

**CONFORMED COPY**

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OF ORIGINAL FILED**  
Los Angeles Superior Court

MAY 11 2012

John A. Clarke, Executive Officer/Clerk

By Javier Lopez, Deputy  
JAVIER LOPEZ

SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF LOS ANGELES

CENTRAL CIVIL WEST

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

Applicant,

v.

**FREMONT INDEMNITY COMPANY,**

Respondent.

CASE NO. BS083582

**LIQUIDATOR'S EIGHTH ANNUAL  
STATUS CONFERENCE REPORT  
FOR YEAR ENDING DECEMBER 31,  
2011**

Date: June 11, 2012  
Time: 10:00 a.m.  
Dept: 307 - Central Civil West  
Judge: Hon. William Highberger

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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 Eighth  
3 Annual Status Conference Report for the period January 1, 2011 through December 31, 2011  
4 ("2011 Annual Report").

5 I.

6 **INTRODUCTION**

7 The Liquidator through his Conservation and Liquidation Office (the "CLO") continues to  
8 manage the numerous aspects of the liquidation of an insurance company with billions of dollars  
9 of policyholder liability. This report provides a comprehensive update on the current status of the  
10 Fremont liquidation estate.

11 Currently, all of the Liquidator's operations associated with Fremont's liquidation,  
12 including accounting, cash and investments management, claims administration, human  
13 resources, and reinsurance are overseen by the CLO. As of December 31, 2011, Fremont had  
14 approximately \$280 million in balance sheet assets, including cash, investments, statutory  
15 deposits and reinsurance recoverables. Since the last filing of the prior annual report on May 13,  
16 2011, Fremont's balance sheet liabilities have increased by an estimated \$300 million. The  
17 increase in liability is based on new information reported to the Liquidator by the participating  
18 Insurance Guaranty Associations ("IGAs") reflecting increased payments made to Fremont  
19 policyholders and increases in the case reserves for anticipated future loss payments and allocated  
20 loss adjustment expenses. Fremont's liabilities are now estimated at more than \$2.5 billion,  
21 including approximately \$2 billion in Class 2 policyholder liabilities.

22 In 2011, the Liquidator continued to bill and collect reinsurance, administer claims, and  
23 wind down administrative operations. The Liquidator continues to wrap up the remaining affairs  
24 of the estate with the intent to reduce the workload and costs of the estate to maximize remaining  
25 recoveries for claimants. The estate has experienced significant operational challenges in the past  
26 year that will impact the process for billing and collecting reinsurance. Finally, during 2011 the  
27 Fremont Estate successfully completed a seventh early access distribution (approximately \$40  
28 million) to the participating IGAs.

1 This report will provide the court with the progress made on the Fremont estate since the  
2 last report and to obtain any potentially required approvals of estate matters.

3 **II.**

4 **ADMINISTRATION OF LIQUIDATION ESTATE**

5 The Liquidator handles the administrative functions in the following three categories:  
6 (1) Policy Administration (the process of performing and enforcing general contractual rights  
7 under an insurance policy); (2) Claims Administration (the administration and adjustment of  
8 proofs of claim filed against Fremont); and (3) Company Administration (the remaining general  
9 corporate functions that are required to complete the liquidation, including information  
10 technology, human resources, reinsurance collections, and finance and accounting).

11 **A. Policy Administration**

12 **1. Premium Accounting and Direct Collection**

13 The Claims Department continues to monitor the two active collection agencies assigned  
14 to collect unpaid premiums. \$3,367,370 has been collected to date, leaving a remaining open  
15 balance of \$129,938. All collection activity is being pursued on a contingency basis with periodic  
16 monitoring activities being done at the CLO. There are no additional legal fees outside the  
17 contingency. The remaining amounts are unlikely to be collected in significant amounts given the  
18 duration of collection efforts to this point.

19 **B. Claims Administration**

20 **1. Proof of Claims Handling**

21 The Claims Department established 47 new POCs due to Net Worth Subrogation. These  
22 are cases where the IGA works and pays the claims but then collects back from the insured due to  
23 Net Worth Exception laws in various states. The insured is then entitled to an approved POC in  
24 the amount that they reimbursed the IGA. Many of these new POCs remain open either because  
25 claims are still being worked and/or the insured has not fully compensated the IGA.

26 As the result of the Net Worth Subrogation POCs, the number of open POCs has  
27 increased. The Claims Department resolved and closed 27 POCs during 2011. As of  
28 December 31, 2011, there are 318 POCs remaining to be processed and closed, including 209

1 related to reinsurance and 50 related to IGAs. The Liquidator has recognized and reserved these  
2 liabilities on the General Ledger.

