



Steve Poizner, Insurance Commissioner
California Department of Insurance

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NEWS RELEASE

CALIFORNIA INSURANCE COMMISSIONER STEVE POIZNER ANNOUNCES \$443.5 MILLION ARBITRATION AWARD

Award Will Help Pay Claims by Injured Workers

SACRAMENTO - California Insurance Commissioner Steve Poizner today announced the Department's Conservation and Liquidation Office (CLO) has won an arbitration award of \$443,515,724 in favor of the five Superior National Insurance Companies in Liquidation. The arbitration award is against United States Life Insurance Company, a subsidiary of AIG, and subject to court review.

Commissioner Poizner said he is pleased that the panel of arbitrators made the award, which must be approved by the courts. "These funds will go toward paying the claims of injured workers insured by the insolvent Superior National companies," said Poizner. "In the future, it will also benefit all California employers, who will pay less in premium surcharges."

The arbitration arose from a dispute of a 1998 reinsurance contract between US Life and the five Superior National companies: Superior National Insurance Company, Superior Pacific Casualty Company, California Compensation Insurance Company, Commercial Compensation Insurance Company, and Combined Benefits Insurance Company.

The workers' compensation business written by the Superior National companies, including the business covered by the US Life contract, suffered significant losses, triggering the insolvency of the Superior National companies. In March 2000, the previous Insurance Commissioner seized the companies and placed them in conservation. In September 2000, he obtained a court order to liquidate the five Superior National companies.

In 1999, prior to seizure of the Superior National companies, US Life had initiated arbitration proceedings to seek rescission of the reinsurance contract, alleging misrepresentation and nondisclosure. After 50 days of evidentiary hearing, the arbitration panel denied rescission in a Final Interim Award rendered on December 30, 2004 but reformed the contract, ordering a 10% reduction in the Superior National companies' US Life reinsurance coverage.

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The arbitration panel also ordered US Life to pay the Superior National companies for all of the losses it ceded to US Life, together with interest. The arbitration panel's 2004 award was upheld by the federal district court and by the U.S. Court of Appeals for the Ninth Circuit. The Panel of Arbitrators then convened a second phase of the arbitration to decide how much US Life should be required to pay to the Superior National companies.

Despite having lost its claim for rescission, US Life refused to make even a partial payment, and took the position that it would not make any payment until conclusion of the second phase. The second phase resulted in the Final Arbitration Award ordering US Life to pay the Superior National companies \$443,515,724. The award requires US Life to pay all amounts with interest, and orders US Life to disgorge all excess investment income earned on monies US Life owes but refuses to pay to the Superior National companies. US Life must also pay interest at the daily rate of \$81,242 on the unpaid balance, compounded yearly, beginning January 1, 2007.

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