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8 *of California, in his capacity as the Liquidator of*
Western General Insurance Company

Exempt from Filing Fees
Pursuant to Gov. Code § 6103

9 SUPERIOR COURT OF THE STATE OF CALIFORNIA

10 COUNTY OF LOS ANGELES

11 CENTRAL DISTRICT

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

15 Petitioner,

16 v.

17 **WESTERN GENERAL INSURANCE**
18 **COMPANY,**

19 Respondent.

Case No. 21STCP01655
Assigned to Hon. Stephen I. Goorvitch

INSURANCE COMMISSIONER'S
STATUS REPORT ON THE
LIQUIDATION OF WESTERN
GENERAL INSURANCE COMPANY
AND RESPONSE TO ORDER TO SHOW
CAUSE RE: DISMISSAL

(Ins. Code § 1016)

Date: March 21, 2022
Time: 8:30 a.m.
Dept.: 39

Action Filed: May 21, 2021

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1 **TO HON. STEPHEN I. GOORVITCH, ALL INTERESTED PARTIES AND THEIR**
2 **ATTORNEYS OF RECORDS:**

3 The Insurance Commissioner of the State of California (Commissioner), in his capacity as
4 the liquidator of Western General Insurance Company (Western General), hereby submits the
5 following response to the Court's Order to Show Cause re: Dismissal and status report setting
6 forth, for the Court and all interested parties: (i) an overview of the liquidation process and the
7 Court's continued role therein, (ii) the actions taken by the Commissioner in his capacity as
8 liquidator of Western General (Liquidator) to marshal assets of the estate, and (iii) anticipated
9 steps toward completing the orderly and efficient liquidation of Western General.

10 **OVERVIEW OF THE LIQUIDATION PROCESS**

11 **I. COMPANY BACKGROUND AND ENTRY OF THE CONSERVATION AND LIQUIDATION**
12 **ORDERS.**

13 Western General is a corporation duly organized and existing under and by virtue of the
14 laws of the State of California, with its principal place of business located at 5230 Las Virgenes
15 Road, Calabasas, CA. Western General is a property and casualty insurance company licensed to
16 transact specialty dealer-originated and agent/broker produced non-standard private passenger
17 automobile insurance. Most of Western General's business was written primarily through its
18 affiliated agency All Motorists Insurance Agency (AMIA). Western General was licensed to
19 transact insurance in 39 states and the District of Columbia, however most of the direct premiums
20 written were concentrated in California with over 80% of the premiums written in the state.
21 Western General is 91.8 percent owned by Western General Holding Company (WGHC), a
22 California Corporation, which is in turn 51.1 percent owned by Robert M. Ehrlich and Laurel B.
23 Ehrlich.

24 On May 15, 2021 Western General filed its quarterly financial statements as of March 31,
25 2021 as required by Insurance Code section 900,¹ stating its financial condition and affairs. The
26 March 31, 2021 financial statement showed that Western General had admitted assets of
27 \$44,901,649 and liabilities of \$40,941,737, resulting in policy holder surplus of \$3,959,912. In

28 ¹ Unless otherwise indicated, all further statutory references are to the Insurance Code.

1 addition, Western General had a net loss of \$2,923,573 for the three months ending March 31,
2 2021, and this was after suffering a net loss of \$4,669,557 in the previous year of 2020. Western
3 General continued to experience additional net losses of approximately \$500,000 a month
4 thereafter. Based on the foregoing and continuing losses, and considering Western General's
5 limited surplus, Western General was deemed to be operating in a hazardous financial condition
6 within the meaning of section 1011, subdivision (d).

7 Pursuant to sections 700.01, 700.02 and 700.25, Western General was required to maintain
8 minimum paid-in capital and surplus in the aggregate amount of \$2,500,000. The Commissioner
9 estimated, based upon recent performance, that Western General would have less than the
10 minimum capital and surplus by the end of the second quarter of 2021.

11 Based on Western General's quarterly statement of March 31, 2021 coupled with the
12 continuing losses thereafter, the Commissioner determined, and Western General's management
13 and majority shareholder agreed, that Western General was in such an impaired financial
14 condition that the further transaction of business by it will be, and is, hazardous to its
15 policyholders, creditors and the public, and such condition was the grounds for the entry of an
16 order of conservation under section 1011, subdivisions (d) and (h). Effective May 20, 2021, the
17 board of directors of Western General and its majority shareholder consented to and approved the
18 conservation and the appointment of a conservator of Western General. (See May 25, 2021
19 Verified Ex Parte Conservation Application, ¶ 16 & Ex. B.)

20 On May 26, 2021, upon application to this Court, the Commissioner was appointed
21 Conservator of Western General by the Court. Upon entry of the conservation order the
22 Commissioner through his Conservation and Liquidation Office (CLO) took immediate daily
23 control of Western General and secured control of the company's assets and operations as well as
24 issued all required legal notifications to the various constituents of Western General.

25 The cash inflows to Western General for the month of June 2021 totaled \$3,511,845 and the
26 cash outflows totaled \$5,396,706. Thus by the end of June 2021 Western General had less than
27 \$95,000 in unrestricted cash and current outstanding liabilities of approximately \$1.9 million (not
28 including any claim expense). Liabilities continued to accrue in the month that followed

1 indicating Western General would soon be in a severe negative cash position with no apparent
2 prospects of new capital or material reduction in liabilities.

3 Based upon the foregoing facts, and as contemplated by section 1016, the Commissioner
4 determined he could not effect the rehabilitation of Western General; that it would be futile to
5 continue to proceed as Conservator with conducting the business of Western General; that
6 Western General is insolvent within the meaning of section 985, subdivision (a)(2), in that
7 Western General is unable to meet its financial obligations as they become due; and that such
8 conditions are grounds for liquidation under section 1016. Western General's management and
9 majority shareholder consented to and approved the liquidation of Western General.

