



GOVERNOR'S OFFICE OF GENERAL COUNSEL

October 22, 2008

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

Re: *Joel S. Ario, 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

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COMMONWEALTH COURT
OF PENNSYLVANIA
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1. On July 25, 2003, this Court found Legion insolvent and appointed the Commissioner as Liquidator of Legion pursuant to Article V of the Insurance Department Act of 1921, 40 P.S. §§221.1 – 221.63 (hereinafter, the “Department Act”).

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 LDG Re that obligated LDG Re, for and on behalf of the members of the Workers’ Compensation Alternative Facility “WCAF-1” (with the exception of Trenwick America Reinsurance Corporation, successor by merger to Chartwell Reinsurance Company, and for whose participation is to be commuted separately), to accept from Legion the cession of a certain percentage of Legion’s liabilities pertaining to business written on Legion’s behalf under the HUMANA Workers’ Compensation and Employers Liability Reinsurance Agreements. A description of the Contracts is also attached as Exhibit A to the Agreement which is attached hereto as Exhibit I.

4. Legion and LDG Re desire to terminate their business relationship under the Contracts and have agreed to commute all of their respective obligations under these Contracts.

5. LDG Re’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 LDG Re’s obligations under the Contracts, including its future obligations, to Legion.

7. Accordingly, Legion has negotiated the Agreement with LDG Re.

8. LDG Re does not currently owe any sums to Legion under the HUMANA Workers’

Compensation and Employers Liability Reinsurance Agreements. LDG Re has paid Legion for all amounts for all outstanding recoverables to date. Pursuant to the commutation agreement, Legion will receive an additional payment to commute all liability under the HUMANA Contracts.

9. Pursuant to the Agreement, Legion and LDG Re 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 LDG Re's obligations to Legion under the Contracts.

13. Legion currently estimates LDG Re's current and future obligations under the Contracts to be approximately \$3.1 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.

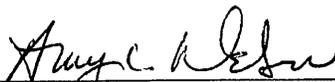
14. Thus, based on the terms of the Agreement and the evaluation of the transaction as a whole by the Liquidator, his staff, and Legion staff members familiar with the company's dealings with LDG Re in connection with the HUMANA Contracts, the Liquidator has determined that the Agreement is a fair and reasonable commutation of Legion's and LDG Re's obligations to each other under the HUMANA Workers' Compensation and Employers Liability Reinsurance Contracts. 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. LDG Re 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

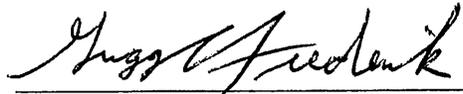
Pennsylvania Insurance Department
Office of Liquidations, Rehabilitations
and Special Funds
901 N. 7th Street
Harrisburg, PA 17102
(717) 787-6009

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: 10/28/08

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 LDG Reinsurance Corporation 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: October 16, 2008

Exhibit I

COMMUTATION, SETTLEMENT AND RELEASE AGREEMENT

THIS COMMUTATION, SETTLEMENT AND RELEASE AGREEMENT (the "Agreement"), made effective and entered into this 17th day of September, 2008, by and between LDG Reinsurance Corporation for and on behalf of the members of the Workers' Compensation Alternative Facility "WCAF-1" (with the exception of Trenwick America Reinsurance Corporation, successor by merger to Chartwell Reinsurance Company, and for whose participation is to be commuted separately) (hereinafter known as the "Reinsurer") and Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania, in his official capacity as the Statutory Liquidator of Legion Insurance Company (In Liquidation) (hereinafter known as the "Cedent").

RECITALS

A. WHEREAS, the Reinsurer and the Cedent entered into certain contracts of reinsurance as set forth and described in the attached Exhibit A (hereinafter "the Contracts") wherein the Reinsurer obligated itself to assume from the Cedent certain liabilities with respect to risks written or assumed by the Cedent and/or agents of the Cedent, regarding the HUMANA Workers' Compensation and Employers' Liability Program, and;

B. WHEREAS, the Reinsurer and the Cedent desire to fully and finally settle, release, and commute all rights, obligations, and liabilities, both known and unknown, of the Reinsurer and the Cedent under the Contracts pursuant to the terms of this Agreement, and;

C. WHEREAS, the Reinsurer and the Cedent agree that it is in each of their best interests and in the best interests of their respective 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 Cedent of the Consideration set out in Paragraph 4, and in further consideration of the release contained in Paragraph 2 hereinbelow, the Cedent hereby irrevocably releases the Reinsurer, and its predecessors, successors, assigns, shareholders, employees, officers, and directors, from One Hundred Percent (100%) of all liabilities, adjustments, obligations, offsets, actions, causes of action, proofs of claim, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, agreements, promises, damages, judgments, claims, and demands whatsoever, whether known, unknown or suspected, arising out of, or in connection with or in any manner related to the Contracts.

