

Commonwealth of Pennsylvania
Office of Liquidations, Rehabilitations
and Special Funds



Statutory Liquidator
Of
PHICO Insurance Company

PLEASE KEEP THIS MATERIAL
PLEASE READ THIS MATERIAL IN ITS ENTIRETY

FAILURE TO FOLLOW THE CLAIMS
SUBMISSION INSTRUCTIONS HEREIN
WILL RESULT IN THE DENIAL OF YOUR CLAIM

NOTICE
TO THE POLICYHOLDERS, DEBTORS, PRINCIPALS, OBLIGEEES,
CLAIMANTS, CREDITORS AND ALL OTHER PERSONS INTERESTED IN THE
AFFAIRS OF
PHICO INSURANCE COMPANY (PHICO)
(IN LIQUIDATION)

NOTICE IS HEREBY GIVEN:

The Commonwealth Court of Pennsylvania ordered PHICO Insurance Company (PHICO) into liquidation effective February 1, 2002. M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, was appointed the Statutory Liquidator, and was ordered to take possession of PHICO's property and to liquidate its business. Deputy Insurance Commissioner William S. Taylor oversees the liquidation on her behalf.

This information is important. It is recommended that you read it carefully before contacting the Liquidator's Office with questions. You may also want to consult your attorney or insurance advisors before you proceed.

Certain claims may be covered by guaranty associations in the claimant's state of residence or in the insured's state of residence. Guaranty associations and funds were created by state law to provide protection to insureds in the case of a liquidation. The various state laws governing the guaranty associations include eligibility requirements and limits on the amount of coverage available. Insureds who are covered by a PHICO policy may be entitled to the protection of the property and casualty insurance guaranty association or the workers' compensation guaranty fund in the state where they reside or the state in which the insured property is situated.

If you have and want to pursue a claim against PHICO, you must file a proof of claim in order to have your claim considered. Detailed instructions for filing a proof of claim are compiled in a separate enclosed document. Proofs of claim must be filed no later than April 1, 2003.

You are a third party claimant if you have a claim against a PHICO insured which may be covered by the insured's insurance policy. You may either file a claim with the Statutory Liquidator or pursue legal action against the insured to recover your claim. If you file a claim with the Liquidator, filing of the claim shall operate as a release of the insured's liability to you on that cause of action up to the amount of applicable policy limits. If coverage of the claim is avoided by the Liquidator, this release becomes null and void.

A proof of claim must be filed even if a claim was made against PHICO prior to liquidation, and a separate proof of claim form must be filed for each claim you have. A proof of claim shall include the following: A proof of claim form containing the original signature of the claimant; a description of the claim and any security interest; whether collateral security or personal security is pledged in accordance with the terms of the policy; documentation of any payments made on the claim; and a statement that the amount is justly owed the claimant. If you require additional proof of claim forms, you may make copies of the one attached, request them from the Statutory Liquidator at the address below, or download them from the Department website: www.insurance.state.pa.us or at PHICO's website at www.PHICO.com.

It will be several years before all of PHICO's assets are collected and distribution amounts can be determined. To participate in a distribution you must file a proof of claim, particularly where there is no guaranty association coverage or where the claim exceeds the limits of such coverage. It is important that you keep PHICO fully advised of all developments in these cases so that PHICO can use this information to recover funds from reinsurers and thereby potentially increase the distribution to policyholders and creditors. Claims for losses under policies of insurance have the highest priority for payment other than administrative expenses.

Whenever a claim is based upon an instrument in writing, a copy of the document should be attached to the proof of claim. If the document has been destroyed, a statement of the facts and circumstances of the loss must be filed, under oath, with the claim.

The Order of Liquidation enjoins all persons from instituting or continuing any action at law or in equity or any attachment or execution against PHICO, the Statutory Liquidator or the Commissioner as Statutory Liquidator. All persons indebted to or having any property of PHICO in their possession, directly or indirectly, are hereby notified to tender an account of the indebtedness and to pay the same and deliver such property to the Statutory Liquidator.

