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his capacity as Liquidator of Superior National
Insurance Company, Superior Pacific Casualty
Company, California Compensation Insurance
Company, Commercial Compensation Casualty
Company and Combined Benefits Insurance Company*

ORIGINAL FILED
MAR 11 2010
**LOS ANGELES
SUPERIOR COURT**

SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF LOS ANGELES
CENTRAL CIVIL WEST

**INSURANCE COMMISSIONER OF THE
STATE OF CALIFORNIA ,**

Applicant,

v.

**SUPERIOR NATIONAL INSURANCE
COMPANY,**

Respondent.

Case No.: BS 061974
Consolidated with: BS061675
BS062171
BS062173
BS063746

Judge: Honorable Carl J. West

**LIQUIDATOR'S FURTHER STATUS
CONFERENCE STATEMENT FOR
LEAD CASE**

Date: March 16, 2010
Time: 10:30 a.m.
Dept: 311 CCW

1 TO THE COURT AND TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD:
2 THE LIQUIDATOR'S FURTHER STATUS CONFERENCE STATEMENT FOR LEAD CASE.

3 **I.**

4 **OVERVIEW**

5 The Insurance Commissioner ("Commissioner" or "Liquidator"), through his CLO¹,
6 manages the Superior National Insurance Companies'² liquidation for the benefit of policy
7 claimants and creditors. It is the purpose of this report to explain the current status of the
8 Liquidator's reinsurance and premium recovery efforts, to provide financial information and an
9 updated look at the Liquidator's ongoing litigation efforts. This report updates all the categories
10 of information provided in the Liquidator's report filed on November 24, 2009 and discussed with
11 the Court at its last status conference held on December 11, 2009.

12 **II.**

13 **REINSURANCE INFORMATION**

14 The CLO continues to pursue the estate's reinsurance recoveries by performing
15 reinsurance accounting, audits, billings and collections. In addition to a general summary of
16 reinsurance activities occurring since the last status conference, the Court has directed the CLO to
17 continue to report a schedule of paid loss recoverables (net of premiums payable) including an
18 aging report. Exhibit A is a schedule of paid loss recoverables (net of premiums payable)
19 containing the requested aging report. Exhibit B is a schedule of ceded case reserves listing the
20 amounts of all claims whether paid or reported to the reinsurer, but not yet billed, based on
21 reserve amounts as established by the responsible IGA. Exhibit C is a schedule of ceded incurred
22 but not reported reserves (IBNR). The following is a narrative that explains the latest versions of
23 these reports in more detail.

24 ///

25 ///

26 ///

27 ¹ Conservation and Liquidation Office.

28 ² Also referred to as the "SNICIL" or the "Estate."

1 **Exhibit A – Paid Loss Recoverables (Net of Premiums Payable)**

2 Exhibit A lists paid loss recoverables (net of premiums payable) due from each reinsurer
3 as of December 31, 2009. Paid loss recoverables are the amounts already paid to the claimants
4 that are due from the reinsurers and premiums payable are amounts due reinsurers pursuant to the
5 terms of each contract. Near the bottom of Exhibit A, a grand total of \$368,338,512 is shown as
6 due from reinsurers, down from the \$370,398,880 reported in the December 2009 status report.
7 The decrease in paid loss recoverables (net of premiums payable) is \$2,060,368, resulting
8 primarily from new billings of \$4,569,376 offset by collections of \$1,158,668. and the receipt in
9 October 2009 of the agreed upon settlement of the FHA/Health Net commutation for \$5,471,076
10 (Exhibit D is the arithmetical computation). \$3.1 million of the new billings are from the release
11 of the second quarter of 2009 accounts of the U.S. Life QS treaty and \$1.5 million are from the
12 release of updated reinsurance reports for various XOL treaties. The collections of \$1.2 million
13 are primarily from Continental Casualty, SCOR Re, St. Paul Re, LDG Re and Trustmark.

