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10 SUPERIOR COURT OF THE STATE OF CALIFORNIA
11 COUNTY OF MERCED
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14 **INSURANCE COMMISSIONER OF THE**
STATE OF CALIFORNIA,
15
Applicant,
16
v.
17
18 **MERCED PROPERTY & CASUALTY**
COMPANY, a California corporation,
19
Respondent.
20

Case No. 18CV-04739

**FIRST STATUS REPORT OF
INSURANCE COMMISSIONER ON THE
LIQUIDATION OF MERCED
PROPERTY & CASUALTY COMPANY**

[FILED CONCURRENTLY WITH:

**1) DECLARATION OF SCOTT
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INTRODUCTION

The Insurance Commissioner of the State of California (Commissioner) in his capacity as Liquidator of Merced Property & Casualty Company (“Merced”), hereby submits the following First Status Report on the liquidation of Merced.

The purpose of this report is to provide the Court, Merced, and all other interested parties with information regarding the Commissioner’s activities and operations on the liquidation of Merced, and the anticipated steps toward completing the orderly and efficient liquidation of the estate.¹ To provide context, the Commissioner also includes a background discussion on the general aspects of a liquidation proceeding and summarizes Merced’s insolvency and placement by the court into liquidation as well as the Commissioners and California Insurance Guarantee Association’s immediate responses to the Merced liquidation.

BACKGROUND DISCUSSION

I. LEGAL OBLIGATIONS OF THE COMMISSIONER AND ROLE OF THE COURT

Article 14 of the Insurance Code, sections 1010 to 1062, govern proceedings in cases of insolvency and liquidation.² Section 1016 authorizes the Commissioner to apply to a court, and the court to grant, an order to operate, liquidate and wind up the business of an insolvent insurer (“Section 1016 Order”). This power is designed to ensure the “orderly and equitable distribution of the assets of an insolvent insurer” to those entitled to share in those assets. (*In re Title USA Ins. Corp.* (1995) 36 Cal.App.4th 363, 372.)

The Commissioner acts as a “trustee for the benefit of all creditors and other persons interested in the estate of the person against whom the proceedings are pending.” (§ 1057.) As trustee, the Commissioner is vested with “broad powers” to conduct the liquidation process in the manner that he determines to be in the best interest of policyholders and creditors. (*Commercial Nat. Bank v. Superior Court* (1993) 14 Cal.App.4th 393, 402, opn. mod. 1993 Cal.App. LEXIS 399.) “The only restriction on the exercise of [the Commissioner’s] power is that the state’s

¹ Concurrent with the filing of this report, the Commissioner has filed an application for approval of liquidation fees and expenses for the period November 15, 2018, to March 31, 2019.

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

1 action shall be reasonably related to the public interest and shall not be arbitrary or improperly
2 discriminatory.” (*Carpenter v. Pacific Mutual Life Ins. Co.* (1937) 10 Cal.2d 307, 329.)

3 A trial court also has an obligation to protect the public interest in insurer liquidations. (*In*
4 *re Executive Life Ins. Co.* (1995) 32 Cal.App.4th 344, 403.) A trial court assists the liquidator in
5 enforcing the various injunctions and orders set forth in a Section 1016 Order and may, among
6 other things, act as the arbiter of disputed claims, approve compromises of claims by or against
7 the insurance company, and approve the payment of liquidation fees and expenses. (§§ 1032,
8 1035, 1036, 1037.) When challenged, the court must affirm the actions of the Commissioner
9 unless they constitute an abuse of discretion. (*Garamendi v. Golden Eagle Ins. Co.* (2005) 128
10 Cal.App.4th 452, 466-467.)

11 **II. THE CONSERVATION AND LIQUIDATION OFFICE**

12 The Commissioner created the Conservation and Liquidation Office (CLO) to assist him in
13 fulfilling his duties as a court-appointed Conservator and Liquidator under section 1035 for
14 troubled insurance companies domiciled in the State of California. (Conservation and Liquidation
15 Office’s website at <<http://www.caclo.org/perl/FAQ.pl>> [as of July 29, 2019].) The CLO consists
16 of insurance professionals, including a Claims Officer, Reinsurance Officer, Chief Financial
17 Officer, Information Technology (IT) Officer, etc., who oversee departments that operate and
18 liquidate troubled insurance companies. (*Ibid.*) These professionals operate under the executive
19 oversight of a duly appointed Special Deputy Insurance Commissioner. (*Ibid.*) A company that is
20 in conservation or liquidation is called an “estate.” (*Ibid.*) Upon obtaining a conservation or
21 liquidation order, the Commissioner may delegate his statutory administrative duties to liquidate
22 the estate over to the CLO and/or to a Special Deputy Insurance Commissioner. (§ 1035.)

23 **III. THE CALIFORNIA INSURANCE GUARANTEE ASSOCIATION**

24 The Legislature created the California Insurance Guarantee Association (CIGA) to “provide
25 for each member insurer insolvency insurance as defined in Section 119.5.” (§ 1063, subd. (a).)
26 “Insolvency insurance includes insurance against loss arising from the failure of an insolvent
27 insurer to discharge its obligations under its insurance policies.” (§ 119.5.) Each insurer admitted
28 to transact a class of insurance included within section 1063 (which includes homeowners

1 insurance) shall, as a condition of authority to transact business in California, participate in
2 CIGA. (§ 1063, subd. (a).)

3 CIGA is authorized to pay and discharge “covered claims” of an insolvent insurer as that
4 term is defined under sections 1063.1 and 1063.2. It also pays for or furnishes loss adjustment
5 services and defenses of claimants when required by policy provisions. (§ 1063.2, subd. (a).)

6 CIGA’s obligation to handle claims or furnish services and defenses is triggered when a member
7 insurer is found by a court to be insolvent and ordered into liquidation. (§ 1063.2.) Upon CIGA’s
8 satisfaction of its obligations under section 1063.2, CIGA becomes a Class 2 priority claimant to
9 the residual assets of the estate after payment of the Commissioner’s Class 1 expenses of
10 administration. (§ 1033, subd. (a)(1) & (2).)

11 **MERCED’S OPERATIONS, INSOLVENCY AND PLACEMENT INTO LIQUIDATION**

12 **I. MERCED’S OPERATIONS AND LIQUIDATION ORDER**

13 Merced was a property and casualty insurance company authorized to transact homeowners
14 insurance under the authority of a Certificate of Insurance issued by the Commissioner. (Decl.
15 Scott Pearce in Support of First Status Report (Pearce Decl.), ¶ 5.) Merced’s home office is
16 located in Atwater, CA 95301. (*Ibid.*)

17 Merced is a corporation organized and existing under the laws of the State of California,
18 and part of a mutual holding group structure domiciled in Idaho. (Pearce Decl., ¶ 6.) The parent of
19 the mutual holding group is United Heritage Mutual Holding Company who owns 100 percent of
20 the stock of United Heritage Financial Group, who in turn owns 100 percent of the stock of
21 Merced. (*Ibid.*) As part of the mutual holding group, Merced participates in a shared services
22 arrangement with the financial group and receives certain services and support on an allocated
23 basis. (*Ibid.*)

24 On November 8, 2018, the Camp Fire started in Butte County, California, and by November
25 16 the fire had caused at least 85 civilian casualties and destroyed 18,793 structures, including
26 13,696 single-family homes. (Pearce Decl., ¶ 7.) On November 16, 2018, Merced informed the
27 Commissioner that due to the Camp Fire and the number of homeowner policies issued in that
28

1 area, Merced’s financial status would be negatively impacted to the extent that Merced would be
2 insolvent. (*Ibid.*)

3 On November 30, 2018, the Commissioner filed an application for appointment as
4 liquidator based on Merced’s impaired financial condition. (Application, pp. 2-3.) Following a
5 December 3, 2018 hearing on the Commissioner’s application, the court issued an order
6 appointing the Commissioner as Liquidator of the Merced estate (Liq. Order). The court found
7 that Merced was insolvent and there existed sufficient factual and legal grounds for the
8 Commissioner to liquidate and wind up the business of Merced. (*Id.* p. 2.)

