NEW YORK
LIQUIDATION BUREAU

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2007 YEAR-END REPORT

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EXECUTIVE SUMMARY

The New York Liquidation Bureau assists the Superintendent of Insurance in rehabilitating, liquidating and conserving the assets of financially impaired insurance companies pursuant to Article 74 of the Insurance Law. Additionally, the Bureau manages the Property/Casualty (P/C), Workers' Compensation (WC) and Public Motor Vehicle (PMV) Security Funds (which pay claims on behalf of insolvent insurers) pursuant to Article 76 of the Insurance Law and Article 6-A of the Workers' Compensation Law.

The Bureau is distinct and separate from the New York State Insurance Department and reports to Superintendent of Insurance Eric R. Dinallo, pursuant to his duties as receiver under Article 74 and as administrator of the Security Funds. Special Deputy Superintendent in Charge Mark G. Peters oversees Bureau operations from one central office in Lower Manhattan. The Bureau is not state-funded and operates on estate funds and P/C, WC and PMV Security Fund monies, with a fiduciary duty to creditors and claimholders.

ILLUSTRATIVE FACTS AND FIGURES

- The NYLB intervened to protect almost 11,000 accident victims and pensioners whose annuities were threatened by the financial collapse of Executive Life Insurance Company of New York (ELNY). The NYLB's actions are designed to allow these annuitants to continue to receive 100% of insured benefits for the entire term of the annuity.

- The NYLB infused $18 million into the bankrupt New York Public Motor Vehicle Security Fund to restart the payment and processing of thousands of long-ignored claims of accident victims.

- The NYLB is moving the Union Indemnity Insurance Company of New York towards paying a distribution to thousands of policy holders and other creditors who have waited decades to be compensated for past injuries.

INTRODUCTION

The New York Liquidation Bureau's 2007 Year-End Report is a summary of the challenges and achievements of the Bureau for the calendar year 2007. The report also serves as an overview of the Bureau's objectives for 2008.

The New York Liquidation Bureau in 2007 was an agency in need of reform. In 2006, the Bureau's prior chief was indicted for fraud, thousands of New Yorkers suffered delays in receiving insurance payments and financial crises and shortfalls in several companies and funds managed by the Bureau loomed larger than ever. When the Bureau's new administration took office in April 2007, it resolved many of its financial crises, including an industry funded agreement in principle to rescue Executive Life Insurance Company of New York (ELNY). The Bureau established a new professionalism and financial transparency in its operations and the Bureau began to eliminate delays in paying insureds. The insurance industry press acknowledged that these steps are "a sign of change at the Liquidation Bureau." (*Crain's Business Insurance*, Nov. 5, 2007).

NEW YORK LIQUIDATION BUREAU'S MISSION AND GOALS

The New York Liquidation Bureau, under the leadership of the Superintendent as Receiver Eric R. Dinallo and Special Deputy Superintendent in Charge Mark G. Peters, oversees more than 60 impaired or insolvent insurance companies with over $3.3 billion in assets. In managing these companies, the NYLB protects the tens of thousands of New Yorkers who purchased insurance from now-insolvent companies and who continue to rely upon that insurance for coverage and payment. The Bureau seeks to: maximize assets and resolve liabilities; return rehabilitated companies to the marketplace; and promptly distribute the proceeds of liquidating companies to policyholders and other creditors.

Upon taking office, Special Deputy Superintendent Peters and the Bureau's new administration set forth the following goals, visions and priorities:

- The Liquidation Bureau is professionalizing the operations of the office, requiring that all companies under its administration be run like efficient and modern financial organizations.

- The Liquidation Bureau is protecting tens of thousands of consumers and small businesses who purchased insurance from these now-impaired insurance companies. With a staff of 450 and a budget of $100 million, the Bureau is working to make sure that accident victims or other claimants receive the funds they often desperately need and that small businesses receive the benefits they often require to stay afloat.