10 Given Western General's financial condition, and the existence of legal grounds for
11 liquidation, as well as the Commissioner's obligation to protect policyholders, creditors and the
12 public, an order of liquidation (with a finding of insolvency) was entered by the Court on August
13 5, 2021. Additionally, the Court appointed a Deputy Liquidator and a Liquidation Manager to
14 oversee and conduct Western General's insolvency proceeding to conclusion.

15 Furthermore, pursuant to sections 1063.1, subdivision (b) and (c), and 1063.2, the entry of
16 the liquidation order containing an express finding of insolvency triggered the state-based
17 insurance guaranty statutes, specifically the obligation of the respective state guaranty entities in
18 states where Western General wrote policies to pay the open claims and claim expenses which
19 Western General is no longer able to pay.

20 **II. THE CONTINUED ROLE OF THE COURT AND THE COMMISSIONER IN THE** 21 **LIQUIDATION PROCESS**

22 Generally, sections 1010 through 1062 govern conservation and liquidation proceedings
23 against insolvent insurers domiciled in California.² Under these provisions, the Commissioner
24 has the power to operate, wind-down, liquidate, and distribute the assets of an insolvent insurer to
25 ensure the "orderly and equitable distribution of the assets of an insolvent insurer" to those
26 entitled to share in those assets. (*In re Title USA Corp.* (1996) 36 Cal.App.4th 363, 372.)

27 ² There are additional provision elsewhere in the Insurance Code. For example,
28 California has adopted the Uniform Insurers Rehabilitation Act for insurers domiciled in other
states. (§§ 1064.1-1064.12.)

1 As the Liquidator, the Commissioner acts as a “trustee for the benefit of all creditors and
2 other persons interested in the estate of the person against whom the proceedings are pending.”
3 (§ 1057.) As the Liquidator, the Commissioner is vested with “broad powers” to conduct the
4 liquidation process in the manner that he determines to be in the best interests of policyholders
5 and creditors. (*Commercial Nat. Bank v. Superior Court* (1993) 14 Cal.App.4th 393, 402.)

6 The Court also plays a vital role in the process. In addition to assisting the Liquidator in
7 enforcing the various injunctions set forth in the Liquidation Order (which injunctions were
8 specifically authorized by the Insurance Code), the Court:

- 9 • acts as the arbiter of disputed claims (§ 1032);
- 10 • approves the compensation of deputies, clerks and assistants (§ 1035);
- 11 • approves the compensation of outside counsel employed to assist in the liquidation
12 (§ 1036);
- 13 • may approve compromises of any claims by or against the insurance company
14 (§ 1037, subd. (c));
- 15 • authorizes the acquisition or disposition of property in excess of \$20,000 (§ 1037,
16 subd. (d)); and
- 17 • permits, under certain conditions, the investment of funds in excess of \$100,000
18 (§ 1037, subd. (g)).

19 In this matter, the Liquidator anticipates requesting the Court’s assistance to approve the
20 fees of the Liquidator and his staff, ratify a recently negotiated lease as well as resolve any
21 disputed claims that may arise during the proof of claim process. Moreover, as the liquidation
22 progresses, the Liquidator will ensure all asset sales, leasehold transactions and or material
23 financial settlements are approved by the Court in accordance with section 1037, subdivision (d).
24 The Court may also be requested to resolve collection matters either by an order to show cause or
25 by adversary complaint filed in this proceeding. (See, e.g., *Gillespie v. California Standard*
26 *Indemnity Co.* (1989) 212 Cal.App.3d 1351.) Finally, the Liquidator may apply for authority or
27 for orders designed to allow the efficient economic liquidation of Western General.
28

1 The Court should be deferential in its review of the Commissioner's actions. "The trial
2 court reviews the Commissioner's actions under the abuse of discretion standard [citation
3 omitted]: was the action arbitrary, i.e., unsupported by a rational basis, or is it contrary to specific
4 statute, a breach of the fiduciary duty of the conservator as trustee, or improperly discriminatory?"
5 (*In re Executive Life Ins. Co.* (1995) 32 Cal.App.4th 344, 358.) Thus, the Liquidator respectfully
6 requests that the Court discharge the present Order to Show Cause and continue in its oversight of
7 Western General's liquidation. This Status Report is submitted to aid the Court in that oversight.

8 **III. THE CONSERVATION AND LIQUIDATION OFFICE.**

9 In order to ensure an orderly conservation and, if appropriate, liquidation, an insurance
10 company in conservation or liquidation may be operated and managed by the Commissioner.
11 (See §§ 1010, 1037.) The Liquidator may employ people, utilize and update computers and
12 facilities, contract with vendors and professionals and do the many other things described below
13 to perform the necessary tasks to marshal assets and pay claims. (See, e.g., § 1035.) To meet
14 these goals administratively, the Liquidator uses the services of the Commissioner's CLO and
15 certain employees of Western General. The CLO is an administrative service entity created by
16 the Commissioner to administer the estates of insurers undergoing conservation or liquidation in
17 California. Upon obtaining a conservation or liquidation order, the Commissioner generally
18 delegates his statutory administrative duties over the insurer to the CLO and/or to special deputy
19 insurance commissioners, pursuant to section 1035. The CLO's services are supplemented based
20 on need by specialized vendors, contractors and consultants.

