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9 SUPERIOR COURT OF THE STATE OF CALIFORNIA

10 COUNTY OF LOS ANGELES

11 CENTRAL DISTRICT

13 **INSURANCE COMMISSIONER OF THE**
 14 **STATE OF CALIFORNIA,**
 15
 16 **v.**
 17 **WESTERN GENERAL INSURANCE**
 18 **COMPANY,**
 19
 20
 21
 22

Petitioner,

Respondent.

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

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

(Ins. Code § 1016)

Date: July 10, 2024
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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 (Liquidator) of Western General Insurance Company (Western General), hereby
5 submits the following response to the Court's Order to Show Cause re: Dismissal and third status
6 report.

7 The Commissioner, through his Conservation and Liquidation Office (CLO), enters the
8 third year of his orderly liquidation of Western General. The liquidation of Western General is
9 likely to be completed in the next two years. The estate has encountered some unexpected
10 developments that have created delay to certain work being completed. Due primarily to both
11 unanticipated staffing changes, specifically the sudden deaths of two former Western employees
12 with significant workloads, and a complex litigated collection dispute that resulted in the
13 commencement of a full arbitration proceeding. As such the estate has required some additional
14 time to address the loss of key staff and to seek resolution to the reinsurance dispute. The
15 guaranty associations participating in the liquidation continue to pay the approved covered claims
16 of Western General but on a much reduced basis due to the nature of the claims. As reported in
17 prior filings, the claim payments in turn create reinsurance obligations and the estate continues to
18 process billings on a quarterly basis and seek collection of those reinsurance proceeds. The estate
19 has commenced a detailed review of all proofs of claims timely filed against the estate.
20 Ultimately, once all claims are settled and reinsurance billed and collected the estate will seek the
21 Court's approval to distribute Western General's assets to approved creditors. In addition to this
22 claim and reinsurance work, the estate is in the process of disposing old company records in
23 accordance with this Court's orders and will seek to commence the closure process of its 401K
24 program in 2024. The Commissioner estimates the work remaining will take place over the next
25 24 months. At this time, other than its oversight duties including approval of CLO's fees, the
26 Commissioner does not require the Court's immediate assistance in the continued liquidation of
27 Western General.
28

1 The Commissioner respectfully requests that the Court discharge its Order to Show Cause
2 and continue in its oversight of Western General's liquidation.

3 **I. THE CONSERVATION AND LIQUIDATION OF WESTERN GENERAL.¹**

4 Western General is a property and casualty insurance company focusing on non-standard
5 private passenger automobile insurance. Beginning in 2019 and continuing through 2020,
6 Western General experienced significant and continued financial losses, leading the
7 Commissioner to conclude that Western General's continued transaction of business would be
8 hazardous to policyholders, creditors, and the public. Thus, the Commissioner, with the consent
9 of Western General, applied to this Court for an order of conservation, which it entered on May
10 26, 2021.

11 During the conservation, liabilities continued to accrue and the Commissioner determined
12 that Western General was insolvent under the Insurance Code. With the consent of Western
13 General's management and majority shareholder, the Commissioner sought and the Court entered
14 an order of liquidation on August 5, 2021.

15 **II. STAFFING OF LIQUIDATION OPERATIONS.**

16 The Commissioner continued to use the services of the CLO, specialized vendors,
17 consultants and certain employees of Western General to advance various areas of the liquidation
18 proceeding.

19 As reported in the second status report, Western General had retained 35 employees as of
20 December 31, 2021. In June of 2022 the Deputy Liquidator made additional assessments of the
21 liquidation estate's ongoing staffing needs and through layoffs and/or voluntary resignations, the
22 estate retained a smaller group of 20 employees to complete the remaining run-off operations in
23 Calabasas, CA. As part of their on-going employment and to provide reasonable incentive for
24 employees to remain with the continuing liquidation effort, certain key Western General
25 employees were provided modest short-term retention agreements to stay and transition the
26

27 ¹ The Commissioner's first status report provides a detailed overview of the facts leading
28 to conservation and liquidation and the Court's statutory role in the liquidation process. (See
March 17, 2022 Commissioner's Status Report on the Liquidation of Western General at pp. 5-9.)