- The Liquidation Bureau is seeking innovative ways to involve capital markets in the rehabilitation of certain impaired companies to make them viable, in order to keep the companies functioning in the marketplace and preserve hundreds of jobs.

2007 CHALLENGES

Special Deputy Superintendent Peters and his management team inherited an office with little viable management structure or professional culture at the most senior level. In the wake of the indictment of the Bureau's prior chief, virtually no senior staff remained at the Bureau. In addition to rebuilding the core management team of the NYLB, the Bureau faced significant challenges:

- The Bureau had never been properly audited and had no comprehensive plan for marshalling the assets of the companies it managed, including over $200 million in uncollected reinsurance assets.

- The Bureau failed to pay policyholders in a timely manner. One estate languished more than 20 years without a single distribution, while the Public Motor Vehicle Fund, paralyzed by a lack of cash, ceased to function, leaving thousands of accident claims unreviewed and unresolved.

- The mounting financial crisis of the ELNY estate remained unaddressed, threatening thousands of annuitants with the collapse of their financial lifelines.

2007 ACCOMPLISHMENTS

I. BROKERING AN INDUSTRY-WIDE AGREEMENT IN PRINCIPLE TO SOLVE THE LARGE-SCALE ELNY DEFICIT

The Liquidation Bureau brokered an agreement in principle to eliminate the large-scale deficit in Executive Life Insurance Company of New York (ELNY), thus reassuring ELNY's almost 11,000 annuitants that they will be protected. The ELNY problem, if not fixed, would have left thousands of severely injured people and pensioners without their annuity payments. The problem – due to the failure of ELNY's investments to match its liabilities – first became clear approximately five years ago but the prior administration's slow response allowed the crisis to continue.

In an illustration of Governor Spitzer's efforts to strengthen transparency and accountability, Superintendent Dinallo and Special Deputy Superintendent Peters publicly disclosed the problem shortly after taking office and aggressively pursued a resolution. After months of intense negotiations with companies and guaranty associations across the country, an agreement in principle was reached. The resolution was possible because the insurance industry played a key role in the process. The plan provides for a cash infusion by the insurance industry into ELNY to allow every annuitant to continue to receive 100% of insured benefits and protection for the entire term of the annuity, some lasting more than 50 years. As one annuity holder was quoted in the *New York Times*: "It's refreshing to find out that the government can really come through." (*New York Times*, December 5, 2007, p.B5).

II. FUNDING THE BANKRUPT NEW YORK PUBLIC MOTOR VEHICLE SECURITY FUND SO THAT THOUSANDS OF ACCIDENT VICTIMS HAVE THEIR CLAIMS RESOLVED

The Liquidation Bureau engineered an interim solution to restart the insolvent New York Public Motor Vehicle (PMV) Security Fund to begin paying claimants and processing thousands of long-ignored claims. The PMV Fund acts as a secondary insurer for New York public vehicles, such as taxis, buses and ambulances, where the primary insurer is insolvent. The PMV Fund is financed by annual contributions from solvent New York insurers of public vehicles, but those contributions have been insufficient to pay either the PMV claims as they become due or the expenses to process those claims, leaving the Fund functionally bankrupt. As a result, accident victims were typically required to wait eighteen months for payment of their court-approved claims and a large number of PMV cases were unresolved in the courts, placing a heavy burden on the state-wide court system.

The Liquidation Bureau determined that the PMV Fund was entitled to an $18 million disbursement from an insurer in receivership and worked to ensure the fund received the cash infusion. The payment permitted long-delayed distributions to begin again, and also resulted in an accelerated processing of current PMV claims, reducing the backlog of cases that sat idle in the court system for years. New York State Chief Administrative Judge Ann Pfau addressed this point in her comments on the Bureau's rescue of the PMV Fund: "Whenever cases languish in the courts, the public is not well served," said Judge Pfau. (*New York Law Journal*, October 23, 2007, p.1).