14 A substantial portion of the total paid loss recoverables (net of premiums payable) of
15 \$363,907,631, are due under the U.S. Life Q.S. Treaty. Also included in the total paid loss
16 recoverables (net of premiums payable) are amounts that are in dispute, due from companies in
17 liquidation, or pre-liquidation receivables in the process of reconciliation. The remaining
18 \$2,600,476, in losses due from reinsurers (net of premiums payable), as reported in the
19 December, 2009 report, increased by \$133,477 to \$2,733,953. This increase is due to new
20 billings of \$939,914 offset by collections of \$806,437 (see Exhibit D for arithmetical
21 computation).

22 Trustmark owes SNICIL a total amount of \$1,113,891, up by \$250,332. This increase was
23 due to new billings of \$578,640 offset by a payment of \$328,307 received from Trustmark in
24 December 2009. The majority of the overdue balances are due to disputes in penalty payments,
25 CT claims, undocumented bill review payments and other billing issues. Castlewood owes
26 SNICIL a total amount of \$2.2 million, an increase of \$223,000 from new billings. We continue
27 to submit billings and supporting documentation to them. The CLO is pressing both reinsurers to
28 settle all billed and overdue amounts.

1 Trustmark, Castlewood, LDG Re and other reinsurers have expressed their desire to
2 commute their reinsurance obligations to SNICIL. The California Insurance Guarantee
3 Association (CIGA), responsible for handling the majority of the claims that will underlie the
4 commutations, is in the process of evaluating and where necessary, adjusting the carried reserves
5 on its open claim files in conformity with CIGA's reserving philosophy. Once this evaluation has
6 been completed to the satisfaction of CIGA and any adjustments have been made, then the CLO
7 will instruct its actuarial consultants to develop commutation proposals for submission to these
8 reinsurers. The CLO is not inclined to make commutation proposal offers to any of the reinsurers
9 until the CIGA claim evaluation has been finalized.

10 Audits were performed by Castlewood and LDG Re in the fourth quarter of 2009. An
11 audit by Global Re is scheduled in the second quarter of 2010.

12 We continue to reconcile the remaining pre-liquidation recoverables which have been
13 reduced to \$283,640. Exhibit A also shows the aging of the paid loss recoverables (net of
14 premiums payable).

15 **Exhibit B – Ceded Case Reserves**

16 Exhibit B lists the ceded case reserves as of December 31, 2009 related to each reinsurer's
17 contract with the liquidating companies. These are claims that have been reported to the
18 Liquidator but have not been paid to the claimants and therefore are not yet due from the
19 reinsurers. The total of the ceded case reserves is currently \$143,973,563, up by \$7,756,427 from
20 the \$136,217,136 reported in the December, 2009 status report. The increase is primarily due to
21 the significant increase in reserves for claims being handled by CIGA that are subject to the
22 SNICIL treaties. The reserves for the U.S. Life QS treaty increased only by \$74,000 from
23 \$85,571,880 to \$85,645,693.

24 Excluding the reserves on the U.S. Life QS Treaty of \$85,645,693, the net ceded case
25 reserves total \$58,327,870, up from the \$50,645,256 reported in the December 2009 status report.
26 The increase in the net ceded case reserves of \$7,682,614 resulted primarily from the CIGA's
27 review of the reserves of claims subject to the various XOL treaties.

28 ///

1 **Exhibit C – Ceded IBNR (Incurred But Not Reported Reserves)**

2 This exhibit lists the undiscounted ceded incurred but not reported reserves as of
3 December 31, 2009. \$29.4 million of the total IBNR of \$93 million is from the U.S. Life QS
4 Treaty. The IBNR figure is a result of the June 30, 2008 reserve analysis of SNICIL actuary,
5 PricewaterhouseCoopers.

6 The balance of \$63.5 million pertains to all other SNICIL treaties, some of which have not
7 had the benefit of an actuarial study since liquidation and therefore, the carried IBNR is outdated
8 and unreliable. In our efforts to commute the affected treaties, updated reserve studies will be
9 conducted and the IBNR carried in SNICIL's ledgers will be adjusted as the updated IBNR
10 estimates become available.

