



GOVERNOR'S OFFICE OF GENERAL COUNSEL

November 24, 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. Villanova Insurance Company***  
***No. 182 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 Settlement and Commutation Agreements and Releases Between the Liquidator and Mutual Indemnity (Barbados) Ltd., Mutual Indemnity Limited, and Mutual Indemnity Bermuda.

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  
Encs.





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COMMONWEALTH COURT  
OF PENNSYLVANIA  
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IN THE COMMONWEALTH COURT OF PENNSYLVANIA

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

Plaintiff,

v.

Villanova Insurance Company  
One Logan Square, Suite 1400  
Philadelphia, PA 19103

Defendant.

Docket No. 182 M.D. 2002

**LIQUIDATOR'S PETITION FOR APPROVAL OF  
SETTLEMENT AND COMMUTATION AGREEMENTS AND RELEASES  
BETWEEN THE LIQUIDATOR, MUTUAL INDEMNITY (BARBADOS) Ltd.,  
MUTUAL INDEMNITY LIMITED, and MUTUAL INDEMNITY BERMUDA**

Petitioner Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania in his official capacity as Statutory Liquidator of Legion Insurance Company ("Legion") and Villanova Insurance Company ("Villanova"), (collectively, the "Liquidator"), respectfully requests that this Court enter an Order approving the Settlement and Commutation Agreements and Releases ("Commutation") between the Liquidator and Mutual Indemnity (Barbados) Ltd., Mutual Indemnity Limited, and Mutual Indemnity Bermuda ("Mutual").

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

1. On July 25, 2003, this Court found Villanova 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 Villanova’s estate for eventual distribution to its policyholders and creditors.

3. In connection with guaranteed cost insurance policies issued prior to receivership, Villanova and Mutual entered into certain reinsurance agreements identified in Schedule 2 to each of the Commutation Agreements attached hereto as Exhibit A, pursuant to which Villanova ceded to Mutual a certain share of Villanova’s liabilities under the guaranteed cost policies (the “GC Reinsurance Agreements”).

4. Villanova and Mutual desire to terminate their business relationship and have agreed to commute certain of their respective obligations under the GC Reinsurance Agreements.

5. Mutual’s obligations to Villanova under the GC Reinsurance Agreements include obligations that may become payable in the future and that cannot be determined in an amount certain at this time.

6. Villanova believes that it is in its best interest to adjust and settle Mutual’s obligations, including its future obligations, to Villanova.

7. Accordingly, Villanova has negotiated the Commutation Agreements with Mutual, which are attached as Exhibit A to this Petition.

8. Pursuant to the Commutation Agreements, Mutual will pay two hundred fifty-three thousand, eight hundred and sixty-four dollars (\$253,864) to Legion for the Mutual

Barbados program, five million, seven hundred ninety-five thousand, three hundred and seventy-four dollars (\$5,795,374) to Legion and Villanova for the Mutual Indemnity Limited program, and eleven million one hundred thirty-one thousand, two hundred seventeen dollars (\$11,131,217) to Legion and Villanova for the Mutual Indemnity Bermuda program, as set forth in Exhibit B to this Petition.

9. Pursuant to the Commutation Agreements, Villanova and Mutual will release each other from certain liabilities arising out of, or in connection with the GC Reinsurance Agreements.

10. Villanova entered into these Commutations in reliance on its independent investigation and analysis of the GC Reinsurance Agreements and Legion's rights and obligations under the GC Reinsurance Agreements.

11. The Liquidator believes that the Commutations are in the best interest of Villanova's policyholders, claimants, creditors and the public generally.

12. Particularly, the Liquidator believes that the receipt of a total of approximately \$17.18 million to Legion and Villanova for the Mutual Barbados, Mutual Indemnity Limited and Mutual Indemnity Bermuda programs is reasonable and adequate consideration for the commutation of certain of Mutual's obligations to Legion and Villanova the GC Reinsurance Agreements.

13. The Liquidator currently estimates Mutual's current and future obligations under the GC Reinsurance Agreements for the Mutual Barbados, Mutual Indemnity Limited and Mutual Indemnity Bermuda programs to total approximately \$15.65 million, for gross outstanding reserves and incurred but not reported claims. The Liquidator believes that the agreed commutation payments on a discounted present value basis totaling approximately \$13.57 million

in cash is reasonable given the time value of money, the results of arbitrations that Villanova 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 will also receive other amounts due under the contracts totaling \$3.61 million. In total, the Liquidator will receive \$17.18 million in cash for commutation payments and other amounts due. The Liquidator also hopes that these Commutations will lead to additional commutations with other reinsurers and, as a result, the more timely and orderly liquidation of Villanova's estate for the ultimate benefit of the policyholders and creditors.

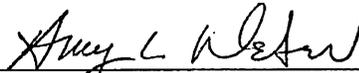
14. Thus, based on the terms of the Commutation Agreements and the evaluation of the transactions as a whole by the Liquidator, his staff, and Villanova staff members familiar with the company's dealings with Mutual, the Liquidator has determined that the Commutations are a fair and reasonable commutation of certain of Villanova's and Mutual's obligations to each other under the GC Reinsurance Agreements. 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 Commutations will help him in achieving the objectives of liquidation under the Act, 40 P.S. §§ 221.1 – 221.63. The Commutation Agreements will assist the Liquidator in marshalling and maximizing Villanova's immediately available assets and minimize any unavoidable loss to policyholders, claimants and creditors resulting from Villanova's insolvency. See 40 P.S. § 221.1(c).

16. Mutual agrees to the Commutations as evidenced by its execution of the Commutation Agreements 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 Commutation Agreements.

Respectfully submitted,



Amy L. Weber, Special Funds Counsel  
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Pennsylvania Insurance Department  
Office of Liquidations, Rehabilitations  
and Special Funds  
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Attorney for Joel S. Ario, Insurance Commissioner  
of the Commonwealth of Pennsylvania, in his  
official capacity as Statutory Liquidator of  
Villanova Insurance Company (In Liquidation)

Dated: November 24, 2008