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Superior Court of California
County of Los Angeles

JUL 23 2018

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8 SUPERIOR COURT OF THE STATE OF CALIFORNIA

9 COUNTY OF LOS ANGELES

10 SPRING STREET COURTHOUSE

11
12 **INSURANCE COMMISSIONER OF THE**
13 **STATE OF CALIFORNIA,**

14 Applicant,

15 v.

16 **FREMONT INDEMNITY COMPANY,**

17 Respondent.

CASE NO. BS083582

**LIQUIDATOR'S FOURTEENTH
ANNUAL STATUS CONFERENCE
REPORT FOR PERIOD JANUARY 1,
2017 THROUGH MARCH 31, 2018**

Hearing Date: August 21, 2018
Time: 11:00 a.m.
Dept: 10
Judge: Hon. William F. Highberger

Action Filed: June 3, 2003

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1 Insurance Commissioner of the State of California, in his capacity as Liquidator
2 (Liquidator) of Fremont Indemnity Company ("Fremont"), hereby submits the following
3 Fourteenth Annual Status Conference Report for the period January 1, 2017 through March 31,
4 2018 ("2017 Annual Report").¹

5 INTRODUCTION

6 The Liquidator through his Conservation and Liquidation Office (the "CLO") continues to
7 manage and advance the final phase of liquidation of an insurance company with billions of
8 dollars of policyholder liability. This report provides an update on the current status of the
9 Fremont liquidation estate as well as immediate efforts to prepare the estate for a final distribution
10 in the months ahead.

11 All of the Liquidator's operations associated with Fremont's liquidation are overseen by
12 the CLO. As of March 31, 2018, Fremont had approximately \$81.6 million in balance sheet
13 assets, including cash, investments, statutory deposits and reinsurance recoverable. As of March
14 31, 2018, Fremont's liabilities are now estimated at \$1.740 billion, including approximately
15 \$1.519 billion in Class 2 policyholder liabilities.

16 In 2017, the Liquidator continued to advance his overall closing plan by concluding the
17 collection of the estate's remaining reinsurance recoveries. In conjunction with this court's May
18 2017 order setting deadlines for liquidation of claims, the Liquidator has completed the final
19 determination of the estate's policy liability and continues to wind down or shut all non-essential
20 administration. Given the progress made in the last year towards closure of the reinsurance unit
21 and final determination of the estates claim liability, the Liquidator intends to seek this court's
22 authority to make a final distribution of its assets in 2019 after final asset collections and
23 distribution preparations are completed.

24 This report will provide the court with the progress made on the Fremont estate since the
25 last report and current efforts to position the estate for final distribution and closure.

26
27
28 ¹ In the 2017 report, the Liquidator is including the most recent financial data up to March 31, 2018.

ADMINISTRATION OF LIQUIDATION ESTATE

The Liquidator handles the administrative functions in the following three categories:

(1) Policy Administration (the process of performing and enforcing general contractual rights under an insurance policy); (2) Claims Administration (the administration and adjustment of proofs of claim filed against Fremont); and (3) Company Administration (the remaining general corporate functions that are required to complete the liquidation, including information technology, final asset recoveries, reinsurance collections, and financial reporting/accounting and investment management).

A. Policy Administration

Policy administration currently involves maintenance of the estate's electronic policy database and periodically reviewing coverage information for the insurance guaranty associations ("IGAs") as well as for addressing proof of claim coverage issues against the Fremont estate. CLO staff will continue to provide these services to the IGAs, albeit on a reduced basis and as long as the necessary resources are warranted. As expected the estate experienced an increase workload in certain areas of policy administration during 2017 as the estate worked to determine and finalize the IGA and other Class 2 liability.

B. Claims Administration

The CLO claim staff has completed all of the work necessary in reviewing and approving claims of injured workers' under Fremont's policies which were not handled or statutorily covered by the IGAs. The Claims Department will continue to provide basic support for the claims handling activities of IGAs as long as the estate remains open and resources to do so are warranted. The estate will continue to provide assistance to individual claimants in understanding the liquidation process through the final estate closure.

1. Proof of Claims ("POCs") Management

In May 2017 the Fremont Estate obtained this Court's order in accordance with Insurance Code section 1025 requiring all undetermined or unliquidated claims to be liquidated by July 28, 2017. Further, the Court's order approved a deadline of September 29, 2017 for claimants to submit their claim update forms to Fremont. As of December 31, 2017, the formal notification

1 and resulting final claims submission has been completed. Since receipt of the supplemental
2 claims submissions in late September the Claims staff have essentially determined all IGA claims
3 (one claim remains in issue) as well as all non-IGA covered and over cap claims. Additionally,
4 on December 1, 2017, No Assets Letters were sent to the reinsurance claimants advising them the
5 estate does not have sufficient funds to pay into their class of claim priority. All reinsurance
6 POCs were closed thereafter.

