

**PHICO Insurance Company Liquidation**  
**Official Statement by Pennsylvania Insurance Commissioner**  
**M. Diane Koken**

After five months of diligent effort focused on determining the viability of a possible rehabilitation of PHICO, I have determined that the rehabilitation of PHICO is not financially possible. Accordingly, today I petitioned the Commonwealth Court for an Order of Liquidation of PHICO Insurance.

Despite our intensive efforts to stabilize PHICO's operations, reduce costs, and maximize cash flow, an independent actuarial analysis of loss and loss adjustment expense reserves completed this week established that further attempts to rehabilitate PHICO would substantially increase the risk of loss for policyholders, claimants and creditors, and would not be in the public interest.

Indeed, PHICO's financial condition, as determined by this independent analysis, is significantly worse than was previously known. Specifically, on August 15, 2001, the company filed unaudited financial statements showing that PHICO's surplus had precipitously declined from \$127 million as of year end 2000 to only \$6 million as of June 30, 2001. Our recently concluded independent analysis shows the company actually to have been (on a pro forma basis) in a negative surplus position of over \$250 million as of June 30, 2001. Thus, we have now learned that PHICO was insolvent as of that date, if not earlier.

Upon entry of the order of liquidation, the process of the payment by state guaranty associations of policyholder claims will commence. Such coverage is subject to certain limitations as provided by the laws of each state. To avoid delays in workers compensation claim payments during this transition period, I asked the Court to approve the continuation of the timely payment of workers compensation claims.

I wish to thank the PHICO Insurance Company employees who have worked so diligently during the rehabilitation phase, as well as my rehabilitation team. I anticipate the transition into liquidation to be handled in the same professional and attentive manner. In liquidation, our role will be to focus on aggressively marshaling the assets of the estate and distributing them equitably to persons having claims against PHICO's insureds as well as other claimants and creditors.

In addition, the Insurance Department is continuing its evaluation of what went wrong at PHICO and who bears the responsibility for the company's failure. I am committed to take any and all steps necessary to protect and recover the assets of the PHICO Insurance Company for the benefit of all policyholders, and hold all culpable parties responsible for their actions.