1 insolvent estate into the CLO in early 2023. All final retention agreements were honored and paid
2 in December of 2022 as part of the final payroll.

3 Upon the successful transition of the Western General estate operations into the offices of
4 the CLO, the Deputy Liquidator retained eight Western General employees under short-term
5 consulting agreements to allow them to continue to support the Western General estate remotely
6 after closure of the local Calabasas office. The eight employees all had significant institutional
7 knowledge and or technical legacy-system skills essential to the on-going run-off effort. The
8 prospect and costs to hire and/or train new resources in a timely fashion was deemed prohibitive.
9 As of March 31, 2023, the local Calabasas office closure and transition of Western General's
10 daily run-off operations into the CLO was complete. The Deputy Liquidator has returned the
11 premises to the landlord and has collected its \$50,000 security deposit. As of the date of this
12 Third Status Report, the liquidation estate continues to retain 3 former Western General
13 employees under consulting agreements. Two are working to administer and ultimately close the
14 estate's 401K retirement program and the third is assisting in the review and determination of all
15 timely received Proofs of Claim (POCs) filed against the estate.

16 In addition to retaining certain key former employees, the Commissioner also relies upon
17 third-party specialized vendors/consultants to assist in the processing and collection of
18 reinsurance, provide legal representation, prepare tax returns (including the retirement plan) and
19 conduct periodic financial auditing.

20 **III. TRANSITION OF CLAIMS TO THE GUARANTY ASSOCIATIONS.**

21 The entry of the Liquidation Order on August 5, 2021, which included an express finding of
22 insolvency, triggered the various state insurance guaranty associations (IGAs) statutory obligation
23 to handle and pay Western General direct insurance claims.

24 Concurrently with the entry of the Liquidation Order, and as part of the notice of
25 liquidation, the Liquidator advised all policyholders that their coverage would be terminated in
26 accordance with the California insolvency statutes on September 4, 2021. By September 4, 2021
27 essentially all of Western General's direct in-force insurance business had either expired by legal
28 notice or had been cancelled and transitioned to new, solvent insurance companies.

1 Upon the Court’s entry of its Liquidation Order the various state based IGAs and the
2 California Insurance Guarantee Association (CIGA) became obligated to pay the “covered
3 claims” of Western General’s policyholders. (See Insurance Code², §§ 1063.1, subd. (c) &
4 1063.2.) The CLO and Western General have completed the transfer of all open covered-claims
5 data together with the claims handling responsibility to the IGAs and CIGA. The IGAs have paid
6 the majority of the covered claims that were open at the time of the entry of the liquidation order
7 in 2021.

8 The majority of Western General’s open claims have been addressed by CIGA and the other
9 participating IGAs. As of December 31, 2023, in excess of 8,700 claims have been transferred to
10 the IGAs affected by the Western General liquidation.

11 Through December 31, 2023, CIGA has paid losses, loss adjustment expenses, and return
12 premiums totaling \$14,585,965 for Western General related claims. CIGA has also incurred
13 \$8,967,376 in administrative expenses through December 31, 2023 to implement the in-take and
14 continuing payment of Western General’s open and guaranty-covered California claims. In
15 addition to the losses and loss adjustment expenses and return premium paid by CIGA, eight other
16 participating guaranty associations representing Arizona (\$173,754), Nevada (\$82,980), Utah
17 (\$2,263,568), Texas (\$819,455), Georgia (\$13,451), Tennessee (\$4,436), Virginia (\$4,169) and
18 Colorado (\$224,580) together reported an additional \$3,586,393 in paid losses and loss
19 adjustment expenses and return premium through December 31, 2023. Together with California
20 the participating IGAs have paid approximately \$18,172,358 in total loss, loss adjustment
21 expense, and return premium through year-end 2023.