### 3 **2. IGA Claims and Distribution**

4 In addition to providing continued support of the IGAs' claims functions, the Liquidator's  
5 primary function is to distribute early access funds to the IGAs pursuant to Insurance Code  
6 section 1035.5.

7 On October 17, 2011, the Court approved a seventh early access distribution in the  
8 amount of approximately \$42,034,236 to various IGAs. The CLO completed the distribution in  
9 the amount of \$39,905,597<sup>1</sup> on November 1, 2011.

10 In addition to the release of \$365 million in statutory deposits, to date the IGAs have  
11 received actual distributions totaling approximately \$900 million, which funds have been used by  
12 the IGAs to pay Fremont's covered Class 2 policyholder claims pursuant to their respective IGA  
13 statutes. A summary of the historical distributions and the statutory deposits released to the IGAs  
14 is attached hereto as Exhibit A.

### 15 **3. Non-IGA Covered Claims and POC Handling**

16 Certain types of Class 2 policyholder liabilities are not protected or not fully covered by  
17 the IGAs, but are nonetheless entitled to ultimately share ratably with all other Class 2 claims.  
18 These non-IGA covered liabilities include workers' compensation claims payable under the  
19 United States Longshore & Harbor Workers Act ("USL&H Claims") and claims that are not  
20 covered or only partially covered by the IGAs based on exclusions and coverage limitations  
21 found in the IGAs' controlling statutes.

#### 22 **a. United States Longshore & Harbor ("USL&H") Workers' Claims**

23 Open claims involving USL&H policies that were not covered by the IGAs were returned  
24 to the policyholder for handling and those claims would then be handled by the policyholder's  
25 third party administrators ("TPA"). As of December 31, 2011, the Liquidator is monitoring and  
26 has established reserves on 5 open Aggregate POCs that involve USL&H policyholders with open

27 <sup>1</sup> The actual distribution amount of \$39,905,597 differs from the approved amount of \$42,034,236 due to the  
28 Liquidator not receiving an executed Agreement for Early Access Distribution of Funds from the Arizona and New  
Mexico IGAs.

1 claims that are not covered by any of the various IGAs. All other POCs involving USL&H  
2 policyholders have been resolved and closed. The Claims Department continues to obtain  
3 periodic monitoring reports from the USL&H policyholders with open POCs since approved  
4 losses and expenses are a Class 2 liability of the estate and are subject to reinsurance billing.

5 **b. IGA "Net Worth" and "Overcap" Claims**

6 As of December 31, 2011, the Liquidator is monitoring and has established reserves on 5  
7 open Aggregate POCs that involve Class 2 policy holders that have potentially non-covered  
8 claims due to IGA caps on the amount of payments on a claim (Overcap claims) or net worth  
9 exclusions which preclude certain high net worth policyholders from eligibility to have their  
10 claims paid by the IGAs (Net Worth Exception claims). Except for those involved with open Net  
11 Worth Subrogation claims being handled by the IGAs, all but three of the other Net Worth  
12 Exception policyholder POCs have been resolved and closed. The Claims Department continues  
13 to obtain periodic monitoring reports from the Class 2 Net Worth Exception policyholders with  
14 open POCs.

15 **4. Subrogation**

16 The Liquidator continues to use the services of Cambridge Integrated Systems ("CIS")  
17 which bills and collects subrogation balances. In January, 2011, there were 5 subrogation files  
18 pending with CIS and an additional 17 being handled by the CLO with a total incurred value of  
19 \$1,080,123. As of December 31, 2011, \$108,423 was collected. Based on the legal uncertainties  
20 regarding recovery, the estate carries an asset on its books of approximately \$356,000. As with  
21 premium collections, subrogation is handled by CIS on a contingency basis. While the estate  
22 encounters an occasional legal charge, such as for filing fees, such charges are a minimal cost to  
23 the estate.

24 **C. Company Administration**

25 **1. Finance – Accounting & Investment Management**

26 The CLO Accounting Department is responsible for all financial aspects of the Fremont  
27 estate and maintains the estate's general ledgers inherited from Fremont at the time of liquidation  
28 in 2003. The staff evaluates and interprets historical ledgers and records of Fremont and its

1 subsidiaries and has converted them to a liquidation basis of accounting. The department also  
2 adjusts and corrects errors in the inherited financial information.

3 In summary, the CLO Accounting Department provides the following services:

- 4 • General Ledger, Financial Statements & Account Reconciliation
- 5 • Cash Management, Investments and Banking Relationships
- 6 • Accounts Payable
- 7 • Receivable accounting related to collections and cash receipts
- 8 • Audit & Compliance
- 9 • Reconciliation to Reinsurance subsidiary system
- 10 • Responding to CIGA requests for check copies.