21 Western General had 133 employees (provided through an agency arrangement with its
22 affiliated agency AMIA) working for the company at the time it was placed into conservation in
23 late May 2021. During the brief period of conservation, the Conservator assessed Western
24 General's ongoing staffing needs and retained 46 of the AMIA employees deemed to be essential
25 to the conservation. Over the next five months through December 31, 2021, 11 retained
26 employees quit their position voluntarily or were laid off leaving the total current retained staffing
27 for the Western General estate at 35. Shortly after entry of the Liquidation Order, certain key
28 Western General employees were offered short-term retention agreements to stay with the

liquidation estate through year-end 2021 to assist in implementing the immediate operational requirements of the liquidation proceeding as well as assist in the preparation and transition of Western General's claims handling function to the respective state guaranty entities. In addition to the key personnel group receiving retention agreements, the Deputy Liquidator kept the balance of retained staff at their current compensation to assist in operating the company through year-end 2021. The Deputy Liquidator will make additional assessment of the liquidation estate's ongoing staffing needs and will seek to retain a smaller group of essential Western General staff to complete the remaining run-off operations locally and thereafter transition the entire estate administration into the CLO. As of the date of this Status Report, that transition plan and timing remain on schedule to relocate daily run-off operations to the CLO by March 2023.

LIQUIDATOR'S REPORT OF OPERATION AND ACTIVITIES

I. NOTICE OF LIQUIDATION TO INTERESTED PARTIES

Section 1021, subdivision (a), requires the Liquidator to notify interested parties of an insurance company's liquidation:

Upon the making of an order to liquidate the business of such person, the commissioner shall publish notice to its policyholders, creditors, shareholders, and all other persons interested in its assets. The order and the notice shall require claimants to file their claims with the commissioner, together with proper proofs thereof, within six months to one year, at the commissioner's discretion, after the date of first publication of such notice, in the manner specified in this article.

After the Court entered its Liquidation Order, the Liquidator (working through the retained Western General employees and CLO staff) promptly notified all interested parties of the fact that Western General had been placed into statutory liquidation. This notice was given to, among others, all employees, officers, the board of directors, corporate counsel, producers, policyholders, vendors, banks, certificate holders, and other parties and individuals that the Liquidator believed had an interest in or relationship with Western General. A copy of the Notice of Liquidation sent is attached hereto as Exhibit A. Although this notice expressly references policyholders, it was sent to all interested parties. A total of approximately 22,115 notices were mailed via the United States first class postal service or sent via email upon request.

As set forth in sections 1021 and 1022, the Liquidator also published notice of the liquidation in newspapers of general circulation in geographic areas where Western General operated: (i) the Los Angeles Times, (ii) USA Today, and (iii) the San Francisco Chronicle. The notices ran in all three publications on November 10, 2021. In addition to providing adequate information to assert their rights in this proceeding, the notices of liquidation set forth above inform the parties in interest that they may review materials related to the Western General liquidation on the CLO website at <http://www.caclo.org/WGIC>. The Liquidation Order, this Status Report, and other relevant documents from this case are available on the CLO website.

II. CANCELLATION OF POLICIES AND TRANSITION OF CLAIMS TO THE GUARANTY ASSOCIATIONS.

The entry of the Liquidation Order on August 5, 2021, which included an express finding of insolvency, triggered the various state insurance guaranty associations (IGAs) statutory obligation to handle and pay Western General claims. During the brief conservation of Western General and prior to entry of the Liquidation Order in early August 2021, the CLO and certain IGA personnel, working closely with retained Western General management, were allowed immediate access to various Western General employees, systems, records and facilities to expeditiously start the critical process of preparing and transitioning all claims related data and policy information, as well as the entire claims handling process, to the IGAs. Insolvent insurance entities like Western General, whose open claims (at the entry of the Liquidation Order) are covered by state guaranty association statutes and coverage, must convert their policyholder and claims information to a uniform national standard. Western General was operating two policy administration systems to manage its overall book of business and both systems' claims data had to be converted to the uniform data standard before being released to the participating IGAs. Upon receipt of the claims records, the IGAs often need assistance to properly receive, set-up and handle the remaining open claims of Western General.

Approximately 80% of Western General's book of business and open claims were located in California and were transferred and handled by the California Insurance Guarantee Association (CIGA). Given the amount of Western General's business written in California and the amount

1 of open claims in California, CIGA took a lead administrative role to assist and support the other
2 participating IGAs through a working taskforce made up of all participating states. In the months
3 following the entry of the Liquidation Order, Western General's systems personnel released
4 batches of open claims records to the CLO who in turn prepared the files for release to the
5 working taskforce and participating IGAs. As of year-end 2021 a total of 7,424 open claims have
6 been transferred to the IGAs affected by the Western General liquidation.

7 Concurrently with the entry of the Liquidation Order, and as part of the notice of liquidation
8 described above, the Liquidator (through the CLO and the retained Western General employees)
9 advised all policyholders that their coverage will be terminated in accordance with the California
10 insolvency statutes on September 4, 2021 unless terminated prior to that date by the policyholder.
11 A copy of the Liquidation Notice containing the express cancellation language sent to
12 policyholders is attached hereto as Exhibit A.

13 To further assist in the orderly and timely transition of all of Western General's in-force
14 insurance business to other insurance carriers, the retained Western General employees, at the
15 direction of the CLO, proactively supported and encouraged policyholders and their agents and
16 brokers to immediately place their Western General clients with new well-capitalized insurance
17 providers. Those in-force policy transition activities continued throughout the early phase of the
18 liquidation. By September 4, 2021 essentially all of Western General's in-force insurance
19 business had either expired by legal notice or had been cancelled and transitioned to new, solvent
20 insurance companies.

21 The cancellation and/or transition of Western General's in-force business left pending
22 claims to administer. Upon the Court's entry of its Liquidation Order finding that Western
23 General is insolvent, the various state based IGAs and CIGA are obligated to pay the "covered
24 claims" of Western General's policyholders and "pay for or furnish loss adjustment services and
25 defenses of claimants when required by policy provisions." (See §§ 1063.1, subd. (c) & 1063.2.)
26 Since the time that the Commissioner initiated this case, the CLO has worked diligently to ensure
27 a timely and complete transfer of the claims data and claims handling process to the IGAs and
28

1 CIGA. The Liquidator has essentially completed the transition of all open Western General
2 claims to the IGAs and CIGA for handling.

