracts of Golden State and
- 14 the two co-insurance policies; IA American is willing to accept Golden State’s assets including its
- 15 bonds, stocks and mortgage loan portfolio; and IA American’s bid and \$11 million ceding
- 16 commission are greater than the bids submitted by the other bidders, which I believe, in turn, will
- 17 increase the potential that Golden State’s creditors, certificate of contribution holders and mutual
- 18 policyholders will be repaid.
- 19 13. The other proposals submitted to the Conservator were not superior to IA
- 20 American’s proposal. The other proposals included (1) the purchase of the corporate shell after
- 21 all assets and liabilities have been extinguished, (2) a merger with a financially inferior C+ rated
- 22 insurer by AM Best, (3) a merger with a B+ rated company only after the Conservator undertook
- 23 the time and significant expense to demutualize Golden State, and (4) the assumption of Golden
- 24 State’s in-force life insurance policies by a B- rated company for a ceding commission of \$8.7
- 25 million, which is \$2.3 million less than the ceding commission to be paid by IA American.
- 26 14. These other four proposals are not superior to IA American’s proposal or the
- 27 Rehabilitation Plan because (1) the proposal for the purchase of the corporate shell after all assets
- 28 and liabilities had been extinguished was premature and offered no benefits to policy and annuity

1 contract holders and, therefore, at this time was not in the best interest of Golden State's
2 policyholders, annuity contract holders and creditors; (2) the proposal to merge Golden State into
3 a financially inferior C+ rated insurer would not have assured Golden State's policy and annuity
4 contract holders of continued policy benefits or payment of policy and annuity liabilities; (3)
5 similarly, the proposal to merge Golden State into a B+ rated company only after the Conservator
6 undertook the time and significant expense to demutualize Golden State, would not have provided
7 Golden State's policy and annuity contract holders and creditors with the same potential of
8 having their policy liabilities and claims paid, and the post-merger capital and surplus of the new
9 company would not have been sufficient for that company to obtain a certificate of authority to
10 conduct insurance business in California; and (4) the proposal to have Golden State's policies
11 assumed by a B- rated company for a ceding commission of approximately \$8.7 million, which is
12 \$2.3 million less than the ceding commission to be paid by IA American, did not provide the
13 same level of financial strength and payment potential to policy and annuity contract holders and
14 creditors as provided by the proposed Rehabilitation Plan with IA American.

15 15. Further, liquidation of Golden State is not a better alternative than the proposed
16 Rehabilitation Plan. The entry of Golden State into immediate liquidation would destroy the
17 value of the ongoing book of life insurance and annuity business as there would be no ceding
18 commission for the business, whereas the proposed Rehabilitation Plan will result in an \$11
19 million ceding commission being credited to Golden State.

20 16. The Rehabilitation Plan is the best economic result for the policyholders, annuity
21 contract holders and creditors. It is fair to the policyholders, annuity contract holders, creditors
22 and other interested parties, as each group will receive the opportunity for a better economic
23 result than they would obtain through a liquidation, and policy and annuity holders who do not
24 wish to continue to be insured will have the same surrender rights, if any, they had prior to the
25 entry of Golden State into conservation. Further, creditors, certificate of contribution holders, and
26 owners of mutual policies will receive a right to file a claim against Golden State's remaining
27 assets.

28 17. In sum, I recommend that the Court approve the Rehabilitation Plan for Golden

1 State and authorize the Conservator to enter into the Rehabilitation Plan and agreements forming
2 the plan. The Rehabilitation Plan is the best solution to best protect Golden State's policyholders,
3 annuity contract holders, certificate of contribution holders, creditors and owners under mutual
4 insurance policies.

5 I declare under penalty of perjury under the laws of the State of California that the
6 foregoing is true and correct.

7 Executed on this 19th day of May, 2010, at San Francisco, California.

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10 JOSEPH B. HOLLOWAY, JR.
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