11 The Accounting Department has a full time financial analyst devoted to Fremont related  
12 matters. In addition to the financial analyst, the estate requires accounting staff support to manage  
13 cash as well as process accounts receivable and accounts payable. One accounting department  
14 manager supervises all of the estate accounting activities as well as internal and external audits.  
15 Fremont's invested assets are managed by third party institutional money managers. The CFO of  
16 the CLO has the responsibility to manage this third party relationship as well as the accounting  
17 department manager.

## 18 2. Reinsurance

### 19 a. Summary

20 Reinsurance remains Fremont's single largest balance sheet asset. Following various  
21 reinsurance commutations and collection efforts that occurred in 2011, prospective gross  
22 reinsurance recoverables, including allowances for uncollectable reinsurance, now total  
23 approximately \$133 million.

24 A number of the merged entities have reinsurance programs with characteristics that are  
25 unique to the individual company. In other situations, Fremont's reinsurance programs cover  
26 multiple Fremont entities. Fremont's predominant line of business was workers' compensation.  
27 Given the "long tail" nature of this class of business, a significant number of Fremont's  
28 reinsurance treaties remain active.



1 Having regard for the "long tail" nature of Fremont's business and the diversity of its  
2 reinsurance arrangements, it is not surprising that the overall quality of reinsurance security is  
3 mixed. Fremont has non-performing reinsurance programs, emanating principally from older  
4 policy years and Fremont's records reflect significant amounts due from insolvent companies.  
5 Fremont's reserve for potentially uncollectible reinsurance at December 31, 2011 is  
6 approximately \$71 million.

7 The Fremont estate faces another significant challenge to recovering the remaining  
8 reinsurance assets. A significant portion of the Fremont's remaining collectable reinsurance was  
9 originally brokered by Guy Carpenter & Company ("Guy Carpenter"). Guy Carpenter also serves  
10 as an intermediary between Fremont and its reinsurers by coordinating billings to reinsurers,  
11 pursuing collections, and assisting informal resolution of reinsurance disputes.

12 Historically, Guy Carpenter was compensated for its brokerage and intermediary services  
13 through the commissions it earned in placing Fremont's reinsurance. Thus, it was economically  
14 motivated and compensated to ensure that its relationship with Fremont was successful and  
15 properly managed in accordance with the governing agency agreements. After Fremont was  
16 placed into liquidation, however, no further reinsurance treaties could be placed and no further  
17 commissions could be earned by Guy Carpenter. The continued intermediary services provided  
18 to Fremont's reinsurance billing and collection are impacted as well. Guy Carpenter placed  
19 Fremont's reinsurance program into a "run-off unit". In recent years, largely due to general  
20 market conditions and the reduction of staff at Guy Carpenter's Seattle office, the services  
21 provided by Guy Carpenter have steadily declined. The CLO reinsurance manager and some of  
22 his staff initially met with senior management at Guy Carpenter to address the diminishing  
23 resources devoted to the run off of the Fremont program. Ultimately, the CLO decided to work  
24 directly with the reinsurers and have the CLO reinsurance staff perform the intermediary services.  
25 Thus, the pending elimination of Guy Carpenter's Seattle office as an intermediary has placed  
26 new responsibilities and processes back onto the Fremont estate and the CLO reinsurance staff. If  
27 the transition goes well, the CLO will gradually replace other Guy Carpenter offices.

28 ///

1                   **b. Reinsurance Recoverables**

2                   A summary of reinsurance recoverables (paid, case, and IBNR (incurred but not reported)  
3                   that will ultimately be due from Fremont's twenty largest reinsurers is attached hereto as Exhibit  
4                   B. Amounts received from reinsurers post-liquidation total \$432.5 million.

5                   **c. Fremont's Retentions**

6                   Fremont's retentions (risk or exposure not reinsured) changed markedly over time  
7                   depending upon the philosophy of its management and upon the pricing and availability of  
8                   reinsurance within the marketplace. The changes in retention are depicted on the scheduled  
9                   hereto attached as Exhibit C.

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

11                  Fremont's reinsurance operations have been handled by the CLO staff in San Francisco  
12                  since the closing of the Los Angeles office in 2009. Two former Fremont reinsurance employees  
13                  have been retained as consultants to the CLO due their extensive historical knowledge of Fremont  
14                  and to ensure a successful run-off of the remaining program.

