

IN THE CIRCUIT COURT OF COLE COUNTY, MISSOURI

CHLORA LINDLEY-MYERS, DIRECTOR)
MISSOURI DEPARTMENT OF COMMERCE)
AND INSURANCE,)

Plaintiff,)

v.)

Case No.: 15AC-CC00224

LUMBERMEN'S UNDERWRITING ALLIANCE,)

Defendant.)

ORDER RELEASE OF CERTAIN LETTERS OF CREDIT

Now on this 20th day of Jan, 2023, the Court, having heard the Plaintiff's Motion for Approval of Release of Certain Letters of Credit, and being well and sufficiently advised does find and conclude as follows:

THE COURT FINDS

1. On May 23, 2016, this Court entered a Judgment, Decree and Order of Liquidation with Finding of Insolvency (the "Liquidation Order") against LUA, and placed LUA into liquidation.

2. Pursuant to the Liquidation Order and the Insurers Supervision, Rehabilitation and Liquidation Act, Mo. Rev. Stat. §§ 375.1150 et seq. (the "Liquidation Act"), the Liquidator acts for and on behalf of LUA and is vested by operation of law with title to all of the property, contracts, rights of action, books and records of LUA, and is administering them under the general supervision of the Court. The Liquidation Order and the Liquidation Act also direct the Liquidator to (a) identify, marshal and liquidate the assets of the Estate; (b) process and evaluate

claims to determine the liabilities of the Estate; and (c) distribute assets to claimants of the Estate in accordance with Mo. Rev. Stat. § 375.1218.

3. One of the lines of insurance business LUA wrote was property insurance, primarily for participants in the lumber industry. Its charter members exchanged property insurance contracts with a plan to provide insurance at absolute cost to subscribers. Over the years, LUA expanded as a specialty commercial carrier, to provide property and casualty insurance to assisted living facilities, the forest products industry and the food processing industry. LUA also was authorized to offer property insurance in Canada.

4. LUA only wrote claims-made property insurance policies. In other words, a property policy was issued for a 12-month period beginning on January 1 and ending on December 31, and only claims made during that one-year period would be covered under the policy.

5. In March 2015, while under administrative supervision, LUA ceased writing new and renewal business, such that by March 3, 2016, LUA had no active policies (property or otherwise) on its books. Thus, as all claims-made deadlines for property claims would have expired, there could be no new property claims on LUA policies after March 3, 2016

6. Prior to receivership, LUA purchased various levels of reinsurance to limit or reduce its exposure on its property insurance policies.

7. An insurance company reinsuring its risks with a reinsurer that is licensed, accredited, or otherwise authorized to provide reinsurance according to the provisions of Mo. Rev. Stat. § 375.246, is entitled to full financial statement credit on its books for that reinsurance. If the reinsurer does not meet certain statutory requirements, then the ceding insurance company is entitled to take financial statement credit for the reserves ceded to the reinsurer only to the

extent the reinsurer has posted collateral, usually in the form of a letter of credit issued by a qualified bank where the beneficiary is the ceding insurer (or the ceding insurer's receiver in the event of a liquidation). *See* Mo. Rev. Stat. § 375.246.

8. In those instances where LUA reinsured its property insurance risk with reinsurers that did not meet certain statutory requirements, LUA obtained collateral in the form of letters of credit ("LOCs") so that (a) it could treat the reinsurance as a credit on its financial statements, and (b) it could draw upon the LOCs in the event the reinsurers defaulted on their obligations.

9. LUA currently holds LOCs that were posted by six reinsurers on its property insurance policies, some of which related to U.S. insurance policies, and some of which related to LUA's Canadian insurance policies, with a total value of \$3,008,473.18:

Reinsurer	LOC Amount	Line of Business	Issuing Bank
Allied World	\$81,789.90	Property	CitiBank
Argo RE	\$203,681.68	Property	CitiBank
Catlin	\$2,201,906.00	Property	CitiBank
Hannover RE	\$65,555.44	Property	Credit Agricole
Hiscox	\$300,000.00	Property	CitiBank
R&V	\$155,540.16	Property	CitiBank

10. Pursuant to the Liquidation Order, in 2016 the Liquidator notified all persons known or reasonably expected to have claims against LUA, including all property insurance policyholders, of (a) the Liquidation Order, (b) the Proof of Claim process, and (c) the Claims Bar Date.

11. The Liquidator received Proofs of Claims related to nine property insurance claims.

12. The Liquidator has adjudicated all property claim Proofs of Claim. All of the property claim Proofs of Claim have been fully resolved, and no open property claims remain.

13. The Liquidator has collected all reinsurance available from the six reinsurers that continue to maintain LOCs.

14. Because no claims remain open, and the reserves on property insurance claims for all years is \$0.00, the LOCs are no longer necessary or appropriate. Accordingly, the Liquidator seeks approval to release the six LOCs currently held as detailed above.

15. Importantly, a release of the collateral under the reinsurance agreements does not terminate the liability of the reinsurers under those agreements, and in the highly unlikely event that claims arise against these reinsurers, then the Liquidator will seek to collect those amounts due and, where appropriate, seek the reinstatement of appropriate collateral.

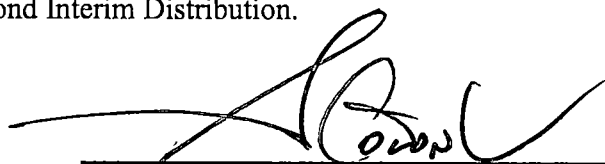
IT IS HEREBY ORDERED, ADJUDGED DECREED that:

1. The Liquidator's motion is granted and the Liquidator shall release the LOCs set forth herein.

2. In all respects, the conduct and actions of the Liquidator, her employees, agents and counsel in connection with the Second Interim Distribution, is affirmed and approved in all respects;

3. The Liquidator is authorized to enter such other agreements and take such other actions as may be necessary to effectuate the Second Interim Distribution without further approval of the Court; and

4. There is no just reason for delay and this Order constitutes a final judgment fully resolving all issues relating to the Second Interim Distribution.



Honorable Cotton Walker, Circuit Court Judge
19th Judicial Circuit, Division III