2. In consideration of the release set out in Paragraph 1 hereinabove, the Reinsurer hereby irrevocably releases the Cedent, and its respective predecessors, successors, assigns, shareholders, agents, employees, officers, directors, receivers, liquidators, and administrators, from One Hundred Percent (100%) of all liabilities, adjustments, obligations, offsets, actions, causes of action, proofs of claim, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, agreements, promises, damages, judgments, claims, and demands whatsoever, whether known, unknown or suspected, arising out of, or in connection with or in any manner related to the Contracts.

Warranties

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

a. Except as disclosed in Paragraph 18 and expressly subject thereto, 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; and

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 Contracts, including without limitation any balances, accounts, costs, claims, counterclaims or demands which are within the contemplation of this Agreement. The Reinsurer has not undertaken any action that would impede, prohibit or limit its ability to make payment under this Agreement.

Consideration

4. The Reinsurer agrees to pay the Cedent the total sum of Two Million Fifty-Nine Thousand Two Hundred Thirty-Nine Dollars (US\$2,059,239) (“the Consideration”), consisting of \$2,388,453 in total discounted reserves, \$0 in outstanding recoverables, and an offset in the amount of \$329,214 (see Exhibit B). Said payment shall be made to the Cedent no later than the tenth (10th) day following notice by the Cedent to the Reinsurer of Court approval of this Agreement as executed by the parties (“the Completion Date”). Notwithstanding the foregoing, if the Completion Date expires on a weekend or a holiday, then the transfer must be completed by the end of the next business day. Reinsurer shall transfer the Consideration pursuant to the Cedent’s wiring instructions.

5. In addition to payment of the above Consideration, Reinsurer agrees that any and all Proofs of Claim (“POCs”) pertaining to the Contracts that were filed in the Legion Liquidation proceedings, whether filed by Reinsurer for itself or by Reinsurer on behalf of a WCAF-1 member (with the exception of Trenwick America Reinsurance Corporation) or filed directly by any of the members of the WCAF-1 pool themselves (with the exception of Trenwick America Reinsurance Corporation), will be valued at zero dollars (\$0) and Reinsurer agrees to accept Notices of Determination for these POCs that will be valued at zero dollars with a class determination of “e.”

Successors and Assigns

6. This Agreement shall inure to the benefit of and bind the Reinsurer and its successors and assigns and the Cedent and its respective successors and assigns.

Independent Investigation

7. Each of the parties acknowledges that it has entered into this Agreement in reliance upon its own independent investigation and analysis of the Contracts and its respective rights and obligations thereunder, and not on the basis of any representation 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.

No Third Party Beneficiary

8. This Agreement is intended to confer rights and benefits only upon, and shall inure only to the benefit of, the parties hereto and their respective successors and assigns. It shall not be deemed to confer any rights on any other third party, including any rights based upon a claim of collateral estoppel or res judicata.

Integration and Waiver

9. 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 or 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.

Cooperation

10. a. The Cedent hereby agrees to use its best efforts to provide the Reinsurer with any and all documentation (in both paper and/or computer/electronic formats) at Reinsurer's expense (i) relating to the Contracts (including claims, underwriting and accounting files), and (ii) in the Cedent's possession or control (including in the possession or control of its agents or counsel), requested by the Reinsurer from time to time to the extent that the Reinsurer, acting reasonably and in good faith, in its sole discretion, deems necessary or advisable in connection with any retrocessional billing or collection activities; and

b. The Cedent hereby agrees to use its best efforts to allow access to the Reinsurer, upon reasonable notice, to inspect and make copies (at the Reinsurer's sole expense) of any such documentation requested by the Reinsurer from time to time that the Reinsurer, acting reasonably and in good faith, and in its sole discretion, deems necessary or advisable in connection with any billing or collection activities with retrocessionaires.

c. In addition, the Cedent will cooperate with and provide commercially reasonable assistance to the Reinsurer in all respects in the Reinsurer's efforts to recover from its retrocessionaires in connection with this Agreement. Such reasonable assistance and cooperation shall include, but not be limited to, providing appropriate personnel to assist the Reinsurer by explaining, or by providing testimony at deposition, trial or arbitration, about the business that is subject to this Agreement. In the event that the Cedent provides such personnel, the Reinsurer shall reasonably compensate the Cedent for the time expended by its personnel in assisting the Reinsurer.