15                  **e. Reinsurance Processing**

16                  Ceded Contracts: Fremont has its own internally developed computer systems for billing  
17                  and tracking reinsurance recoverables. (A copy of the summary is attached hereto as Exhibit D.)  
18                  The Fremont estate faces both billing/collection as well as commutation obstacles. Due to the  
19                  gradual decline of vital intermediary services provided by Guy Carpenter, the CLO has decided to  
20                  absorb and manage many of the routine intermediary processes necessary to directly bill the  
21                  reinsurers as well as pursue collections directly. As a result, the required changes are being  
22                  implemented to the Fremont estate's in-house systems and reinsurance work flows. It is  
23                  anticipated that the transition to direct billing and collections will be essentially implemented by  
24                  June 2012.

25                  Assumed Contracts: After considering the infrequent activity and the small amount of  
26                  monies billed compared to the costs of continuing to process the Fremont estate's assumed book  
27                  of reinsurance business, the CLO ceased processing these claims as of May 2009. A handful of  
28                  accounts continue to be processed for offset purposes. After two years of efforts to collect

1 foreign reinsurers' balances, largely from the London markets, the Fremont estate has  
2 discontinued the formal contingency (contract) arrangement with RSL London. RSL London has  
3 been encouraged to bring any reasonable commutation proposals that may materialize in the  
4 future as a result of their prior efforts. The CLO staff has taken responsibility to finalize the  
5 London/foreign markets accounts.

6 **f. Reinsurance Disputes**

7 Currently there are no active disputes with reinsurers. The Liquidator will continue to  
8 evaluate and pursue any legal recourse to ensure all contractual services are properly received by  
9 the Fremont estate in accordance with any of its agency relationships, including Guy Carpenter.

10 **g. Reinsurance Collections**

11 The Commissioner collected a total of \$4.5 million from reinsurance billings during 2011.  
12 The CLO reinsurance staff will commence direct billing and collections to approximately 54  
13 reinsurers previously administered by Guy Carpenter. The balance of active reinsurance treaties  
14 will continue to be billed and collected from reinsurers in the normal course of business.

15 **h. Reinsurance Commutations**

16 The Commissioner commuted with Health Facilities Insurance Corporation, LTD on  
17 reinsurance treaties for a net collection (after applying applicable off-sets) totaling \$32,488.  
18 During the past two years, commutation activities have been placed on hold to allow CIGA time  
19 to reassess its claims reserving practices. The estate had suspended its commutation plan and  
20 awaited the impact on reserves from CIGA's internal review. Based upon recent discussions with  
21 CIGA, the commutation process is expected to resume by mid-2012. CIGA represents  
22 approximately 70% of the policy exposure of the estate and as such is the primary source of  
23 claims ceded to the Fremont estate's reinsurers.

24 **3. Information Technology ("I.T.")**

25 The CLO continues to provide I.T. services for Fremont's overall administration. The  
26 CLO currently uses the GOLD (Guardian of Liquidated Data) system for retrieval of historical  
27 policy and claim information required for the continued support of Fremont's run-off. The CLO  
28 is continuing the on-going process of loading into the GOLD System the paid loss information

1 from all of the IGAs processing Fremont claims as they are reported by the IGAs.

2 The CLO continues to contract with Tbase, to provide support and development of the  
3 Reinsurance Billing System. The recent decision to start billing certain reinsurers directly has  
4 created additional system needs and the CLO is working with Tbase to modify the current  
5 systems to assist in the bill preparation process. Additionally, the estate is working to ensure a  
6 proper disaster recovery plan is in place to back up Tbase should that resource become  
7 jeopardized.

8 **D. Annual Financial Statement as of December 31, 2011**

9 Fremont's financial statement for the year ending December 31, 2011 is attached as  
10 Exhibit E.

11 Fremont has total assets of \$280 million consisting primarily of \$106 million in cash and  
12 investments and \$133 million in reinsurance recoverables.

13 Fremont has in excess of \$2 billion in policyholder claims. Accordingly, Fremont's assets  
14 will be sufficient to pay only secured claims, administrative expenses and a portion of the  
15 policyholder claims with no funds available for unsecured creditors.

16 **III.**

17 **LEGAL MATTERS**

18 **A. Administrative Matters Resolved in 2011**

19 On June 6, 2011, the Court approved administrative and professional fees and expenses  
20 incurred by the Fremont estate from January 1, 2010 through December 31, 2010 in the amount  
21 of \$4,043,268.05, including \$365,099.15 for legal fees and expenses pursuant to Section 1036.

22 On October 17, 2011, the Court approved the Liquidator's proposal to disburse  
23 \$42,034,236 of Fremont's assets to the IGAs pursuant to Section 1035.5. On November 1, 2011  
24 and pursuant to the Court's order, the Liquidator completed the actual distribution of \$39,905,597  
25 to the IGAs.