CHANGE OF ADDRESS NOTIFICATION

YOU ARE REQUIRED BY ARTICLE V OF THE INSURANCE DEPARTMENT ACT TO NOTIFY THE STATUTORY LIQUIDATOR OF YOUR CHANGE OF ADDRESS. IF YOU FAIL TO DO SO YOU MAY JEOPARDIZE RECOVERY FROM THIS ESTATE.

Included with this Notice is material which answers frequently asked questions regarding the liquidation process. Please review this material carefully.

This notice and the information contained herein are in summary form and may not contain all necessary information for your particular situation. You are urged to consult an attorney if you have any questions. All claims are subject to payment only in accordance with applicable law.

General questions about the liquidation procedure should be addressed to the Statutory Liquidator at:

Statutory Liquidator of PHICO Insurance Company
P.O. Box 2025
Mechanicsburg, PA 17055-0720
(800) 382-1378 or (717) 766-1122

Information about the Liquidation of PHICO Insurance Company

The Commonwealth Court of Pennsylvania has declared PHICO Insurance Company (PHICO) insolvent and has ordered the company into liquidation effective February 1, 2002. This booklet will help to answer frequently asked questions about making claims and the liquidation procedure.

The Office of Liquidations, Rehabilitations and Special Funds of the Pennsylvania Insurance Department has been assigned the responsibility of liquidating PHICO, and all questions concerning the liquidation of PHICO should be directed to the Statutory Liquidator for PHICO, P. O. Box 2025, Mechanicsburg, PA 17055-0720, telephone (800) 382-1378 or (717) 766-1122.

1. What happens when a company becomes insolvent and is liquidated?

Liquidation is similar to bankruptcy. When a company is liquidated, the Insurance Department's Office of Liquidations, Rehabilitations and Special Funds gathers the company's assets and determines what liabilities, such as bills and claim payments, it has. The Statutory Liquidator then develops a plan to distribute the company's assets according to law and submits the plan to the Court for approval. The liquidation process is very complex and is expected to take many years.

Claims which are the responsibility of a guaranty association have been or will be forwarded to them as appropriate. Valid claims that are pursued against the estate which are in excess of guaranty association limits or claims which are not covered by a guaranty association will be handled by PHICO (In Liquidation). Claims which are not covered by a guaranty association in whole or in part become claims against the PHICO estate and will be paid at some time in the future to the extent funds are available.

2. You say PHICO was ordered liquidated. Does this mean my policy is worthless?

No. Although PHICO has been placed into liquidation, the guaranty association in the state where you reside or where the property is situated may be obligated to provide coverage under insurance policies issued by PHICO subject to certain limitations. Any claim or portion thereof which is not covered by a guaranty association becomes a claim against the PHICO estate, and the amount deemed to be an allowed claim will be paid to the extent funds are available, on an equal basis with all other claims in the same category. These claims may be paid in full, in part or not at all, depending on the available assets. These claims will not be paid for several years.

3. Will my policy be canceled because of the liquidation?

A paid PHICO policy will terminate at its normal expiration, upon replacement or March 2, 2002 (30 days from the date of liquidation), whichever is soonest.

4. What is a guaranty association?

A guaranty association is an association of all insurers licensed to write property and casualty or life and health insurance in a state. Subject to statutory eligibility and claims payment limits, a guaranty association assumes the policyholder obligations of licensed insolvent insurers in that state for residents or property insurance in that state. A guaranty association obtains funds to meet its obligations by assessing the member companies.

5. Since my company has been placed into liquidation, who will pay my claims?

Valid and substantiated claims incurred prior to the termination of the policy will be paid, where covered, by the appropriate guaranty association, subject to policy limits and the limits of the guaranty association. The Statutory Liquidator of PHICO will forward your proof of claim to the appropriate guaranty association. Claims which are not covered by a guaranty association or portions of claims which exceed the statutory obligations of the guaranty association become claims against the estate of the company and will be paid at some time in the future to the extent funds are available.

6. Will my claims be paid in full by the guaranty associations?

All payments are subject to certain statutory limits contained in the various state laws creating the guaranty associations. In no case will payments exceed the applicable policy limits.

