

LN

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

Joel S. Ario, :
Insurance Commissioner of the :
Commonwealth of Pennsylvania, :
Plaintiff :

v. :

No. 269 M.D. 2001

Reliance Insurance Company, :
Defendant :

Rec'd By Legal
AUG 26 2009

***IN RE: Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and XL Reinsurance
America, Inc.***

ORDER

AND NOW, this 26th day of August, 2009, upon consideration of the Liquidator's Petition (filed July 16, 2009)¹ for Approval of the Commutation, Settlement Agreement, and Release ("Settlement Agreement") between Reliance Insurance Company ("Reliance or Estate") and XL Reinsurance America, Inc. ("Reinsurer"):

The Court accepts the Liquidator's representations that the Settlement Agreement is in the best interest of the Reliance Estate, as the Settlement Agreement allows the Liquidator to terminate and commute the Reinsurance Agreement and the Estate will receive an economic benefit amounting to \$6,325,000.00;

Further, the Court accepts the Liquidator's representations that the Settlement Agreement is a fair and reasonable settlement of the

¹ The present petition is unrelated to the approval granted on July 2, 2009 of a commutation between Reliance and XL Reinsurance America, Inc. as successor in interest to NAC Reinsurance Corp.

Reinsurer's obligations to the Reliance Estate under the Reinsurance Agreement, and that the payment contemplated under the Settlement Agreement constitutes fair and reasonable value to the Reliance Estate;

Accordingly, the Petition for Approval is hereby **GRANTED** and the Commutation, Settlement Agreement and Release attached hereto and marked as "Exhibit A" is hereby **APPROVED**.

Further, counsel for the Liquidator is directed to serve a copy of this order upon those listed on the Master Service List and file with the Court an affidavit that service has been effectuated.


BONNIE BRIGANCE LEADBETTER,
President Judge

COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE

THIS COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE ("Agreement"), made effective and entered into this 22 day of April, 2009, by and between XL Reinsurance America Inc. (hereinafter known as the "Reinsurer") and Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania, in his capacity as Statutory Liquidator of Reliance Insurance Company (In Liquidation) (hereinafter known as the "Cedant"). David S. Brietling, Chief Liquidation Officer, is acting on behalf of Joel S. Ario, who is acting on behalf of the Cedant pursuant to the powers granted to him under Title 40, Purdon's Statutes, Section 221.20, et seq. and other applicable statutes, regulations and laws.

RECITALS

A. The Reinsurer and the Cedant entered into a contract of reinsurance wherein the Reinsurer obligated itself to accept from the Cedant the cession of a certain percentage of liabilities with respect to certain risks written or assumed by the Cedant and/or agents of the Cedant, and;

B. The reinsurance agreement referred to in Recital A above is set out on Exhibit A attached hereto and is herein referred to as "the Contract", and;

C. Pursuant to the Contract, there are loss developments, the total amount of which are not fully known or not yet capable of determination, representing liabilities which are or may come due from the Reinsurer to the Cedant, and;

D. The parties hereto recognize and understand that, based upon current economic projections, a substantial portion of the Reinsurer's obligations to the Cedant may become payable in the future rather than at present; that the Reinsurer's future liabilities and obligations to the Cedant pursuant to the Contract have been evaluated, but cannot be determined in an amount certain at this time; and that a settlement and commutation of the Reinsurer's obligations to the Cedant based upon present calculations of outstanding losses, including incurred but not

EXHIBIT A

reported losses, will eliminate the uncertainty of contingent liabilities for presently unresolved or unasserted claims, and;

E. The Reinsurer and the Cedant agree that it is in each of their best interests and in the best interests of Cedant's policyholders and creditors to adjust and settle their differences and to enter into this Agreement.

NOW THEREFORE, in consideration of the mutual benefits to be received by the parties hereto and the mutual covenants and agreements herein contained, the parties hereto hereby agree as follows:

Commutation of Reinsurance Agreements

1. Subject to the receipt by the Cedant of the Consideration as set out in Article 4 herein, together with any collection expenses and accrued interest due as is more particularly described in Article 8 (c) and 9 below, and in further consideration of the release contained in Article 2 herein the Cedant hereby irrevocably releases the Reinsurer, its predecessors, successors, assigns, shareholders, officers, directors, agents, sub-agents, brokers and sub-brokers from any and all adjustments, obligations, liabilities, offsets, actions, causes of action, proofs of claim, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, costs, agreements, promises, damages, expenses, judgment claims, and demands whatsoever, whether known or unknown, suspected or unsuspected, by either or both parties, fixed or contingent, arising out of, or in connection with the Reinsurer's participations on the Contract, whether or not any of such contract is void or voidable. The releases contained herein are only made on behalf of Reliance Insurance Company in its own right and as successor in interest by merger to its former subsidiaries shown on the attached Exhibit C and, without limiting the generality of the forgoing, specifically do not apply to claims arising from business written by the Canadian Branch of Reliance Insurance Company, Reliance National Insurance Co. (Europe) Limited, Reliance National Asia RE PTE, Ltd. or any other former non-domestic subsidiary that is not part of Reliance Insurance Company as a result of a merger.