26 **B. Pending Administrative Matters**

27 Concurrently with this report, the Liquidator has filed for court approval his 1)  
28 Application for Approval of Administrative and Professional Fees and Expenses for the period

1 January 1, 2011, through December 31, 2011; and 2) Motion to Approval of Reinsurance  
2 Commutation and Settlement Agreement with Continental Insurance Company. Both the  
3 application and motion are set for hearing on June 11, 2012.

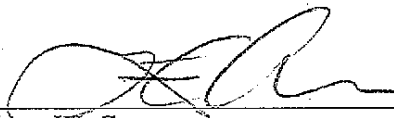
4 IV.

5 CONCLUSION

6 In 2011, the Liquidator focused primarily on administrative matters as all legal disputes  
7 have concluded. As detailed in this report, reinsurance billing and collection and unresolved  
8 claims against the estate will continue to require the Liquidator's active management. The  
9 Liquidator, though his CLO staff, stands ready to address any questions the Court may have  
10 regarding this 2011 Annual Report at the Status Conference on June 11, 2012.

11  
12 Dated: May 11, 2012

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Insurance Commissioner of the State of California,  
as Liquidator of Fremont Indemnity Company

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21 LA2003CV0857  
22 51100807.docx

# **EXHIBIT "A"**

Fremont Indemnity Co.  
Distribution Inception-To-Date  
12/31/2011

State	Stat dep release/Assignment & Assumption								Total
	1st Distribution	2nd Distribution	3rd Distribution	4th Distribution	5th Distribution	6th Distribution	7th Distribution	Distribution Total	
Alabama	137,205.00	20,786.00	35,700.00	68,948.00	9,345.00	25,403.00	85,686.00	383,073.00	383,073.00
Alaska	3,615,351.00	3,260,791.00	5,507,239.00	5,815,791.00	1,837,406.00	-	809,256.00	20,845,834.00	4,872,250.71 25,718,084.71
Arizona	-	-	-	-	-	-	-	-	34,401,689.25 34,401,689.25
Arkansas	397,633.00	178,954.00	448,382.00	295,878.00	63,053.00	-	-	1,383,900.00	714,635.25 2,098,535.25
California	-	13,974,286.00	123,936,280.00	111,000,890.00	38,385,866.00	47,825,829.00	29,234,335.00	364,357,486.00	276,475,887.96 640,833,373.96
Colorado	1,999,577.00	915,447.00	1,447,852.00	1,054,969.00	307,287.00	514,366.00	1,846,124.00	8,085,622.00	- 8,085,622.00
Connecticut	-	-	-	233,821.00	46,384.00	92,499.00	293,294.00	665,998.00	899,300.00 1,565,298.00
DC	111,189.00	54,130.00	78,386.00	30,536.00	-	29,981.00	150,835.00	455,057.00	- 455,057.00
Florida	1,054,778.00	1,006,778.00	1,476,718.00	1,062,444.00	1,113,913.00	-	-	5,714,631.00	1,223,370.87 6,938,001.87
Georgia	140,740.00	272,037.00	633,797.00	407,108.00	132,046.00	-	-	1,585,728.00	- 1,585,728.00
Hawaii	3,865,629.00	1,527,942.00	1,849,941.00	1,612,511.00	78,509.00	-	-	8,834,532.00	- 8,834,532.00
Idaho	-	-	-	-	132,911.00	56,900.00	147,783.00	337,594.00	4,202,436.10 4,540,030.10
Illinois	11,978,870.00	8,548,391.00	12,714,223.00	8,722,986.00	3,088,657.00	-	-	45,053,127.00	1,657,000.00 46,710,127.00