22 Looking ahead, CIGA, having the largest portion of open claims remaining from Western
23 General, estimates loss and loss adjustment reserves of \$1,630,683 which reflects estimated losses
24 and loss adjustment expenses still remaining to be paid as of December 31, 2023. As of
25 December 31, 2023 four of the other participating IGAs discussed above reported \$384,722 in
26 remaining loss and loss adjustment reserves for the Western General claims. Specifically,
27

28 ² Unless otherwise indicated, all further statutory references are to the Insurance Code.

1 Arizona reported \$68,551, Utah reported \$72,301, Texas reported \$231,754 and Colorado
2 reported \$12,076.

3 Upon CIGA's satisfaction of its obligations pursuant to section 1063.2 to pay covered
4 claims, CIGA, as well as the balance of IGAs participating in the Western General insolvency,
5 have a statutory right to seek recovery from the Western General estate for the payments made by
6 them on behalf of Western General. Pursuant to section 1033, an IGA's payment and discharge
7 of covered claims and the payment of, or furnishing, loss adjustment services, is a Class 2 priority
8 claimant to the residual assets of the Western General estate, second only to the payment of the
9 Liquidator's expense of administration. (§ 1033, subd. (a)(2).)

10 **IV. OPERATIONAL CONTROL AND CURRENT ASSETS**

11 The Liquidator has transferred (except where described below) all Western General's bank
12 accounts with Wells Fargo Bank, Citibank, and US Bank into the CLO investment pool for the
13 benefit of the Western General liquidation estate and has closed the bank accounts. As of
14 December 31, 2023, the estate held the following cash balances or securities (at market value):

15	Cash - unrestricted:	\$ 15,157,885
16	Accrued Interest Receivable:	\$ 465,857
17	Short-term Inv. :	\$ 4,770,408
18	Short-term Inv. Restricted:	<u>\$ 2,660,776</u>
19	Total Cash and Investments:	\$ <u>23,054,927</u>

20 In addition to cash, accrued interest and investments held in the CLO investment pool,
21 Western General also had \$5,031,071 in cash and securities pledged (at market value) in the form
22 of protective/statutory collateral deposits held under the authority of various Departments of
23 Insurance in the states Western General wrote policies. Further, the State of New Mexico's
24 ancillary receiver has retained \$850,000 in statutory funds pledged by Western General.

25 Release of Western General's protective/statutory deposits (including New Mexico)
26 requires the Liquidator to assure a number of respective departments of insurance that all known
27 Western General claims and policy exposure are resolved in their state. Until the majority or all
28 open claims are resolved and settled, the estate will not make much progress in this administrative

1 release process. The Liquidator continues to work with the respective states to address their
2 remaining policy exposure and will seek release of the remaining statutory collateral once the
3 remaining claims are closed. At the current time the Liquidator does not anticipate being able to
4 fulfill the various state requirements to complete the collection process for another year.

5 Finally, Western General has \$2,660,776 in bonds and cash on deposit in an investment
6 trust account pledged as collateral in support of its obligations arising under an assumed
7 reinsurance contract. See the Reinsurance Section below for further explanation.

8 Other than the statutory deposits and pledged collateral discussed above all known Western
9 General estate cash and held investments have been identified and secured and transferred to the
10 CLO investment pool now under the authority of the Liquidator.

11 **V. CLAIMS HANDLING**

12 The Liquidator mailed via First Class Mail or via email, if requested, approximately
13 225,000 proof of claim forms to all interested parties that received the Notice of Liquidation
14 before the Claims Bar-Date of February 28, 2022. As reported in the prior status filing, the CLO
15 Claims Department continued directing the weekly activities of the onsite Western General
16 claims staff working on subrogation collections and policyholder/IGA outreach. With the transfer
17 of the claims handling function into the participating IGAs essentially complete, the Western
18 General claim staff's focus in late 2022 and early 2023 was the transition or termination of all
19 remaining local claims functions. As of December 31, 2023 all Western General claims
20 operations (with the exception of the work performed by the IGAs) are now conducted or
21 managed through the CLO offices. The CLO claims manager will continue to retain the services
22 of one claims consultant with considerable historical knowledge gained through their years of
23 service as a Western General claims manager. As of December 31, 2023 a total of 2,693 proofs of
24 claim have been filed with the Liquidator. The breakdown is as follows: 2,507 Class 2 (policy
25 related), 183 Class 7 (general creditor) and 3 Class 9 (shareholders). The CLO claims staff,
26 together with the continuing support of the former Western General claims manager mentioned
27 above, have completed the initial compliance review and priority determination of all timely
28 received POCs. Although there is much work still to be performed as part of the comprehensive

