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CIRCUIT COURT
DANE COUNTY, WI
2019CV001209

STATE OF WISCONSIN

CIRCUIT COURT

DANE COUNTY

In the Matter of the Liquidation
of Northwestern National Insurance Company
of Milwaukee, Wisconsin

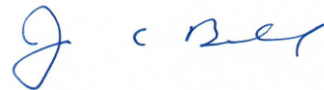
Case No. 2019CV001209

Code No. 30703

2019/2020 ANNUAL REPORT ON THE LIQUIDATION OF NORTHWESTERN NATIONAL
INSURANCE COMPANY OF MILWAUKEE (“NNIC”)

Dated: April 24, 2020

St. Marie Boll, LLC,
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Insurance of the State of Wisconsin,
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**ANNUAL REPORT OF THE LIQUIDATION OF NORTHWESTERN NATIONAL
INSURANCE COMPANY OF MILWAUKEE**

Prepared by:

**The Wisconsin Office of the Commissioner of Insurance as the
Court-Appointed Liquidator of Northwestern National Insurance Company of Milwaukee**

Dated: April 24, 2020

Disclaimer: *This Annual Report, prepared by the court-appointed Liquidator of Northwestern National Insurance Company (“NNIC”), summarizes and describes development in the Liquidation Proceeding since the Liquidation Order was executed by the Court on May 2, 2019. This report does not contain an exhaustive discussion of the Liquidation Proceedings, which is discussed in further detail in the relevant papers and pleadings filed with the Liquidation Court.*

This Annual Report is prepared pursuant to Wisconsin Statute §645.47 (1). This Annual Report does not reflect any events that may occur subsequent to the date hereof. Such events may have an impact on the information contained in this Annual Report.

This Annual Report may not be relied upon for any purpose other than to obtain information about the status of the Liquidation Proceedings generally. Nothing contained herein will constitute an admission of any fact or of any liability by any party with regard to any claim or litigation, including, but not limited to, any proceedings involving the Liquidation or any other party, or any proceeding with respect to any legal effects of the Liquidator or the NNIC accounts.

The Liquidator does not make any warranty, express or implied as to the accuracy or completeness of the information contained herein.

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1. BACKGROUND

Northwestern National Insurance Company of Milwaukee, Wisconsin (“NNIC”) is a property and casualty insurer domiciled in the State of Wisconsin, organized in 1869 by an act of the Wisconsin Legislature, and maintains its main administrative office at 8200 Beckett Park Drive, Suite 201, West Chester, Ohio 45069, and its statutory home office at 33 East Main Street, Suite 900, Madison, Wisconsin 53703. NNIC has not sold any new insurance policies since 1986.

On March 8, 2007, NNIC was placed into rehabilitation upon recommendation of the Wisconsin Office of the Commissioner of Insurance (“OCI”) and upon approval by the Dane County Circuit Court. The Rehabilitation Order established a general account and a segregated account. On January 20, 2012, NNIC exited from rehabilitation upon recommendation of the Wisconsin OCI and upon approval by the Dane County Circuit Court.

On May 31, 2016, SOBC Sandal Holding LTD. (SOBC) purchased NNIC upon the approval of the Wisconsin OCI. SOBC specializes in the acquisition and management of distressed or run-off insurance entities. SOBC operated NNIC as a run-off company.

On March 14, 2019, by Stipulation and Order approved by the Commissioner of Insurance OCI was granted full custody and control of all of NNIC’s assets. On March 22, 2019 by Stipulation and Order approved by the Commissioner of Insurance the segregated and general account of NNIC was merged.

On May 1, 2019, OCI filed for an Order for Liquidation of NNIC which the Court approved on May 2, 2019. The Liquidation Order set a bar date for claims of November 2, 2019.

2. NOTICES SENT TO CREDITORS AND OTHERS.

On May 2, 2019, notice of the liquidation of NNIC filing was sent by e-mail through the system of the National Association of Insurance Commissioners (NAIC) to the chief financial examiners of all 50 states and all U.S. territories. A true copy of this notice is attached as Exhibit A Pt 1. On May 3, 2019, the signed liquidation order was sent by e-mail through the

system of the NAIC to the chief financial examiners of all 50 states and all U.S. territories. A true copy of the notice is attached as Exhibit A Pt 2.