7 **2. IGA Claims and Distribution**

8 The Claims Department continues to support the IGAs in their claims handling activities,
9 such as verifying coverage and researching claims history. Further, the department continues to
10 assist in the preparation and logistics associated with the pending final distribution of funds to the
11 IGAs pursuant to section 1035.5.

12 Fremont made Early Access Distributions to IGAs based on claims documentation from
13 the IGAs through the end of 2014. As the estate noticed when it discontinued Early Access
14 payments, there was significant adverse reserve development which affected ultimate loss
15 projections. As a result of continuing development through the final claims reporting date, the
16 estate finds itself as having advanced money in excess of several states pro rata entitlement. As
17 all Early Access distributions were made under a contractual arrangement whereby the estate
18 “claws-back” the excess of the final pro-rata allocation, the estate now is starting to calculate
19 claw-back amounts and to bill the IGAs for the return of the excess distribution. Present
20 projections are that there are 20 states that will be billed approximately \$6 million.

21 **3. Non-IGA Covered Claims**

22 The Claims Department has now completed the determination of all Class 2 policyholder
23 liabilities that are not protected or not fully covered by the IGAs. These “uncovered” policy
24 claims are entitled to ultimately share ratably with all other Class 2 claims. These claims include
25 workers’ compensation claims payable under the United States Longshore & Harbor Workers Act
26 and claims that are not covered or only partially covered by the IGAs based on exclusions and
27 coverage limitations found in the IGAs’ controlling statutes. These claims have been handled
28 directly by the policyholders or their delegates. Many involve long-tail worker’s compensation

claims, and the recent approval of Fremont's request to set the deadlines for the liquidation of these claims have allowed them to be finalized.

4. Subrogation

The collection of subrogation receivables is complete.

C. Company Administration

1. Finance – Accounting & Investment Management

The CLO Accounting Department is responsible for recording and reporting all financial aspects of the Fremont estate and maintains the estate's general ledgers inherited from Fremont at the time of liquidation in 2003. The staff evaluated historical ledgers and records of Fremont and its subsidiaries and has converted them to a liquidation basis of accounting. The department produces periodic financial statements, manages estate cash as well as the accounts payable/receivable functions. It is also responsible to ensure audit compliance and supports the preparation of tax filings.

Fremont's invested assets are managed by third party institutional money managers. The CFO of the CLO has the responsibility to manage this third party relationship as well as the accounting department.

2. Reinsurance

a. Summary

Fremont's traditional monthly routine of billing and collecting reinsurance was completed and discontinued as of December 31, 2016 with only activities associated with final collections and commutations/settlements continuing throughout 2017. By year-end 2017 the Fremont estate has essentially shut down its comprehensive reinsurance unit. The estate continues to hold two reinsurance annuities it cannot sell or assign.

b. Reinsurance Recoverable

The Reinsurance Department finalized accounts with several reinsurers that have proven difficult to collect from and/or to commute with in the past due to issues such as offsets. In addition, future recoveries that were deemed collectible were sold to Amberley Alternative Assets Limited for \$300,000. The assignment agreement was previously submitted to and approved by this

1 Court. As of December 31, 2017, the amount of reinsurance recoverables remaining to be
2 collected in the future is approximately \$685,000 paid annually (escalating at 3% per annum)
3 from two reinsurance annuities (Wilco Life, fka Conseco Life, and First Colony Life).
4 Contractually, the First Colony Life annuity may not be sold, transferred, commuted or assigned.
5 The Wilco Life annuity was based upon the life expectancy of the widows of two deceased
6 workers. A reasonable price could not be established or obtained in the open market as insurance
7 guarantee associations are involved and the CLO as liquidator does not have the right to obtain
8 underwriting information on the two widows. Amounts received from reinsurers post-liquidation
9 totaled \$499.9 million.

10 **c. Administration of Fremont's Reinsurance**

11 As a result of the estate concluding and closing down its routine billing and collections
12 activity, both full-time reinsurance staff and third party consultant services have been declining
13 through the 2017 reinsurance closure process. While on-going efforts to collect all remaining
14 recoveries has required a level of consultancy support it has been on a much reduced basis. The
15 Fremont estate continues to retain a consultant with extensive historical knowledge of Fremont's
16 reinsurance operations, to assist with any issues or specialized work associated with the recent
17 treaty commutations and sale of treaty balances (recoveries). The Fremont estate also continues
18 to retain access to the services of a reputable actuarial service on an as needed basis.