7. How long will it take for my claims to be paid by the guaranty association?

When a company is placed into liquidation, the guaranty associations are typically activated to pay claims as soon as the Court orders the liquidation. Claim payments usually begin within 90 days after the liquidation order is issued. However, the waiting period from the time of submission will vary based on the number of claims received, and the time claims are submitted.

If you are a policyholder or third party claimant and you currently have a claim pending with PHICO, you need to complete and return the enclosed proof of claim as soon as possible. While your claim file has already been forwarded to the guaranty association, payments may be delayed by your failure to do so on a timely basis.

8. I have questions about what is and is not covered by the guaranty association? Who can answer these questions for me?

You can address your questions about your property and casualty guaranty association's responsibilities to the guaranty association in the state in which you reside. A list of the property and casualty guaranty associations is enclosed. Some states have separate organizations which handle worker's compensation claims. These are shown by state on the property and casualty listing.

9. What do I do if I have a claim against a PHICO insured?

You are a third party claimant if you have a claim against a PHICO insured which may be covered by the insured's insurance policy. You may either file a claim with the Statutory Liquidator or pursue legal action against the insured to attempt to recover on your claim. If you choose to file a claim with the Liquidator, filing of this claim shall operate as a release of the insured's liability to you on that cause of action up to the amount of applicable policy limits. If coverage is avoided by the Liquidator, this release becomes null and void.

10. I believe I have a claim against PHICO but I am not a policyholder or a third party claimant under a PHICO policy. How do I make a claim?

Claims filed against PHICO by general creditors, stockholders, trade creditors, governmental agencies, reinsurers, cedants, agents, employees, former officers and directors and other persons interested in the affairs of PHICO are handled by the Statutory Liquidator. To file a claim for monies owed to you by PHICO, you must file a proof of claim form with the Statutory Liquidator no later than 5:00 p.m. EST on April 1, 2003. If you fail to file a proof of claim form by this date, your claim may not be considered to be timely filed. Failure to file a timely claim may result in denial of your claim or consideration of your claim at a lower priority level.

11. How do I file a claim against PHICO?

If you believe you have a claim against PHICO you must file a proof of claim with the Statutory Liquidator using the enclosed proof of claim form. Even if you have a claim already pending with PHICO you must file a proof of claim. If your claim is a new claim, you should attach documentation to the proof of claim to document your claim. If your claim has already been submitted to PHICO, you must complete the proof of claim form, but it is not necessary for you to attach additional documentation. Your claim file has been shipped to the appropriate guaranty association. If additional information is needed at a later date, you will be contacted.

If you have more than one claim against PHICO, you may duplicate the proof of claim form to submit each claim separately.

Information regarding specific types of claims follows. You are urged to consult your own attorney for assistance in preparing your proof of claim, particularly for medical malpractice or similar liability.

a. Medical Malpractice and other Liability Claims.

If your claim has already been submitted to PHICO you must file a proof of claim; however, you do not need to provide documentation to support your claim. If, however, you are filing a new claim with PHICO (In Liquidation), you must complete the proof of claim form and submit documentation to support your claim. Once a determination is made concerning guaranty association coverage, your file will either be transferred to the appropriate guaranty association or retained at PHICO (In Liquidation) for handling. Claims which have some guaranty association coverage will be forwarded as appropriate. In either case, you will be contacted if additional documentation is required to adjudicate your claim.

b. Worker's Compensation Claims.

Under an agreement with the various state guaranty associations, and with the authorization of the Commonwealth Court of Pennsylvania, PHICO (In Liquidation) will continue the payment of scheduled worker's compensation indemnity payments for 90 days from the date of the Order. All active worker's compensation files will be shipped to the state guaranty associations, and future payments will be forthcoming from the appropriate guaranty association as soon as the various guaranty associations can begin making the payments. Certain workers compensation claims may not be covered by a guaranty association or may be handled by a party other than a guaranty association. You should contact your employer for that information.

If you have already submitted your claim to PHICO, you must complete a proof of claim form and return it to the Statutory Liquidator of PHICO in accordance with the instructions included on the form. While it is necessary for you to provide all applicable requested information, it is not necessary for you to provide documentation to support your claim at this time. If additional documentation is required, you will be contacted. If you have a new worker's compensation claim, you must complete and return the proof of claim form and provide documentation to support your claim.

c. Other Types of Insurance.