1 review and determination of the estate’s class two liability, through year-end 2023 the claims staff
2 reported 481 Class 2 claims and one Class 7 claim have been approved. Additionally, 330 Class
3 2 claims and one Class 7 claim have been rejected. Notification has been sent to the creditors
4 who’s POCs have been determined. Looking ahead to 2024, there are 1,779 remaining open and
5 under review. The breakdown is as follows: 1,595 Class 2, 181 Class 7 and 3 Class 9. The
6 priority in 2024 will be to resolve as much of the Class 2 exposure as possible. The IGAs have
7 reported less than \$2 million in remaining open reserves, but traditionally in similar liquidations
8 the last claims to be resolved (the Tail) are frequently the most difficult to close. The liquidator
9 continues to work closely with CIGA to develop system-based methods to share information to
10 facilitate and streamline significant portions of the POC determination process. To date, this on-
11 going exchange has allowed the Liquidator to resolve policyholder level Proofs of Claim filed
12 with the estate for claims already or to be handled to conclusion by CIGA. A next step working
13 into 2024 will be to release a “prove-up” mailer to certain class two POC holders seeking
14 evidence and support for their claimed damages. It is anticipated the population of this creditor
15 group will exceed 800 POCs, and based upon the documents and information received and
16 validated should help to resolve a material portion of the remaining Class 2 POCs.

17 As mentioned above, the claims staff continue to collect subrogation and salvage
18 recoveries albeit on a much reduced basis. As the claims exposure resolves so too do the
19 subrogation recoveries. From October of 2022 through year-end 2023 the Western General estate
20 collected \$99,151. The claims staff estimates approximately \$30,000 remaining to be collected in
21 2024.

22 **VI. 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].) As of

26 _____
27 ³ Section 1063.1, subdivision (j) defines “Unearned premium” as “that portion of premium
28 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 December 31, 2023 CIGA and two other participating IGAs (Arizona and Texas) paid a total of
2 \$1,493,766 in unearned premium to Western General policyholders. The amounts reported to
3 date represent essentially all unearned premium due Western General policyholders excluding the
4 return premium accrual associated with coverage written through a car dealership/lender program
5 as well as experience refunds reserved at approximately \$1 million. The additional unpaid return
6 premium/refund accrual will be addressed through the proof of claim process.

7 **VII. DECEMBER 31, 2023 FINANCIAL STATEMENT**

8 The accompanying Statement of Assets and Liabilities attached as Exhibit 1 represent the
9 Liquidator's best estimate of the assets, liabilities and net loss of Western General as of and for
10 the period ending December 31, 2023. The CLO accounting and finance staff completed the
11 transition of the estate's accounting and financial operations into the CLO office in San Francisco
12 at the close of 2022. Thereafter the department has taken charge of all accounting and financial
13 aspects of the Western General estate, including the general ledger, financial statements and
14 account reconciliation, cash management, investments and banking relationships, accounts
15 payable, receivable accounting as well as audit and compliance. The department is also
16 responsible for the reconciliation of all cash receipts and disbursements of the estate and staff will
17 prepare all financial analysis and reports as necessary. The attached financial statements reflect
18 the Liquidator's best estimate of the value of assets and liabilities of Western General through
19 year-end 2023 using a liquidation basis of accounting. Preparation of the statements requires the
20 use of estimates and actual results could differ from these estimates. As of December 31, 2023,
21 liabilities exceeded assets resulting in a policyholder deficit of \$5.24 million.

