

IN THE CHANCERY COURT OF THE STATE OF TENNESSEE  
TWENTIETH JUDICIAL DISTRICT, DAVIDSON COUNTY

STATE OF TENNESSEE, ex rel., )  
PAULA A. FLOWERS, )  
Commissioner of Commerce and )  
Insurance for the State of Tennessee, ) No. 03-3731-IV  
 )  
Petitioner, )  
 )  
v. )  
 )  
EXCHANGE INSURANCE COMPANY, )  
a Tennessee domiciled insurance company, )  
 )  
Respondent. )

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**CONSENT ORDER APPOINTING COMMISSIONER  
AS RECEIVER FOR PURPOSES OF REHABILITATION;  
AND INJUNCTION**

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This matter came to be heard upon the request of Petitioner, Paula A. Flowers, Commissioner of Commerce and Insurance for the State of Tennessee ("Commissioner" or "Department"), by her signature appearing below, and through her counsel, Paul G. Summers, Attorney General of the State of Tennessee, and with the agreement and consent of the party authorized by Tenn. Code Ann. § 56-9-301(12) to consent for Respondent Exchange Insurance Company, a Tennessee domiciled insurance company located at 209 14th Avenue North, Nashville, Tennessee 37203 ("EIC", "Respondent" or "insurer"), by its signature appearing below, to the entry of the following order of rehabilitation. Based on the pleadings, the consent of the parties, and the record as a whole, this Court FINDS as follows:

1. The Commissioner has determined, and Exchange Insurance Company consents, that an order of rehabilitation of EIC is necessary. The Commissioner deems that EIC does not have the capital and surplus required to comply fully with the insurance laws of Tennessee, and that the protections of rehabilitation are necessary. EIC has been under the administrative supervision of the Commissioner since December 19, 2002. In addition, EIC, as a state stock fire insurance company authorized as a state mutual fire insurance company under certain provisions before May 7, 1969, is required to maintain combined capital and surplus of at least \$300,000 (Tenn. Code Ann. § 56-23-101(d)). EIC's capital and surplus was only \$84,941 as of March 31, 2003, and therefore its statutory financial condition is impaired. The Commissioner has determined that EIC is rendered in such condition that further transaction of its business without rehabilitation would be hazardous financially to the insurer's policyholders, creditors and the public;

2. On April 1, 2003, EIC, with the approval of the Commissioner, entered into two agreements that should continue to be in effect. EIC entered into portfolio reinsurance and management agreements with an unrelated insurance company, National Lloyds Insurance Company, as attached to the Petition (Multiple Line Quota Share Reinsurance Treaty, and Management Agreement). Under the general terms of the portfolio reinsurance agreement, National Lloyds reinsured 100% of EIC's in-force business as of April 1, 2003, and assumed 100% of all related claims incurred after March 31, 2003. Upon expiration of the current in-force periods of the reinsured policies, National Lloyds has and will have the opportunity to write renewal coverage on a direct basis with the policyholders. EIC has ceased writing new or renewal policies and is deemed to be in a run-off status. Under the general terms of the

management agreement, National Lloyds' affiliate, NLASCO Services, Inc., has agreed to oversee and administer the run-off of the EIC in-force business as of March 31, 2003, and the related settlement of claims incurred prior to April 1, 2003. In addition, the third-party insurance company acquired substantially all of EIC's property and equipment in April 2003, and has agreed to assume substantially all of the Company's operating expenses during the run-off period. The Commissioner deems that continuing the management and insurance arrangements pursuant to these agreements is beneficial to the successful run-off of EIC; and these arrangements are expressly contemplated to continue under the terms of the Order of Rehabilitation below.

