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**ENDORSED  
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Superior Court of California  
County of San Francisco

APR 21 2011

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Insurance Commissioner of the State of California  
13 in his Capacity as Conservator of Majestic Insurance  
Company

**EXEMPT from filing fees per Govt.  
Code § 6103**

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16 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
17 CITY AND COUNTY OF SAN FRANCISCO

18 DAVE JONES, INSURANCE  
19 COMMISSIONER OF THE STATE OF  
20 CALIFORNIA,

Applicant,

v.

22 MAJESTIC INSURANCE COMPANY, and  
23 DOES 1-50, inclusive,

24 Respondents.  
25  
26

Case No. CPF-11-511261

**DECLARATION OF RONALD A.  
DAHLQUIST IN SUPPORT OF  
INSURANCE COMMISSIONER DAVE  
JONES' MOTION FOR ORDER  
APPROVING REHABILITATION  
PLAN FOR MAJESTIC INSURANCE  
COMPANY**

**Date: June 2, 2011  
Time: 9:30 a.m.  
Dept: 301  
Judge: Hon. Peter J. Busch**

1 I, RONALD A. DAHLQUIST, hereby declare and state as follows:

2 1. I am the Chief Actuary of the California Department of Insurance ("CDI"). The  
3 following facts are known by me to be true and correct of my own personal knowledge. If called  
4 upon to testify I would and could competently testify as set forth herein.

5 2. I have held the position of Chief Actuary of the CDI since September 1, 2010.  
6 Prior to being named Chief Actuary, I was a Senior Casualty Actuary at the CDI, a position I had  
7 held since September of 2000. I was the Chief Actuary for the California State Automobile  
8 Association from August of 1996 until September of 2000. Prior to that I was employed by the  
9 CDI from February of 1994 through August of 1996. Between 1974 and 1994 I was employed as  
10 an actuary in the insurance industry.

11 3. I received my Bachelor of Science degree with a major in Mathematics from  
12 UCLA in 1974. Since 1980 I have been a Fellow of the Casualty Actuary Society and a member  
13 of the American Academy of Actuaries. I am expert in actuarial matters pertaining to property  
14 and casualty insurance companies, including appropriate loss reserving methodologies by insurers  
15 and related insurance risk and solvency analysis respecting property and casualty companies.

16 4. In connection with the CDI's responsibility to monitor the solvency of admitted  
17 insurers writing insurance within California, the Chief Actuary of the CDI directs and oversees  
18 the analysis of the adequacy of loss reserves of admitted carriers during the CDI's periodic  
19 financial examinations. The Chief Actuary also participates in and supervises the preparation of  
20 the actuarial loss reserve studies or loss reserve reviews, and approves all actuarial conclusions  
21 included in the CDI's reports of such examinations before they are finalized.

22 5. Based on my position at the CDI and my participation in the actuarial aspects of  
23 the CDI's recent financial examination of Majestic Insurance Company ("Majestic"), a workers'  
24 compensation insurer domiciled in California, I am aware of the CDI's determinations regarding  
25 the current financial condition of Majestic. I was responsible for conducting the actuarial analysis  
26 of Majestic for the CDI's financial examination for the period ended December 31, 2010.

27 6. Based on the best estimate produced by our analysis, Majestic had a loss and loss  
28 adjustment reserve deficiency as of December 31, 2010 of approximately \$40.9 million and it had

1 a required premium deficiency reserve of approximately \$5.5 million, for a total deficiency of  
2 approximately \$46.4 million. This deficiency was determined by me and CDI staff working  
3 under my direct supervision and constitutes my professional opinion based on my education,  
4 training and years of actuarial experience.

5 7. I have reviewed the report of this examination, entitled Report of Examination of  
6 the Majestic Insurance Company as of December 31, 2010 ("Examination Report"), and concur  
7 with its overall finding. The CDI has concluded based on the information in its Examination  
8 Report that Majestic is operating in a hazardous condition under section 1011(d) of the California  
9 Insurance Code. The principal examination adjustment that leads to this conclusion is the  
10 adjustment for the \$46.4 million deficiency in the loss and loss adjustment reserves and the  
11 premium deficiency reserve that was determined under my supervision. After all examination  
12 adjustments are made to Majestic's financial statements, Majestic's policyholders' surplus falls  
13 below the Mandatory Control Level Risk-Based Capital (RBC) threshold under Insurance Code  
14 section 739.6(b)(2), and the Commissioner has determined that this is an additional ground for the  
15 imposition of regulatory control under Insurance Code section 1011(d).