3 Through December 31, 2021, CIGA has incurred paid losses, loss adjustment expenses, and
4 return premiums totaling \$2,973,407 for Western General related claims. During the first
5 approximately 5 months of liquidation CIGA has also incurred \$1,926,990 in administrative
6 expenses to commence and implement the in-take of Western General's open and guaranty-
7 covered claims. In addition to the losses and loss adjustment expenses paid by CIGA three other
8 participating guaranty associations representing Arizona (\$48,309), Nevada (\$51,545) and
9 Colorado (\$74,077) together reported an additional \$173,931 in paid losses and loss adjustment
10 expenses for open Western General claims transferred to them.

11 Looking ahead, CIGA, having the largest portion of claims to absorb from Western
12 General, estimates an additional loss and loss adjustment reserve of \$19,032,123 which includes
13 those losses and loss adjustment expenses still remaining to be paid. The Liquidator anticipates
14 receiving detailed reporting from the other participating IGAs in early 2022.

15 Upon CIGA's satisfaction of its obligations pursuant to section 1063.2 to pay covered
16 claims and furnish loss adjustment expenses related to Western General's policy claims, CIGA, as
17 well as the balance of IGAs participating in the Western General insolvency, have a statutory
18 right to seek recovery from the Western General estate for the payments made by them on behalf
19 of Western General. Pursuant to section 1033, an IGA's payment and discharge of covered
20 claims and the payment of, or furnishing, loss adjustment services, is a Class 2 priority claimant
21 to the residual assets of the Western General estate, second only to the payment of the
22 Liquidator's expense of administration. (§ 1033, subd. (a)(2).)

23 **III. CHANGE OF OPERATIONAL CONTROL AND TRANSITION OF ASSETS**

24 Upon entry of the Liquidation Order, the Liquidator, through the CLO, took immediate
25 control over all active bank and investment accounts of Western General. The Liquidator has full
26 authority over Western General's bank accounts with Wells Fargo Bank, Citibank, and USBank.
27 As of December 31, 2021, the estate held the following cash balances or securities:

28 Operating: \$ 6,397,785

1 Claims Account: \$ 452,430
2 Other Money Market Accounts: \$ 168,465
3 Investments/Treasury Account: \$ 2,670,637
4 Total Cash and Investments: \$ 9,689,317

5 In addition to cash and investments held in the accounts above, Western General also had
6 \$6,622,627 in cash and securities pledged as collateral in the form of protective/statutory deposits
7 held under the authority of various Departments of Insurance in the states Western General wrote
8 policies. Release of protective/statutory deposits typically requires the Liquidator to comply with
9 a number of regulatory requirements of the respective departments of insurance that seek formal
10 assurances all known claims and policy exposure are essentially resolved. As such the recovery
11 process for the statutory deposits will require additional time to fulfill the required assurances and
12 the state requirements to complete the collection process.

13 Finally, Western General has \$7,532,727 in bonds and cash on deposit in an investment
14 trust account pledged as collateral in support of its obligations arising under an assumed
15 reinsurance contract. See the Reinsurance Section below for further explanation.

16 Other than the statutory deposits and pledged collateral discussed above all known Western
17 General estate cash and held investments have been identified and secured and are now under the
18 authority of the Liquidator.

19 **IV. PROOF OF CLAIM MAILING**

20 The Liquidation Order provides that “[t]he rights and liabilities of claimants, policyholders,
21 shareholders, and all other persons interested in the assets of [Western General] . . . are fixed as of
22 the date of entry of this Order.” (Liquidation Order ¶ 21; see § 1019.) It also provides that any
23 party with rights against Western General may assert those rights only through a proof of claim:

24 Any and all claims against [Western General] (except those policyholder
25 claims that are already pending against [Western General], which are deemed
26 filed) including those claims which in any way affect or seek to affect any of the
27 assets of [Western General], wherever or however such assets may be owned or
28 held, must be filed no later than February 28, 2022 (the “Claims Bar Date”),
together with proper proof thereof, in accordance with the provisions of insurance
Code sections 1010 et seq., including without limitation Insurance Code section
1023 As provided for by Insurance Code section 1024, any claims not filed

1 by the Claims Bar Date shall be conclusively deemed forever waived and no
2 action may be maintained thereon.

3 (Liquidation Order, ¶ 30.)

4 Section 1023 dictates the form and content of a proof of claim (POC) against the
5 Western General estate:

6 A claim must set forth, under oath, on the form prescribed by the commissioner:

7 (a) The particulars thereof, and the consideration therefor.

8 (b) Whether said claim is secured or unsecured, and, if secured, the
9 nature and amount of such security.

10 (c) The payments, if any, made thereon.

11 (d) That the sum claimed is justly owing from such person to the
12 claimant.

13 (e) That there is no offset to the claim.

14 (f) Such other data or supporting documents as the commissioner
15 requires.

16 The Liquidator has mailed via First Class Mail the proof of claim form attached
17 hereto as Exhibit B to all interested parties that received the Notice of Liquidation,
18 including all known policyholders for the 24 month period immediately preceding the
19 liquidation date of August 5, 2021. A total of 222,966 POC forms were mailed on or
20 before August 30, 2021. Additional POCs were issued upon request up to the claims bar
21 date of February 28, 2021.