3. EIC's consent has been given to entry of this Order of Rehabilitation and there is a proper sufficient basis for the following order pursuant to Tenn. Code Ann. §§ 56-9-301(1) and (12), due to such consent. EIC waives summons and the right to be heard before entry of this Consent Order, and has acknowledged that this Court has subject matter jurisdiction of this action with venue properly within the Chancery Court of Davidson County pursuant to Tenn. Code Ann. § 56-9-104, and;

4. This Court further FINDS that the Petitioner, Paula A. Flowers, is the duly appointed Commissioner of Commerce and Insurance for the State of Tennessee. Pursuant to Tenn. Code Ann. §§ 56-9-101, et seq., the rehabilitation of a domestic insurer, is to be conducted by the Commissioner after her appointment as Rehabilitator by the Court. Tenn. Code Ann. §§ 56-9-301, et seq.

THEREFORE, this Court hereby ORDERS, ADJUDGES AND DECREES as follows:

1. Petitioner Paula A. Flowers, in her official capacity, or her successors in office, is appointed as Rehabilitator of **Exchange Insurance Company**, a Tennessee domiciled insurance company ("EIC", "Respondent" or "insurer") for the purposes of rehabilitation under Tenn. Code Ann. § 56-9-302. The Commissioner, as Rehabilitator, is directed forthwith to take possession of the assets and records of EIC and to administer them under the general supervision of the Court with all the powers granted a Rehabilitator under Tenn. Code Ann. §§ 56-9-101 et seq. This Order vests title to all assets of EIC in the Rehabilitator. The Commissioner as Rehabilitator is hereby authorized and directed to conduct the business of the Respondent and take all steps as the Rehabilitator deems necessary or appropriate and as the Court may hereafter authorize, if approval is required, to reform and revitalize the Respondent. The Commissioner shall have immediate access to and shall occupy and control the premises and all records, databases, and computer files used to carry out the business of EIC, regardless of their location and possession. Under Tenn. Code Ann. § 56-9-302(c), entry of this order of rehabilitation shall not constitute an anticipatory breach of any contracts of the Respondent nor shall it be grounds for retroactive revocation or retroactive cancellation of any contracts of the insurer, unless such revocation or cancellation is done by the Rehabilitator pursuant to Tenn. Code Ann. § 56-9-303. The Commissioner in her role as Rehabilitator, or as otherwise authorized, may make any investigation of Respondent's operations and affairs, including its financial condition, as she deems appropriate;

2. Pursuant to Tenn. Code Ann. § 56-9-105(a)(1-11), all persons, firms, corporations and associations, including, but not limited to, Respondent EIC and its officers, directors, stockholders, members, subscribers, agents, contractors, subcontractors and all other persons

with authority over or in charge of any segment of EIC's affairs, are prohibited and temporarily enjoined from the transaction of EIC's business, or the waste or disposition of its property, or the destruction, deletion, modification, or waste of its records, databases or computer files, or the commencement or prosecution of any actions, or the obtaining of preferences, judgments, attachments or other liens, or the making of any levy against the insurer or against its assets or any part thereof until further order of this Court; and this Court further authorizes the Rehabilitator to apply outside of Tennessee for the relief described in Tenn. Code Ann. § 56-9-105(a);

*EXCEPT THAT* this Court specifically does not enjoin and hereby specifically authorizes the Rehabilitator to continue EIC's contractual and financial arrangements for management and reinsurance with **National Lloyds Insurance Company** and **NLASCO, Inc.** pursuant to the Management Agreement and Multiple Line Quota Share Reinsurance Treaty, and any amendments thereto that may be agreed upon between the Rehabilitator and those parties, in the same manner as provided prior to the filing of the Petition for Rehabilitation, subject to the powers of the Commissioner as Rehabilitator to manage and direct EIC, and to supervise its contracts, and such services and expenses as approved by the Rehabilitator during this rehabilitation shall be paid as administrative expenses of this rehabilitation and does not enjoin EIC from termination of any pension plan of which EIC is sponsor if done without cost to EIC;

