

Report for Special Master's Status Conference

April 30, 2018

R-559 Access Insurance Company

SDR: CANTILO & BENNETT, L.L.P.

Primary Responsible Person: Susan E. Salch

Estate Counsel: Christopher Fuller

Receiver's Counsel: David Wheelus

RLO Analyst: Vicente Aguillon

Background on Receivership

- Date of Permanent Injunction (Liquidation): March 13, 2018
- Date of Appointment of SDR: March 14, 2018
- Claims Filing Deadline: TBD (Anticipated deadline: September 13, 2019)
- States where Licensed: TX, AL, AZ, AR, CA, DE, TN, FL, GA, IN, KY, LA, MS, MO, MT, NV, NM, NC, OK, OR, PA, SC
- Lines of Business: non-standard auto
- Texas Guaranty Association Triggered: Texas Property and Casualty Insurance Guaranty Association
- Date of Impairment: March 14, 2018
- Early Access Distributions: TBD (Anticipated distribution in Fall 2018)

Overview of Access Insurance Company

Access Insurance Company ("AIC") is a Texas domiciled property and casualty company, with headquarters in Atlanta, Georgia. It sold almost exclusively non-standard personal automobile policies. Although licensed in 22 states it was active in only 13, with a number of those states in run-off. Approximately 73% of its premiums were collected in California, with Pennsylvania accounting for around 13% and the remainder spread across various states. In its 2016 Annual Statement AIC reported \$46 million in net premium, \$186 million in assets and \$148 million in total liabilities. The 2017 statement was not filed.

TDI put the company into Supervision on March 1, 2018. On March 6, 2018, the State of California entered a Cease and Desist Order against AIC barring it from issuing new policies. The Supervisor issued a similar directive applying to all AIC business on March 12, 2018.

AIC had no employees, no offices, and no FF&E. Effective December 23, 2015, all functions for the company were performed by Access Holdco Management, LLC ("AHM") under a Service Agreement. AHM affiliates were the managing general agents in the states where AIC was active and its claims were handled by an AHM adjusting company. AHM is not an "affiliate" of AIC according to its filings. AHM and its affiliates are not in receivership but are expressly named in the Permanent Injunction. All of AIC's books and records are maintained by AHM and held on its IT equipment. Premiums were collected and claims administered by AHM affiliates. AHM is

headquartered in Atlanta, and had a claim adjusting office in California

AIC owned a small California based captive law firm, Ashford Associates, LLC, a/k/a Pegan, Collins & Kang. The SDR was informed it primarily handled small California claim lawsuits against AIC or its insureds. Notices of the receivership automatic stay/permanent injunction, and the California Insurance Guarantee Association (“CIGA”) stay were filed in all lawsuits handled by the firm. All files were transitioned to CIGA retained counsel. All employees were thereafter released on April 6, 2018.

Statement of Assets and Liabilities as of March 31, 2018

Not available. First financial statements will be posted June 15, 2018.

Asset Recovery through March 31, 2018

Not available. First financial statements will be posted June 15, 2018.

Status and Activity Since Filing of Delinquency Proceeding [First Report to Special Master]

The Permanent Injunction was entered on March 13, 2018. The SDR was appointed effective March 14, 2018. The SDR began the receivership takeover process on March 15, 2018, when Ms. Salch and estate subcontractors met with representatives from AHM at their offices in Atlanta. Takeover team members have been present at those offices since that date. In early April, AHM began laying off approximately two-thirds of its staff. The SDR has hired three former workers on a temporary basis.

Financial Institutions: The Permanent Injunction was delivered to all identified financial institutions. The order provided that all funds were frozen with the exception of claims payment checks. However, SunTrust Bank, which has the claims payment accounts, froze the account that funded these zero balance accounts. The freeze resulted in a number of claims payment checks bouncing or being refused. The bank subsequently agreed to release the hold and claimants and their counsel have largely been able to re-deposit the checks and get the money. AIC also paid its ALAE (legal fees and related expenses) out of the claims payment account; the SDR did not allow those checks to fund. All other financial institutions complied with the Permanent Injunction.

