



GOVERNOR'S OFFICE OF GENERAL COUNSEL

July 11, 2008

Michael F. Krimmel
Chief Clerk
Commonwealth Court
628 South Office Building
Harrisburg, PA 17120-0001

RECEIVED & FILED
COMMONWEALTH COURT
OF PENNSYLVANIA
2008 JUL 11 P 1:18

RE: Joel S. Ario, Acting Insurance Commissioner of the Commonwealth of Pennsylvania v. Legion Insurance Company,
No. 183 M.D. 2002

Dear Mr. Krimmel:

Enclosed for filing please find the original and two (2) copies of the Liquidator's Petition for Approval of Commutation, Settlement and Release Agreement, as well as the Order regarding the above-referenced matter.

As directed by the Court's Order we are also enclosing copies of the documents on a computer disk.

Thank you for your courtesies in filing the documents.

Very truly yours,

Amy L. Weber
Special Funds Counsel

ALW:jlh
Enclosures

2. The Act confers broad powers on the Liquidator to marshal the assets of Legion's Estate for eventual distribution to its policyholders and creditors.

3. Prior to receivership, Legion entered into certain contracts of reinsurance (the "Contracts") with Hannover that obligated Hannover to accept from Legion the cession of a certain percentage of Legion's liabilities pertaining to business written on Legion's behalf under the 1992 – 1994 Traditional Treaties. A description of the Contracts is also attached as Exhibit A to the Agreement which is attached as an Exhibit to the Confidential Affidavit of Gregg C. Frederick in Support of the Liquidator's Petition for Approval of Commutation, Settlement and Release Agreement.

4. Legion and Hannover desire to terminate their business relationship under the 1992 – 1994 Traditional Treaty Contracts and have agreed to commute all of their respective obligations under these Contracts.

5. Hannover's obligations to Legion under the Contracts include obligations that may become payable in the future and that cannot be determined in an amount certain at this time.

6. Legion believes that it is in its best interest to adjust and settle Hannover's obligations under the Contracts, including its future obligations, to Legion.

7. Accordingly, Legion has negotiated the Agreement with Hannover.

8. On March 8, 2006 Legion received a \$5 Million payment from Hannover to apply towards Traditional Treaty balances for the 1992, 1993, 1994, 1995 and 1996 years. Pursuant to the commutation agreement, Legion will receive a payment in the amount of \$1,148,250 for outstanding recoverables on the 1992, 1993 and 1994 years, plus an additional payment to commute all liability under the 1992 – 1994 Treaty years.

9. Pursuant to the Agreement, Legion and Hannover will release each other from liability arising out of, or in connection with the Contracts.

10. Legion entered into this Agreement in reliance on its independent investigation and analysis of the Contracts and Legion's rights and obligations under the Contracts.

11. The Liquidator believes that the Agreement is in the best interest of Legion's policyholders, claimants, creditors and the public generally.

12. Particularly, the Liquidator believes that Legion's receipt of the total agreed commutation payment is reasonable and adequate consideration for the commutation of Hannover's obligations to Legion under the Contracts.

13. Legion currently estimates Hannover's current and future obligations under the Contracts to be approximately \$7.8 million, including but not limited to total undiscounted outstanding reserves and incurred but not reported claims. The Liquidator believes that the agreed total commutation payment is reasonable given the time value of money, issues pertinent to the subject contracts, the costs and fees that would potentially be expended in arbitrating due and owing balances from the reinsurer, and the benefit of certain payment now versus potential payments in the future. The Liquidator also hopes that this Agreement will lead to additional commutations with this reinsurer and other reinsurers and, as a result, the more timely and orderly liquidation of Legion's Estate for the ultimate benefit of the policyholders and creditors.

14. Thus, based on the terms of the Agreement and the evaluation of the transaction as a whole by the Liquidator, his staff, and Legion staff members familiar with the company's dealings with Hannover in connection with the Traditional Treaty, the Liquidator has determined that the Agreement is a fair and reasonable commutation of Legion's and Hannover's obligations to each other

under the 1992 -1994 Traditional Treaty years. The Insurance Department Act authorizes the Liquidator to take such actions as he deems "necessary or expedient to . . . conserve or protect [the insolvent insurer's] assets or property[,]" including the power to "compromise" claims involving assets of the insolvent insurer in order to accomplish or aid in achieving the purposes of liquidation. See 40 P.S. § 221.23(6), (9), and (23).

15. The Liquidator further believes that the Agreement will help him in achieving the objectives of liquidation under the Act, 40 P.S. §§ 221.1 – 221.63. The Agreement will assist the Liquidator in marshalling and maximizing Legion's immediately available assets and minimize any unavoidable loss to policyholders, claimants and creditors resulting from Legion's insolvency. See 40 P.S. § 221.1(c).

16. Hannover agrees to the commutation as is evidenced by its execution of the Agreement and concurs in requesting the Court's approval of this Petition.

17. For all of these reasons, the Liquidator requests that the Court approve the Agreement.

Respectfully submitted,



Amy L. Weber, Special Funds Counsel
I.D. # 45447

Pennsylvania Insurance Department
Office of Liquidations, Rehabilitations
and Special Funds
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Harrisburg, PA 17102
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Attorney for Joel S. Ario, Insurance Commissioner of
the Commonwealth of Pennsylvania, in his official
capacity as Statutory Liquidator of Legion Insurance
Company (In Liquidation)

Dated: 7/11/08

VERIFICATION

I, Gregg C. Frederick, am Executive Vice President, Reinsurance, and certify that I am authorized to make this Verification on behalf of the Honorable Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania, in his official capacity as the Statutory Liquidator of Legion Insurance Company (In Liquidation). I have reviewed the Liquidator's Petition for Approval of Commutation, Settlement and Release Agreement between the Liquidator and Hannover Ruckversicherungs-Aktiengesellschaft and verify that the matters stated therein are true and correct to the best of my knowledge, information and belief. I understand that the Verification is made subject to the penalties of 18 Pa. C.C. § 4904 relating to unsworn falsification to authorities.



Gregg C. Frederick
Executive Vice President, Reinsurance

Dated: July 10, 2008