NNIC did not write surety business in Wisconsin since 1986. Accordingly, formal notice has not been sent to the persons designated in s. 601.53 (1), Wis. Stat.

On May 6, 2019, notice of the liquidation of NNIC was sent to 1,179 persons and entities, consisting of 216 current and former accident and health policyholders, 13 defense attorneys of record on general liability cases, 3 general liability policyholders, 311 worker's compensation claimants, 93 defense attorneys of record on worker's compensation cases, 48 worker's compensation policyholders, 107 worker's compensation providers, 49 vendors, 46 captive reinsurers, 237 other named parties on policies, 8 active accident and health insurance agents, 25 reinsurers, and 23 insurers from whom NNIC had assumed reinsurance contracts. Distinct forms of notice were sent to (1) captive reinsurers, who were also sent a form of assumption agreement and a Proof of Claim Form; (2) policyholders and claimants, who were also sent a Proof of Claim Form; and (3) reinsurers, who were also sent a Proof of Claim Form. True copies of an affidavit of first class mailing, an affidavit of witness to first class mailing, and these forms of notice, associated documents, and lists of the persons to whom notices were sent are attached as Exhibit B Pt 1 and 2.

On May 9, 2019, notice of the liquidation of NNIC was sent to two entities, US Bank and the Wisconsin Department of Workforce Development. True copies of an affidavit of first class mailing, an affidavit of witness to first class mailing, the form of notice, Proof of Claim Form, and a list of the persons and entities to whom notices were sent are attached as Exhibit C.

On May 13 and 14, 2019, notice of the liquidation of NNIC was sent to 26 persons and entities, consisting of 13 current or former accident and health policyholders, 5 worker's compensation claimants, 3 worker's compensation providers, 2 defense attorneys of record on

worker's compensation cases, 1 worker's compensation policyholder, 1 active accident and health insurance agent, and 1 captive reinsurer. Distinct forms of notice were sent to (1) captive reinsurers, who were also sent a form of assumption agreement and a Proof of Claim Form; and (2) policyholders and claimants, who were also sent a Proof of Claim Form. True copies of an affidavit of first-class mailing, an affidavit of witness to first class mailing, and these forms of notice, associated documents, and lists of the persons and entities to whom notices were sent are attached as Exhibit D.

On May 14, 20 and 21, 2019, notice of the liquidation of NNIC was sent to 42 persons and entities, consisting of 30 current or former accident and health policyholders or insureds, 3 claimants, 1 defense attorney of record, 1 worker's compensation provider, and 7 captive reinsurers. Distinct forms of notice were sent to (1) captive reinsurers, who were also sent a form of assumption agreement and a Proof of Claim Form; and (2) policyholders and claimants, who were also sent a Proof of Claim Form. True copies of an affidavit of first class mailing, an affidavit of witness to first class mailing, and these forms of notice, associated documents, and lists of the persons and entities to whom notices were sent are attached as Exhibit E.

On May 28, 2019, a Second Notice of Liquidation of NNIC and Captive Insurer Assignment was sent to 34 captive reinsurers or sponsoring corporations. These mailings were sent because the recipients did not respond to the first notice that was mailed on May 6, 2019. True copies of an affidavit of first class mailing, an affidavit of witness to first class mailing, and the form of second notice, associated documents, and lists of the persons and entities to whom notices were sent are attached as Exhibit F.

On May 31, 2019, a Second Notice of Liquidation of NNIC and Captive Insurer Assignment was sent to 1 captive reinsurer and 1 sponsoring corporation. These mailings were

sent because the recipients did not respond to the first notice that was mailed on May 6, 2019. True copies of an affidavit of first class mailing, an affidavit of witness to first class mailing, and the form of second notice, associated documents, and lists of the persons and entities to whom notices were sent are attached as Exhibit G.

On September 25, 2019, a NNIC Guaranty Association Reminder of Bar Date and Proof of Claim Form was mailed to 44 guaranty associations and the National Organization of Life and Health Insurance Guaranty Associations. True copies of the affidavits of first class mailing, form of notice, Proof of Claim Form, and a list of the persons and entities to whom notices were sent are attached as Exhibit H.