9 **II. THE COMMISSIONER DELEGATES HIS ADMINISTRATIVE DUTIES TO LIQUIDATE THE**
10 **MERCED ESTATE TO THE CLO AND RETAINS THE MERCED EMPLOYEES**

11 The Commissioner delegated his statutory administrative duties to liquidate the Merced
12 estate over to the CLO and a Deputy Liquidator. (Liq. Order, pp. 2-3.) The court appointed Scott
13 Pearce of the CLO to serve as the Liquidation Manager for Merced and empowered him to carry
14 out any and all duties and exercise the authority of the Liquidator and Deputy Liquidator David E.
15 Wilson, as may be delegated by the Liquidator and Deputy Liquidator. (*Id.* p. 2.)

16 As of December 3, 2018, Merced had 16 full-time employees. (Pearce Decl., ¶ 9.) The
17 Commissioner utilized the services of all the employees to assist him in implementing the
18 immediate operational requirements of the Liquidation Order. (*Ibid.*) The Commissioner then
19 offered nine of the 16 employees retention agreements so that they could assist the CLO in
20 implementing the continuing operational requirements of the order. (*Ibid.*) The nine employees
21 continued to work in this capacity through March 31, 2019, with two remaining as of the date of
22 this report. (*Ibid.*)

23 **III. CIGA BECOMES OBLIGATED TO PAY MERCED COVERED CLAIMS; CIGA USES THE**
24 **MERCED HOME OFFICE AND RETAINS SOME MERCED EMPLOYEES**

25 CIGA became obligated to pay and discharge Merced “covered claims” and to furnish loss
26 adjustment services and defenses of claimants upon entry of the Liquidation Order on December
27 3, 2018. Due to the urgency and magnitude of losses associated with the Camp Fire and its direct
28 impact on policyholders, CIGA hired four of the full-time Merced employees on December 17,

1 2018, to start adjusting and processing Merced claims. (Pearce Decl., ¶ 10.)³ CIGA also elected to
2 use Merced's home office in Atwater as its claim handling office for the Merced liquidation.

3 (*Ibid.*)

4 Upon determining in mid-November 2018 that it would be insolvent, however, Merced
5 provided CIGA (through the Commissioner/CLO) immediate access to Merced personnel,
6 systems and facilities. (Pearce Decl., ¶ 8.) This was done so that, upon entry of the Liquidation
7 Order, Merced personnel could expeditiously start the critical process of transitioning Merced
8 claims related data and policy information to CIGA. (*Ibid.*)

9 COMMISSIONER'S ACTIVITIES AND OPERATIONS

10 I. NOTIFICATION OF LIQUIDATION AND CANCELLATION ACTIVITIES

11 A. Notice of Liquidation to Interested Parties

12 Under section 1021, subdivision (a), notice was provided to all policyholders, creditors,
13 shareholders, and all other persons or entities interested in Merced, that Merced had been placed
14 into statutory liquidation. (Pearce Decl., ¶ 12.) The Notice of Liquidation dated December 3,
15 2018, informs the interested parties of their rights in this proceeding, and that materials related to
16 the liquidation can be found on the CLO website at <https://www.caclo.org/merced>. (Index of
17 Exhibits to Commissioner's First Status Report [Index Ex.] A [Notice of Liquidation]; Pearce
18 Decl., ¶ 12.)⁴ Consistent with section 1022, the Commissioner published the notice in newspapers
19 of general circulation in geographic areas where Merced operated, i.e., the Sacramento Bee, the
20 Merced County Times, and the Enterprise Record. (Pearce Decl., ¶ 12.) The notice ran in all three
21 publications for the weeks of December 13 and December 20, 2018. (*Ibid.*) Also, a total of 7,094
22 notices were mailed via the United States first class postal service. (*Ibid.*)

23 B. Cancellation of Insurance Policies and Payment of Unearned Premium

24 On December 3, 2018, the Commissioner sent cancellation notices advising all
25 policyholders that their insurance policies will be terminated effective thirty days from the entry

26 _____
27 ³ Three of the initial 16 full-time Merced employees took positions outside Merced by the
end of 2018 or early 2019. (Pearce Decl., ¶ 11.)

28 ⁴ The Liquidation Order, this Status Report, and other relevant documents from the
Merced liquidation are also available on the CLO's website.

1 of the Liquidation Order, or January 2, 2019, unless terminated prior to that date by the
2 policyholder. (Pearce Decl., ¶ 13; Liq. Order, ¶ 19; Index Ex. B [Cancellation Notice].) A total of
3 7,436 cancellation notices were mailed via the United States first class postal service to all known
4 in-force policyholders. (Pearce Decl., ¶ 13.) Also, the retained Merced employees, at the direction
5 of the CLO, encouraged policyholders and their agents and brokers to immediately place their
6 Merced clients with new, well capitalized insurance providers. (*Id.* ¶ 14.) By January 2, 2019, all
7 of Merced's in-force insurance business had either expired by legal notice or had been cancelled
8 and transitioned to new, solvent insurance companies. (*Ibid.*)

9 The Commissioner also calculated all the unearned premium due Merced policyholders and
10 provided those calculations to CIGA. (Pearce Decl., ¶ 15; § 1063.1(13)(i) [defining unearned
11 premium as "that portion of a premium as calculated by the liquidator that has not been earned
12 because of the cancellation of the insolvent insurer's policy and is that premium remaining for the
13 unexpired term of the insolvent insurer's policy"].) As of March 31, 2019, CIGA has paid a total
14 of \$3,001,424 in unearned premium to Merced policyholders. (Pearce Decl., ¶ 15.)

15 **C. Proof of Claim Form Mailing**

16 The Liquidation Order provides that the rights and liabilities of claimants are fixed as of the
17 date of entry of the order, that those rights may only be asserted through a proof of claim, and that
18 the last day to file a claim is June 30, 2019. (Liq. Order, ¶¶ 21, 30.) The order required the
19 Commissioner to give any party with rights against Merced notice of the requirements to
20 complete and file a proof of claim by June 30, 2019. (Liq. Order, ¶¶ 30, 31; Ins. Code, § 1021
21 [describing notice to claimants], § 1023 [describing form and contents of claim].)

22 The Commissioner mailed a Proof of Claim form to the same interested parties that had
23 received the Notice of Liquidation, including all known policyholders for the 24-month period
24 immediately preceding December 3, 2018. (Pearce Decl., ¶ 16; Index Ex. C [Proof of Claim
25 Form].) A total of 7,094 forms were mailed via the United States first class postal service on or
26 before January 30, 2019. (Pearce Decl., ¶ 16.)

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1 **II. THE COMMISSIONER’S OPERATIONS**

2 **A. Transition of Claims to CIGA and CIGA’s Payment of Claims and**
 3 **Expenses**

4 The Commissioner worked diligently to ensure a timely and complete transfer of the claims
 5 data and claims handling process to CIGA so that all of the policyholder covered claims could be
 6 administered and paid by CIGA. (Pearce Decl., ¶ 17.) The Commissioner has completed the
 7 transition of all Merced claims to CIGA, and information regarding the Merced liquidation is on
 8 CIGA’s website at: <http://www.caiga.org/index.html> [MERCED Property & Casualty Company,
 9 Merced in Liquidation Information]. (*Ibid.*)

10 The CLO’s Claims Department assisted CIGA in its obligation to make payments on
 11 policyholder claims by reviewing new claim submissions, setting up new claims and providing
 12 policy documentation or clarification when requested. (Pearce Decl., ¶ 17.) The department also
 13 reviewed and monitored pre-liquidation policyholder subrogation claims and potential “over-cap”
 14 claims (claims that develop in excess of the \$500,000 statutory limit of CIGA’s coverage) (*Ibid.*)

15 As of March 31, 2019, CIGA reports it has paid losses, loss adjustment expenses, return
 16 premiums and incurred administrative expenses totaling \$66,242,926.31 for Merced fire-related
 17 claims as well as other policy claims. (Index Ex. D [CIGA’s Stmt. Operations as of March 31,
 18 2019]; Pearce Decl., ¶ 17.) CIGA estimates an additional loss and loss adjustment reserve of
 19 \$21,136,218.20, which includes losses and loss adjustment expenses still remaining to be paid
 20 (March 31, 2019 claim reserve), for an estimated total of \$87,379,144.51. (Index Ex. D)

21 **B. Change of Operational Control and Transition of Assets**

22 The Commissioner took immediate control over all active bank and investment accounts
 23 held by Merced at Wells Fargo Bank. (Pearce Decl., ¶ 18.) As of March 31, 2019, the estate held
 24 the following cash balances or securities at Wells Fargo Bank:

25	Operating & Payroll Account:	\$ 1,780,686.99 (\$5,046 payroll balance)
26	Claims Account:	\$ 28,245,293.04
27	Investments/Treasury Account:	<u>\$ 1,325,861.12</u> (\$31,538.76 in cash)
28	<i>Total Cash and Investments:</i>	<i>\$ 31,351,841.15</i>

1 (*Ibid.*) Merced also had approximately \$250,000 in bonds pledged as collateral in the form of a
2 protective/statutory deposit held by the State of California and the Department of Insurance.