Indiana	905,406.00	563,479.00	653,256.00	173,912.00	-	-	-	2,296,053.00	51,000.00 2,347,053.00
Iowa	1,783,978.00	619,958.00	1,195,145.00	757,539.00	250,885.00	-	-	4,607,505.00	- 4,607,505.00
Kansas	-	-	-	-	-	-	-	-	2,500,000.00 2,500,000.00
Kentucky	585,856.00	198,809.00	336,726.00	138,860.00	100,921.00	108,995.00	649,566.00	2,119,733.00	57,576.25 2,177,309.25
Louisiana	-	2,635.00	117,026.00	-	-	-	-	119,661.00	150,033.75 269,694.75
Maine	10,526.00	12,800.00	17,220.00	1,769.00	-	-	-	42,315.00	- 42,315.00
Maryland	-	-	-	-	-	-	-	-	1,000,000.00 1,000,000.00
Michigan	-	-	-	-	-	-	-	-	14,260,000.00 14,260,000.00
Minnesota	462,052.00	274,128.00	165,236.00	168,275.00	-	-	27,125.00	1,096,816.00	- 1,096,816.00
Mississippi	6,669.00	3,472.00	60,116.00	19,725.00	-	-	-	89,982.00	- 89,982.00
Missouri	803,665.00	787,886.00	1,599,832.00	1,301,440.00	196,038.00	-	-	4,688,861.00	799,822.10 5,488,683.10
Montana	1,266,073.00	684,579.00	996,304.00	933,482.00	563,510.00	462,258.00	1,681,084.00	6,587,290.00	- 6,587,290.00
Nebraska	364,722.00	316,987.00	262,707.00	293,483.00	202,077.00	-	-	1,439,976.00	228,891.30 1,668,867.30
Nevada	-	-	-	27,506.00	-	3,497.00	36,519.00	67,522.00	432,436.00 499,958.00
New Hampshire	252,214.00	50,367.00	107,080.00	56,012.00	-	-	-	465,673.00	- 465,673.00
New Jersey	7,994,939.00	1,276,029.00	9,327,444.00	5,219,497.00	1,800,436.00	-	-	25,618,345.00	- 25,618,345.00
New Mexico	-	-	-	-	-	-	28,825.00	28,825.00	1,335,529.23 1,364,354.23
New York	3,838,347.00	-	-	-	-	-	-	3,838,347.00	- 3,838,347.00
North Carolina	178,495.00	-	3,125.00	73,186.00	169,614.00	-	-	424,420.00	206,039.70 630,459.70
Oklahoma	-	-	57,255.00	96,057.00	-	-	-	153,312.00	403,041.00 556,353.00
Oregon	-	-	-	-	-	-	-	-	17,369,448.50 17,369,448.50
Pennsylvania	605,568.00	98,937.00	589,766.00	710,783.00	150,240.00	-	-	2,155,294.00	- 2,155,294.00
Rhode Islands	424.00	-	148.00	-	-	-	-	572.00	- 572.00
South Carolina	-	-	-	-	178,966.00	-	-	178,966.00	- 178,966.00
South Dakota	-	-	-	-	-	-	-	-	210,507.27 210,507.27
Tennessee	140,284.00	65,430.00	66,524.00	42,861.00	-	-	-	315,099.00	- 315,099.00
Texas	3,367,949.00	636,416.00	1,789,719.00	1,706,133.00	448,357.00	60,694.00	1,675,697.00	9,684,965.00	457,383.12 10,142,348.12
Utah	858,570.00	573,364.00	909,297.00	984,995.00	388,551.00	355,997.00	2,130,050.00	6,200,825.00	- 6,200,825.00
Vermont	102,909.00	139,155.00	110,663.00	43,069.00	-	-	-	395,796.00	- 395,796.00
Virginia	-	116,841.00	162,627.00	73,398.00	-	25,958.00	84,633.00	463,457.00	592,744.73 1,056,201.73
Wisconsin	2,394,606.00	753,466.00	1,407,305.00	979,348.00	30,240.00	408,798.00	1,053,610.00	7,027,373.00	50,000.00 7,077,373.00
Total	49,224,224.00	36,934,280.00	168,063,039.00	144,007,213.00	49,675,212.00	49,971,175.00	39,934,422.00	537,809,565.00	364,551,023.09 902,360,588.09