11 **III.**

12 **ARBITRATION AND OTHER MATTERS**

13 **A. *U.S. Life Insurance Company v. SNICIL***

14 All of the briefing and oral arguments in U.S. Life's appeal to the Ninth Circuit Court of
15 Appeals has been completed. On January 4, 2010 the Ninth Circuit Court of Appeals issued its
16 published opinion affirming the judgment upholding the arbitration decision. On or about
17 January 19, 2010, U.S. Life filed its petition for rehearing and rehearing en banc with the Ninth
18 Circuit Court of Appeals. On or about March 1, 2010, SNICIL's response was filed with the
19 Ninth Circuit. While awaiting the appellate court's decision whether to grant or deny U.S. Life's
20 petition, the CLO is closely monitoring the financial circumstances of the American International
21 Group ("AIG"), which is the ultimate parent of U.S. Life. AIG is also the ultimate parent of
22 National Union Fire Insurance Co. of Pittsburgh, PA ["National Union"], which is the surety
23 bond for payment of \$600,000,000, payable to the Superior National cedents.

24 Meanwhile, CIGA continues to pay claims of injured California workers, over and above
25 the amounts covered by the judgment and appeal bond. Although demand has been made for
26 U.S. Life to pay the additional loss payments ceded to U.S. Life, U.S. Life refuses to do so while
27 its appeal remains pending. The Commissioner successfully moved this Court for authorization
28 to draw down on the Special Schedule "P" funds placed on deposit by U.S. Life as required by

1 the Insurance Code, in order to pay the on-going claims in excess of the bonded amounts. If the
2 Ninth Circuit denies U.S. Life's petition for rehearing and seeks *certiorari*, the Commissioner
3 may seek to draw down additional amounts from U.S. Life's Special Schedule "P" fund.

4 IV.

5 FINANCIAL REPORT

6 A. Accounting Statements

7 The CLO's Accounting Department has updated its financial statements through December
8 31, 2009, and a copy of the consolidated balance sheet for the SNICIL estates is attached hereto
9 as Exhibit E. Secured claims liability balance includes \$28 million for the SNTL lien.

10 The financial statements have been updated to incorporate the results of a September 8,
11 2009 PricewaterhouseCoopers actuarial report commissioned by the Liquidator to review the
12 adequacy of SNICIL reserves and IBNR for workers' compensation claims.

13 As previously noted, Combined Benefit Insurance Company financial statement no longer
14 has a positive net asset value, but a negative \$5,590,800 net deficiency. Consequently, as a result
15 of the recent actuarial study and its effect on the financial statements, the Liquidator does not
16 intend to adjudicate the Class 7 general claims.

17 The accounting department continues its other projects on an on-going basis, including its
18 estate asset allocations, supporting the billing activities of the reinsurance department, resolving
19 statutory deposits accounts in various jurisdictions and recoveries and the IGA claims data
20 reconciliation project.

21 V.

22 CLAIMS ADMINISTRATION

23 A. Claims Processing

24 1. Premium and Subrogation Collection Activity

25 From an internal standpoint premium collection and subrogation recoveries have virtually
26 ceased. There are still some protracted collection and subrogation matters being monitored, but
27 minimal expense is being incurred. The SNICIL estates will bear no direct cost, other than the
28 minimal allocation for the monitoring process, as these matters are being pursued through

1 vendors operating on a contingency fee basis. The total premium collected through December
2 2009 is \$1,341.20, and the total subrogation collected is \$266,219.84. Both totals represent
3 collection on all five estates. The total premium collected through October 2009 and submitted
4 for the December status conference was incorrect.