3 (*Ibid.*) The Commissioner recovered the entire \$250,000, and placed it into the Wells Fargo
4 Investments/Treasury account. (*Ibid.*) The Commissioner has identified and secured all known
5 estate cash and held investments, which are now under his authority. (*Ibid.*)

6 The Commissioner also took possession of Merced's physical and electronic records, which
7 are being held by the CLO at its office in San Francisco. (Pearce Decl., ¶ 19.)

8 **C. Recovery on Reinsurance Contracts**

9 In the ordinary course of business Merced reinsured its homeowners, dwelling fire, auto,
10 and related lines of business under excess of loss reinsurance programs. Merced had two
11 programs (comprising six reinsurance treaties) in place at the time of the Camp Fire with a total
12 potential recovery level of \$17,165,000. (Pearce Decl., ¶ 20.) Between the two programs, Merced
13 has thus far recovered \$11,165,000, including \$1,700,000 from the first program and \$9,465,000
14 from the second program. (*Ibid.*)

15 Merced's first program reinsured individual property risks. (Pearce Decl., ¶ 21.) Of the first
16 \$2,000,000 under this program (\$1,000,000 per treaty), Merced retained the first \$150,000 in
17 policy exposure (Merced's coverage retention) and reinsured the next \$850,000 subject to a two
18 occurrence limit of \$1,700,000. (*Ibid.*) Merced collected the \$1,700,000. (*Ibid.*) For the remaining
19 reinsurance treaties, Merced retained the first \$1,000,000 in policy exposure, but only one claim
20 has barely exceeded the \$1,000,000 retention threshold. (*Ibid.*) No billing has been sent on this
21 claim because the amount recoverable to date is less than the estimated \$142,000 Merced owes
22 the reinsurer in premiums. (*Ibid.*) The Commissioner does not expect any additional recovery
23 from this program, but intends to monitor individual claims greater than \$1,000,000 for future
24 recovery. (*Ibid.*)

25 Merced's second program is a catastrophe program reinsuring losses up to \$9,700,000 in
26 excess of \$300,000 (Merced's coverage retention). (Pearce Decl., ¶ 22.) Under the catastrophe
27 treaty Merced ceded 95 percent of the first \$4,700,000 in losses in excess of their \$300,000
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1 retention level and collected \$4,465,000. (*Ibid.*) The catastrophe treaty reinsured 100 percent of
2 the next \$5,000,000, and Merced collected all \$5,000,000. (*Ibid.*)

3 **D. Statement of Assets and Liabilities**

4 Below is a Statement of Assets and Liabilities for the Merced estate as of March 31, 2019:

5 **Merced Property & Casualty Company**

6 STATEMENT OF ASSETS AND LIABILITIES

7 As of March 31, 2019

8 (unaudited)

9 ASSETS

Cash and cash equivalents:	\$	30,057,518
Bonds		1,243,545
Stock & Equities		50,777
Real Estate Owned		688,664
Other receivables		<u>450,710</u>

12 Total ASSETS \$ 32,491,214

13 LIABILITIES

CIGA Policy Claims (Class 2)	\$	87,379,145
All other claims		486,850

15 Total LIABILITIES \$ 87,865,995

16 NET ASSETS (DEFICIENCY) \$ (55,374,781)

17 (Pearce Decl., ¶ 23.)

18 The Merced statement reflects the assets under the control of the Commissioner, including
19 the transition of all assets held in Wells Fargo Bank accounts and Trust accounts, the recovery of
20 reinsurance proceeds, and CIGA's total estimated payment of claims and expenses associated
21 with Merced as of March 31, 2019. (Pearce Decl., ¶ 24.)

22 Sections 1035 and 1036 authorize payment of liquidation fees and expenses from an
23 insolvent estate, subject to the court's approval. Such fees and expenses of the estate for these
24 purposes are entitled to Class 1 priority status over and above all other expenses of the estate.
25 (§ 1033, subd. (a)(1).) Merced's statement takes into account payment by the Commissioner of
26 \$1,106,141.73 in liquidation fees and expenses for the period November 15, 2018, through March
27 31, 2019 ("Reporting Period"), which were paid from the operating account held at Wells Fargo
28 Bank, and represented in the "Cash and cash equivalents" entry. (Pearce Decl., ¶ 25.)

1 As noted, the Commissioner has filed an application for approval of Merced liquidation
2 fees and expenses for the Reporting Period, which are explained more fully in that application. In
3 brief, the \$1,106,141.73 in fees and expenses consist of three general types: 1) \$416,100.78 in
4 administrative operating fees incurred by the CLO (salaries, rent & overhead of the CLO) and
5 then allocated to the Merced estate on a pro rata basis; 2) \$643,168.20 in direct estate operating
6 expenses; and 3) \$46,872.75 in legal fees and expenses. (Pearce Decl., ¶ 26.)

7 COMMISSIONER'S ONGOING ACTIVITIES

8 As described below, the Commissioner continues to actively work to reduce the operational
9 footprint of the Merced estate as well as transition the remaining long-term activities and
10 liquidation requirements to the CLO's office in San Francisco.

11 I. CLAIM VALIDATION AND DEVELOPMENT

12 Many of the remaining claims have extenuating circumstances or issues that will continue
13 to delay the claims handling process. (Pearce Decl., ¶ 27.) As of this filing, CIGA estimates the
14 remaining 106 open claims may possibly be resolved and paid in 2020. (*Ibid.*) The CLO's Claim
15 Department will continue to assist CIGA by providing ad hoc policy coverage confirmation and
16 documentation as well as addressing certain pre-liquidation subrogation cases. (*Ibid.*) Also, the
17 department will continue to monitor claim development and will approve valid "over-cap" claims.
18 (§ 1033, subd. (a)(2); Pearce Decl., ¶ 27.) Further, the department will continue to provide
19 assistance to individual claimants so long as the estate remains open and there are resources
20 available to do so. (Pearce Decl., ¶ 27.)

21 The CLO's Information Technology (IT) Department will also assist in supporting the
22 claim administration process. (Pearce Decl., ¶ 28.) A key priority of the department moving
23 forward is to manage the process by collecting, organizing and reporting the loss and loss
24 adjustment expenses associated with CIGA's handling and payment of the open claims that CIGA
25 assumed at the time of liquidation. (*Ibid.*)

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1 **II. TRANSITION TO CLO’S OFFICE IN SAN FRANCISCO**

2 **A. Placement of Merced home office in Atwater for sale**

3 The Commissioner has started the process to place the Merced home office in Atwater and
4 an adjacent vacant lot for sale and is evaluating the potential sale value of the property. (Pearce
5 Decl., ¶ 29.) The Commissioner will continue the disposition process by pricing, positioning for
6 sale, and placing the property on the market by the end of August 2019. (*Ibid.*) For the immediate
7 future, however, CIGA will continue to use the Merced home office as a claims handling office
8 for the Merced liquidation. (*Ibid.*) CIGA and the Commissioner have agreed to a month-to-month
9 lease arrangement that affords both parties the flexibility to react to the eventual sale of the home
10 office and simultaneously provide cost-effective office space for CIGA to handle the remaining
11 Merced claims. (*Ibid.*)

12 **B. Finance and Accounting Department**

13 The CLO Finance and Accounting Department has transferred the primary financial
14 operations to CLO’s office in San Francisco. (Pearce Decl., ¶ 30.) The department expects to
15 transfer the remaining operations by the end of August 2019. (*Ibid.*) Upon completing this
16 transfer, the department will be responsible (on an ongoing basis) for all financial aspects of the
17 Merced estate, including general ledger, financial statements and account reconciliation, cash
18 management, investments and banking relationships, accounts payable, receivable accounting
19 related to collections and cash receipts, audit and compliance, and responding to CIGA requests
20 for check copies. (*Ibid.*) The department will also be responsible for the reconciliation of all cash
21 receipts and disbursements of the estate, and staff will prepare all entries, schedules and work
22 papers, and produce all financial analyses and reports. (*Ibid.*)