3. SPECIAL NOTICE TO CLAIMANTS UNDER ADMINISTRATION OF HIGHLANDS INSURANCE COMPANY.

On October 1, 2010, Highlands Insurance Company in Receivership and NNIC entered into a Settlement Agreement whereby each company agreed to take on responsibility for certain claims based on the terms and conditions of underlying agreements between the parties. This Settlement Agreement was approved by the Dane County, Wisconsin Circuit Court on October 18, 2010 and the District Court of Travis County, Texas, 53rd Judicial District on October 19, 2010.

On August 27, 2019, the Office of the Commissioner of Insurance mailed a special notice to 39 policyholders and claimants of NNIC with policies and claims that are administered by Highlands Insurance Company in Receivership, together with a copy of the May 2, 2019 Notice of Liquidation of NNIC that was mailed to policyholders and claimants generally and a Proof of Claim Form. In this special notice dated August 27, 2019, the policyholders and claimants to whom it was sent were urged to complete and file the enclosed Proof of Claim Form, so that if any court should ever overturn the Settlement Agreement at any time in the

future, they could receive coverage to which they are entitled from the applicable insurance guaranty association.

True copies of an affidavit of first-class mailing, the form of notice, associated documents, and lists of the persons and entities to whom notices were sent are attached as Exhibit I. The Liquidator received three proofs of claim from these contingent claimants.

4. CONSULTANTS AND OFFICES.

In anticipation of the liquidation of NNIC, the Office of the Commissioner of Insurance and St. Marie Boll, LLC entered into an engagement letter, dated December 21, 2018, for which the Liquidator sought and received the Court's authorization, whereby St. Marie Boll, LLC would serve as counsel to the Liquidator and provide legal services to the Liquidator and assisting personnel of the Office of the Commissioner of Insurance.

In anticipation of the liquidation of NNIC, the Office of the Commissioner of Insurance and SOBC DARAG Services Company Limited entered into an Engagement Agreement effective February 1, 2019, whereby SOBC DARAG Services Company Limited would provide technical assistance and essential day-to-day administrative services for the liquidation of NNIC. This Engagement Agreement became operative on May 2, 2019, when NNIC was placed into liquidation.

Effective September 16, 2019, at the behest of the Liquidator, St. Marie Boll, LLC entered into an Engagement Agreement with Strohm Ballweg, LLP. Under this Engagement Agreement, Strohm Ballweg, LLP is to provide tax and informational filing preparation services and, at the option of the Office of the Commissioner of Insurance, technical assistance and administrative services for the liquidation of NNIC, under the direction of the Liquidator. To date, apart from tax and informational filing preparation, Strohm Ballweg, LLP is providing accounting services.

Effective February 21, 2020, the Office of the Commissioner of Insurance and Rector & Associates, Inc. entered into a contract whereby Rector & Associates, Inc. is to provide the Liquidator reinsurance and retrospective premium collection services and technical assistance on claim adjustment and settlement services on claims that are the direct responsibility of the liquidation estate, rather than subject to the administration of a state guaranty fund. This contract serves, in part, to replace the services of a woman who retired effective February 28, 2020, after many years with NNIC. This former employee has agreed to come in to meet with a Rector & Associates, Inc. representative one day a week for at least the next two months to assure an orderly transition. The Liquidator sought and received the Court's authorization on March 10, 2020, whereby Rector & Associates, Inc would assist personnel of the Office of the Commissioner of Insurance in reinsurance.

At the time of the liquidation, key personnel who had long been associated with NNIC were at or beyond the age at which they are eligible for full Social Security retirement benefits. NNIC's Treasurer retired effective November 15, 2019. The person responsible for reinsurance billings and collections retired effective February 28, 2020. NNIC's Chief Operating Officer is to retire effective June 30, 2020. SOBC DARAG Services Company Limited has made arrangements so that the Liquidator and assisting personnel in the Office of the Commissioner of Insurance can continue to contact and consult with the Treasurer on an as-needed basis. An arrangement was made with the person responsible for reinsurance billings and collections, as already described.