19 **d. Reinsurance Processing**

20 Ceded Contracts: Completed.

21 Assumed Contracts: On December 1, 2017, No Assets Letters were sent to the
22 reinsurance claimants advising them the estate does not have sufficient funds to pay into their
23 class of claim priority. All reinsurance POCs were closed thereafter.

24 **e. Reinsurance Disputes**

25 There are no active disputes with reinsurers and none are expected.

26 **f. Reinsurance Collections & Commutations**

27 The Liquidator processed and collected approximately \$600,000 during 2017 as the CLO
28 reinsurance staff concluded the reinsurance program. The reinsurance department also negotiated

1 \$1.7 million in settlements with four remaining reinsurers, a sale of residual reinsurance and a
2 sale of a reinsurance annuity. Settlement agreements greater than \$100,000 were submitted to
3 this court for approval.

4 **3. Information Technology**

5 The CLO continues to provide IT services for Fremont's overall administration. The CLO
6 currently uses the GOLD (Guardian of Liquidated Data) system for retrieval of historical policy
7 and claim information required for the continued support of Fremont's run-off. Although most
8 operations are significantly winding down as estate closure approaches, the estate was still highly
9 dependent in 2017 on certain infrastructure and technical support to position the estate for a final
10 distribution in early 2019.

11 **D. Annual Financial Statement as of March 31, 2018**

12 Fremont's financial statement for the period ending March 31, 2018 is attached as Exhibit

13 A.

14 Fremont has total assets of approximately \$81.6 million consisting primarily of \$74.8
15 million in cash and investments and \$5 million in statutory deposits and final reinsurance
16 recoverables as well as approximately \$1.3 million in residual cash assets associated with a
17 wholly owned affiliate entity in conservation. Fremont has in excess of \$1.6 billion in
18 policyholder claims. Accordingly, Fremont's assets will be sufficient to pay only secured claims,
19 administrative expenses and a portion of the Class 2 policyholder claims with no funds available
20 for general unsecured creditors.

21 **LEGAL MATTERS**

22 **A. Matters Resolved in 2016**

23 On June 26, 2017, the Court approved administrative and professional fees and expenses
24 incurred by the Fremont estate from January 1, 2016 through December 31, 2016 in the amount
25 of \$2,446,536, including \$2,362,449 for administrative and operating expenses pursuant to
26 section 1035, and \$84,087 for legal fees and expenses pursuant to section 1036.

27 Further the Court approved reinsurance commutations with Cigna Reinsurance
28 Corporation and Insurance Company of North America as well as the assignment of reinsurance

1 claims to Amberley Alternative Assets Limited. On February 28, 2017, this Court also approved
2 the sale of a real estate asset located in the city of Fullerton, Orange County, California for
3 \$789,000.

4 The Liquidator further settled the dispute over the proof of claim filed by Browning-Ferris
5 Industries LLC, BFI Waste Systems of North America, LLC, Azusa Land Reclamation Co., and
6 Azusa Land Reclamation, Inc., which was approved by the Court in June 2017.

7 **B. Pending Matters**

8 The Liquidator has already filed his Application for Order Approving Payment of
9 Administrative and Professional Fees and Expenses for Year Ending December 31, 2017, and
10 anticipates filing to be heard at the August 21, 2018 status conference hearing before the Court.

11 **CONCLUSION**

12 In 2017, the Liquidator has been successful in resolving and closing the remaining
13 reinsurance program as well as seeking all unliquidated claims to be determined by September
14 2017 and has positioned the estate for a final distribution and closure in early 2019. As detailed
15 in this report, the final collections are essentially complete, most all known assets have been
16 collected or resolved and the liquidation estate is in its final preparations to seek this court's
17 approval to release a final distribution and seek an estate closure order.

18 The Liquidator, though his CLO staff, is prepared to address any questions the Court may
19 have regarding this 2017 Annual Report at the status conference on August 21, 2018.