23 **C. Information Technology Department**

24 After the Commissioner has completed transitioning the remaining management and
25 administration of the estate to the CLO’s office in San Francisco, the CLO IT Department will
26 continue to support the Merced estate by providing on-going technical assistance in maintaining
27 historical databases and electronic data files, and assist in any future data management/reporting
28 required for the estate to produce future reinsurance billings. (Pearce Decl., ¶ 31.) The

1 department's on-going data management process directly supports final estate proof of claim
2 determinations, subrogation recoveries and the ultimate distribution of estate assets to approved
3 creditors. (*Ibid.*)

4 The CLO IT Department will also continue to manage and maintain all necessary data
5 systems (historical and CIGA claims data) and infrastructure necessary to support the remaining
6 operations of Merced. (Pearce Decl., ¶ 32.) Lastly, the department will decommission all local
7 Atwater systems and infrastructure and all remaining components (consolidated group systems)
8 of the shared services structure that connects Merced to the parent group. (*Ibid.*)

9 **III. PG&E CORPORATION BANKRUPTCY CLAIMS**

10 On January 29, 2019, PG&E Corporation (Case No. 19-30088) and its subsidiary Pacific
11 Gas and Electric Company (Case No. 19-30089) each filed with the United States Bankruptcy
12 Court for the Northern District of California a voluntary petition for bankruptcy under chapter 11
13 of the Bankruptcy Code. The Commissioner intends to submit a proof of claim in the bankruptcy
14 proceedings for recovery of damages caused to Merced policyholders as a result of the Camp
15 Fire. (Pearce Decl., ¶ 33.) The last day to file a proof of claim is October 21, 2019. (*Ibid.*) The
16 Commissioner understands that CIGA also intends to submit a claim in the PG&E Corporation
17 bankruptcy. (*Ibid.*) As a result, it will be necessary to coordinate the filing of the Merced estate's
18 PG&E Corporation bankruptcy claim with that of CIGA.

19 **IV. 2018 TAX RETURN**

20 Merced, as a participant in the United Heritage mutual holding group, will prepare its 2018
21 pro forma tax return in accordance with the group's tax sharing agreement and will provide the
22 return to be included in the group's consolidated October tax filing. (Pearce Decl., ¶ 34.)

23 **CONCLUSION**

24 Consistent with his obligations and authority set forth under the Liquidation Order, the
25 Commissioner is conducting a diligent and efficient liquidation of Merced. The Commissioner

26 ///
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28

1 intends to file ongoing Status Reports to keep the Court apprised of his ongoing operations and
2 as support for what he anticipates will be annual fee and expense applications.

3
4 Dated: August 7, 2019

Respectfully Submitted,

5 XAVIER BECERRA
6 Attorney General of California
7 MOLLY K. MOSLEY
8 Supervising Deputy Attorney General

9
10 */s/ Debbie J. Vorous*

11 DEBBIE J. VOROUS
12 Deputy Attorney General
13 *Attorneys for Applicant Insurance*
14 *Commissioner of the State of California*

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SA2018303475

FILED
Merced Superior Court
8/7/2019 11:32 AM
Clerk of the Superior Court
By: Melissa Chavez, Deputy

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9 SUPERIOR COURT OF THE STATE OF CALIFORNIA
10 COUNTY OF MERCED

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

15 Applicant,

16 v.

17 **MERCED PROPERTY & CASUALTY
18 COMPANY, a California corporation,**

19 Respondent.

Case No. 18CV-04739

**DECLARATION OF SCOTT PEARCE IN
SUPPORT OF FIRST STATUS REPORT
OF INSURANCE COMMISSIONER ON
THE LIQUIDATION OF MERCED
PROPERTY & CASUALTY COMPANY**

Date: September 5, 2019
Time: 8:15 am
Dept: 8
Judge: Hon. Brian McCabe
Action Filed: November 30, 2018

21 I, Scott Pearce, declare:

- 22 1. I am the Senior Estate Trust Officer of the California Insurance Commissioner's
23 Conservation and Liquidation Office (CLO).
- 24 2. I make this declaration in support of the first status report of the Insurance
25 Commissioner of the State of California (Commissioner) on the liquidation of Merced Property &
26 Casualty Company (Merced). The following information is true and correct and based on my
27 personal knowledge and, if called to do so, I could and would testify competently to it.
28

1 3. On November 30, 2018, the Commissioner filed an application for appointment as
2 liquidator of the Merced estate. Following a December 3, 2018 hearing on the Commissioner's
3 application, the court issued an order appointing the Commissioner as Liquidator of the Merced
4 estate (Liquidation Order). The court found that Merced was insolvent and there existed sufficient
5 grounds for the Commissioner to liquidate and wind up the business of Merced.

6 4. The court appointed me as the Liquidation Manager for the Merced estate, and
7 empowered me to carry out any and all duties and exercise the authority of the Liquidator and the
8 Deputy Liquidator David E. Wilson as may be delegated by the Liquidator and Deputy
9 Liquidator. As the Liquidation Manager, I have primary responsibility for the overall
10 administration of the Merced liquidation estate, including but not limited to, matters pertaining to
11 Merced's financial reporting, claim administration, legal matters, reinsurance contracts, estate
12 expenditures, and ongoing activities of the liquidation. I am also responsible for the management
13 of Merced's books and records, and I have overall custody and control of them.

14 **MERCED'S OPERATIONS, INSOLVENCY AND PLACEMENT INTO LIQUIDATION**

15 5. Merced was a property and casualty insurance company authorized to transact the
16 following classes of homeowners insurance: fire, surety, plate glass, liability, burglary,
17 automobile and miscellaneous, under the authority of a Certificate of Insurance issued by the
18 Commissioner. Merced's home office is located in Atwater, CA 95301.

19 6. Merced is a corporation organized and existing under the laws of the State of
20 California, and part of a mutual holding group structure domiciled in Idaho. The parent of the
21 mutual holding group is United Heritage Mutual Holding Company who owns 100 percent of the
22 stock of United Heritage Financial Group, who in turn owns 100 percent of the stock of Merced.
23 As part of the United Heritage mutual holding group, Merced participates in a shared services
24 arrangement with United Heritage Financial Group and receives certain administrative services
25 and systems infrastructure support on an allocated basis.

26 7. On November 16, 2018, Merced informed the Commissioner that due to the Camp
27 Fire that started on November 8, 2018, in Butte County, California, and the number of
28 homeowner policies that it had issued in that area, Merced's financial status would be negatively

1 impacted to the extent that Merced would be insolvent. By November 16 the fire had burned an
2 area in excess of 153,000 acres, had caused at least 85 civilian casualties and destroyed 18,793
3 structures, including 13,696 single-family homes.

4 8. In addition to informing the CLO in mid-November 2018 that its financial status
5 would be negatively impacted by the Camp Fire to the point it would be insolvent, Merced
6 worked with the CLO to provide the California Insurance Guarantee Association (CIGA)
7 immediate access to Merced personnel, systems and facilities. Merced provided this access so
8 that, upon entry of the Liquidation Order, Merced personnel could expeditiously start the critical
9 process of transitioning Merced claims related data and policy information to CIGA.

10 9. As of December 3, 2018, Merced had 16 full-time employees. The Commissioner
11 utilized the services of all 16 employees to assist in implementing the immediate operational
12 requirements of the Liquidation Order. Shortly thereafter, the Commissioner offered nine of the
13 then-existing 16 Merced employees, retention agreements to stay with the estate so that they
14 could assist the CLO in implementing the continuing operational requirements of the liquidation
15 proceeding, and then assist in transitioning the estate's remaining operations to the CLO's San
16 Francisco office. The nine employees continued to work in this capacity through March 31, 2019,
17 with two remaining as of the date of this declaration.

18 10. Due to the urgency and magnitude of losses associated with the Camp Fire and its
19 direct impact on policyholders, CIGA hired four of the full-time Merced employees on December
20 17, 2018, to start adjusting and processing Merced claims. CIGA also elected to use Merced's
21 home office in Atwater as its claim handling office for the Merced liquidation.