Since October 28, 2016, NNIC's home office has been maintained at 8200 Beckett Park Drive, Suite 201, West Chester, Ohio 45069. The day-to-day operations of the liquidation continue to be conducted at this location under the Engagement Agreement effective February 1, 2019 by and between the Office of the Commissioner of Insurance and SOBC DARAG Services

Company Ltd. NNIC also maintains a contract for offsite storage with Iron Mountain Incorporated for perhaps as many as 9,878 boxes. An as yet unknown number of these boxes hold records related to Compass Insurance Company. The Office of the Commissioner of Insurance is already in direct possession of approximately 175 boxes of records.

5. LICENSES.

At the time of its liquidation, NNIC was only licensed to do business in the following nine states: California, Connecticut, Delaware, Minnesota, New Hampshire, New Jersey, Pennsylvania, Texas, and Wisconsin. However, when the company was placed in run-off in January 1986, it was licensed to do business in all U.S. states, the District of Columbia, and Puerto Rico. Accordingly, guaranty fund coverage would be applicable to any policies written at the time the company was licensed, subject to limitations on coverage established by each state or other jurisdiction.

6. STATUS OF POLICIES.

In January 1986, NNIC began a run-off operation. Accordingly, upon its liquidation on May 2, 2019, NNIC did not write any business, except for mandatory writings such as guaranteed renewable accident and health policies, assignments, and retro adjustments or endorsements to prior-year policies.

Although NNIC ceased writing new individual health insurance policies in February 1975, its guaranteed renewable accident and health policies included windows of opportunity for children and even grandchildren of the original policyholders to be added to the policy. While most of the policyholders are of advanced age, some are quite young.

7. COMMUTATIONS/ASSUMPTION AGREEMENTS WITH CAPTIVE REINSURERS.

As of May 2, 2019, NNIC had reinsurance relationships with 39 captive reinsurers sponsored mainly by large, well-known industrial or hospitality firms. St. Marie Boll, LLC, as attorney for the Liquidator, has successfully conclude commutation arrangements and/or assumption agreements with ten of these captive reinsurers or their sponsoring corporation, whereby the captive reinsurer or the sponsoring corporation assumed full responsibility for current and future claim obligations consistent with the coverage agreed to in the underlying reinsurance agreements in exchange for NNIC's return of collateral it held. Such commutations or assumption agreements reduce the tail exposure for the affected state guaranty funds and often reduce the number of claims that the affected state guaranty funds would otherwise have to administer. This will have the effect of increasing the percentage of Class 3 loss claims that will ultimately be distributed. The advantage for the captive's sponsoring corporation is retention of their existing claim administration, avoidance of reinsurance billings from either the Liquidator or one or more guaranty funds, and a return of collateral. The ten commutations with the Office of the Commissioner of Insurance and the Liquidator were:

On May 16, 2019, Cellwood Insurance Company, a captive reinsurer sponsored by Celanese Corporation, entered into an Assumption Agreement. The liquidation estate returned a \$588,000 letter of credit and \$100,000 in funds held.

On June 5, 2019, CM Regent Insurance Company, on behalf of certain school boards in the Commonwealth of Pennsylvania, entered into an Assumption Agreement. The liquidation estate returned a \$400,000 letter of credit.

On June 7, 2019, SE Vermont Ltd., a captive reinsurer sponsored by Schneider Electric USA, Inc. (formerly known as Square D Company), entered into an Assumption Agreement. The liquidation estate returned a \$160,000 letter of credit.

On July 19, 2019, Fairview Health Services, on behalf of its captive reinsurer, Associated Medical Assurance Ltd., entered into an Assumption Agreement. The liquidation estate returned a \$346,000 letter of credit and \$44,240 in funds held.

On September 6, 2019, Owens Insurance Limited, a captive reinsurer sponsored by Owens-Illinois Inc., entered into an Assumption Agreement. The liquidation estate returned a \$1,469,686 letter of credit.

On September 30, 2019, White Mountain Insurance Company, a captive reinsurer serving Figgie International, Inc., among other corporations, entered into an Assumption Agreement. The liquidation estate returned a \$676,889 letter of credit and \$76,815 in funds held.

On November 1, 2019, Two Harbors Insurance Company, a captive reinsurer sponsored by 3M Company, entered into an Assumption Agreement. The liquidation estate returned a \$2,041,415 letter of credit and \$9,500 in funds held.

On November 7, 2019, SpartanNash Company, on behalf of its captive reinsurer, Spartan Insurance Company Ltd., entered into an Assumption Agreement. The liquidation estate returned a \$50,000 letter of credit.