16 8. In addition to the examination findings related to the reserve deficiencies, the  
17 CDI's conclusion that Majestic is operating in a hazardous condition is based in part upon the  
18 following findings:

19 a. Majestic inforce premium has dropped from \$150 million in December  
20 2009 to approximately \$84 million at December 2010.

21 b. As a result of this premium decline, the current expense ratio for Majestic  
22 is in excess of 50%, and Majestic's surplus is declining at a rate of \$1.5 million per month.

23 c. The New York State Workers' Compensation Board (NY WCB) sued  
24 Majestic and its holding company, including individual officers, for damages in excess of \$400  
25 million. Any proposed settlement of NY WCB could negatively affect the financial condition of  
26 Majestic.

27 d. There are three pending lawsuits in California against Majestic and its  
28 holding company, including individual officers, for damages in excess of \$34 million.

1 e. Majestic and its management have demonstrated an inability to establish,  
2 monitor or hold their employees accountable to a sustainable business plan.

3 9. To immediately address the foregoing hazardous condition of Majestic and to stem  
4 further financial deterioration, it is my understanding that the California Insurance Commissioner  
5 has sought an order of conservation for Majestic and has structured, with the management of  
6 Majestic, a plan for the rehabilitation of Majestic ("Rehabilitation Plan"). It is my understanding  
7 that the reinsurance provisions of the Rehabilitation Plan will be set out in the form of a Loss  
8 Portfolio Transfer and Quota Share Reinsurance Agreement (the "LPT Agreement"). It is my  
9 understanding that under the proposed Rehabilitation Plan, AmTrust North America, Inc.  
10 ("AmTrust"), through an affiliate authorized to write workers' compensation insurance in  
11 California, intends to provide full indemnity reinsurance for 100% of all unpaid losses covered  
12 under Majestic's workers' compensation policies, whether or not currently in force, without an  
13 aggregate limitation on AmTrust's liability, in exchange for a reinsurance premium payment to  
14 AmTrust equal to the amount of Majestic's net portfolio reserves and net premium reserves, plus  
15 \$26 million, based on my understanding of the intent expressed by both AmTrust and Majestic  
16 representatives. I have not reviewed any final written agreement, and I am not aware that any  
17 such final written agreement exists as of yet.

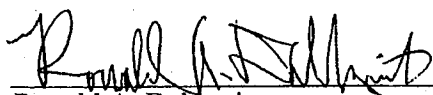
18 10. I have concluded that the consideration to be transferred to AmTrust by the  
19 Commissioner, as Conservator of Majestic, is fair and reasonable in exchange for the liabilities  
20 and obligations AmTrust will assume under the LPT Agreement. I have arrived at this conclusion  
21 for the following reasons.

22 11. First, the CDI has projected the total reserve deficiency of Majestic to be \$46.4  
23 million as of December 31, 2010. This deficiency was determined by me and CDI staff working  
24 under my direct supervision and constitutes my professional opinion based on my education,  
25 training and years of actuarial experience. We have also determined that the present value of  
26 future investment income to be earned on the assets backing the total indicated required loss and  
27 loss adjustment expense reserves is approximately \$22.9 million. Under the LPT Agreement, it is  
28 my understanding that the Conservator will transfer to AmTrust the net portfolio reserves and net

1 unearned premium reserves of Majestic totaling approximately \$170.3 million plus a payment of  
2 \$26 million. The consideration being transferred to AmTrust is a fair and reasonable amount for  
3 the liabilities that AmTrust has agreed to assume under the LPT Agreement because it is  
4 reasonably close to the amount of the loss and loss adjustment expense reserve deficiencies  
5 identified in my analysis, after the offset for anticipated investment income, considering the  
6 inherent uncertainty in both estimates. In addition, from an actuarial standpoint, it is not possible  
7 to rule out the possibility of unexpected adverse development which could increase the ultimate  
8 costs of paying all losses covered under the Majestic policies. To address this, AmTrust has  
9 agreed to accept all liabilities arising under the Majestic policies without an aggregate limit of  
10 liability, and thus AmTrust has assumed the risk of such adverse development. The assumption  
11 of such a risk by AmTrust provides the policyholders of Majestic with a level of certainty of  
12 coverage that they simply would not be available from the current assets of Majestic. For these  
13 reasons, based on my actuarial training and experience, the consideration to be transferred by the  
14 Conservator to AmTrust is fair and reasonable in exchange for the obligations it will be assume  
15 under the Rehabilitation Plan and I understand it.

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

18 Executed this 19th day of April, 2011.

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20   
21 Ronald A. Dahlquist

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23 OHS WEST:261125942.1