22 11. Three of the initial 16 full-time Merced employees (after CLO retained nine and
23 CIGA hired four) took positions outside Merced by the end of 2018 or early 2019.

24 **COMMISSIONER'S ACTIVITIES AND OPERATIONS**

25 **Notification of liquidation and cancellation activities**

26 12. The Commissioner provided notice to all policyholders, creditors, shareholders, and
27 all other persons or entities interested in Merced, that Merced had been placed into statutory
28 liquidation. The Commissioner published the notice in newspapers of general circulation in

1 geographic areas where Merced operated, i.e., the Sacramento Bee, the Merced County Times,
2 and the Enterprise Record. The notice ran in all three publications for the weeks of December 13
3 and December 20, 2018. A true and correct copy of this notice, dated December 3, 2018, is
4 attached as Exhibit A to the Index of Exhibits to the Commissioner's first status report. In
5 addition, a total of 7,094 notices were mailed via the United States first class postal service.

6 13. On December 3, 2018, the Commissioner sent cancellation notices advising all
7 policyholders that their insurance policies will be terminated effective thirty days from the entry
8 of the Liquidation Order, or January 2, 2019, unless terminated prior to that date by the
9 policyholder. A total of 7,436 cancellation notices were mailed via the United States first class
10 postal service to all known in-force policyholders. A true and correct copy of this notice is
11 attached as Exhibit B to the Index of Exhibits to the Commissioner's first status report.

12 14. To assist in the cancellation process, the retained Merced employees, at the direction
13 of the CLO, proactively supported and encouraged policyholders and their agents and brokers to
14 immediately place their Merced clients with new, well capitalized insurance providers. By
15 January 2, 2019, all of Merced's in-force insurance business had either expired by legal notice or
16 had been cancelled and transitioned to new, solvent insurance companies.

17 15. Concurrent with canceling the insurance policies, the Commissioner calculated all the
18 unearned premium due Merced policyholders and provided those calculations to CIGA.
19 Information I received from CIGA shows that, as of March 31, 2019, CIGA has paid a total of
20 \$3,001,424 in unearned premium to Merced policyholders.

21 16. Lastly, the Commissioner mailed a Proof of Claim form to the same interested parties
22 that had received the Notice of Liquidation published in December 2018, including all known
23 policyholders for the 24-month period immediately preceding December 3, 2018. A total of 7,094
24 forms were mailed via the United States first class postal service on or before January 30, 2019. A
25 true and correct copy of the proof of claim form is attached as Exhibit C to the Index of Exhibits
26 to the Commissioner's first status report. At this time, all participating Class 2 creditors are
27 deemed filed and will participate in any future estate distributions subject to final claim
28 determination and approval.

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Transition of Claims to CIGA and CIGA’s Payment of Claims and Expenses

17. One of the key operational activities was the Commissioner’s transition of claims to CIGA and CIGA’s corresponding payment of claims and expenses. This was done by the Commissioner (utilizing some of the retained Merced employees) working diligently to ensure a timely and complete transfer of the claims data and claims handling process to CIGA. The CLO’s Claims Department assisted CIGA in its obligation to make payments on policyholder claims by reviewing new claim submissions, setting up new claims and providing policy documentation or clarification when requested. It also reviewed and monitored pre-liquidation policyholder subrogation claims and potential “over-cap” claims (claims that develop in excess of the \$500,000 statutory limit of CIGA’s coverage). As of the date of this declaration, the Commissioner has completed the transition of all Merced claims to CIGA. Attached as Exhibit D to the Index of Exhibits to the Commissioner’s first status report is a true and correct copy of a Statement of Operations I received from CIGA showing CIGA’s income, expenses, and reserves, as of March 31, 2019. According to the statement, CIGA estimates it will ultimately pay a total of \$87,379,144.51 in claims and expenses on behalf of the Merced estate.

Change of Operational Control and Transition of Assets

18. Another operational activity involved taking control over Merced’s assets. Here, the Commissioner took immediate control over all active bank and investment accounts held by Merced at Wells Fargo Bank. As of March 31, 2019, the estate held the following cash balances or securities at Wells Fargo Bank: 1) Operating & Payroll Account in the amount of \$1,780,686.99 (\$5,046 payroll balance); 2) Claims Account in the amount of \$28,245,293.04; and 3) Investments/Treasury Account in the amount of \$1,325,861.12 (\$31,538.76 in cash), for a total Cash and Investments amount of \$31,351,841.15. Merced also had approximately \$250,000 in bonds pledged as collateral in the form of a protective/statutory deposit held by the State of California and the Department of Insurance, which the Commissioner recovered and placed into the Wells Fargo Investments/Treasury account. The Commissioner has identified and secured all known estate cash and held investments, which are now under his authority.

1 19. The Commissioner also took possession of Merced's physical and electronic records,
2 which are being held by the CLO at its San Francisco Office.

3 **Recovery on Reinsurance Contracts**

4 20. A third operational activity involved recovery under Merced's reinsurance programs.
5 In the ordinary course of business Merced reinsured its homeowners, dwelling fire, auto, and
6 related lines of business under excess of loss reinsurance programs. Merced had two programs
7 (comprising six reinsurance treaties) in place at the time of the Camp Fire with a total potential
8 recovery level of \$17,165,000 depending on how claims ultimately develop. Between the two
9 programs, Merced has thus far recovered \$11,165,000, including \$1,700,000 from the first
10 program and \$9,465,000 from the second program, as explained below.

11 21. Merced's first program reinsured individual property risks. Of the first \$2,000,000
12 under this program (\$1,000,000 per treaty), Merced retained the first \$150,000 in policy exposure
13 (Merced's level of coverage retention) and reinsured the next \$850,000 subject to a two
14 occurrence limit of \$1,700,000. Merced has collected the \$1,700,000. For the remaining
15 reinsurance treaties under this program, Merced retained the first \$1,000,000 in policy exposure,
16 but thus far only one claim has barely exceeded the \$1,000,000 retention threshold. No billing has
17 been sent on this claim because the amount recoverable to date is less than the estimated
18 \$142,000 Merced owes in premiums to the reinsurer. Based on claim development to date, the
19 Commissioner does not expect any additional recovery from this program. The CLO intends to
20 monitor the individual claims greater than \$1,000,000 for future recovery.

21 22. Merced's second program is a catastrophe program reinsuring losses up to \$9,700,000
22 in excess of \$300,000 (Merced's coverage retention). Under the catastrophe treaty Merced ceded
23 95 percent of the first \$4,700,000 in losses in excess of their \$300,000 retention level and
24 collected \$4,465,000. The catastrophe treaty reinsured 100 percent of the next \$5,000,000, and
25 Merced collected all \$5,000,000. Total catastrophe reinsurance coverage collected under this
26 treaty was \$9,465,000.

1 **Statement of Assets and Liabilities through March 31, 2019**

2 23. Below is a Statement of Assets and Liabilities for the Merced estate as of March 31,
3 2019:

4 **Merced Property & Casualty Company**

5 STATEMENT OF ASSETS AND LIABILITIES

6 As of March 31, 2019

7 (unaudited)

8 ASSETS

Cash and cash equivalents:	\$	30,057,518
Bonds		1,243,545
Stock & Equities		50,777
Real Estate Owned		688,664
Other receivables		<u>450,710</u>

11 Total ASSETS \$ 32,491,214

12 LIABILITIES

CIGA Policy Claims (Class 2)	\$	87,379,145
All other claims		486,850

14 Total LIABILITIES \$ 87,865,995

15 *NET ASSETS (DEFICIENCY)* \$ (55,374,781)

16 24. This statement reflects the Merced assets under the control of the Commissioner,
17 including the transition of all assets held in Wells Fargo Bank accounts & Trust accounts, the
18 recovery of reinsurance proceeds, and CIGA's total estimated payment of claims and expenses
19 associated with Merced.

20 25. Also, the statement reflects payment by the Commissioner, subject to the court's
21 approval, of \$1,106,141.73 in Merced administrative and professional fees and expenses for the
22 period November 15, 2018, through March 31, 2019 ("Reporting Period"). The fees and expenses
23 were paid from the operating account held at Wells Fargo Bank, which account is represented in
24 the statement's "Cash and cash equivalents" entry.