If you have a claim which falls into any other category not listed above, you must file a proof of claim form. If your claim has already been submitted to PHICO, you do not need to provide documentation to support your claim. If, however, you are filing a new claim with PHICO (In Liquidation), you must complete the proof of claim form and submit documentation to support your claim. Once a determination is made concerning guaranty association coverage, your file will either be transferred to the appropriate guaranty association or retained at PHICO (In Liquidation) for handling. Claims which have some guaranty association coverage will be forwarded as appropriate. In either case, you will be contacted if additional documentation is required to adjudicate your claim.

c. Claims under an Excess Policy over a Self-Insured Retention.

If you were insured by PHICO under an excess policy and a claim under that policy has an incurred value in excess of 75 percent of the self insured retention, you should complete a proof of claim for that loss and return it, along with supporting documentation, to the Statutory Liquidator of PHICO in accordance with the instructions included on the form.

d. Claims for the return of unearned premium and other premium refunds.

If you have a claim for the return of unearned premium or other premium refund, you must complete a proof of claim form. If you have documentation to support your claim, you should provide a copy of that documentation with your proof of claim. If you do not have documentation, you should complete the information requested on the proof of claim form and submit it as directed. Your claim will be

evaluated based on PHICO records and the support you provide, and if approved, will be paid to the extent funds are available for this purpose.

e. Claims for agent commissions.

If you were a PHICO agent and have a claim for earned commission, it will be necessary for you to complete a proof of claim form. If you have documentation to support your claim, including your most recent statement, you should provide a copy of that documentation with your proof of claim. If you do not have documentation, you should complete the information requested on the proof of claim form and submit it as directed.

f. Claims of general creditors.

General creditors are persons or organizations, including law firms, trade creditors, etc., who provided services to PHICO prior to the August 16, 2001 Order of Rehabilitation, for which they were not paid, any person or organization who believes they are owed money by PHICO (In Liquidation) regardless of the time period in which these services were incurred, etc. If you believe you have a claim, it will be necessary for you to complete a proof of claim form. If you have documentation to support your claim, you should provide a copy of that documentation with your proof of claim.

g. Claims of former employees, officers and directors.

If you are a former employee, officer or director of PHICO (In Liquidation) and you believe you have a claim, you must file a proof of claim with PHICO. Use Item 3 on the proof of claim to provide the necessary information about your claim. You should attach documentation to support your claim to the proof of claim and submit it as directed.

12. May I file a contingent claim?

Yes. Under Pennsylvania law a person may file a claim even if it is a “contingent claim.” A “contingent claim” is one where the liability of the company is not yet determined or is dependent on the outcome of another event. In many of the lines of insurance PHICO wrote, persons may have insurance coverage if an insured loss occurred during the policy period, regardless of when the claim was made against or was discovered by the insured. An insured under these types of “occurrence” policies may have claims made against them or have claims brought to their attention in the future, but the basis for the claim occurred during the policy period. Such claimants are entitled to file a claim at any time during the claim filing period. Some guaranty associations require the filing of a claim before the end of the claim filing period. For maximum protection, an insured should promptly file a proof of claim for a “contingent claim” that seeks to cover any claim that is unknown at this time but may arise under their policy at a later date. If you do so, you should file a separate proof of claim for each contingent claim. When such a claim arises the claimant should immediately inform the Liquidator of the particulars and supplement the proof of claim by providing documentation of the claim. These types of claims are also known as “policyholder protection claims” because a policyholder is claiming for the full protection afforded under the terms of their policy regardless of when they become aware of such claim. Contingent claims are

not limited to only policyholder claims. If you file a contingent claim, complete Item 1 on the proof of claim form, and indicate in the space for Amount of Claim, "unknown."

13. What is the deadline for filing a claim?

The Commonwealth Court of Pennsylvania has established April 1, 2003, 5:00 p.m. EST, as the deadline for filing claims against PHICO (In Liquidation). If you fail to file a proof of claim form by this date, your claim may not be considered to be timely filed. Failure to file a timely claim may result in denial of your claim or consideration of your claim at a lower priority level. Some guaranty associations have an earlier deadline.