On December 15, 2019, SCH Insurance Company, a captive reinsurer sponsored by Holiday Inns Inc., entered into an Assumption Agreement. The liquidation estate returned a \$89,990 letter of credit and \$5,000 in funds held.

8. CLAIMS.

Prior to the bar date of November 2, 2019, the Liquidator received a total of 255 proofs of claim, tentatively broken down by the highest applicable level of priority, which is subject to revision by the Liquidator, as follows:

50	Class 1 Proofs of Claim (Administration Costs)
82	Class 3 Proofs of Claim (Loss Claims)
3	Class 3 Proofs of Claim (Loss Claims – Highlands Contingency)
1	Class 3c Proof of Claim (Federal Government Claims not in Class 3)
4	Class 4 Proofs of Claim (Unearned Premiums and Small Loss Claims)
5	Class 5 Proofs of Claim (Residual Classification with Some Security)
109	Class 5 Proofs of Claim (Residual Classification – Unsecured)
1	Class 8 Proofs of Claim

Additionally, the Liquidator has deemed filed 27 Class 4 claims for unearned premium, for which no proofs of claim were required, in addition to three Class 4 proofs of claim included in the four noted above that were filed despite the lack of any requirement to do so.

Proofs of claim received after November 2, 2019 have been identified as late-filed and will be administered accordingly. To date, the Liquidator has received six late-filed proofs of claim, which, subject to revision by the Liquidator, include one Class 3 proof of claim and five Class 5 proofs of claim. Two other claims were filed without a proof of claim form and one of these claims, which was filed on behalf of the University of Pittsburgh, was formally denied in writing on November 22, 2019.

9. LOSS CLAIMS FORWARDED TO GUARANTY FUNDS AND CLAIMS UNDER THE DIRECT ADMINISTRATION OF THE LIQUIDATOR.

In 2019, a total of 419 claimants' files were forwarded to state guaranty funds. These included property and casualty claims and insured lives under guaranteed renewable accident and health insurance policies. At the time of this filing, the number of claimants' files had been reduced by 207 to a total of 212, due to 176 cases being assumed under commutation agreements or assumption agreements with captive reinsurers, 23 insureds under A&H policies accepting

buy-outs, and the lapse or termination of A&H coverage on 8 insured lives. The breakdown by state is as follows:

	Number of Property & Casualty Claims	Number of Insured Lives Under A&H Policies	Total Claims and Insured Lives	Reduction due to Commutations and A&H Policy Buy-Outs*	Adjusted Total Claims and Insured Lives
Alabama	6	0	6	4	2
Arizona	2	0	2	0	2
Arkansas	2	0	2	0	2
California	47	8	55	8	47
Connecticut	0	3	3	2	1
Delaware	0	0	0	0	0
Florida	6	19	25	9	16
Georgia	0	0	0	0	0
Idaho	4	0	4	0	4
Illinois	0	3	3	1	2
Indiana	6	0	6	0	6
Kansas	1	1	2	1	1
Kentucky	5	0	5	0	5
Louisiana	2	0	2	0	2
Maine	0	2	2	1	1
Maryland	0	5	5	0	5
Massachusetts	0	4	4	1	3
Michigan	5	0	5	0	5
Minnesota	20	0	20	10	10
Missouri	11	0	11	0	11
Montana	1	3	4	3	1
New Hampshire	0	1	1	0	1
New Jersey	19	5	24	5	19
New Mexico	2	0	2	0	2
New York	17	0	17	2	15
North Carolina	163	0	163	154	9
Ohio	17	0	17	0	17
Oklahoma	3	0	3	0	3
Oregon	2	0	2	0	2
Pennsylvania	0	9	9	3	6
Texas	7	2	9	1	8
Vermont	0	1	1	1	0
Virginia	0	0	0	0	0
Washington	3	0	3	0	3
Wisconsin	0	0	2	1	1
Total	353	66	419	207	212

** Includes insured lives under A&H policies that lapsed from nonpayment of premium or terminated upon death.

Included in the forgoing numbers is the one late-filed Class 3 claim that was received after the November 2, 2019 bar date. Additionally, 80 provisionally Class 3 claims are under the direct administration of the Liquidator. These consist of environmental and asbestos claims from corporations and sexual abuse claims against certain religious organizations that each have a net worth in excess of the standards for eligibility for guaranty fund coverage.