25 26. Concurrent with the filing of this declaration, I filed a separate declaration in support
26 of the Commissioner's application requesting the court approve his payment of the liquidation
27 fees and expenses. As explained in that declaration, the \$1,106,141.73 in fees and expenses
28 consist of three general types: \$416,100.78 in administrative operating fees incurred by the CLO

1 (salaries, rent & overhead of the organization) and then allocated to the Merced estate on a pro
2 rata basis; \$643,168.20 in direct estate operating expenses; and \$46,872.75 in legal fees and
3 expenses.

4 **THE COMMISSIONER'S ONGOING ACTIVITIES**

5 **Claim Validation and Development**

6 27. Many of the remaining claims have extenuating circumstances or issues that will
7 continue to delay the claims handling process. CIGA has informed me that as of the date of this
8 declaration, it has 106 open claims (13 auto claims and 93 property claims) that may possibly be
9 resolved and paid in 2020. The CLO's Claim Department will continue to assist CIGA by
10 providing ad hoc policy coverage confirmation and documentation as well as addressing certain
11 pre-liquidation subrogation cases. The department will also continue to monitor claim
12 development and will approve claims that are determined to exceed the \$500,000 maximum claim
13 payment amount that CIGA is statutorily obligated to pay as Class 2 "over-cap" claims directly
14 against the estate. However, given the limited assets of the estate, it is highly unlikely that there
15 will be distributions made to any creditors beyond CIGA and the approved Class 2 "over-cap"
16 claimants. The department will continue to provide assistance to individual claimants in
17 understanding the liquidation process so long as the estate remains open and there are resources
18 available to do so.

19 28. The CLO's Information Technology (IT) Department will also assist in supporting
20 the claim administration process. A key priority of the IT Department moving forward is to
21 manage the process by collecting, organizing and reporting the loss and loss adjustment expenses
22 associated with CIGA's handling and payment of the open claims that CIGA assumed at the time
23 of liquidation.

24 **Transition to CLO's Office in San Francisco**

25 29. The Commissioner is in the process of transitioning all aspects of the Merced estate to
26 CLO's office in San Francisco, including the remaining management and administration of the
27 estate. For instance, the Commissioner has started the process to place the Merced home office in
28 Atwater and an adjacent vacant lot for sale and is evaluating the potential sale value of the

1 property. The Commissioner will continue the disposition process by pricing, positioning for sale,
2 and placing the property on the market by the end of August 2019. For the immediate future,
3 however, CIGA will continue to use the Merced home office as a claims handling office for the
4 Merced liquidation. CIGA and the Commissioner have agreed to a month-to-month lease
5 arrangement that affords both parties the flexibility to react to the eventual sale of the home office
6 and simultaneously provide cost-effective office space for CIGA to handle the remaining Merced
7 claims.

8 30. Also, the CLO Finance and Accounting Department has transferred the primary
9 financial operations to CLO's office in San Francisco. The department expects to transfer the
10 remaining operations by the end of August 2019. Upon completing this transfer, the department
11 will be responsible (on an ongoing basis) for all financial aspects of the Merced estate, including:

- 12 • General Ledger, Financial Statements & Account Reconciliation
- 13 • Cash Management, Investments & Banking Relationships
- 14 • Accounts Payable
- 15 • Receivable accounting related to collections and cash receipts
- 16 • Audit & Compliance
- 17 • Responding to CIGA requests for check copies

18 The department will also be responsible for the reconciliation of all cash receipts and
19 disbursements of the estate, and staff will prepare all entries, schedules and work papers, and
20 produce all financial analyses and reports.

21 31. After the remaining management and administration of the estate is transitioned to
22 CLO's office in San Francisco, the CLO IT Department will continue to support the liquidation
23 estate by providing on-going technical assistance in maintaining historical databases and
24 electronic data files, and assist in any future data management/reporting required for the estate to
25 produce future reinsurance billings. The department's on-going data management process directly
26 supports final estate proof of claim determinations, subrogation recoveries and the ultimate
27 distribution of estate assets to approved creditors.

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32. The CLO IT Department will also continue to manage and maintain all necessary data systems (historical and CIGA claims data) and infrastructure necessary to support the remaining operations of Merced. Infrastructure support includes resources and services such as email, phone system, computer equipment and applications as well as assisting in the estate's escheatment obligations. Lastly, the department will decommission all local Atwater systems and infrastructure such as the SimpleSolve policy system and all remaining components (consolidated group systems) of the shared services structure that connects Merced to the parent group, United Heritage Financial Group.

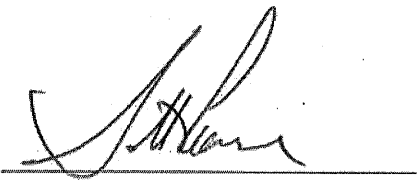
PG&E Corporation Bankruptcy Claims

33. The Commissioner intends to submit a proof of claim in the PG&E Corporation bankruptcy proceedings for recovery of damages caused to Merced policyholders as a result of the Camp Fire. The last day to file a proof of claim is October 21, 2019. The Commissioner understands that CIGA also intends to submit a claim in the PG&E Corporation bankruptcy. As a result, it will be necessary for the CLO to coordinate the filing of the Merced estate's PG&E Corporation bankruptcy claim with that of CIGA.

2018 Tax Return

34. Merced, as a participant in the United Heritage mutual holding group, will prepare its 2018 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 October tax filing.

I declare under penalty of perjury of the laws of the State of California that the foregoing is true and correct. Executed this 7th day of August, 2019, at SAN FRANCISCO, California.



Scott Pearce

SA2018303475

FILED
Merced Superior Court
8/7/2019 11:32 AM
Clerk of the Superior Court
By: Melissa Chavez, Deputy

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*Attorneys for Applicant Insurance Commissioner of
8 the State of California*

9
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA
11 COUNTY OF MERCED

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13
14 **INSURANCE COMMISSIONER OF THE**
SATE OF CALIFORNIA,
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16 Applicant,
17
18 **MERCED PROPERTY & CASUALTY**
COMPANY, a California corporation,
19
20 Respondent.

Case No. 18CV-04739
**INDEX OF EXHIBITS AND EXHIBITS
TO FIRST STATUS REPORT OF
INSURANCE COMMISSIONER ON THE
LIQUIDATION OF MERCED
PROPERTY & CASUALTY COMPANY**
Date: September 5, 2019
Time: 8:15 am
Dept: 8
Judge: Hon. Brian McCabe
Action Filed: November 30, 2018

21
22 Pursuant to California Rules of Court, rule 3.1110(f), Applicant Insurance
23 Commissioner of the State of California submits this index of exhibits in support of his first
24 status report on the liquidation of Merced Property & Casualty Company:

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26 ///

This e-copy is the official court record (GC68150)

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Exhibit Letter	Exhibit Page Number(s)	Exhibit Description
A	1	Notice of Liquidation Form, dated December 3, 2018
B	2	Notice of Cancellation Form, dated December 3, 2018
C	3-7	Proof of Claim Form, dated December 3, 2018
D	8	California Insurance Guarantee Association Statement of Operations for Merced Property & Casualty Company, as of March 31, 2019

Dated: August 7, 2019

Respectfully Submitted,

XAVIER BECERRA
Attorney General of California
MOLLY K. MOSLEY
Supervising Deputy Attorney General

/s/ Debbie J. Vorous

DEBBIE J. VOROUS
Deputy Attorney General
*Attorneys for Applicant Insurance
Commissioner of the State of California*

SA2018303475

EXHIBIT A

NOTICE TO ALL POLICYHOLDERS, CLAIMANTS, CREDITORS, CERTIFICATE OF CONTRIBUTION HOLDERS, SHAREHOLDERS, AND ALL OTHER PERSONS OR ENTITIES INTERESTED IN MERCED PROPERTY & CASUALTY COMPANY

NOTICE IS HEREBY GIVEN that on December 3, 2018, the Superior Court of the City and County of Merced, California entered an Order Appointing Liquidator, in the case entitled *Insurance Commissioner of the State of California v. Merced Property and Casualty Company*, Case No. 18CV-04739 ("Liquidation Order"). The effective date of the liquidation order is December 3, 2018. Pursuant to the Liquidation Order, the California Insurance Commissioner has been appointed as the statutory Liquidator of Merced Property and Casualty Company ("Merced"). The Liquidation Order authorizes and empowers the Commissioner, through his Conservation & Liquidation Office, to liquidate Merced and its assets for the benefit of Merced's policyholders, claimants, creditors, certificate of contribution holders and shareholder, as provided in Sections 1010 through 1062 of the Insurance Code of the State of California.