There are a number of certificates of deposit. Two were over the limits of FDIC insurance protection and have been liquidated and the funds transferred to the Texas Treasury Safekeeping account for the estate. The remaining CDs will be transferred at maturity. All other liquid assets (stocks and bonds) are held in street names at a reputable financial firm.

The SDR established an estate operating account. The SDR is moving all funds other than the amounts necessary to pay pre-receivership claim checks to the Texas Treasury.

Defense counsel: All defense counsel were notified of the receivership and instructed to inform the court and opposing counsel of the automatic stay and permanent injunction. Notices were filed with the court in first-party cases. The SDR learned that some outside counsel (not the captive

Ashford firm) had AIC funds in their IOLTA (attorney trust) accounts for payment on lawsuits that had not yet settled. According to AHM, the carrier tendered the policy limits to show its “good faith” and that counsel was to use the money to fund settlements when they were reached. The SDR instructed these firms to return the money and to account for any payments out of the trust. These recoveries are ongoing.

AIC Policies: All policies of insurance were cancelled effective April 12, 2018, unless they terminated earlier on other grounds. The notice of cancellation was mailed to more than 340,000 insureds and lien holders beginning on March 27, 2018. The company accepted premium payments until April 2, 2018, to maintain coverage for consumers.

The SDR has learned that an unknown number of cancellation notices were undeliverable to the addresses listed for insureds in company records. AIC, through AHM, does not track returned mail or note the return in company records. The SDR is reviewing potential approaches to the issue, which may affect the claims process.

The vast majority of AIC’s policies were non-standard auto and claims on those policies are covered by the property and casualty guaranty associations pursuant to the terms of their respective enabling statutes. However, AIC sold a very small number of accidental death and dismemberment policies, referred to as “AD&D,” in certain states. This book of business was in run-off. In the event there are any such claims, the appropriate life, accident, and health insurance guaranty association may be responsible for their coverage. In order to avoid incurring Class 1 costs of administration for these associations to handle such a small number of potential claims, the SDR intends to pay such claims directly. There are no reported open claims on these policies. At this time, it does not appear that there is any unearned premium due on the AD&D policies.

Vendors: All known AIC vendors were provided with notice of the Liquidation Order and advised that they would be notified when the estate Proof of Claim (“POC”) filing deadline is established.

IT: AIC did not control its IT or data. Instead it was managed by AHM employees and maintained on AHM equipment. The SDR has backed up and is in possession of the current claim, policy, accounting, and related business data. There are many IT challenges in this estate. For example, AHM holds all of AIC’s imaged records in a database. At the time of takeover, AHM informed the SDR that a duplicate of the images system would take special equipment and approximately 6-8 weeks to complete. The SDR purchased the specialized equipment required to obtain the data and the copying of the database is underway. The estate’s IT subcontractors estimated that it will be completed in mid-May. AHM also managed AIC’s Claims and Policies databases using proprietary software and platforms

The SDR is setting up the estate IT data with an outside vendor who will manage the servers while providing access to the SDR, subcontractors, and guaranty associations.

Other Records: With very few exceptions (original letters of credit, etc.) AHM managed AIC’s business records using its own IT system. The arrangement has resulted in the commingling of certain records, such as e-mails. The SDR has made demand for the turnover of the records. AHM refuses to turnover AIC records, such as e-mails, claiming that it would be difficult and expensive

to separate company records from its other business records. AHM has agreed to maintain the system, not delete any materials and to respond to requests by the SDR for additional items. The SDR is reviewing options. The SDR believes that it is in possession of AIC materials such as claims, accounting records, reinsurance treaties/reporting, and related items. However, other business records, such as regulatory filings, were not maintained in an organized, separate manner. Portions of such materials have been produced. As with the e-mails, the SDR is considering its options.

Reinsurance: Tharp & Associates (“Tharp”) has been retained to advise the SDR on reinsurance and to oversee monthly reporting to the intermediary and reinsurers. Almost every one of the reinsurers issued termination notices shortly after the issuance of the California Cease and Desist Order and/or the Permanent Injunction. The company timely reported to the reinsurers in March and April 2018. Reporting is being transitioned from AHM to Tharp.