22 **A. Assets**

23 Western General has CLO pool investments (at market value) and accrued interest
24 (\$465,857) totaling \$23,054,927. Approximately \$20,394,151 of that is unrestricted. In addition,
25 the estate has approximately \$5,881,781 in pledged assets on deposit with various state insurance
26 departments. After further analysis the estate has posted a full allowance for uncollectable
27 amounts related to the estate's remaining uncollected premium (approximately \$89,000). The
28 estate also holds significant reinsurance receivables reported at approximately \$10,093,459 which

1 are explained in the Reinsurance section. The Western General estate reported total assets
2 (including receivables) of \$39,030,168 at year-end 2023.

3 **B. Liabilities**

4 Losses and loss adjustment expenses (LAE) outstanding represent the estimated reserves,
5 including claim exposure that has been incurred but not reported (IBNR), for policyholder claim
6 obligations less estimated amounts recoverable from reinsurers. As of December 31, 2023 the
7 Western General estate reported \$5,179,257 in total loss and loss adjustment expense reserves.
8 As reminder to the court, the IGA loss and expense data is received quarterly by the estate and is
9 typically posted to the estate's ledgers in the month following the quarter-end. The estate's
10 December 31, 2023 statement also reports approximately \$28,970,786 due to IGAs and reflects
11 the amounts the participating guaranty associations have paid out for Western General's covered
12 claims, return premium and administrative expenses. In addition, a \$2,100,000 provision for
13 future IGA expenditures was posted to this account.

14 The losses and loss adjustment expenses paid to date by the participating guaranty funds
15 make the basis for subsequent reinsurance billings through the estate's reinsurance program
16 discussed below.

17 **C. Expense of Operations**

18 Western General incurred estate operating expenses for the 15 months ending December
19 31, 2023 in the total amount of \$4,693,357. The estate's expenses fall into two broad categories;
20 1) \$1,878,975 paid to the CLO for their allocated administrative fees; and 2) \$2,814,382 in direct
21 estate expenses paid by CLO for the benefit of the Western General estate during the Reporting
22 Period. The Liquidator is currently preparing an application seeking court approval of the fees
23 and disclosure of the expenses incurred during the Reporting Period pursuant to sections 1035
24 and 1036. The Western General estate will continue to file fee applications, on an annual basis,
25 with status filings advising the court of our ongoing progress to closure.

26 **D. Reinsurance Program**

27 As part of Western General's operations, it entered into agreements with third-party
28 insurers whereby certain risks were ceded to these insurers in order to limit Western General's

1 exposure to risk of losses from the policies it had issued by having the third-party insurers
2 indemnify Western General for a proportional share of policy limits and related claims adjustment
3 expenses. These agreements are commonly referred to as “quota share” reinsurance contracts and
4 the third-party insurers accepting a proportional share of the risk are commonly called reinsurers.
5 Historically, Western General had quota share reinsurance contracts (often referred to as treaties)
6 in place to limit Western General’s exposure to losses on its personal auto policies. From mid-
7 2016 until operations ceased in 2021, Western General was generally ceding 80% of the risks on
8 most of its programs so essentially 80% of all claim amounts paid by the IGAs may be
9 recoverable from reinsurers. These reinsurance treaties and the losses they cover represent still
10 represent Western General’s largest recoverable asset. The vast majority of Western General’s
11 paid losses and loss expenses have been reinsured under quota share treaties with Maiden Re and
12 Partner Re.

13 The largest recoverable under the total program is due by Partner Re. In 2019 and 2020,
14 and running off into 2021, Partner Re reinsured 80% (94% for a brief two-month period) of
15 Western General’s primary personal auto business. A provision in the Partner Re treaties
16 obligates Partner Re to pay Western General a “Profit Commission” if ultimate ceded losses are
17 below a certain level.