3. Pursuant to Tenn. Code Ann. § 56-9-106, the officers, managers, directors, trustees, owners, employees, agents, contractors or subcontractors of EIC, and any other persons with authority over or in charge of any segment of EIC's affairs, are ordered and required to cooperate with the Commissioner in the carrying out of the rehabilitation. The term "person"

shall include any person who exercises control directly or indirectly over activities of the EIC through any holding company, parent company, or other affiliate of EIC. Further, the term “person” shall include any person who exercises control or participation in the activities of the EIC, such as through the record-keeping and computer systems operation relating to the activities of the EIC. "To cooperate" shall include, but shall not be limited to, the following: (1) to reply promptly in writing to any inquiry from the Commissioner requesting such a reply; and (2) to preserve and to make available to the Commissioner any and all books, bank and investment accounts, documents, or other records or information or computer programs and databases or property of or pertaining to EIC and in his possession, custody or control. No person shall obstruct or interfere with the Commissioner in the conduct of this rehabilitation;

4. Any bank, savings and loan association, financial institution or other person which has on deposit, in its possession, custody or control any funds, accounts and any other assets of EIC, shall immediately transfer title, custody and control of all such funds, accounts, or assets to the Rehabilitator, and are hereby instructed that the Rehabilitator has absolute control over such funds, accounts and other assets. The Rehabilitator may change the name of such accounts and other assets, withdraw them from such bank, savings and loan association or other financial institution, or take any lesser action necessary for the proper conduct of this receivership. No bank, savings and loan association or other financial institution shall exercise any form of set-off, alleged set-off, lien, any form of self-help whatsoever, or refuse to transfer any funds or assets to the Rehabilitator’s control without the permission of this Court;

5. The amounts held in any custodial deposit account established by EIC with the Commissioner shall be furnished to the Rehabilitator for the statutory purposes in the rehabilitation of EIC, for which the Rehabilitator may draw down such funds;

6. The Commissioner as Rehabilitator is authorized, pursuant to Tenn. Code Ann. § 56-9-303(a), to appoint one or more special deputy commissioners, who shall have all the powers and responsibilities of the Rehabilitator granted under Tenn. Code Ann. §§ 56-9-101, et seq. Further that the Commissioner be authorized pursuant to Tenn. Code Ann. § 56-9-303(a), to employ such counsel, clerks, and assistants as deemed necessary. The compensation of the special deputy(ies), counsel, clerks and assistants and all expenses of taking possession of the insurer and of conducting the proceedings shall be fixed by the Commissioner, with the approval of the Court and shall be paid out of the funds or assets of the insurer upon the request of or at the direction of the Commissioner. The persons appointed under this section shall serve at the pleasure of the Commissioner. One such special deputy to be appointed is Kathy Fussell.

7. The Commissioner, as Rehabilitator, is ordered to make an accounting to the Court no less frequently than semi-annually. The report shall include the Rehabilitator's opinion as to the likelihood that a plan under Tenn. Code Ann. § 56-9-303(e) will be prepared and the timetable for doing so.;

8. As set forth in Tenn. Code Ann. § 56-9-303(c), the Rehabilitator is ordered and may take such action as she deems necessary or appropriate to reform and revitalize the insurer. She shall have all the powers of the directors, officers, and managers, whose authority shall be suspended, except as they are redelegated by the Rehabilitator. She shall have full power to

direct and manage, to hire and discharge employees subject to any contract rights they may have, and to deal with the property and business of the insurer;

9. As set forth in Tenn. Code Ann. § 56-9-303(d), if it appears to the Rehabilitator that there has been criminal or tortious conduct, or breach of any contractual or fiduciary obligation detrimental to the insurer by any officer, manager, agent, broker, employee or other person, she may pursue all appropriate legal remedies on behalf of the insurer;

10. As set forth in Tenn. Code Ann. § 56-9-303(e), if the Rehabilitator determines that reorganization, consolidation, conversion, reinsurance, merger or other transformation of the insurer is appropriate, she shall prepare a plan to effect such changes. Upon application of the Rehabilitator for approval of the plan, and after such notice and hearings as the Court may prescribe, the Court may either approve or disapprove the plan proposed, or may modify it and approve it as modified. Any plan approved under this section shall be, in the judgment of the Court, fair and equitable to all parties concerned. If the plan is approved, the Rehabilitator shall carry out the plan;