Cedent's Remedies

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

a. deem the entire Agreement null and void by notice in writing to the Reinsurer per Paragraph 14 herein and to seek recovery of all sums due or to become due under the Contracts; or

b. bring suit to enforce, or otherwise, the Agreement including interest on the agreed-upon but unpaid amount as set out in Paragraph 11(c) hereinbelow.

c. Without prejudice to the Cedent's rights to rescind this Agreement pursuant to Article 11(a) above, if Reinsurer does not pay all of the Consideration recited herein to the Cedent 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

12. Subject to the provisions of Article 11(c) herein, if the Reinsurer fails to pay the Consideration to the Cedent by the Completion Date, Reinsurer agrees to reimburse the Cedent for all reasonable expenses including, without limitation, attorney fees which are incurred by the Cedent 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 11(c) above.

Choice of Laws

13. The performance and interpretation of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, exclusive of the rules with respect to conflict of laws, with respect to any dispute arising under this Agreement between the Reinsurer and the Cedent.

Notices

14. 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 C 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 C or any alternative address specified by the receiving party.

Interpretation

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

Execution and Approval

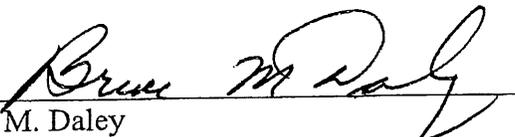
16. Except as disclosed in Paragraph 18, each party to this Agreement represents that it is authorized to enter into this Agreement and the transactions contemplated herein.

17. Except as disclosed in Paragraph 18, each signatory to this Agreement represents that said signatory is authorized and empowered to execute this Agreement, including Reinsurer's authority to bind and act by and on behalf of the WCAF-1 members, 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.

18. This Agreement is subject to approval by the Commonwealth Court of Pennsylvania, which has jurisdiction over the Liquidation of the Cedent. Upon execution by all parties hereto, the Liquidator of the Cedent shall promptly make application to this Court to secure said approval. In the event the Court does not approve this Agreement, then upon such notice of disapproval, the Liquidator of the Cedent shall notify the Reinsurer and this Agreement

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

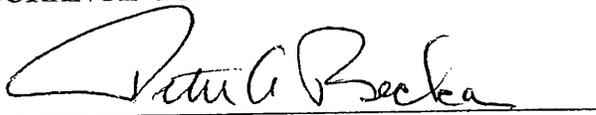
**JOEL S. ARIO, INSURANCE COMMISSIONER OF THE
COMMONWEALTH OF PENNSYLVANIA, IN HIS OFFICIAL
CAPACITY AS STATUTORY LIQUIDATOR OF LEGION INSURANCE
COMPANY (IN LIQUIDATION)**

By: 
Bruce M. Daley

Title: Chief, Takeover Management Division

Date: 9/18/08

**LDG REINSURANCE CORPORATION ON ITS OWN BEHALF AND IN
ITS CAPACITY AS REPRESENTATIVE OF THE WORKERS'
COMPENSATION ALTERNATIVE FACILITY "WCAF-1" WITH THE
EXCEPTION OF TRENWICK AMERICA REINSURANCE
CORPORATION, SUCCESSOR BY MERGER TO CHARTWELL
REINSURANCE COMPANY**

By: 
PETER A. RECKA

Title: PRESIDENT

Date: SEPTEMBER 29, 2008

EXHIBIT A

Workers' Compensation and Employers' Liability Quota Share Reinsurance Agreements
Underwritten by HUMANA Workers' Compensation Services, Inc. for the following years:

4/1/99 – 4/1/00 -- 90% of 100% participation; remaining 10% to be commuted separately
4/1/00 – 4/1/01 -- 90% of 100% participation; remaining 10% to be commuted separately
4/1/01 – 7/1/01 -- 90% of 100% participation; remaining 10% to be commuted separately

EXHIBIT B

Legion Insurance Company (In Liquidation)
Villanova Insurance Company (In Liquidation)
Commutation Summary with LDG RE

	<u>Legion</u>	<u>Villanova</u>	<u>Totals</u>
Expected Ultimate Losses	3,104,289	7,413,509	10,517,798
Discount of Reserves	(715,836)	(1,701,962)	(2,417,798)
Commutation Value	<u>\$2,388,453</u>	<u>\$5,711,547</u>	<u>\$8,100,000</u>
Recoverable Balances	0	0	0
Offset Houston Casualty	(329,214)	0	(329,214)
Total Cash Received	<u>\$2,059,239</u>	<u>\$5,711,547</u>	<u>\$7,770,786</u>

EXHIBIT C

NOTICE TO CEDENT

Meredith Levy
Assistant General Counsel
Legion Insurance Company (In Liquidation)
One Logan Square, Suite 1400
Philadelphia, PA 19103

Gregg C. Frederick
Executive Vice President, Reinsurance
Legion Insurance Company (In Liquidation)
One Logan Square, Suite 1400
Philadelphia, PA 19103

NOTICE TO REINSURER

LDG Reinsurance Corporation
Attn: President
401 Edgewater Place, Suite 400
Wakefield, MA 01880