5 **2. Claims Administration**

6 The estates continue to have the two open claims previously noted. U.S. Life's claim will
7 not be formally adjudicated until the matter resolves. The non-covered Arkansas claim has not yet
8 exceeded the statutory payment cap of \$300,000 although the amount reported has increased to
9 \$282,334. CLO is informed that there is a prognosis of a major medical procedure and once the
10 \$300,000 cap has been exceeded, the claim will have to be adjudicated. The CLO does not
11 currently take a position on the claim since the Arkansas Guaranty Association continues to pay
12 medical benefits within the statutory cap.

13 The estates are yet to finalize the claims from the 61 (multiple states have claims on more
14 than one of the 5 estates) Guaranty Associations who paid claims. Since the formal resolution of
15 the Guaranty Association claims involves a discounting of future reserves, the Liquidator
16 generally waits until there appears to be a prospect of a relatively imminent closure of the estate
17 before finalizing their claim. We do note that 29 out of the 61 Guaranty Association claims either
18 have zero or one claim remaining open. The reconciliation process with those IGAs who no
19 longer have any open claim files has commenced. The process of reconciling and approving IGA
20 POC claims will continue for at least the next year, and if the estate approaches a closure position,
21 the IGA resolution activity will have to be intensified.

22 **CONCLUSION**

23 The Liquidating Companies continue to conduct significant run-off activities, including its
24 appeal to recover reinsurance; claims administration, estate accounting, reinsurance negotiations
25 and settlements. Moreover, these liquidating companies continue to fulfill a significant goal of
26 collecting and distributing assets to the insurance guaranty associations, in order to close the gap
27 between the assets of the liquidating companies and their financial obligations. If the Court has
28 questions concerning the contents of this status report, the Liquidator will endeavor to provide

1 answers within a reasonable time.

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3 Dated: March 11, 2010

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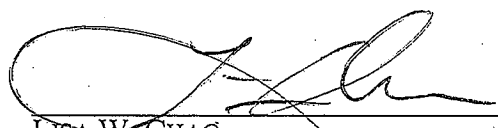
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Respectfully Submitted,

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Casualty Company and Combined Benefits
Insurance Company*

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EXHIBIT A

Exhibit A
SUPERIOR NATIONAL INSURANCE COMPANIES IN LIQUIDATION
Paid Loss Recoverables (Net of Premiums Payable) by Reinsurers
December 31, 2009

	TOTAL	< 30 days	30-59 days	60-89 days	90-119 days	120 days and over
AUL RMS UNUM LIFE AM	(323,172)					(323,172)
AUL RMS/FED INS CHUBB	-					-
AUL RMS/American United Life	21,125					21,125
AUL RMS (SF)/American Acc Re	(144)					(144)
Blackthorn Re Srvc/Ace American	230,262		67,303			162,959
Captive Reinsurers	(3,077)					(3,077)
Clearwater Insurance	-					-
CIGNA*	-					-
Cigna Re/Connecticut General Life	68,930	1,070		2,026	6,286	59,548
CIGNA Re/Life Insurance Co. of North America	-					-
CNA Re/Continental Casualty	48,175			4,837		43,338
Continental Re*	18,263					18,263
Coronet Ins/Camelback Re	-					-
Donnelly Skirtich/Continental Assurance	(43)					(43)
Employers Re*	-					-
Excess*	228,102					228,102
FHA/HealthNet	-					-
Gerling Global	210			210		-
Home (In Liquidation)	260,304					260,304
Ing Re (UK)	-					-
Insurance Co. of Hannover	-					-
Int'l Sol/IOA Re/Continental Casualty Company	2,251,142	71,166	94,724	57,071	134,105	1,894,076
JEH Re/John Hancock Mutual	-					-
LDG Re Corp-OCR/Workers Comp Alternative Facility	154,238	32,773		4,341	10,496	106,628
LDG Re SRD/First All Financial	-					-
LRD Re- SRD/Transatlantic	67,601					67,601
Life Insurance Company of North America	-					-
New England Re*	-					-
North America*	10,896					10,896
Reinsurance Services of Princeton/Amer United Life Ins	(21,165)					(21,165)
Reliastar Life UK	-					-
ReliaStar Life	10,522	459			5,447	4,616
Scandinavian Re	-					-
Scor Re*	-					-
Scor Re (IL)	216,112			28,019		188,093
St Paul Re	-					-
Transatlantic Re	-					-
Travelers SPC-HF/Travelers Ind*	16,602					16,602
Travelers/Phoenix*	9,777					9,777
Trustmark	1,113,891	34,653		271,726		807,512
Underwriters Re	-					-
United Republic	42,170					42,170
US Life	363,907,631		3,050,821		3,207,048	357,649,762
Zurich (UK)	10,160	10,160				-
Total at December 31, 2009	368,338,512	150,280	3,212,848	368,230	3,363,382	361,243,770
	100.00%	0.04%	0.87%	0.10%	0.91%	98.07%
US Life (in Arbitration)	(363,907,631)	-	(3,050,821)	-	(3,207,048)	(357,649,762)
FHA/HealthNet (In Dispute)	-	-	-	-	-	-
Trustmark (In Dispute)	(1,113,891)	(34,653)	-	(271,726)	-	(807,512)
Home (In Liquidation)	(260,304)	-	-	-	-	(260,304)
United Republic (In Liquidation)	(42,170)	-	-	-	-	(42,170)
Captive Program	3,077	-	-	-	-	3,077
*Pre-liquidation receivables in process of reconciliation	(283,640)	-	-	-	-	(283,640)
Net Balance Due at December 31, 2009	2,733,953	115,627	162,027	96,504	156,334	2,203,460
	100.00%	4.23%	5.93%	3.53%	5.72%	80.60%