22 **V. CALCULATION AND PAYMENT OF UNEARNED PREMIUM**

23 Following the cancellation of all Western General's in-force policies, the IGAs and CIGA
24 were required to pay any unearned premium³ to Western General's policyholders. (See § 1063.1,
25 subd. (c)(1) [defining "covered claim" to include unearned premium obligations].) To assist the
26 IGAs and CIGA, the Liquidator through the CLO and certain retained Western General
27 employees, calculated all unearned premium due Western General policyholders and provided
28 those calculations to the IGAs and CIGA. As of December 31, 2021 CIGA had paid a total of
\$1,012,122 in unearned premium to Western General policyholders. As of the date of this report

³ Section 1063.1, subdivision (j) defines "Unearned premium" as "that portion of premium as calculated by the liquidator that had not been earned because of the cancellation of the insolvent insurer's policy and is that premium remaining for the unexpired term of the insolvent insurer's policy."

1 the Liquidator had not received year-end reporting of the amounts paid for unearned premium
2 from the other participating IGAs. The amounts reported to date represent approximately 60% of
3 the unearned premium due Western General policyholders.

4 **DECEMBER 31, 2021 FINANCIAL STATEMENT**

5 The accompanying unaudited balance sheet attached as Exhibit C represent the Liquidator's
6 best estimate of the assets, liabilities and net loss of Western General as of and for the year ended
7 December 31, 2021. Account balances continue to be investigated and will be updated as
8 necessary in future financial statements. Where possible the Liquidator has utilized accounting
9 practices prescribed by the California Department of Insurance. Preparation of the statements
10 requires the use of estimates and assumptions as outlined in the financial disclaimer and
11 footnotes. Actual results could differ from these estimates. As of December 31, 2021, liabilities
12 exceeded assets resulting in a policyholder surplus deficit of \$587,000.

13 **I. ASSETS**

14 Western General has bonds and cash totaling \$23.9 million. Approximately \$9.7 million is
15 unrestricted with the balance on deposit with various state insurance departments or pledged in
16 support of assumed reinsurance liabilities. The fair value of the bond portfolio was
17 approximately \$480,000 in excess of the reported amount. The reported uncollected premium
18 consists of approximately \$1.2 million owed to Western General by General Agents. The \$2.1
19 million profit commission due from reinsurer is explained in the Reinsurance section.

20 **II. LIABILITIES**

21 Losses and loss adjustment expenses (LAE) outstanding represent the estimated reserves,
22 including claim exposure that has been incurred but not reported (IBNR), for policyholder claim
23 obligations less estimated amounts recoverable from reinsurers. These amounts were recorded
24 based on the latest available estimates. The largest expense accrual is for IRS assessed penalties
25 arising out of 1099 reporting deficiencies arising prior to 2021 totaling \$547,000. Additionally,
26 \$525,000 is accrued for CLO expenses incurred in November and December 2021 but not paid
27 until January 2022. The debit amount of taxes, licenses and fees primarily represents estimated
28 refunds for overpayments of California premium taxes.

III. EXPENSE OF OPERATIONS

After entry of the Conservation Order on May 26, 2021, Western General has incurred ongoing estate operating expenses through December 31, 2021 in the total amount of \$4,404,885. The estate's expenses fall into two broad categories; 1) \$585,062 paid to the CLO for their allocated administrative fees plus \$184,860 in direct estate expenses for the benefit of Western General paid by the CLO; and 2) \$3,634,962 in direct estate expenses paid by Western General during the Reporting Period. The Liquidator is currently preparing an application seeking court approval of the fees and disclosure of the expenses incurred during the initial phase of the Western General conservation/liquidation proceeding pursuant to section 1035 and 1036, as well as seek the court's approval of Western General's short-term lease described in more detail below pursuant to section 1037, subdivision (d). The Western General estate expects to file fee applications, on an annual basis, with status filings advising the court of our ongoing progress to closure.

IV. REINSURANCE PROGRAM

As part of Western General's operations, it entered into agreements with third-party insurers whereby certain risks were ceded to these insurers in order to limit Western General's exposure to risk of losses from the policies it had issued by having the third-party insurers indemnify Western General for a proportional share of policy limits and related claims adjustment expenses. These agreements are commonly referred to as "quota share" reinsurance contracts and the third-party insurers accepting a proportional share of the risk are commonly called reinsurers. Historically, Western General had quota share contracts (often referred to as treaties) in place to limit Western General's exposure to losses on its personal auto policies. From mid-2016 until operations ceased in 2021, Western General was generally ceding 80% of the risks on most of its programs so essentially 80% of all claim amounts paid by the IGAs may be recoverable from reinsurers.

The largest recoverable amount will be owed by Partner Re. In 2019 and 2020, and running off into 2021, Partner Re reinsured 80% (94% for a brief two-month period) of Western General's

1 primary personal auto business. A provision in the Partner Re treaties obligates Partner Re to pay
2 Western General a “Profit Commission” if ultimate ceded losses are below a certain level.

3 Significant amounts will also be recoverable from Maiden Re (now known as Fletcher
4 Re/Enstar) for quota share contracts in force from 2014 through 2018. Amounts owed by Maiden
5 Re are secured by a trust fund valued at \$4.8 million.

6 In addition to ceding reinsurance to limit its exposure to losses, Western General utilized an
7 assumed reinsurance contract to access certain auto insurance markets in Texas through a
8 “fronting arrangement”. Commencing in 2011, Home State, a Texas domestic insurer, issued
9 policies in Texas and Western General assumed 100% of the risks for 100% of the premium less a
10 3.75% “Front Fee.” In July 2021, Home State engaged a general agent to manage policy
11 administration and claims management effective October 31, 2021, after Western General
12 terminated the 100% quota share reinsurance agreement. Home State directly issued the policies
13 so there is no guaranty association involvement with claim management. As of December 31,
14 2021, Western General is carrying approximately \$7 million in loss reserves and \$500,000 in
15 unearned premium reserves under the terms of the reinsurance agreement. As previously noted,
16 Home State is the beneficiary to an investment trust established by Western General to secure its
17 obligations.