10. REINSURANCE COLLECTIONS.

In 2019, the Liquidator recovered a total of \$937,371.86 on losses and loss adjustment expenses from various reinsurers.

11. ANCILLARY RECEIVERSHIP PROCEEDINGS.

On August 8, 2019, with the cooperation of the Office of the Commissioner of Insurance, NNIC was placed into ancillary receivership under the jurisdiction of the Superintendent of Financial Services of the State of New York by the Decision and Order of Justice W. Franc Perry of the Supreme Court of the State of New York for New York County. The August 8, 2019 Decision and Order established a bar date of November 2, 2019 to coincide with the bar date established by the Dane County, Wisconsin Circuit Court. This ancillary receivership was resolved in accordance with the August 8, 2019 Decision and Order and the matter was formally disposed by an Amended Decision and Order of Justice W. Franc Perry on January 27, 2020.

Neither the Liquidator nor the Office of the Commissioner of Insurance have been informed of the commencement or contemplation of any other ancillary receivership proceedings.

There are no pending disputes with any ancillary receiver.

12. STATUS OF SPECIAL DEPOSITS.

As of the date of this report, there are nine special deposits held under the control of state insurance departments for the benefit of the residents of their respective states. As of December 31, 2019, the amount of the deposit held by each state was as follows:

Arizona	\$ 221,645.00
California	2,313,175.00
Delaware	125,324.50
Florida	387,607.00
Georgia	121,892.50
Massachusetts	75,000.00
New Mexico	323,364.00
Oregon	1,271,552.16
Virginia	<u>298,250.00</u>
Total	\$5,137,810.16

Figures for the deposits held by Delaware, Georgia, Massachusetts, and Oregon are based on market value as reported in statements as of December 31, 2019 sent by their respective custodians. Figures for the other deposits are the balances as of December 31, 2018, as shown in NNIC's statutory financial statements as of December 31, 2018.

In anticipation of the liquidation of NNIC, the Wisconsin deposit was taken by the OCI to secure the resources essential for the administration of the Liquidation Estate. The amount of this deposit, following the sale of the securities on deposit, was \$1,550,043.97. This amount came under the OCI's control on April 1, 2019. Control passed to the Liquidator upon issuance of the Order of Liquidation on May 2, 2019.

During the third quarter of 2019, the North Carolina Department of Insurance arranged transfer of its \$211,892.07 special deposit to the North Carolina Insurance Guaranty Association.

There are no known liabilities to residents of Delaware, Georgia, or Virginia, so the Liquidator will seek to negotiate with these jurisdictions for the eventual recovery of these deposits for the benefit of all claimants and policyholders. With respect to the other deposits, the

Liquidator will take such actions as may facilitate the transfer of deposits from the insurance departments to the custody of the applicable state guaranty funds.

In 2019, the Liquidator made no dividend distributions.

13. FINANCIAL MATTERS.

The financial statement of the Liquidation Estate as of December 31, 2019 is attached as Exhibit J. This financial statement reflects information as it was known to us in late February 2020. Several facts of note that are not included in the December 31, 2019 financial statements:

- Section 14 of this report includes in “Estimated Total Claim Related Liabilities” estimates of accident and health liabilities for buy-outs and continuing coverage for those that refused buy-out offers. This information was only received on February 26, 2020, at the very time the financial statement as of December 31, 2019 was being finalized by Strohm Ballweg LLP.
- Section 14 of this report includes the latest information available as of the date of this report concerning the administrative expense claims of guaranty funds as of December 31, 2019, while the financial statement as of December 31, 2019 includes the best information available in late February 2020. Section 14 figure continues to be subject to change because the Liquidator anticipates that not all of the state guaranty funds have reported their administrative expenses.
- The Liquidator has not yet established any loss and loss adjustment reserve estimates for the 80 provisionally Class 3 proofs of claim filed directly with the Liquidator.
- The Liquidator has not analyzed each guaranty fund claim estimate for the reinsurance that would be applicable if that guaranty fund claim estimate was used as the basis of a commutation with the applicable reinsurers. This is a labor-intensive process and the Liquidator wants to afford the state guaranty funds with time and an eventual formal notice of the need to establish best and final estimates for claims under their administration. Instead, the financial statement as of December 31, 2019 assumes reinsurance recoverable of approximately 60% of loss and loss adjustment expense reserves based on NNIC’s recent historical experience.