EXHIBIT B

Exhibit B
SUPERIOR NATIONAL INSURANCE COMPANIES IN LIQUIDATION
Ceded Case Reserves by Reinsurers
December 31, 2009

American Accident Group I	79,071
American United Life	-
AUL RMS (SF) Unum Life American	-
AUL RMS Fed Ins Chubb	552,381
Blackthorn Re Svc/Ace American	5,650,524
Buffalo Re	73,610
Captive Reinsurers	695,408
CIGNA	148,191
Cigna Re/Connecticut General Life	2,081,116
CIGNA Re/Life Insurance Co. of North America	2,140,350
Clarendon National Insurance	95,637
CNA Re/Continental Casualty	2,049,037
Cologne Re of America	12,643
Cont Re	22,906
Coronet Ins/Camelback Re	7,184
Excess	31,448
FHA/HealthNet	-
First Allmerica Financial (LDG Re-SRD)	753,247
Gerling Global (Constitution Re)	992,928
Hartford Fire	162,477
Home (in Liquidation)	14,265
Imperial Casualty & Indemnity	13,984
Insurance Co. of Hanover (IL)	461,423
Int'l Sol/IOA Re/Continental Casualty Company	13,542,122
JEH Re/John Hancock Mutual	92,675
Le Mans Reinsurance	17,212
Mercantile and General Re	65,930
New England Re	-
North America	32,953
North America Re	75,645
North Star Re	23,974
North Star Re thru CSMC	47,016
Pennsylvania Manufacturer's	69,182
Reliastar Life (Minnesota)	1,260,161
ReliaStar Life (UK)	-
Scor Re	609,548
Scor Re (IL) (All State)	5,281,165
Security Re	5,057
Signet Re	147,325
Skandia America Re	56,983
St Paul Re	2,367,367
Toa Re of America	11,128
Transatlantic Re	1,036,708
Transatlantic Re (LDG Re-SRD)	2,140,350
Travelers Indemnity	40,502
Travelers/Phoenix	20,133
Trustmark	10,182,242
Underwriters Re	61,206
United Republic Re	24,192
US Life	85,645,693
Winterthur Swiss Ins. Co.	14,518
Workers Comp Alternative Facility/LDG Re	4,913,443
Zurich Re (UK) Ltd./Benfield LTD	151,303
<hr/>	
Total at September 30, 2009	143,973,563
Disputed - US Life	(85,645,693)
<hr/>	
Net Ceded Case Reserves	58,327,870