18 Western General also acted as a “Front Company” for a limited number of programs. For
19 these programs Western General issued the policy and generally ceded 100% of the risks to
20 various reinsurers. The amounts due from such reinsurers are secured, largely by letters of credit
21 naming Western General as the beneficiary. Since conservation commenced Western General has
22 recovered approximately \$4.5 million from the reinsurers.

23 Finally, the Liquidator will continue to process the reinsurance billings and collections
24 based upon the loss activity reported by CIGA and the IGAs. As the business is run-off into 2022
25 and further the Liquidator may give consideration to settling the reinsurance contracts for the net
26 present value of the treaty coverage. Such settlements of reinsurance contracts are commonly
27 referred to as “commutations”, and to the extent the Liquidator seeks to commute a treaty he will
28 seek court approval in accordance with section 1037, subdivision (d).

REMAINING ACTIVITIES OF THE LIQUIDATOR

The Liquidator continues to actively work to reduce the operational footprint of the Western General insolvency estate as well as transition the remaining long-term run off activities and liquidation requirements into the CLO offices in San Francisco. For the immediate future, the Western General estate has negotiated a new 22 month lease for 10,000 square feet of space reducing the estate's leasehold footprint by approximately 25,000 square feet and reducing the monthly rent obligation by more than \$75,000. In addition, the estate has procured a credit worthy subtenant to sublease approximately 4,200 square feet of the new space further reducing Western General's monthly overhead expense by \$10,000. As previously noted, all long-term runoff activities and remaining liquidation work will be ultimately transferred to the CLO's San Francisco office in the early 2023 timeframe.

The Liquidator will continue to monitor claim development for potential reinsurance recoveries from Western General's remaining reinsurance. Any future reinsurance recoveries may be subject to subsequently determined commission charges asserted by the reinsurer thereby potentially reducing the actual amounts collected by the liquidation estate.

In addition to future reinsurance billings, the Liquidator will seek recovery of all statutory deposits still held by states, as well as pursue collection of all subrogation amounts due under the Western General policies as well as any uncollected premium from both producers and policyholders directly. In addition to the transition and collection activities described above, a key objective over the next twelve months will be the determination of all valid proofs of claim asserted against the estate.

Finally, Western General as a participant in the Western General Holdings consolidated tax group will prepare its 2021 pro forma tax return in accordance with the group's tax sharing agreement and will provide the return to be included in the group's consolidated tax filing.

CONCLUSION

Consistent with his obligations and authority set forth in under the Liquidation Order, the Liquidator is conducting a diligent and efficient liquidation of Western General. Thus, the

1 Liquidator respectfully requests that the Court discharge its Order to Show Cause re: Dismissal
2 and continue its oversight of Western General's liquidation.

3
4 Dated: March 17, 2022

Respectfully submitted,

5 ROB BONTA
6 Attorney General of California
7 LISA W. CHAO
8 Supervising Deputy Attorney General

9 

10 DOUGLAS J. BETETA
11 Deputy Attorney General
12 *Attorneys for Insurance Commissioner of the*
13 *State of California, in his capacity as the*
14 *Liquidator of Western General Insurance*
15 *Company*

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EXHIBIT A



WESTERN GENERAL INSURANCE CO.
5230 LAS VIRGENES ROAD
CALABASAS, CALIFORNIA 91302

AVISO DE CANCELACION

Enviado a:

Número de Póliza

Fecha de envío

08/09/2021

Fecha de Cancelación

09/04/2021

12:01 am

Asegurado

Productor

AVISO DE CANCELACION - SU POLIZA SE CANCELA A PARTIR DE LAS 12:01 A.M. 09/04/2021

A: Todos los Titulares de Pólizas de Western General Insurance Company

Se da aviso que el 08/05/2021, la Corte Superior de la Ciudad y el Condado de Los Angeles emitió una Orden para Nombrar Liquidador, en el caso titulado Comisionado de Seguros del Estado de California contra Western General Insurance Company, Caso No. 21STCP01655 ("Orden de Liquidación"). La fecha de vigencia de la orden de liquidación es el 08/05/2021. De conformidad con la Orden de Liquidación, el Comisionado de Seguros de California ha sido designado como Liquidador estatutario de Western General Insurance Company ("Western General"). La Orden de Liquidación autoriza y faculta al Comisionado, a través de su Oficina de Conservación y Liquidación, para liquidar Western General y sus activos en beneficio de los asegurados, reclamantes, acreedores y accionistas de Western General, según lo dispuesto en las Secciones 1010 a 1062 del Código de Seguros de el Estado de California. Se descubrió que Western General era insolvente por ley. Este hallazgo de insolvencia hace que la California Insurance Guarantee Association ("CIGA") comience a pagar los reclamos cubiertos a los reclamantes de Western General hasta los límites legales.

De conformidad con la Orden de liquidación, las pólizas de seguro de Western General deben cancelarse efectivo en 30 días a partir de la fecha de liquidación o el 09/04/2021, a menos que su póliza finalice antes de esta fecha. De acuerdo con el Código de Seguro Sección 1063.1 (c) (1) CIGA es legalmente responsable de pagar la prima no devengada que se adeuda a los asegurados por la cobertura que se extiende más allá de la fecha de cancelación. Se recomienda a los asegurados que trabajen con su corredor de seguros para reemplazar su cobertura de seguro Western General de inmediato.