## **EXHIBIT “B”**



Fremont Indemnity Company  
Balances as of 12/31/2011

Reinsurer	Paid Recoverable	Ceded O/S Loss	Ceded IBNR & IBNR ALAE*	Total Ultimate Liability
AMERICAN ACCIDENT REINSURANCE GROUP	0.00	2,500,000.00	1,378,673.00	3,878,673.00
BERKLEY INSURANCE COMPANY	-95,254.47	935,828.82	176,553.00	1,017,127.35
CONSECO VARIABLE INSURANCE COMPANY	-2,170,950.51	2,566,617.92	763,938.00	1,159,605.41
CONVERIUM REINSURANCE NORTH AMERICA	0.00	3,894,020.00	1,557,325.00	5,451,345.00
EVEREST RE BERMUDA, LTD.	105,056.17	959,780.00	348,000.00	1,412,836.17
EVEREST REINSURANCE COMPANY	202,315.07	5,255,063.05	4,071,423.00	9,528,801.12
FINIAL REINSURANCE COMPANY	-239,288.29	792,263.24	397,642.00	950,616.95
GENERAL STAR NATIONAL INSURANCE COMPANY	120,393.73	354,877.17	1,617,571.00	2,092,841.90
HARTFORD FIRE INSURANCE COMPANY	0.00	1,298,007.00	519,108.00	1,817,115.00
INSTITUTO DE RESSEGUROS DO BRASIL (IRB)	390,230.83	1,023,724.91	3,363,395.00	4,777,350.74
INSURANCE COMPANY OF NORTH AMERICA	695,722.94	6,338,596.18	2,301,266.00	9,335,585.12
MUNICH REINSURANCE AMERICA INC.	1,182,183.99	12,252,811.90	5,669,518.00	19,104,513.89
ODYSSEY AMERICA REINSURANCE CORPORATION	42,613.91	1,351,150.87	927,655.00	2,321,419.78
ODYSSEY REINSURANCE CORPORATION	1,568,335.61	2,946,236.25	2,272,122.00	6,786,693.86
PENNSYLVANIA MANUFACTURERS' ASSOCIATION INSURANCE CO	209,555.90	404,286.28	493,803.00	1,107,645.18
RANGER INSURANCE COMPANY	80,172.54	539,016.44	316,582.00	935,770.98
RELIASTAR LIFE INSURANCE COMPANY	117,718.15	16,374,148.96	8,557,695.00	25,049,562.11
SWISS REINSURANCE AMERICA CORPORATION	0.00	1,298,007.00	519,108.00	1,817,115.00
TOA-RE INSURANCE COMPANY OF AMERICA	83,186.90	1,242,281.92	866,438.00	2,191,906.82
TRAVELERS INDEMNITY COMPANY	55,241.64	574,820.89	281,622.00	911,684.53
	2,347,234.11	62,901,538.80	36,399,437.00	101,648,209.91

\* Ceded IBNR & IBNR ALAE as of 12/31/08 actuarial analysis

# **EXHIBIT “C”**

Frontier  
Reinsurance Summary

	1997 & Prior **	1998 & 1999	1/1/2000 - 3/31/2000	4/1/2000 - 7/31/2001	8/1/2001 - 7/31/2002
\$0 - \$50,000		Retained			
\$50,000 - \$100,000	Retained		Retained	Retained	Retained
\$100,000 - \$250,000		Commuted Reinsurance treaty on 2/28/00			
\$250,000 - \$1,000,000				XL Mid Ocean Re Bermuda	Everest Re Bermuda
\$1,000,000 - \$5,000,000					
Excess of \$5,000,000					

retained

full transfer of risk contracts

Swing rated contract (premium adjusts with losses in the layer)

\* treaties were put into runoff (losses on policies incepting prior to 12/21/99 are covered through the expiration of the policy)

\*\* Unicare and Casualty both had reinsurance treaties which are not indicated in the schedule

## **EXHIBIT “D”**

## Reinsurance Process for Fremont Indemnity Company

Currently, there are two main pieces to the reinsurance process for Fremont Indemnity business. The first process is for the business prior to 1/1/98. The second is the bordereau file for all business 1/1/98 and subsequent. There are separate processes which handle the Citation treaties and a subset of the 1998 UniCare business for a treaty that overlapped the bordereau treaty.

The process for the business prior to 1/1/98 uses a treaty table. The process reads the claims and determines which treaty they fall into. The process then checks for catastrophe claims and sums them together. There is also a column to determine if the claim should include or exclude expenses. The claim or catastrophe is then tested against 50% of the treaty limit. If it meets or exceeds the limit, the claim is passed on to the report and csv file. The report and file is sent to CLO reinsurance staff. They then enter the information into their reinsurance system which breaks down the data by each retention level and participants.

For the bordereau, there is only one treaty but much of the same process applies. Catastrophes are summed and evaluated as a single claim - though the detail is sent. There are also a few extra criteria, such as asbestos claims and certain other injury types, are always included regardless of whether they have exceeded the retention limit or not. The file is then loaded into their reinsurance system which breaks down the levels and participants. A few extra fields have been added to the file for the processing of the actuarial triangles. There is also a separate file generated for claims that contain Employers Liability.