EXHIBIT C

Exhibit C
SUPERIOR NATIONAL INSURANCE COMPANIES IN LIQUIDATION
Ceded IBNR by Reinsurers
December 31, 2009

US Life	29,416,160
All Other Treaties (In Process of Review)	63,520,771
<hr/>	
Total at December 31, 2009	92,936,931
Disputed - US Life	(29,416,160)
<hr/>	
Net Ceded IBNR	63,520,771

EXHIBIT D

Exhibit D
COMPUTATION OF DIFFERENCES IN AMOUNTS OF PAID LOSS
RECOVERABLES (NET OF PREMIUM PAYABLES)
BETWEEN THE MARCH 2010 AND DECEMBER 2009
STATUS CONFERENCE REPORTS

Paid Loss Recoverables (Net of Premium Payables)

\$ (2,060,368) Increase in paid loss recoverables (net of premium payables) computed as follows:

New Billings	\$	4,569,376
Less: Settlement of FHA Commutation	\$	(5,471,076)
Less: Collections	\$	(1,158,668)
Increase	\$	(2,060,368)

Net Balance Due

\$ 133,477 Decrease in net balance due computed as follows:

New Billings	\$	939,914
Less: Collections	\$	(806,437)
Decrease	\$	133,477

EXHIBIT E

Insurance Commissioner of the State of California
Conservation & Liquidation Office

CONSOLIDATED SUPERIOR NATIONAL ESTATES
STATEMENT OF ASSETS AND LIABILITIES IN LIQUIDATION
As of December 31, 2009

	Cal Comp	Combined Benefits	Superior Natl	Superior Pacific	Commercial Comp	TOTAL
ASSETS						
Cash and cash equivalents:						
Restricted	549,100	-	-	-	-	549,100
Participation in pooled investments	47,165,500	2,402,800	9,004,700	8,169,800	2,474,600	69,217,400
Non-pooled short-term investments:						
Restricted	116,400	229,600	-	-	-	346,000
Accrued investment income	269,300	13,900	52,200	46,200	14,400	396,000
Statutory deposits held by other states	774,400	-	320,100	-	633,300	1,727,800
Funds held by guaranty associations	-	-	10,486,400	-	225,100	10,711,500
Recoverable from reinsurers - paid	216,816,300	7,554,400	114,976,200	(189,600)	29,181,200	368,338,500
Recoverable from reinsurers - case reserves	62,024,300	1,804,700	53,234,700	14,003,100	12,906,700	143,973,500
Recoverable from reinsurers - IBNR	66,692,100	1,680,500	7,706,800	11,198,300	5,659,200	92,936,900
Salvage and subrogation recoverable	63,400	-	21,100	-	1,800	86,300
Total Available Assets	394,470,800	13,685,900	195,802,200	33,227,800	51,096,300	688,283,000
LIABILITIES						
Secured claims ^{Note 1}	21,803,000	203,600	4,974,900	72,300	1,116,100	28,169,900
Accrued administrative expenses ^{Note 2}	18,800	1,800	16,400	4,600	466,000	507,600
Claims against policies, including guaranty associations, before distributions	1,900,929,600	33,606,500	828,057,400	198,889,300	137,233,200	3,098,716,000
Early access and other Class 2 distributions	(472,100,600)	(18,208,600)	(187,172,400)	(30,586,800)	(49,443,000)	(757,511,400)
All other claims	20,202,800	833,900	28,725,400	95,100	456,400	50,313,600
Total Estimated Liabilities	1,570,410,800	19,276,700	674,628,100	228,928,100	100,442,800	2,593,686,500
NET ASSETS (DEFICIENCY)	(1,175,940,000)	(5,590,800)	(478,825,900)	(195,700,300)	(49,346,500)	(1,905,403,500)

^{Note 1} Includes \$28 million for SNTL lien, pursuant to an approved court order dated May 7, 2003.

^{Note 2} Does not include expenses for final distribution and related closing activities.