IN THE COMMONWEALTH COURT OF PENNSYLVANIA

In Re: Legion Insurance Company

: No. 1 LEG 2002

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(In Liquidation)

In Re: Commutation, Settlement and Release Agreement between Legion Insurance Company (In Liquidation), Villanova Insurance Company (In Liquidation), Swiss Re Life & Health America Inc., as successor by merger to Swiss Re Life Company America of 475 N. Martingale Road, Suite 1200, Schaumburg, IL 60173 – 1994 and 1997 Cessions Treaties

ORDER

AND NOW, this	_ day of	_, 2013, upon consideration of the
Petition for Approval of Con	mmutation, Settlement and Re	lease Agreement by and between
Legion Insurance Company (I	In Liquidation) ("Legion") and	Swiss Re Life & Health America
Inc., as successor by merger to	Swiss Re Life Company Amer	rica ("Swiss Re"), filed by Michael
F. Consedine, Insurance Comr	missioner, in his official capacit	y as Statutory Liquidator of Legion
Insurance Company (the "Lic	quidator"), and in which petit	ion Swiss Re concurs, the Court
GRANTS the Petition and app	proves the Commutation, Settler	ment and Release Agreement.
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MARY HANNAH LEAVITT, Judge

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LIQUIDATOR'S PETITION FOR APPROVAL OF COMMUTATION, SETTLEMENT AND RELEASE AGREEMENT

Petitioner Michael F. Consedine, Insurance Commissioner of the Commonwealth of Pennsylvania in his official capacity as the Statutory Liquidator ("Liquidator") of Legion Insurance Company (In Liquidation) ("Legion"), respectfully requests that this Court enter an Order approving the Commutation, Settlement and Release Agreement ("Settlement Agreement") between Legion and Swiss Re Life & Health America Inc., as successor by merger to Swiss Re Life Company America ("Swiss Re").

The Liquidator asks the Court to approve the Settlement Agreement for the reasons set forth below:

- 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 rehabilitation, Swiss Re participated on the first, second and third layer specific and aggregate excess of loss Cessions treaties for the period of 10/1/1994 10/1/1998 (collectively the "Contracts") that obligated Swiss Re to accept from Legion the cession of a certain portion of Legion's liabilities pertaining to business written on Legion's behalf as detailed in Exhibit A to the Settlement Agreement, which is attached as an Exhibit to the Confidential Affidavit of Gregg C. Frederick, which is attached to this Petition.
- 4. Legion and Swiss Re desire to terminate their business relationship with respect to the Contracts and the parties have agreed to commute all of their respective obligations under the Contracts.
- 5. Swiss 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 Swiss Re's obligations, including their future obligations, to Legion.
- 7. Accordingly, Legion has negotiated the Settlement Agreement with Swiss Re, which is attached as Exhibit 1 to the Confidential Affidavit of Gregg C. Frederick, which is attached to this Petition.

- 8. Pursuant to the Settlement Agreement, Swiss Re will pay \$11,429,111 to Legion.
- 9. Pursuant to the Settlement Agreement, Legion and Swiss Re will release each other from liability arising out of, or in connection with the Contracts..
- 10. Legion entered into this Settlement 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 Settlement 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 approximately \$11.4 million dollars is reasonable and adequate consideration for the commutation of Swiss Re's obligations to Legion under the Contracts. In the event the Court does not grant the approval sought in this Petition, the Settlement Agreement will become null and void.
- 13. The Liquidator believes that the agreed commutation payment of \$11,429,111 in cash is reasonable given the time value of money, the results of arbitrations that Legion initiated against other reinsurers, the costs and fees that would have been 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 Settlement Agreement will lead to additional commutations with 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. Gregg C. Frederick, Executive Vice President for Reinsurance at Legion, is responsible for all facets of ceded and assumed reinsurance at Legion including billing, claims,

commutations, coverage analysis, and dispute management. He has specific knowledge regarding the risks to Legion of attempting to collect reinsurance through billing, negotiation or the dispute resolution process. As set forth in his Confidential Affidavit (attached as "Sealed Exhibit A"), Mr. Frederick has identified several specific advantages to the Estate arising from the consummation of the transaction memorialized in the Settlement Agreement.

- Thus, based on the terms of the Settlement 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 Swiss Re, the Liquidator has determined that the Settlement Agreement is a fair and reasonable commutation of Legion's and Swiss Re's obligations to each other under the Contracts. The Insurance Department Act authorizes the Liquidator to take such actions as she 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).
- 16. The Liquidator further believes that the Settlement Agreement will help him in achieving the objectives of liquidation under the Act, 40 P.S. §§ 221.1 221.63. The Settlement Agreement will assist the Liquidator in marshaling 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).
- 17. Swiss Re agrees to the Settlement Agreement as evidenced by their execution of the Settlement Agreement and concur in requesting the Court's approval of this petition.

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

Respectfully submitted,

Amy L. Weber (I.D. # 45447)
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Attorney for Michael F. Consedine, Insurance Commissioner of the Commonwealth of Pennsylvania, in his official capacity as Statutory Liquidator of Legion Insurance Company (In Liquidation)

Dated:_	/0	/8	/13
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SEALED EXHIBIT A TO LIQUIDATOR'S PETITION FOR APPROVAL OF COMMUTATION, SETTLEMENT AND RELEASE AGREEMENT

THIS ENVELOPE IS SEALED AND CONTAINS INFORMATION DESIGNATED CONFIDENTIAL IN THIS CASE. IT IS NOT TO BE OPENED OR THE CONTENTS THEREOF TO BE DISPLAYED OR REVEALED EXCEPT BY OR UPON ORDER OF THE COURT.

Respectfully submitted,

Amy L. Weber (I.D. # 45447)
Insurance Department Counsel
Pennsylvania Insurance Department
Office of Liquidations, Rehabilitations
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Attorney for Michael F. Consedine, Insurance Commissioner of the Commonwealth of Pennsylvania, in his official capacity as Statutory Liquidator of Legion Insurance Company (In Liquidation)

Dated: $l \circ / \delta / l 3$