

COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, ss:

SUPREME JUDICIAL COURT
FOR SUFFOLK COUNTY
NO. 95-278

LINDA L. RUTHARDT, as the
Commissioner of Insurance of the
Commonwealth of Massachusetts

Plaintiff,

v.

ABINGTON MUTUAL
INSURANCE COMPANY,

Defendant.

FIRST REPORT OF RECEIVER

I, Linda L. Ruthardt, Massachusetts Commissioner of Insurance and Receiver of Abington Mutual Insurance Company ("Abington") , hereby submit my first report concerning the Defendant. In my verified complaint seeking the receivership of Abington, I cited as the basis for my request the conclusion that, "Abington's financial condition is such as to render its further transaction of business hazardous to the public, and to its policyholders and other creditors, within the meaning of G. L. c. 175, § 6". (¶6, Insurance Commissioner's Verified Complaint).^{1/} This Court entered its order appointing me as Receiver of Abington, pursuant to G. L. c. 175, § 180B, on

^{1/} Abington's December 31, 1994 Annual Financial Statement, filed on or about May 1, 1995, reported surplus below the minimum level contained in G.L. c.175, § 48. Its March 31, 1995 Quarterly Financial Statement reflected further deterioration in surplus.

June 5, 1995 and authorized me, "to take such further actions as [I] deem appropriate to effectuate the purposes of this Order", (¶6, June 5, 1995 Preliminary Injunction and Order Appointing Receiver, herein the "Order"). This Report describes the material steps I have taken pursuant to the Order.

1. Upon entry of the Order, I immediately took possession of the property, assets, records, accounts, and effects of Abington. Thereafter, I terminated the employment of Abington's three senior officers.

2. In order to carefully evaluate Abington's financial condition and its potential impact on policyholders and other creditors, I appointed an on-site Receivership Supervisor, and have also utilized the services of the Controller and certain other employees of American Patriot Group Inc. ("APG").^{2/} The services of APG employees are being charged to Abington on the basis of their actual cost to APG.

3. My staff, consultants and counsel have evaluated the general condition of Abington's assets and liabilities. Based upon their advice, I have concluded that the value of certain of Abington's assets are significantly overstated on its financial statements. The Company also needs to accrue for approximately

^{2/} APG is a wholly owned subsidiary of the American Mutual Liability Insurance Company, in Liquidation ("AMLICO"). By virtue of my appointment as Permanent Receiver of AMLICO, I also control the operations of APG.

\$225,000 of additional liabilities attributable to certain employee salary obligations. In addition, preliminary estimates indicate that Abington's operating loss for the first six months of 1995 will be approximately \$1.6 million.

4. In addition to these financial problems, Abington also faces operational difficulties with potentially significant adverse impact. Its agents have begun to replace coverage with other insurers, which is likely to lead to adverse selection and a further deterioration in loss experience.^{3/} Abington's policy count has been reduced approximately 20% since the institution of this proceeding. Its expense structure was premised upon the writing of new business, and costs incident to the underwriting of business must therefore be adjusted under current circumstances.

5. Following the institution of this proceeding, a process was implemented for offering the material business assets of Abington. My representatives contacted other insurance industry members, who were thought to be potential candidates to acquire Abington assets. In addition, we were contacted by a number of other parties who expressed potential interest in obtaining control of Abington or acquiring its material business assets. Interested parties were asked to execute confidentiality agreements with the Receiver, following which they were provided

^{3/} Under Abington's financial circumstances, I and the insurance regulators of other states have not permitted Abington to write new business since the institution of this proceeding.

with a standardized package of financial and operational information concerning Abington. As part of this process, some interested parties conducted due diligence reviews of the operations of Abington at its corporate headquarters.

6. Preliminary proposals have been received from potential acquirers of Abington's material business assets with further negotiations now taking place. It would therefore be premature at this time to report to the Court my recommendations with respect to the future course of this proceeding. I do expect to be able to report further in that regard within the next thirty days.

Respectfully submitted,

Dated: August 7, 1995

Linda L. Ruthardt
Receiver