20
21 Dated: July 25, 2018

XAVIER BECERRA
Attorney General of California

22
23
24 

25 LISA W. CHAO
26 Supervising Deputy Attorney General
27 *Attorneys for Applicant*
28 *Insurance Commissioner of the State of California,*
as Liquidator of Fremont Indemnity Company

EXHIBIT "A"

950 Fremont Indemnity Co
STATEMENT OF ASSETS AND LIABILITIES
As of March 31, 2018

	Dec 31 2017	Mar 31 2018
ASSETS		
Participation in pooled investments, at market	75,101,600	74,873,600
Accrued investment income	266,900	281,600
Statutory deposits held by other states	2,577,000	2,540,000
Recoverable from reinsurers	2,504,100	2,504,100
Receivable from affiliates	1,360,000	1,360,000
Deposits and other assets	67,200	67,200
Total Available Assets	81,876,800	81,626,500
LIABILITIES		
Secured claims	39,500	39,500
Accrued administrative expenses	3,000	3,000
Claims against policies, including guaranty associations, before distributions	2,673,590,000	2,542,698,900
Early access and other Class 2 distributions	(1,022,929,100)	(1,022,929,100)
California and Federal claims having preference	62,900	62,900
All other claims	220,970,700	220,932,600
Total Estimated Liabilities	1,871,737,000	1,740,807,800
NET ASSETS (DEFICIENCY)	(1,789,860,200)	(1,659,181,300)

950 **950 Fremont Indemnity Co**
STATEMENT OF ASSETS AND LIABILITIES
As of March 31, 2018

		Dec 31 2017	Mar 31 2018
ASSETS detail			
Cash and Investments			
12001	Participation in Pooled Investment	75,101,560	74,873,617
	Cash and Investments	75,101,560	74,873,617
13015	Accrued Int & Div Receivable	266,946	281,629
12012	Statutory Deposits	2,577,027	2,539,967
Reinsurance Receivable			
13002	Rein Recover-Unpaid Losses	2,504,096	2,504,096
	Reinsurance Receivable	2,504,096	2,504,096
Receivable from Affiliates			
13012	Receivable from Affiliates	1,359,991	1,359,991
	Receivable from Affiliates Net of Allowance	1,359,991	1,359,991
Other Assets			
17003	Other Assets	67,176	67,176
	Other Assets	67,176	67,176
Total Available Assets		81,876,795	81,626,476
LIABILITIES detail			
Secured Claims			
21005	Other Secured Liabilities	39,454	39,454
	Secured Claims	39,454	39,454
Class 1: Payables and Accrued Expenses			
22005	Other General Liability	3,027	3,027
25001	Due To/From Intercompany Acct	2	2
	Class 1 Liabilities	3,028	3,028
Class 2: Losses, Reserves and non-IGA Claims			
28001	Loss & ALAE Reserve	774,424,561	625,774,857
28006	Liability Due to GAs	1,860,606,850	1,885,916,805
29001	Other Class 2 Payable	10,000,000	10,000,000
29091	Other Class 2 Payable-GOLD	28,558,624	21,007,281
	Class 2 Liabilities before Distributions	2,673,590,034	2,542,698,942
Early Access and Other Class 2 Distributions			
28007	Advances to Guaranty Associations	(868,121,634)	(868,121,634)
28097	Advances to Guaranty Associations-GOLD	(154,807,514)	(154,807,514)
	Early access and other Class 2 distributions	(1,022,929,148)	(1,022,929,148)
Class 3, 5 & 6: Calif and Federal claims			
27093	Premium Tax Payable-GOLD	62,853	62,853
	Class 3, 5 & 6 Liabilities	62,853	62,853
Class 7: All Other Claims			
30005	Reinsurance Payable	201,692,918	201,692,918
30007	Contingent Commission	170,752	170,752
30098	Other Class 7 Liabilities-GOLD	19,074,571	19,074,571
31001	Funds Held for Others	32,456	(5,620)
	Class 7 Liabilities	220,970,696	220,932,620
Total Estimated Liabilities		1,871,736,917	1,740,807,749
NET ASSETS (DEFICIENCY)		(1,789,860,122)	(1,659,181,274)

DECLARATION OF SERVICE BY U.S. MAIL

Case Name: **Insurance Commissioner v. Fremont Indemnity Company**
No.: **BS083582**

I declare:

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar, at which member's direction this service is made. I am 18 years of age or older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service with postage thereon fully prepaid that same day in the ordinary course of business.

On July 25, 2018, I served the attached **LIQUIDATOR'S FOURTEENTH ANNUAL STATUS CONFERENCE REPORT FOR PERIOD JANUARY 1, 2017 THROUGH MARCH 31, 2018** by placing a true copy thereof enclosed in a sealed envelope in the internal mail collection system at the Office of the Attorney General at 300 South Spring Street, Suite 1702, Los Angeles, CA 90013, addressed as follows:

SEE ATTACHED SERVICE LIST

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on July 25, 2018, at Los Angeles, California.

Carol D. Adams
Declarant



Signature

SERVICE LIST

Case Name: Insurance Commissioner v. Fremont Indemnity Company
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