III. RECOVERING OVER $150 MILLION IN OUTSTANDING ASSETS

In 2007, the Liquidation Bureau collected over $150 million in reinsurance proceeds – almost twice the total reinsurance proceeds collected in 2006. An accurate system for tracking reinsurance recoverables was developed and successfully implemented, allowing for efficient collections and more accurate forecasting of reinsurance recoverables. Such collections are often the primary source of assets for distributions and payments to policyholders and creditors of insolvent insurance companies.

IV. INCREASING DISTRIBUTIONS TO POLICYHOLDERS AND CREDITORS AND IMPROVING ESTATE MANAGEMENT

The Bureau dramatically sped up the rate of paying distributions to policyholders and creditors in pending liquidations and moving these liquidations towards closure. The new administration identified Union Indemnity Insurance Company of New York, an estate which has been pending for more than 22 years without a single distribution to policyholders, as a priority. The Liquidation Bureau has taken the steps necessary to begin paying policyholders and other creditors who have waited decades to be compensated for past injuries.

V. MAKING THE LIQUIDATION BUREAU A TRANSPARENT AND ACCOUNTABLE ENTITY

The Liquidation Bureau has taken significant steps to reform its vendor selection process, including its large panel of outside attorneys, by requiring that selections are based solely on merit. The Bureau is conducting the first-ever complete top-to-bottom financial review of its own balance sheets, along with those of all the domestic estates under its management, with overall results to be posted on the Bureau's website, www.nylb.org. The findings of these audits and an accompanying performance review of the Bureau will allow policyholders and creditors of all managed estates, as well as interested members of the public, to have more complete and reliable financial information.

LOOKING AHEAD

The Liquidation Bureau is primed to continue its operational overhaul in 2008, and to build upon it by educating policyholders about their rights in insolvency and the protections afforded them by the Bureau. To that end, the Liquidation Bureau's objectives for 2008 include:

- Continuing its management and procedural reforms to provide greater transparency, efficiency and accountability, including annual financial reviews, cost efficient, merit-based vendor selection and aggressive action to marshal assets and make timely payment of proper claims.

- Working to make the Bureau more responsive to policyholders (both individuals and business owners) so they continue to obtain the financial security they relied upon when purchasing their insurance.

- Improving efficiency in court filings, claims processing, distributions and in either returning companies to the marketplace or closing the estates. This will both enhance public confidence and reassure consumers that there is an appropriate mechanism in place if their insurance company becomes financially impaired.

- Considering collaboration with private equity companies to more efficiently liquidate or rehabilitate impaired insurance companies. Specifically, the Bureau is considering the possibility of selling certain estates to private equity firms who can more efficiently complete a wind-down or rehabilitation.

The achievements of 2007 have realigned the Bureau's responsibilities so that the Bureau is better able to fulfill its fiduciary duty to creditors and claimants. The year ahead will see the Bureau cementing the aforementioned accomplishments and working tirelessly to face and resolve new challenges as they arise. Visit the New York Liquidation Bureau website at www.nylb.org during 2008 for the latest news and more information.

NEW YORK LIQUIDATION BUREAU SENIOR STAFF

Mark G. Peters	Special Deputy Superintendent in Charge
Susan J. Pogoda	First Assistant Special Deputy Superintendent and Chief of Staff
Dennis J. Hayes	Assistant Special Deputy Superintendent
John Pearson Kelly	Assistant Special Deputy Superintendent and Chief Compliance Officer
Joseph J. Liberatore	Assistant Special Deputy Superintendent and Chief Financial Officer
Andrew J. Lorin	Assistant Special Deputy Superintendent and General Counsel

Tarik Ajami	Deputy General Counsel
Francesca Bliss	Estates Manager
Erin Carney	Public Information Officer
Victor D'Angelo	Deputy Chief of Staff
Al Escobar	Chief Executive Officer, Frontier Insurance Company in Rehabilitation
Jennifer Maldonado	External Affairs Officer
James Raphael	Finance Director
Ellen Russell	Director of Claims
Robert Sherwood	Director of Reinsurance
Jeffrey S. Zellan	Chief Labor and Employment Administrator