WESTERN GENERAL INSURANCE CO.
5230 LAS VIRGENES ROAD
CALABASAS, CALIFORNIA 91302

NOTICE OF CANCELLATION

MAILED TO:

Policy Number

Date Mailed

08/09/2021

Cancellation Date

09/04/2021

At 12:01 am

Insured	Producer

NOTICE OF CANCELLATION - YOUR POLICY IS CANCELLED AS OF 12:01 A.M. 09/04/2021

To: All Western General Insurance Company Policyholders:

NOTICE IS HEREBY GIVEN that on 08/05/2021, the Superior Court of the City and County of Los Angeles, California entered an Order Appointing Liquidator, in the case entitled *Insurance Commissioner of the State of California v. Western General Insurance Company*, Case No. 21STCP01655 ("Liquidation Order"). The effective date of the liquidation order is 08/05/2021. Pursuant to the Liquidation Order, the California Insurance Commissioner has been appointed as the statutory Liquidator of Western General Insurance Company ("Western General"). The Liquidation Order authorizes and empowers the Commissioner, through his Conservation & Liquidation Office, to liquidate Western General and its assets for the benefit of Western General's policyholders, claimants, creditors, and shareholder, as provided in Sections 1010 through 1062 of the Insurance Code of the State of California. Western General was found to be statutorily insolvent. This finding of insolvency triggers the California Insurance Guarantee Association ("CIGA") to begin paying covered claims to Western General's claimants up to statutory limits.

Pursuant to the Liquidation Order, Western General's insurance policies are required to be cancelled effective 30 days from the date of the liquidation or 09/04/2021, unless your policy terminates prior to this date. In accordance with Ins. Code Section 1063.1(c)(1) CIGA is statutorily responsible to pay the unearned premium that is due to insureds for coverage that extends beyond the cancellation date. Insureds are encouraged to work with your insurance broker to replace your Western General insurance coverage immediately.

EXHIBIT B

WESTERN GENERAL INSURANCE COMPANY

In Liquidation (the "Company")
 PO Box 26894
 San Francisco, CA 94126-6894

PROOF OF CLAIM

Superior Court of the State of California
 City and County of Los Angeles
 Case No. 21STCP01655

PLEASE READ ALL INSTRUCTIONS ON THE BACK OF THIS FORM CAREFULLY BEFORE COMPLETING FORM

DEADLINE FOR FILING PROOF OF CLAIM IS February 28, 2022

Proof of Claim Number: XXXXXX

Part 1 Person or Entity Making Claim (Claimant)

XXXXXXXXXXXXXXXXXXXXX
 XXXXXXXXXXXXXXXXXXXXX
 XXXXXXXXXXXX, XX XXXXX

Claimant Telephone

Claimant E-Mail

SSN or Federal Tax ID No.

Are you represented by an attorney? Yes or No, circle one

If yes, state your attorney's name, address and telephone number _____

Part 2 Claim Information

Type of Claim	Amount of Claim	
Policy related	\$ _____	General
Creditor	\$ _____	Other
\$ _____		

Describe your claim: _____

Attach all supporting documentation to this form.

- a. Have you received any payments on the claim for which you are filing this Proof of Claim from any source? ____ If yes, specify the total amount received \$ _____ and identify all sources: _____
- b. Is this a secured claim? If yes, identify all security for this claim: _____
- c. Is this claim the subject of legal action? ____ If yes, list court and case number: _____
 List all parties and their attorneys: _____
- d. Is this claim contingent or unliquidated? If yes, explain: _____

The undersigned subscribes and affirms as true under the penalties of perjury as follows: that he or she has read the foregoing Proof of Claim and knows the contents thereof; that this claim against the Company is justly owing to the Claimant; that the matters set forth and in any accompanying statements and supporting documents are true and correct; that no payment of or on account of the aforesaid claim has been received except as above stated; and that there are no set offs or counterclaims thereto except as above stated.

Claimant Signature _____ Date Signed _____

Print Name _____ Title or Official Capacity (if any) _____

Return your completed form to:

Western General Insurance Company in Liquidation
 Proof of Claim
 Conservation and Liquidation Office
 P O Box 26894
 San Francisco, CA 94126-6894

For a copy of this proof of claim form in Spanish, go to www.caclo.org. Look in the Companies' section for Western General Insurance Company.

Proof of Claim Instructions



1. The Proof of Claim must be typed or legibly printed in ink.
2. The Proof of Claim must have all items completed and questions answered. If an item is not applicable, please write "N/A" in that section. Your Proof of Claim will be returned to you if any items are left blank. Please review the entire form for completion prior to mailing.
3. If you need additional space to fully answer any question, please do so on a separate sheet of paper and attach to your Proof of Claim.
4. You must attach to the Proof of Claim documents or evidence supporting your claim. FAILURE TO PROVIDE SUFFICIENT DOCUMENTS OR EVIDENCE SUPPORTING YOUR CLAIM MAY BE GROUNDS FOR DENIAL.
5. You have an ongoing duty to supplement your Proof of Claim with supporting documentation as additional information is received. This requirement includes notice of any change of address.
6. The Proof of Claim must be signed by the Claimant who is named in Part 1, or by a representative of the Claimant who has knowledge of the matters set forth in the Proof of Claim and in any accompanying statement and supporting documents.
7. All Proofs of Claim must be postmarked no later than **February 28, 2022**. The Liquidator is not responsible for undelivered mail.
8. The Liquidator suggests you keep a copy of the completed Proof of Claim for your records.
9. Please use your Proof of claim number on any communication with our office.

General Information

After sufficient claims have been approved or rejected, the Liquidator will seek Court approval to begin making distributions to the approved claimants from the available assets of the Company.

If you have any questions about the Proof of Claim procedure, you may call (415) 676-2125 or e-mail to: WGICPOC@caclo.org

Please go to our website: www.caclo.org to review the Frequently Asked Questions and the Official Legal Notice of Liquidation.

Please visit our website at www.caclo.org for additional information. Look in the Companies section for Western General Insurance Company.