11. The Rehabilitator shall have the power under Tenn. Code Ann. §§ 56-9-315 and 316, as applicable, to avoid fraudulent transfers;

12. **Statutory Stay of Pending Tennessee Litigation:** Pursuant to Tenn. Code Ann. § 56-9-304, any Court in this State before which any action in which the insurer is a party, or is obligated to defend a party, is pending when this rehabilitation order is entered, shall stay the action or proceeding for ninety (90) days and such additional time as is necessary for the Rehabilitator to obtain proper representation and prepare for further proceedings. The Rehabilitator shall take such action respecting the pending litigation as she deems necessary in



the interest of justice and for the protection of creditors, policyholders, and the public. The Rehabilitator shall immediately consider all litigation pending outside this State and shall petition the courts having jurisdiction over that litigation for stays whenever necessary to protect the estate of the insurer;

13. Pursuant to Tenn. Code Ann. § 56-9-304, no statute of limitations or defense of laches shall run with respect to any action by or against the insurer between the filing of this petition/consent order for appointment of a Rehabilitator for the insurer and the entry of this order. Any action against the insurer that might have been commenced when the petition was filed may be commenced for at least sixty (60) days after this order of rehabilitation is entered or the petition is denied. The Rehabilitator may, upon an order for rehabilitation, within one (1) year or such other longer time as applicable law may permit, institute an action or proceeding on behalf of the insurer upon any cause of action against which the period of limitation fixed by applicable law has not expired at the time of the filing of the petition upon which such order is entered;

14. If it proves necessary and the Commissioner believes further efforts to rehabilitate the insurer would substantially increase the risk of loss to creditors, policyholders, enrollees or the public, or would be futile, the Commissioner is permitted to petition for the relief under Tenn. Code Ann. § 56-9-305 to convert the action to liquidation of Respondent within this action. The Respondent shall be permitted to respond to such petition to convert this action to liquidation at such time, which response may either be consent or opposition to the petition at such time. The Respondent and/or its directors may exercise any other rights they have under Tennessee law;

15. Any person, firm, corporation or other entity having notice of this Order that fails to abide by its terms shall be directed to appear before this Court to show good cause, if any they may have, as to why they should not be held in contempt of Court for violation of the provisions of this Order;

16. No bond is required of the Commissioner as a prerequisite for the filing of this petition or entry of this consent order or for the issuance of any injunction, restraining order, or additional order issued as provided by Tenn. Code Ann. § 20-13-101, and;

17. The Commissioner may apply to the Court for any further orders which may be necessary to implement the terms of this order, or in aid thereof, to which she may be entitled. This Court retains jurisdiction for the purpose of granting such further relief as from time to time shall be deemed appropriate.

IT IS SO ORDERED, this \_\_\_\_\_ day of \_\_\_\_\_, 2003 at \_\_\_\_\_ .M.

\_\_\_\_\_  
CHANCELLOR

Agreed and approved for entry by:

[This Consent Order may be signed in counterparts.]  
STATE OF TENNESSEE

\_\_\_\_\_  
PAULA A. FLOWERS  
Commissioner, Department of Commerce  
and Insurance

\_\_\_\_\_  
PAUL G. SUMMERS (BPR 6285)

Attorney General and Reporter

SARAH A. HIESTAND (BPR 14217)  
Senior Counsel, Financial Division  
P. O. Box 20207  
Nashville, TN 37202  
(615) 741-6035

Exchange Insurance Company  
a Tennessee domiciled insurance company

Marcia Cohen  
By: \_\_\_\_\_  
Vice President for EIC

By execution hereof, Exchange Insurance Company consents to entry of this Consent Order of Rehabilitation. Exchange Insurance Company agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind Exchange Insurance Company to the terms and conditions of this Consent Order.

Exchange Insurance Company

By: Marcia Cohen  
(signature)

MARCIA COHEN  
(printed or typed name)

Seal

Title: Vice President

Date: 12-5-03

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