Release of the Cedant

2. In consideration of the release set out in Article 1 herein, the Reinsurer hereby irrevocably releases the Cedant, its predecessors, successors, assigns, shareholders, officers, directors, receivers, liquidators, administrators, agents, sub-agents, brokers and sub-brokers from any and all adjustments, obligations, liabilities, offsets, actions, causes of action, proofs of claim, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, costs, agreements, promises, damages, expenses, judgment claims, and demands whatsoever, whether known or unknown, suspected or unsuspected, by either or both parties, fixed or contingent, arising out of, or in connection with the participation of the Cedant on the Contract, whether or not any of such Contract is void or voidable.

Warranties

3. To the best information and belief of each of the parties to this Agreement, the following express warranties apply:

a. There are no pending agreements, transactions, negotiations, regulatory actions or lawsuits in which any of the parties are involved nor are there any threatened regulatory actions or lawsuits of which any of the parties are aware that would render this Agreement or any part thereof void, avoidable, or unenforceable;

b. No party hereto has transferred, assigned, or contracted to transfer or assign to any person, corporation, company or entity any of its rights, title, benefit or obligations directly arising out of or in connection with the Contract, including without limitation any balances, accounts, costs, claims, counterclaims or demands which are within the contemplation of this Agreement;

c. The Reinsurer has not commuted or otherwise settled with or contracted to commute or settle with any person, corporation, company or entity any of their respective rights, title, benefit or obligations directly arising out of or in connection with the Contract, including

without limitation any balances, accounts, costs, claims, counterclaims or demands which are within the contemplation of this Agreement;

Consideration

4. The Reinsurer agrees to pay the Cedant the total sum of SIX MILLION THREE HUNDRED TWENTY FIVE THOUSAND United States Dollars and No Cents (US\$6,325,000) ("the Consideration"). Said payment shall be made no later than ten (10) calendar days following notice to the Reinsurer by facsimile of the execution of this Agreement by the Cedant or its assignee ("the Completion Date"). Reinsurer shall transfer the Consideration to the following account:

Name of Bank:	Mellon Bank Pittsburgh, PA
ABA Number:	043000261
Credit:	Reliance Insurance Company
CHIPS No.:	044840
Account Number:	079-7806
S.W.I.F.T.:	MELN US 3P
Ref:	Kathy Lee

Upon receipt of the Consideration, Cedant will deposit it in a segregated account pending receipt of the approval of the Commonwealth Court per Article 15 herein and the Consideration will accrue investment income at the same rate as Cedant receives on its other invested assets.

The parties also agree that any claim recoveries that shall be made after the effective date of this Agreement including but not limited to salvage and subrogation, any escrow funds with third party claim administrators and any unremitted cash with intermediaries that relate to the Contracts is the property of the Cedant.

Successors and Assigns

5. This Agreement shall inure to the benefit of and bind the Reinsurer and its successors and assigns and the Cedant and their respective successors and assigns.

Independent Investigation

6. Each of the parties acknowledges that it has entered into this Agreement in reliance upon its own independent investigation and analysis of its respective rights and obligations thereunder, and not on the basis of any representation made or not made by the other party hereto. Each of the parties further acknowledges that it has read this Agreement, that it has had the opportunity to discuss it with legal counsel, and that it fully understands all of the terms herein.

Integration and Waiver

7. This Agreement shall constitute the entire agreement between the parties pertaining to the subject matter hereof, and supersedes any and all prior or contemporaneous understandings or agreements. No supplement, modification, waiver or termination hereof shall be binding or enforceable unless executed in writing by the parties to be bound thereby. No delay, omission or forbearance on the part of any party to this Agreement in exercising or enforcing any right, power or remedy under this Agreement shall impair such right, power or remedy or operate as a waiver thereof. The single or partial exercise or enforcement of such right, power or remedy shall not preclude any other or further exercise or enforcement thereof of any other right, power or remedy. The rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

Remedies

8. In the event that the Reinsurer fails to pay the Consideration to the Cedant by the Completion Date, the Cedant shall have all rights and remedies available at law or in equity. In addition, the Cedant shall have the express right to:

a. deem the entire Agreement null and void by notice in writing to the Reinsurer per Article 11 herein and to seek recovery of all sums due or to become due under the Contract, or;

b. bring suit on the Agreement including interest on the agreed-upon but unpaid amount as set out in Article 8(c).

c. Without prejudice to the Cedant's rights to rescind this Agreement pursuant to Article 8(a) above, if Reinsurer does not pay all of the Consideration recited herein to the Cedant by the Completion Date, the Reinsurer shall pay interest on any unpaid sums at a rate which is equal to one percentage point (1.00%) over the Prime Rate (the base rate on corporate loans at large U.S. money center commercial banks) as published in *The Wall Street Journal*, but in no event shall said interest be calculated at less than six percent (6%) per annum.