18 After extensive work (performed following each quarter of the year) to convert and prepare
19 paid loss and loss adjustment data provided by the participating IGAs (current billing data is
20 through December 30, 2023), the Western General estate has billed \$19,000,088 (including a
21 \$8.9M profit commission due from Partner Re) and has collected \$15,766,934 million in
22 reinsurance recoveries through December 31, 2023. These collections figures include
23 approximately \$2 million in amounts due from prior period receivable balances. The estate has
24 an open balance of billed amounts still due of approximately \$2 million at year-end 2023. The
25 year-end billings include a demand for additional profit commission in the amount of
26 approximately \$4.6 million. As of the writing of this report, the second profit commission billing
27 together with all other loss recoverables from Partner Re have been remitted to the Western
28 General estate and Partner Re is current as it relates to their obligations to the liquidation estate.

1 In the second status report the Liquidator reported having received a notice from Maiden Re
2 (now known as Fletcher Re/Enstar) advising the liquidation estate of a material off-set they
3 intend to assert against Western General. Western General was owed \$417,795 and issued a
4 response to Fletcher demanding payment without adjustment. Fletcher rejected Western
5 General's response for immediate payment. After the liquidation court ordered the matter to
6 arbitration, the estate commenced the process of preparing for an arbitration of the merits of the
7 contractual amounts due.

8 The estate has retained private reinsurance counsel with the consent of the California
9 Attorney General's office as well vetting and engaging the estate's party arbitrator. Thereafter
10 the parties could not agree to a mutually acceptable umpire selection so lots were drawn and
11 counsel for the liquidation estate prevailed in the draw and selected a preferred umpire. Heading
12 into 2024 the parties have scheduled an organizational meeting to present initial case statements
13 of position and set a production schedule. The parties have agreed to an arbitration hearing in
14 November of 2024. Most recently, the parties have exchanged settlement proposals in a mutual
15 effort to avoid incurring the costs and potential risk of an adverse ruling. As of this writing the
16 parties have not reached an acceptable compromise in lieu of the formal hearing. To date, the
17 estate has incurred in excess of \$300,000 in fees and costs as a result of the arbitration. Fetcher
18 has refused to cover any of those fees and costs.

19 In addition to ceding reinsurance, Western General utilized an assumed reinsurance contract
20 to access certain auto insurance markets in Texas through a "fronting arrangement" with Home
21 State, a Texas domestic insurer. Effective October 31, 2021, Western General terminated the
22 100% quota share reinsurance agreement with Home State on a run-off basis. Home State
23 directly issued the policies so there is no guaranty association involvement with claim
24 management. Home State's third party administrator continues to handle all claims management.
25 As of December 31, 2023, Western General is reporting approximately \$368,450 in loss and loss
26 adjustment expense (no IBNR) under the program as well as \$412,300 in third party administrator
27 ULAE reserves under the terms of the reinsurance agreement. Paid losses payable to Home State
28 total \$341,657 at year-end. As previously noted, Home State is the beneficiary to an investment

1 trust established by Western General to secure its obligations. As of December 31, 2023 that
2 investment trust account balance was \$2,660,776.

3 Western General also acted as a “Front Company” for a managing general agency named
4 Suncoast. For this program Western General issued the policy and generally ceded 100% of the
5 risks to various reinsurers. The amounts due from such reinsurers are secured, largely by letters
6 of credit naming Western General as the beneficiary. Western General has provided necessary
7 loss and loss expense data from the participating IGAs for the years 2021 and 2022 to allow
8 Suncoast to prepare reinsurance billings. The billings through year-end 2023 totaled
9 approximately \$2.2 million and the estate had collected \$1.15 million by year-end 2023. Western
10 General will continue to follow up on open balances and is preparing additional lost data (albeit
11 on a much reduced volume) to provide to Suncoast to generate additional reinsurance billings in
12 2024 for 2023 losses. The data management and system coordination between the liquidation
13 estate, Suncoast (and its third party vendors) as well as the participating IGAs has required
14 additional time and expense to implement the billing process and collect from the pool of insurers
15 reinsuring these losses.