## **EXHIBIT "E"**

**950 Fremont Indemnity Co**  
**STATEMENT OF ASSETS AND LIABILITIES**  
As of December 31, 2003 to 2011

	Dec 31 2003	Dec 31 2004	Dec 31 2005	Dec 31 2006	Dec 31 2007	Dec 31 2008	Dec 31 2009	Dec 31 2010	Dec 31 2011
<b>ASSETS</b>									
Cash and cash equivalents:									
Unrestricted	35,367,926	30,328,698	3,314	6,199,473	8,591,720	8,410,016	10,649,496	198,189	198,488
Restricted	35,685	267,604	-	-	-	-	-	-	-
Participation in pooled investments, at market	63,434,115	102,946,223	308,868,755	192,601,374	83,086,112	108,291,609	76,093,705	143,035,777	105,456,896
Non-pooled short-term investments, at market									
Unrestricted	(311,096,710)	74,457,774	2,357,546	(290,000)	-	-	-	-	-
Restricted	1,026,434	963,050	920,392	877,519	734,236	715,441	358,577	309,260	286,983
Other securities held	385,554,484	-	-	-	-	324,657	-	-	-
Accrued investment income	6,576,478	920,215	1,982,162	1,020,341	481,574	735,383	465,990	700,469	515,701
Statutory deposits held by other states	12,987,176	64,772,520	21,777,364	4,852,380	3,680,511	3,686,150	2,788,773	2,804,189	2,813,817
Funds held by guaranty associations	-	17,369,449	-	13,975,131	13,975,131	12,755,131	12,755,131	12,755,131	12,755,131
Recoverable from reinsurers	1,086,785,047	1,104,596,372	361,250,486	354,200,036	263,744,243	168,284,136	180,438,921	184,855,530	132,515,513
Salvage and subrogation recoverable	-	10,660,664	9,467,142	3,844,372	1,311,062	827,837	422,449	359,614	356,441
Premium balances	47,377,844	46,449,882	598,019	952,060	916,618	417,197	-	-	-
Receivable from affiliates	3,323,488	3,241,569	1,086,044	1,086,044	1,086,044	1,086,044	1,150,000	1,176,456	1,077,669
Other receivable	43,925,243	38,343,947	(21,543)	23,405,334	22,756,649	21,390,731	20,019,648	17,000	-
Property and equipment, net of accumulated depreciation	15,904,877	15,904,877	-	-	-	-	-	-	-
Deposits and other assets	93,072,380	80,501,738	76,093,371	39,829,730	39,793,646	36,217,932	34,910,565	24,228,217	23,781,543
<b>Total Available Assets</b>	<b>1,484,274,467</b>	<b>1,591,724,582</b>	<b>784,383,052</b>	<b>642,553,794</b>	<b>440,157,546</b>	<b>363,122,264</b>	<b>340,053,255</b>	<b>370,439,832</b>	<b>279,758,182</b>
<b>LIABILITIES</b>									
Secured claims	14,075,282	14,451,165	21,772,349	21,574,381	21,595,963	21,601,222	21,601,222	15,631,618	15,631,618
Accrued administrative expenses	31,299,090	31,866,113	(139)	179,430	306,697	2,862,784	2,660,098	12,751	14,584
Claims against policies, including guaranty associations, before distributions	2,639,793,200	2,448,299,364	2,196,125,111	2,258,692,498	2,340,291,589	2,397,240,781	2,749,754,840	2,980,833,006	3,062,130,457
Early access and other policyholder distributions	(269,375,146)	(335,460,585)	(433,060,164)	(615,383,203)	(760,289,716)	(810,153,276)	(859,789,236)	(862,454,570)	(902,360,588)
California and Federal claims having preference	2,771,061	4,195,852	5,328,728	5,328,728	-	-	-	-	62,853
All other claims	(4,721,105)	288,750,852	350,006,651	356,434,777	341,076,114	393,751,734	395,607,412	400,084,157	349,535,460
<b>Total Estimated Liabilities</b>	<b>2,413,842,382</b>	<b>2,452,102,771</b>	<b>2,140,172,536</b>	<b>2,026,826,611</b>	<b>1,942,980,647</b>	<b>2,005,303,245</b>	<b>2,309,834,336</b>	<b>2,534,106,962</b>	<b>2,525,014,384</b>
<b>NET ASSETS (DEFICIENCY)</b>	<b>(929,567,915)</b>	<b>(860,378,189)</b>	<b>(1,355,789,484)</b>	<b>(1,384,272,817)</b>	<b>(1,502,823,101)</b>	<b>(1,642,180,981)</b>	<b>(1,969,781,081)</b>	<b>(2,163,667,130)</b>	<b>(2,245,256,202)</b>

**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 May 11, 2012, I served the attached **LIQUIDATOR'S EIGHTH ANNUAL STATUS CONFERENCE REPORT FOR YEAR ENDING DECEMBER 31, 2011** 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 May 11, 2012, at Los Angeles, California.

\_\_\_\_\_  
Linda Richardson  
Declarant

\_\_\_\_\_  
*Linda Richardson*  
Signature



**SERVICE LIST**

Case Name: Insurance Commissioner v. Fremont Indemnity Company  
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