As time progresses, the financial statements will attain greater and greater accuracy, as settlement amounts are finalized with state guaranty funds, direct claimants of the Liquidation Estate not eligible for guaranty fund coverage, and reinsurers. The Liquidator intends to file financial statements with the Liquidation Court as of each calendar quarter for the foreseeable

future. The Liquidator might recommend less frequent financial reporting after the first dividend distribution is authorized by the Liquidation Court or if other developments were to warrant such a recommendation.

14. EXPENDITURES.

The decision was made to pay all accident and health claims in full that were incurred by the 35 persons covered by accident and health policies classified as issued to New York residents on or before May 17, 2019. These claimants were not eligible for guaranty fund coverage under New York law because their accident and health policies had been issued by a property and casualty insurer. Pursuant to s. 645.43 (1), Wis. Stat., these policyholders had only 15 days of coverage following the liquidation date, a period that ended on May 17, 2019.

The Liquidator and the OCI made diligent efforts to deliver notices of the liquidation. The bulk of notices to accident and health policyholders, as well as claimants generally, was mailed on May 6, 2019. It is reasonable to believe that these notices reached New York accident and health policyholders sometime around May 9 or 10, 2019. Due to the state of NNIC's records, however, it was necessary to re-send notice of the liquidation to at least four then-current New York accident and health policyholders by Federal Express overnight service on May 14, 2019. Therefore, as a practical matter, the New York accident and health policyholders would only have had two to eight days of notice prior to the May 17, 2019 cut-off of coverage. This means that these policyholders had only two to eight days to obtain alternative coverage, typically Medigap policies, to deal with the imminent cancellation of their NNIC policies. Between May 2, 2019 and receipt of notice, certain of these policyholders incurred medical expenses or were in a course of treatment without knowledge of the liquidation. Accordingly, as a matter of equity, it was decided to pay all accident and health claims incurred by New York accident and health policyholders on or before May 17, 2019 in full.

15. LOSS ESTIMATES BY STATE COMPARED TO STATE DEPOSITS.

The following is a summary of total reported administrative expenses and total claim-related liabilities compared to the deposit, if any, held by each state that has reported any liabilities to the Liquidator or holds a deposit as of December 31, 2019.