Expenses of Collection

9. Subject to the provisions of Article 8(c) herein, if the Reinsurer fails to pay the Consideration to the Cedant by the Completion Date, Reinsurer agrees to reimburse the Cedant for all reasonable expenses including, attorney fees which are incurred by the Cedant in the enforcement of this Agreement and collection of the consideration together with any interest accrued upon such reasonable expenses from the date of payment of such expenses at the rate set out in Article 8(c) above.

Choice of Laws

10. The performance and interpretation of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania with respect to any dispute arising under this Agreement between the Reinsurer and the Cedant;

Notices

11. All notices required under this Agreement shall be as follows:

a. Any notice or other communication under or in connection with this Agreement shall be in writing and shall be delivered personally or sent by first class post/mail (or by air mail if overseas) or by overnight courier service, to the addresses of the parties as set out in Exhibit B attached hereto or to such other person or address as any party may specify by notice in writing to the others.

b. In the absence of evidence of earlier receipt, any notice or other communication shall be deemed to have been duly served if (i) sent by first class post on the second business day after posting; (ii) sent by overnight courier on the next business day after mailing (iii) sent by air mail, six (6) days after posting, and; (iv) if delivered personally, when left during normal business hours at the address set out in Exhibit B or any alternative address specified by the receiving party.

Interpretation

12. The language of this Agreement is the result of negotiation between all parties hereto, and any ambiguities in said language shall not be presumptively construed against or in favor of any party or parties hereto.

Execution and Approval

13. Each party to this Agreement represents that it is authorized to enter into this Agreement and the transactions contemplated herein.

14. Each signatory to this Agreement represents that said signatory is authorized and empowered to execute this Agreement and the transactions contemplated herein and that any and all required corporate approval on behalf of the Reinsurer has been properly executed and that the Agreement is entered into voluntarily.

15. With respect to the Cedant, this Agreement is subject to final approval by the Commonwealth Court of Pennsylvania (the "Court"), which has jurisdiction over the liquidation of Cedant. Upon execution by all parties hereto, the Liquidator of Cedant shall promptly make application to the Court to secure said approval. In the event the Court does not approve this Agreement, then upon such notice of disapproval, the Liquidator of Cedant shall notify the Reinsurer and this Agreement will become null and void and have no further force or effect as between the Reinsurer and the Cedant except for the provisions of this Article and Cedant will thereupon promptly and unconditionally (and in no event later than thirty days from notice of disapproval) return the Consideration to the Reinsurer together with investment income earned thereupon per the preceding Article 4.

16. This Agreement may be signed and exchanged in counterpart by facsimile and this Agreement as so signed and exchanged will constitute the binding Agreement of the parties.

IN WITNESS WHEREOF, the parties have hereunto set their hands as of the dates set forth.

RELIANCE INSURANCE COMPANY (In Liquidation)

By: *David S. Bruehl*
Title: Chief Liquidation Officer
Date: 4/21/09

XL REINSURANCE AMERICA INC.

By: *David F. Hylton*
Title: SUP Claims
Date: 4/22/09.

EXHIBIT A

<u>RELIANCE REF.</u>	<u>REINSURER REF.</u>	<u>CONTRACT DESCRIPTION</u>	<u>EFFECTIVE DATE</u>
9C3CAA	80586	ECS 100% NET RETAINED LIABILITY	10/01/1999

EXHIBIT B

For Reliance/The Liquidator

**Keith Kaplan
Reliance Insurance Company (In Liquidation)
Three Parkway
Philadelphia, PA 19102
Tel. 215-864-4250
Fax 215-864-1077**

For XL Reinsurance America Inc.

**Steven P. Agosta
General Counsel
XL Reinsurance America Inc.
Seaview House, 70 Seaview Avenue
Stamford, CT 06902**

EXHIBIT C

Mergers of the former Reliance Insurance Group of companies into Reliance Insurance Company

Company	State of Domicile	Date of Merger
Reliance Insurance Company of Illinois	Illinois	January 1, 2001
Reliance National Indemnity Company	Wisconsin	February 13, 2001
United Pacific Insurance Company	Pennsylvania	February 13, 2001
Reliance Direct Insurance Company	Pennsylvania	February 13, 2001
Reliance Universal Insurance Company	California	February 13, 2001
United Pacific Insurance Company of New York	New York	February 16, 2001
Reliance National Insurance Company	Delaware	March 6, 2001
Reliance Surety Company	Delaware	March 6, 2001
Reliance Lloyds	Texas	April 6, 2001 (Dissolved)