16 The Liquidator will continue to process comprehensive reinsurance billings and collections
17 based upon the loss activity reported by CIGA and the IGAs as well as the remaining Home State
18 losses. The Liquidator will continue to provide loss data to Suncoast to allow those future paid
19 losses to be ceded to reinsurers. As the business is run-off into 2024 the Liquidator will continue
20 to give consideration to settling the reinsurance contracts for the net present value of the treaty
21 coverage. Settlements of reinsurance contracts are commonly referred to as “commutations”, and
22 to the extent the Liquidator seeks to commute a treaty he will seek court approval in accordance
23 with section 1037, subdivision (d). At this time the Liquidator does not have any such settlements
24 in progress or to be approved.

25 **VIII. REMAINING ACTIVITIES OF THE LIQUIDATOR**

26 In the Liquidator’s prior status report, he disclosed two key milestones planned for 2023;
27 one being the transition of all reinsurance processing into the CLO and second being the
28 conclusion or transition of all remaining estate operations local to Calabasas, California. Western

1 General's final payroll was run in December of 2022 and all daily operations and activities were
2 relocated to the offices of the CLO or discontinued. The liquidation estate and its work is now
3 managed through the CLO office with remote support from a few key consultants.

4 Although this report conveys significant reinsurance recoveries already collected in 2022
5 and 2023, the remaining IGA reserves and the treaties that cover those losses still represent the
6 largest potential asset recovery for the Western General estate. The estate will continue to
7 process and collect the remaining obligations from the three primary reinsurers including
8 additional profit commissions. Counsel for the estate together with our party Arbitrator will
9 continue to seek a favorable resolution to the pending arbitration proceeding with Fletcher Re.

10 The Liquidator intends to continue to retain three former employees currently under
11 consultancy agreements to assist in the determination of the remaining POCs, and to
12 decommission the estate's 401K retirement plan. All three consultants have long historical and
13 institutional knowledge associated with Western General's claims management and
14 employment/human resources administration. The balance of the consultancy engagements
15 awarded to former employees in early 2023 have terminated.

16 As the IGAs resolve their open claims, the Liquidator will commence the inquiry to seek
17 recovery of all statutory deposits still held by states. Although most collectable subrogation and
18 salvage has been resolved, the estate will continue to pursue collection of the remaining
19 subrogation amounts due under the Western General policies as well as any final uncollected
20 premium with the expectation to conclude this effort in 2024.

21 The CLO claims department has made significant progress to address the overall
22 organization, accuracy, priority and compliance of all timely received POCs. Commencing in late
23 2023 and working into 2024 the primary objective will be the determination of the remaining
24 Class 2 POCs. The estate hopes to address a major portion of the remaining open Class 2 POCs,
25 including return premium associated with Western General's GAP program (coverage written to
26 car dealerships) through a request for claimants to provide evidence and documentation of their
27 claimed damages (Prove-up Letter). It is anticipated that work will continue through most of
28 2024. The estate has received and organized in excess of 2,000 timely received POCs.

1 Finally, Western General as a participant in the Western General Holdings consolidated tax
2 group has prepared its 2022 pro forma tax return in accordance with the group's tax sharing
3 agreement and provided the return to be included in the group's consolidated tax filing. The
4 Liquidator will rely upon the same audit firm to prepare the 2023 tax return for the consolidated
5 group. Additionally, the estate will prepare and file a 5500 tax return associated with the 401K
6 retirement program. The Liquidator is still determining if an audit will be required for the 2023
7 plan year.

8 CONCLUSION

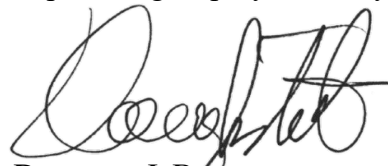
9 Consistent with his obligations and authority set forth in the Liquidation Order, the
10 Liquidator will continue to conduct the diligent and efficient liquidation of Western General for
11 the next couple of years. There remains final reinsurance assets to collect, POCs and claims to be
12 determined, creditor distributions to be made and systems/programs to be closed down in
13 accordance with State and Federal employment laws.