	Amount of Deposit at Book Value	Administrative Expenses Reported	Estimated Total Claim Related Liabilities	Estimated Total Liabilities to State	Excess (Deficit) of Deposit
Alabama	\$ 0.00	\$ 24,140.85	\$ 1,601,604.82	\$ 1,625,745.67	\$(1,625,745.67)
Arizona	221,645.00	1,223.92	184,861.39	186,085.31	35,559.69
Arkansas	0.00	3,183.00	82,500.00	85,683.00	(85,683.00)
California	2,313,175.00	245,988.46	900,771.81	1,146,760.27	1,166,414.73
Connecticut	0.00	0.00	29,853.65	29,853.65	(29,853.65)
Delaware	125,324.50	0.00	0.00	0.00	125,324.50
Florida	387,607.00	20,877.30	1,137,162.73	1,158,040.03	(770,433.03)
Georgia	121,892.50	0.00	0.00	0.00	121,892.50
Idaho	0.00	19,164.43	75,096.00	94,260.43	(94,260.43)
Illinois	0.00	0.00	10,000.00	10,000.00	(10,000.00)
Indiana	0.00	17,916.03	0.00	17,916.03	(17,916.03)
Kansas	0.00	4,247.30	116,173.45	120,420.75	(120,420.75)
Kentucky	0.00	10,047.55	537,946.00	547,993.55	(547,993.55)
Louisiana	0.00	240.06	0.00	240.06	(240.06)
Maine	0.00	0.00	70,061.83	70,061.83	(70,061.83)
Maryland	0.00	0.00	11,930.00	11,930.00	(11,930.00)
Massachusetts	75,000.00	0.00	99,067.64	99,067.64	(24,067.64)
Michigan	0.00	16,169.92	82,810.00	98,979.92	(98,979.92)
Minnesota	0.00	57,358.15	15,600.00	72,958.15	(72,958.15)
Missouri	0.00	9,049.08	0.00	9,049.08	(9,049.08)
Montana	0.00	843.14	10,678.43	11,521.57	(11,521.57)
New Hampshire	0.00	0.00	9,339.50	9,339.50	(9,339.50)
New Jersey	0.00	70,448.58	1,704,018.82	1,774,467.40	(1,774,467.40)
New Mexico	323,364.00	1,904.88	107,284.00	109,188.88	214,175.12
New York	0.00	17,431.86	235,357.92	252,789.78	(252,789.78)
North Carolina	211,892.07	0.00	12,793.50	12,793.50	199,098.57
Ohio	0.00	232,421.40	2,011.00	234,432.40	(234,432.40)
Oklahoma	0.00	8,147.38	284,872.80	293,020.18	(293,020.18)
Oregon	1,271,552.16	0.00	221,050.40	221,050.40	1,050,501.76
Pennsylvania	0.00	0.00	635,948.66	635,948.66	(635,948.66)
Texas	0.00	12,449.27	83,038.18	95,487.45	(95,487.45)
Vermont	0.00	0.00	125.83	125.83	(125.83)
Virginia	298,250.00	0.00	0.00	0.00	298,250.00
Washington	0.00	14,410.09	350,000.00	364,410.09	(364,410.09)
Wisconsin	0.00	58,660.00	792,043.29	850,703.29	(850,703.29)
NOLHGA	N/A	590,801.00	0.00	590,801.00	(590,801.00)
Total	\$5,349,702.23	\$1,437,123.65	\$9,404,001.65	\$10,841,125.30	\$(5,491,423.07)

16. EFFORTS TO WIND-UP THE LIQUIDATION ESTATE.

Given the limited resources of the Liquidation Estate of NNIC, the Liquidator is committed to closing the estate using a modified cut-off method. Each state guaranty fund has been asked to provide best and final loss and loss adjustment expense estimates for each of the claims under their purview and the Liquidator will arrive at recommended determinations regarding claims that are his direct responsibility. Then, Rector & Associates, Inc., assisted by the OCI and other consultants as necessary, will compute the reinsurance recoverable that would be applicable based upon the guaranty funds' best and final estimates and the Liquidator's recommended determinations. Following this analysis, the Liquidator, with the assistance of the OCI and his consultants, will enter into discussions with all applicable reinsurers and seek to finalize commutations with them. After receiving the proceeds of any ceded reinsurance commutations, the Liquidator will apply to the Liquidation Court for permission to make a dividend distribution to Class 1 and Class 3 claimants, as those classes are defined by ss. 645.68 (1) and (3), Wis. Stat. As part of this application to the Liquidation Court, the Liquidator intends to request that each and every claim on which a dividend is paid be set unchangeably at the fixed amount that was used as the basis for the dividend distribution. Arrangements will be made for the continued collection of reinsurance from any reinsurers that refuse to enter into commutation agreements.

While executives of the SOBC DARAG Group have engaged and continue to engage in discussions regarding the sale of Compass Insurance Company, it is possible that, in order to be sold, the run-off of that company may have to advance considerably further than the 36 years it has experienced in run-off already or that the company is unsalable and the run-off will simply have to be completed before that asset can be rendered liquid for distribution. If the Liquidation Estate reaches a point at which the disposition of any proceeds from the sale or dissolution of

Compass Insurance Company is the only material remaining issue, the Liquidator expects to recommend a plan for the distribution of such proceeds, should any be forthcoming, to the Liquidation Court for approval.

17. DISPOSITION OF RECORDS.

Records that are redundant or unnecessary for the effective management of the liquidation estate are being destroyed on an ongoing basis. Disposition of records held by the Office of the Commissioner of Insurance in its capacity as the regulator of NNIC, in contrast to the role of the Commissioner of Insurance as the Liquidator, is being conducted in accordance with procedures established for liquidations of domestic insurers in Records Retention/Disposition Authorization #9, dated August 31, 2018 attached as Exhibit K.

Dated: April 24, 2020.

Respectfully submitted,



Amy J. Malm
Special Deputy Liquidator