A copy of the Liquidation Order can be found on the Conservation & Liquidation Office website at: www.caclo.org. A set of questions and answers concerning the liquidation of Merced can be found on the same website.

Merced was found to be statutorily insolvent. This finding of insolvency triggers the California Insurance Guarantee Association (CIGA) to begin paying covered claims to Merced's claimants up to statutory limits. Claims contact information for CIGA is:

California Insurance Guarantee Association
P.O. Box 29066
Glendale, CA 91209-9066
818-844-4300 (office) 818-291-1863 (fax)
assistance@caiga.org

If you are a Merced Property & Casualty Company policyholder:

- All Merced insurance policies are required by law to be cancelled effective 30 days from the date of the liquidation.
- You should contact your agent or broker to place your coverage with another insurer immediately.
- If you have difficulty in procuring replacement coverage in the normal market, you possibly may obtain basic fire insurance coverages through the California FAIR Plan Association. Insurance through the Association is available only in certain areas of the state. For more information or assistance in obtaining basic property insurance through the FAIR Plan, please contact your agent or broker or the Fair Plan at (800)339-4099 or www.cfpnet.com.
- CIGA is responsible to pay the unearned premium that is due to insureds for coverage that extends beyond the cancellation date.
- If you have a pending claim or if you have an insured loss that occurs prior to the cancellation date, you need to contact the California Insurance Guarantee Association at the same address, phone number and email listed above.

Additional information about Merced can be found on the Company's website at: www.mercedpcins.com or contact Merced at 209-358-6421 Or (800)348-6747.

Date: December 3, 2018

DAVE JONES

Insurance Commissioner of the
State of California as Liquidator of
Merced Property and Casualty Company

By:

David E. Wilson

David E. Wilson
Special Deputy Insurance Commissioner

EXHIBIT B

In Liquidation

<p>Mail To:</p>	<p>Your Agency's Name and Address:</p>
<p>Policy Number:</p>	<p>Policy Term: 12:01 am Standard Time at the insured premises</p>

NOTICE OF CANCELLATION – YOUR POLICY IS CANCELLED AS OF 12:01 A.M. JANUARY 2, 2019

To: All Merced Property and Casualty Insurance Company Policyholders:

NOTICE IS HEREBY GIVEN that on December 3, 2018, the Superior Court of the City and County of Merced, California entered an Order Appointing Liquidator, in the case entitled *Insurance Commissioner of the State of California v. Merced Property and Casualty Company*, Case No. 18CV-04739 ("Liquidation Order"). The effective date of the liquidation order is December 3, 2018. Pursuant to the Liquidation Order, the California Insurance Commissioner has been appointed as the statutory Liquidator of Merced Property and Casualty Company ("Merced"). The Liquidation Order authorizes and empowers the Commissioner, through his Conservation & Liquidation Office, to liquidate Merced and its assets for the benefit of Merced's policyholders, claimants, creditors, certificate of contribution holders and shareholder, as provided in Sections 1010 through 1062 of the Insurance Code of the State of California. Merced was found to be statutorily insolvent. This finding of insolvency triggers the California Insurance Guarantee Association ("CIGA") to begin paying covered claims to Merced's claimants up to statutory limits.

Pursuant to the Liquidation Order all Merced insurance policies are required to be cancelled effective 30 days from the date of the liquidation or January 2, 2019, 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 Merced insurance coverage immediately.

If you have difficulty in procuring replacement coverage in the normal market, you possibly may obtain basic fire insurance coverages through the California FAIR Plan Association. Insurance through the Association is available only in certain areas of the state. For more information or assistance in obtaining basic property insurance through the FAIR Plan, please contact your agent or broker or the Fair Plan at (800)339-4099 or www.cfpnet.com.

This e-copy is the official court record (GC68150)

EXHIBIT C

MERCED PROPERTY AND CASUALTY COMPANY

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

PROOF OF CLAIM

Superior Court of the State of California
County of Merced
Case No. 18CV-04739

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

DEADLINE FOR FILING PROOF OF CLAIM IS June 30, 2019

Proof of Claim Number: xxxxxx

Part 1 Person or Entity Making Claim (Claimant)

BARCODE POC # Claimant Name Address 1 Address 2 City, State ZIP	Claimant Telephone
	Claimant EMail
	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	Describe your claim: _____ Attach all supporting documentation to this form.
<input type="checkbox"/> Policy related <input type="checkbox"/> General Creditor <input type="checkbox"/> Other	\$ _____ \$ _____ \$ _____	

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:

**Merced Property and Casualty Company in Liquidation
Proof of Claim
Conservation and Liquidation Office
P O Box 26894
San Francisco, CA 94126-6894**

This e-copy is the official court record (GC68150)

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 IS 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 June 30, 2019. 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. A copy of the Proof of Claim form should be attached to all future correspondence, related to your Proof of Claim.

GENERAL INFORMATION

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

If you have any questions about the Proof of Claim procedure, you may call (415) 676-5016 or e-mail to: MercedPOC@caclo.org

Please visit our website at www.caclo.org for additional information. Look in the 'Companies' section for Merced Property and Casualty Insurance Company.

IMPORTANT NOTICE

If you have a change of address after filing your Proof of Claim you must provide us with your new address in order to receive any payment that might be due.

Frequently Asked Questions

Merced Property and Casualty Company (MERCED) Proof of Claim

Q. What is a liquidation proceeding?

A. Liquidation is similar to bankruptcy. When an insurance company is insolvent, the California Insurance Code authorizes the Insurance Commissioner of the state of California to ask the Superior Court (the "Court") for an Order appointing the Insurance Commissioner as the Liquidator and instructing him/her to liquidate the insurance company. The Liquidation Order directs the Liquidator, to (i) take or maintain possession of the property of the insurer, (ii) conduct the insurer's business, and (iii) take such steps to liquidate (wind-up the affairs of) the business of the insurer as the Court shall direct.

Q. What is a Proof of Claim Process?

A. A Proof of Claim process determines creditors who may have a monetary claim against the assets of Merced. The legal obligations of the company are determined through this process.

Q. Why was I sent a Proof of Claim form?

A. The records of Merced indicate that you had a relationship with the company. Thus, you are a potential creditor and we are required to notify you of your right to file a claim if you so choose.

Q. Must I complete and file the Proof of Claim form?

A. Only if you believe you have or may have a monetary claim against Merced for obligations that were incurred prior to the Liquidation date of December 2, 2018. All liabilities of the liquidated company are fixed as of that date. If you do not file a claim by the bar date of June 30, 2019, you will not be eligible to participate in any potential future distribution of Merced Property and Casualty assets.

Q. If I am a claimant with an open claim under a Merced insurance policy, must I file a Proof of Claim?

A. No. If you had an open claim at the time of liquidation, the Liquidation Order deems your proof of claim automatically filed with the Liquidator and you need not complete the form.

Q. If I am a claimant under a Merced insurance policy, what happens to my claim?

A. As a general rule, your claim is transferred to a Guarantee Fund for further claims administration and payment as appropriate. In some infrequent situations there may not be Guarantee Fund coverage for your claim or a portion of your claim. Responsibility for handling for such non-covered claims generally reverts to the policyholder.

Q. If I am a policyholder of Merced, do I need to file a Proof of Claim?

A. The Liquidation order specifies that all open policy claims as of the date of liquidation are considered timely filed, and you need not file a Proof of Claim to insure that an existing claim will continue to be handled by a Guarantee Association. However, if you receive notice that a claim against your policy is not covered for any reason, it is safer to file a Contingent and Undetermined claim. Also if you believe you may have new claims in the future, we strongly encourage you to file a Contingent and Undetermined claim. Finally, if you believe that you have a claim for any other money you must file a Proof of Claim for it to be considered.

Q. What is a Guarantee Association and what does it do?

A. Most Merced policy claims qualify for coverage from the California Insurance Guarantee Association (CIGA). CIGA was created by state law to provide protection to policyholders and claimants in the event of a member insurer's liquidation. The state law which created CIGA has limitations and other eligibility requirements, including certain limitations on the amount of coverage available and the types of claims covered. The Liquidator cannot make a determination concerning the amount of CIGA coverage available to a policyholder or claimant. That determination will be made by CIGA consistent with their state laws.