EXHIBIT C

WESTERN GENERAL INSURANCE COMPANY
UNAUDITED
BALANCE SHEET
DECEMBER 31, 2021 and 2020

	2021	2020
ASSETS		
Bonds	12,816,959 (4)	17,045,151
Cash including Short Term Investments of \$584,355 and cash equivalents of \$1,017,279	11,106,866 (4)	6,004,140
Accrued Investment Income	79,379	126,579
Uncollected Premiums	1,221,857 (3)	24,217,485
Amounts Recoverable from Reinsurers on Paid Losses and LAE	(1,275,601) (2)	8,198,557
Profit Commission Due from Reinsurer	2,100,466	1,573,521
Due From Affiliate	0	1,596,784
Other Assets	<u>5,759</u>	<u>124,187</u>
TOTAL ASSETS	<u>26,055,685</u>	<u>58,886,404</u>
LIABILITIES AND POLICYHOLDERS SURPLUS		
Losses Outstanding	17,255,383 (2)	12,288,841
Reinsurance Payable On Paid Losses and LAE	912,254	968,673
Loss Adjustment Expenses Outstanding	3,962,910 (2)	3,549,271
Return Premiums Payable	1,402,179	0
Commissions Payable	495,583	453,812
Other Expenses	1,284,875	922,870
Taxes, Licenses and Fees	(311,215)	168,972
Unearned Premiums (net of \$541,769 ceded)	574,868	8,717,839
Ceded Reinsurance Premiums Payable	944,802 (1)	23,176,957
Other Liabilities	<u>120,740</u>	<u>898,080</u>
TOTAL LIABILITIES	26,642,379	51,145,314
TOTAL POLICYHOLDERS SURPLUS	<u>(586,694)</u>	<u>7,741,089</u>
TOTAL LIABILITIES and POLICYHOLDERS SURPLUS	<u>26,055,685</u>	<u>58,886,404</u>

See Footnotes & Disclaimer

WESTERN GENERAL INSURANCE COMPANY

UNAUDITED

FOOTNOTES

DECEMBER 31, 2021

- (1) This includes \$335,847 for interest due to Partner Re calculated using simple interest @ 10%
- (2) The Guaranty Associations typically report paid losses 60 days, or more, after the end of a quarter. The footnoted balances are subject to change pending analysis of the fourth quarter ending December 31, 2021 reports of losses paid and outstanding handled by the Guaranty Associations.

The credit amount reported for amounts recoverable from reinsurers is primarily attributable to the receipt of cash payments from reinsurers since August for loss and LAE payments issued through June 30, 2021 and subsequently voided and reversed in July 2021. The related recoverable amounts were reversed and recorded as ceded loss and LAE reserves and are included as a reduction in net loss and LAE recoverable amounts were reversed and recorded as ceded loss and LAE reserves and are included as a reduction in net loss and LAE outstanding. The various Guaranty Associations have begun reissuing claim checks and processing loss and LAE payments which will result in reinstating reinsurance recoveries and ultimately eliminating the credit balance.

- (3) Balance and ultimate collectability is subject to reconciliation of reported and uncollected premiums with various General Agents.
- (4) As of December 31, 2021, bonds and cash totaling approximately \$6.6 million was on deposit with various states and \$7.5 million was held in trust for the benefit of the ceding company under terms of an assumed reinsurance

General Disclaimer:

The preparation of the foregoing financial statement requires the use of management estimates, most significantly the estimate for Incurred But Not Reported (IBNR) losses. Estimation of IBNR requires the availability of up-to-date reported and paid claim data. Additionally, there are specific data formatting requirements needed to bill reinsurers for their share of actual paid losses and an estimate for ceded reserves (including IBNR). No claim payments or reserves have been processed by Western General since June 30, 2021. Insurance Guaranty Funds began processing claims in the fourth quarter of 2021 and reporting summary data to Western General in February 2022. However, the data needs to be sorted and formatted for actuarial analysis to estimate reserves and for reinsurance billing purposes.

Programming for data reformatting is in process and should be completed by the end of March. During April, an actuary has been tentatively engaged to evaluate reserves (including IBNR) and the accounting staff will calculate amounts due from reinsurers. The reserve and reinsurance amounts included in the following financial statements are largely based on data last reviewed in detail in early-2021. Actual amounts could significantly differ from these estimates. These estimates will be updated once more actuarial analysis has been performed. This disclaimer and the footnotes above apply only to the Balance Sheet at December 31, 2021.

DECLARATION OF SERVICE BY E-MAIL

Case Name: **Insurance Commissioner of the State of California v. Western General Insurance Company**
Superior Court of CA, County of Los Angeles, Case No.: 21STCP01655

I hereby certify that on March 17, 2022, I electronically filed the following documents with the Clerk of the Court by using the Court's electronic filing system (EFS) operated by One Legal: **INSURANCE COMMISSIONER'S STATUS REPORT ON THE LIQUIDATION OF WESTERN GENERAL INSURANCE COMPANY AND RESPONSE TO ORDER TO SHOW CAUSE RE: DISMISSAL**

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.

On March 17, 2022, I served the attached **INSURANCE COMMISSIONER'S STATUS REPORT ON THE LIQUIDATION OF WESTERN GENERAL INSURANCE COMPANY AND RESPONSE TO ORDER TO SHOW CAUSE RE: DISMISSAL** by transmitting a true copy via One Legal electronic mail, addressed as follows:

John E. McPherson, Esq.
Hinshaw & Culbertson LLP
350 South Grand Ave., Suite 3600
Los Angeles, CA 90071-3476

E-mail: jmcperson@hinshawlaw.com

Attorneys for Western General Insurance Company

I declare under penalty of perjury under the laws of the State of California and the United States of America the foregoing is true and correct and that this declaration was executed on March 17, 2022, at Los Angeles, California.

Norma L. Herrera-Gilbody
Declarant

Norma L. Herrera-Gilbody
Signature