14 In the coming weeks the Western General estate will seek approval of its fees and expenses
15 associated with the 15 months of operations from October 2022 through December 31, 2023.
16 Based on the foregoing, the Liquidator respectfully requests that the Court discharge its Order to
17 Show Cause re: Dismissal and continue its oversight of Western General's liquidation.

18 Dated: June 28, 2024

Respectfully submitted,

19 ROB BONTA
20 Attorney General of California
21 LISA W. CHAO
22 Supervising Deputy Attorney General



23 DOUGLAS J. BETETA
24 Deputy Attorney General
25 *Attorneys for Insurance Commissioner of the*
26 *State of California, in his capacity as the*
Liquidator of Western General Insurance
Company

27 LA2020603913
28 WGIC Third Status Report DRAFTDBSPfinal.docx

EXHIBIT 1

701 Western General Ins Co
STATEMENT OF ASSETS AND LIABILITIES

		Pro Forma Dec 31 2023
		2023
ASSETS detail		
Cash and Investments		
11001	Cash-Unrestricted	0
12001	Participation in Pooled Investment	15,157,885
12002	Short Term Investments	4,770,408
12003	Short Term Inv. Restricted	2,660,776
	Cash and Investments	22,589,070
Other Securities Held		
12004	Bonds	0
	Other Securities Held	0
13015	Accrued Int & Div Receivable	465,857
12012	Statutory Deposits	5,031,071
16003	Funds Held by IGAs	850,710
Reinsurance Receivable		
13001	Rein Recoverable-Paid	7,405,576
13002	Rein Recover-Unpaid Losses	2,687,883
	Reinsurance Receivable	10,093,459
Premium Receivable		
13006	Premium Receivable	243,474
13009	Allow for Uncollectible Premiums	(243,473)
	Premium Receivable	0
Other Receivables		
13018	Other Receivables	0
	Other Receivable	0
Property and Equipment		
14006	Leasehold Improvement	231,533
14007	Accum Amort-Leasehold Imp	(231,533)
	Property and Equipment	(0)
Other Assets		
15003	Prepaid Rent	(0)
	Other Assets	(0)
	Total Available Assets	39,030,168
		39,030,168

701 Western General Ins Co
STATEMENT OF ASSETS AND LIABILITIES

LIABILITIES detail

Secured Claims		
22001	Unclaimed Funds Payable	1,036,785
	Secured Claims	<u>1,036,785</u>
Class 1: Payables and Accrued Expenses		
25001	Due To/From Intercompany Acct	(0)
	Class 1 Liabilities	<u>(0)</u>
Class 2: Losses, Reserves and non-IGA Claims		
28001	Loss & ALAE Reserve	5,179,257
28003	Unearned Premiums	2,436,105
28006	Liability Due to GAs	28,970,786
29091	Other Class 2 Payable-GOLD	40,726
	Class 2 Liabilities before Distributions	<u>36,626,874</u>
Class 7: All Other Claims		
30001	Accounts Payable-Pre Liquidation	6,741,486
30005	Reinsurance Payable	341,657
30007	Contingent Commission	462,314
30098	Other Class 7 Liabilities-GOLD	1,445
31001	Funds Held for Others	66,485
32001	Equity Stakeholder Liability	(1,003,883)
	Class 7 Liabilities	6,609,504
	Total Estimated Liabilities	44,273,163
	NET ASSETS (DEFICIENCY)	<u><u>(5,242,995)</u></u>
		<u><u>(5,242,995)</u></u>

DECLARATION OF SERVICE BY E-MAIL

Case Name: **Insurance Commissioner v. Western General Insurance Co.**
Case No.: **21STCP01655**

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; my business address is: 300 South Spring Street, Suite 1702, Los Angeles, CA 90013-1230.

On June 28, 2024, I served the attached **INSURANCE COMMISSIONER'S THIRD 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 electronic mail.

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 June 28, 2024, at Los Angeles, California.

Alyssa Barragan
Declarant

/s/ Alyssa Barragan
Signature