Q. Will my claim(s) be paid in full by CIGA?

A. CIGA has maximum benefit limits. These limits are established by state statute. If you have a claim handled by CIGA, CIGA will advise you of any limits which may affect your claim. You may visit CIGA's website at www.caiga.org. If your claim exceeds the CIGA statutory limit you will submit the remainder of your claim with the Liquidator. The remainder of your claim will be subject to approval by the Liquidator through the Proof of Claim process. If the Liquidator approves the remainder of your claim, payment will be made only after the Liquidation Court approves a distribution to approved Proof of Claim holders. All approved claimants in the policy related claim class will receive a pro-rata share of the assets available for distribution.

Q. What happens to my general creditor ("non-policy related") claim against Merced?

A. As a result of the entry of the Liquidation Order, Merced is not able to pay all its debts at this time. Over time the Liquidator will liquidate the assets of Merced and evaluate all the claims against Merced. Once the Liquidator evaluates all claims, the Liquidator will make recommendations to the Court. Once the process of liquidating Merced's assets and determining Merced's liabilities is complete, the remaining available assets will be distributed to classes of claimants with approved proofs of claim in the priority order established in the California Insurance Code Section 1033.

Q. What happens if I have or want to bring, a lawsuit against Merced?

A. No action at law or equity or in arbitration shall be brought against Merced or the Liquidator, whether in California or elsewhere, nor shall any such existing actions be maintained or further presented after entry of the Liquidation Order. The Liquidator may intervene in any action against Merced in order to protect Merced's assets.

Q. May I contact the Liquidator to obtain advice?

A. The Liquidator will try to be as helpful as possible to assist you to perfect your claim against the company, but the Liquidator cannot give you legal advice. You may want to contact your attorney if you need such advise.

Q. Where can I find additional information regarding Merced and/or the Liquidation Proceeding?

A. Additional information regarding the Merced receivership will be posted at:

www.caclo.org/Merced

For assistance please call (415) 676-5016 or email MercedPOC@caclo.org

NOTICE TO ALL POLICYHOLDERS, CLAIMANTS, CREDITORS, CERTIFICATE OF CONTRIBUTION HOLDERS, SHAREHOLDERS, AND ALL OTHER PERSONS OR ENTITIES INTERESTED IN MERCED PROPERTY & CASUALTY COMPANY

NOTICE IS HEREBY GIVEN that on December 3, 2018, the Superior Court of the City and County of Merced, California entered an Order Appointing Liquidator, in the case entitled *Insurance Commissioner of the State of California v. Merced Property and Casualty Company*, Case No. 18CV-04739 ("Liquidation Order"). The effective date of the liquidation order is December 3, 2018. Pursuant to the Liquidation Order, the California Insurance Commissioner has been appointed as the statutory Liquidator of Merced Property and Casualty Company ("Merced"). The Liquidation Order authorizes and empowers the Commissioner, through his Conservation & Liquidation Office, to liquidate Merced and its assets for the benefit of Merced's policyholders, claimants, creditors, certificate of contribution holders and shareholder, as provided in Sections 1010 through 1062 of the Insurance Code of the State of California.

A copy of the Liquidation Order can be found on the Conservation & Liquidation Office website at: www.caclo.org. A set of questions and answers concerning the liquidation of Merced can be found on the same website.

Merced was found to be statutorily insolvent. This finding of insolvency triggers the California Insurance Guarantee Association (CIGA) to begin paying covered claims to Merced's claimants up to statutory limits. Claims contact information for CIGA is:

California Insurance Guarantee Association
P.O. Box 29066
Glendale, CA 91209-9066
818-844-4300 (office) 818-291-1863 (fax)
assistance@caiga.org

If you are a Merced Property & Casualty Company policyholder:

- All Merced insurance policies are required by law to be cancelled effective 30 days from the date of the liquidation.
- You should contact your agent or broker to place your coverage with another insurer **immediately**.
- If you have difficulty in procuring replacement coverage in the normal market, you possibly may obtain basic fire insurance coverages through the California FAIR Plan Association. Insurance through the Association is available only in certain areas of the state. For more information or assistance in obtaining basic property insurance through the FAIR Plan, please contact your agent or broker or the Fair Plan at (800)339-4099 or www.cfonet.com.
- CIGA is responsible to pay the unearned premium that is due to insureds for coverage that extends beyond the cancellation date.
- If you have a pending claim or if you have an insured loss that occurs prior to the cancellation date, you need to contact the California Insurance Guarantee Association at the same address, phone number and email listed above.

Additional information about Merced can be found on the Company's website at: www.mercedpcins.com or contact Merced at (209) 358-6421 or (800) 348-6747.

Date: December 3, 2018

DAVE JONES

Insurance Commissioner of the
State of California as Liquidator of
Merced Property and Casualty Company

By:

David E. Wilson
Special Deputy Insurance Commissioner

EXHIBIT D

**California Insurance Guarantee Association
Merced Property & Casualty Insurance Co.**

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**STATEMENT OF OPERATIONS
From Inception to Sunday, March 31, 2019**

California - Liq. date 12/03/18

	<u>Automobile & Homeowners</u>	<u>All Other</u>	<u>Workers Compensation</u>	<u>Totals</u>
INCOME				
Assessments	\$0.00	\$0.00	\$0.00	\$0.00
Recoupments	0.00	0.00	0.00	0.00
Total Assessments & Recoupments	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Interest - Members				
Assessment Interest	0.00	0.00	0.00	0.00
Investment Interest	0.00	0.00	0.00	0.00
Accrued Interest	0.00	0.00	0.00	0.00
Liquidator Advances	0.00	0.00	0.00	0.00
Reserve for Excess Advances	0.00	0.00	0.00	0.00
Interest on Advances	0.00	0.00	0.00	0.00
Accrued Interest on Advances	0.00	0.00	0.00	0.00
Reinsurance Incurred	0.00	0.00	0.00	0.00
Total Income Received & Accrued	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
EXPENSES				
Losses Paid	57,553,843.18	5,168,221.90	0.00	62,722,065.08
Recovery on CIGA Paid Claims	0.00	0.00	0.00	0.00
Net Losses Paid	<u>57,553,843.18</u>	<u>5,168,221.90</u>	<u>0.00</u>	<u>62,722,065.08</u>
Loss Adjustment Expenses Paid	163,376.43	27,682.04	0.00	191,058.47
Total Loss & LAE Paid	<u>57,717,219.61</u>	<u>5,195,903.94</u>	<u>0.00</u>	<u>62,913,123.55</u>
Return Premiums	3,001,424.36	0.00	0.00	3,001,424.36
Administrative Expenses	305,536.67	22,841.73	0.00	328,378.40
Returned to Member Insurers	0.00	0.00	0.00	0.00
Bond Expense	0.00	0.00	0.00	0.00
Total Paid	<u>61,024,180.64</u>	<u>5,218,745.67</u>	<u>0.00</u>	<u>66,242,926.31</u>
RESERVES				
Case Reserves	18,474,339.35	2,497,431.32	0.00	20,971,770.67
IBNR Reserves	0.00	0.00	0.00	0.00
Total Case & IBNR Reserves	<u>18,474,339.35</u>	<u>2,497,431.32</u>	<u>0.00</u>	<u>20,971,770.67</u>
Loss Adj. Exp. Resv. - Case	54,013.63	1,857.40	0.00	55,871.03
Loss Adj. Exp. Resv. - IBNR	0.00	0.00	0.00	0.00
Total LAE Case & IBNR Reserves	<u>54,013.63</u>	<u>1,857.40</u>	<u>0.00</u>	<u>55,871.03</u>
Unearned Premium Reserves	108,576.50	0.00	0.00	108,576.50
Penalties and Other Reserves	0.00	0.00	0.00	0.00
Total Reserves	<u>18,636,929.48</u>	<u>2,499,288.72</u>	<u>0.00</u>	<u>21,136,218.20</u>
Total Incurred	<u>79,661,110.12</u>	<u>7,718,034.39</u>	<u>0.00</u>	<u>87,379,144.51</u>
Fund Balance (Deficit)	<u>(79,661,110.12)</u>	<u>(7,718,034.39)</u>	<u>0.00</u>	<u>(87,379,144.51)</u>