Claims: All claims adjusting stopped shortly after receivership. AHM still provided customer service personnel and continued to answer the phones, respond to e-mails, open and image the mail until the end of April 2018. The SDR has retained third-party vendors to provide these services going forward. AHM apparently had a practice of closing claims prematurely. Numerous claims have been re-opened since receivership, and the SDR expects this to continue as claims handling responsibility is transferred to the guaranty associations. The last claims payment checks were issued on March 13, 2018. These checks will be honored post-receivership until the end of May 2018 at which point they will be stale.

Guaranty Associations: Current claim data has been provided to all affected guaranty associations via transfer of UDS records. The claims staff is working with the NCIGF to transfer UDS records in the format preferred by each association. Additionally, each association has been offered remote access to the AHM database to review images. The SDR is working to transition access to the database from AHM to the SDR system while providing current access to the associations. The work is in progress.

Regulatory Action: AIC’s license has been, or will be, restricted, revoked, or suspended in Alabama, North Carolina, Oregon, Mississippi, Montana, Florida, Louisiana, Tennessee, and Arkansas.

Salvage: The SDR has retained several former AHM employees to compile and update salvage information to transition the function to the SDR. It appears that salvage records had not been consistently updated before receivership.

Subrogation: AIC, as managed by AHM and its TPA affiliate, was accused of closing claims prematurely and ignoring subrogation demands from other carriers. It quit and then recently re-joined an industry arbitration panel that resolves such claims. The SDR has notified the forum of the automatic stay and permanent injunction and is reviewing relevant information. The SDR intends to pursue subrogation recoveries while administering subrogation claims against the company through the POC process.

Asset Recovery Activity

- All cash and securities have been secured. CDs in excess of FDIC insurance limits were liquidated. Cash has been transferred to the estate's Texas Treasury account.
- Statutory deposits: Work to recover the statutory deposits is underway.
- FF&E: AIC did not own or lease any FF&E including any IT equipment.
- Real estate: AIC did not own or lease any real property.
- All reinsurers were notified of the receivership and instructed to direct payments to the SDR. Reinsurance reports were sent out in March and April.
- All E&O, D&O, and professional liability insurance policies have been reviewed and expiration/claim extension deadlines noted.

General Legal Activities

Litigation: All first-party lawsuits involving the SDR or AIC are stayed. The SDR is not aware of any jurisdiction, state or federal, that is not honoring the stay of litigation against AIC insureds. There does not appear to be any non-claim related litigation against the company.

Domestication: The Texas Permanent Injunction was domesticated in Georgia on April 19, 2018.

Conclusion

Summary of Major Achievements:

- Worked with guaranty associations to transition claims handling.
- Began transfer of claim, lawsuit, unearned premium, and related data to guaranty associations.
- Secured all financial assets, and transferred funds to Texas Treasury Safekeeping account.
- Enabled pre-receivership claim checks to be honored while voiding non-claim payment checks.
- Issued more than 340,000 notices of cancellation to policy and lien holders.
- Established SDR web site (www.accessinsurancesdr.com).
- Began securing IT data.
- Obtained order approving Application for Approval of Fees and Expenses.
- Notified all reinsurers of receivership and continued monthly reporting on treaties.
- Notified all regulators of receivership.
- Notified all vendors of receivership.
- Responded to hundreds of inquiries by insureds, claimants and their counsel, guaranty associations, and regulators.
- Closed captive law firm, transferred its files to CIGA, and released employees.
- Began process of re-opening prematurely closed claims.
- Began recovery of company funds held in attorney trust accounts.

Estate Goals to achieve prior to next Status Conference:

- Complete takeover activities.
- File Application to Require Electronic Service for Pleadings and Notices.
- File application to establish POC filing deadline.
- Begin recovering or assigning statutory deposits.
- Supplement information to guaranty associations.
- Determine potential for early access payments.
- Purchase reporting extensions on applicable insurance policies.
- Work with reinsurers on reporting and potential commutations.
- Resolve AD&D policy/claims handling.

Estate Closing Date of Receivership: TBD

Identification of Factors Affecting Closing Date and Final Distribution: TBD