COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, SS.

SUPREME JUDICIAL COURT
FOR SUFFOLK COUNTY
NO. SJ-2000-65

LINDA L. RUTHARDT, as she is COMMISSIONER OF INSURANCE of the COMMONWEALTH OF MASSACHUSETTS,

Plaintiff,

TRUST INSURANCE COMPANY and TRUST ASSURANCE COMPANY,

Defendants.

TEMPORARY RECEIVER'S FIRST STATUS REPORT

In accordance with paragraph 2 of the Temporary Injunction and Order Appointing Temporary Receiver entered February 10, 2000 (the "Receivership Order"), Linda L. Ruthardt, Commissioner of Insurance, as Temporary Receiver (the "Receiver") of Trust Insurance Company and Trust Assurance Company (collectively, "Trust"), hereby submits this status report, which will summarize the steps taken to date in the rehabilitation of Trust.

1. Upon entry of the Receivership Order, the Receiver immediately took possession of the property and assets of Trust. In order to carefully evaluate Trust's financial condition and provide necessary management support, she engaged the services of American Patriot Group Inc. ("APG").[1] Since February 10th, the

[1] APG is a wholly owned subsidiary of the American Mutual Liability Insurance Company, in Liquidation ("AMLICO"). By virtue of her

Receiver's representatives have been on site at Trust's offices in Taunton, Massachusetts. APG and its agents will be indemnified by Trust except with respect to any gross negligence or willful misconduct on their parts.

2. As of January 31, 2000 (immediately prior to the inception of this proceeding), Trust's operations were staffed by 313 employees of its parent company, Trust Group, Inc. ("Trust Group"). Trust had no employees of its own. Trust and Trust Group were parties to a Management Services Agreement (the "Management Agreement"), whereby Trust Group provided all services to Trust, and "passed through" all expenses attendant to such services to Trust. In order to assure the continued availability of such services, employment by Trust was offered to all of the employees of Trust Group, with the exception of three senior officers. In order to induce the continued employment of the former Trust Group employees and thus help maintain stable operations for the benefit of policyholders and other creditors, the Receiver implemented a Job Retention Program on March 7, 2000. Under the Job Retention Program, retention pay will accrue for all permanent employees at the rate of 3.5% of salary rates per month for the remainder of calendar year 2000. In order to be eligible for retention pay, the employee must remain employed until his or her position is eliminated (and must not be removed for cause). Payments under the Job Retention Program will begin

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appointment as Permanent Receiver of AMLICO, the Receiver also controls the operations of APG.

on or about July 1, 2000, and will be staggered thereafter. All employees have also been given assurance of a minimum sixty day job elimination period. As of April 7, 2000, the total staff count at Trust is 273.

3. As part of the Receiver's effort to rehabilitate Trust the job duties, salaries and employee benefits of its five remaining officers were examined. It was determined that the positions of President and Chief Executive Officer, Senior Vice President - Administration, and Senior Vice President - Marketing and Commercial Lines Underwriting were no longer necessary, and those positions were eliminated effective March 17, 2000. The individuals who held those positions were therefore not offered employment by Trust. The positions of Vice President - Claims and Vice President - Management Information Services and Operations have been retained, and the individuals who hold those positions have accepted employment by Trust.

4. The Receiver determined that the continuation of the Management Agreement was not in the best interest of the policyholders and other creditors of Trust. For that reason, she rejected the Management Agreement, effective March 31, 2000. The Board of Directors of Trust Group have recently elected Paul Cantiani as President, Chief Executive Officer and Chairman of the Board of Trust Group. A dialogue with Mr. Cantiani has begun so as to facilitate consideration of the outstanding issues between Trust and Trust Group. Among the issues raised by Trust

Group is the recent remand decision by the Massachusetts Appeals Court in the matter of Trust Insurance v. Commissioner of Insurance, et al., No. 98-P-233 (concerning a dispute between Trust and Commonwealth Automobile Reinsurers). In light of the Commissioner's appointment as Temporary Receiver, she recused herself from all matters pertaining to that matter on remand to the Division of Insurance.

5. Several meetings have occurred with counsel for Fleet National Bank ("Fleet"), respecting the defaulted loan issued by Fleet to Trust Group, which is secured by a pledge of the stock of Trust. The parties reached an accommodation with respect to Trust's access to certain funds which were maintained in Trust Group accounts prior to the inception of the proceeding.

6. Trust's operations are continuing in the normal course, with the exception that it has not written any new business since the entry of the Receivership Order. As of December 31, 1999, Trust had approximately 190,000 automobile and homeowners policies in-force[2], with total annual premium for these lines of approximately $177,000,000. As of January 31, 2000, prior to the inception of these proceedings, Trust's in-force policy count for these lines was approximately 176,000 policies, with total annual premium for these lines of approximately $167,500,000. As of March 31, 2000, Trust's in-force policy count for these lines was

[2] These lines of insurance represent the overwhelming majority of Trust's total book of business.

approximately 156,000 policies, with total annual premium for these lines of approximately $148,000,000. These reductions reflect the gradual process whereby many of Trust's agents have been moving their respective books of business to other carriers upon the annual renewal dates of Trust's policies. This process began prior to these proceedings in response to significant publicity attendant to Trust's 1999 announcement of adverse 1998 operating results and its widely publicized efforts to obtain additional capital.

7. All payments to Trust's policyholders and other creditors are continuing to be made in the normal course, in accordance with the Receivership Order. As of January 31, 2000, there were approximately 25,000 pending claims under Trust's policies of insurance. As of February 29, 2000, the pending claim count has been reduced slightly to approximately 24,500.

8. During 1998 and 1999, Trust was engaged in the development of new computer software ("Trust Enterprise") pursuant to a contract with American International Technology Enterprises, Inc. ("AITE"), an affiliate of the American International Group of insurance companies. Private passenger automobile insurance policies, (which represent over 70% of Trust's policies) were converted to the Trust Enterprise system in September, 1999 (for new business policies) and in November and December, 1999 (for existing policies). The conversion resulted in a significant policy processing backlog, which has

now been substantially addressed. In addition, there are certain limitations to the Trust Enterprise system which have become evident since the conversion, particularly with respect to reporting of data to the Merit Rating Board ("MRB")and Commonwealth Automobile Reinsurers ("CAR")[3]. In order to better assess the scope and complexity of these limitations, the Receiver engaged systems consulting experts from Ernst & Young. A preliminary assessment of these limitations has been completed. Trust's staff is working with representatives of AITE to resolve these issues. In addition, the Receiver's representatives have commenced discussions with AITE concerning these issues, as well as issues arising from the plans of Trust and AITE to jointly market and license the Trust Enterprise system to third parties.

9. As outlined in the Verified Complaint, one of the Commissioner's principle objectives in the rehabilitation of Trust was to explore the feasibility of transaction(s) for the sale of Trust or its material business assets. To that end, the Receiver's representatives contacted the twenty largest personal automobile insurers in Massachusetts, and invited them to enter into confidentiality agreements to facilitate consideration of such a transaction. In addition, other interested parties have been in contact with the Receiver's representatives. That process has not resulted to date in any proposals which have been determined to be in the best interests of Trust's policyholders

[3] Both MRB and CAR have notified Trust of reporting irregularities, including the imposition of fines.

and other creditors. In order to assure that the limited assets of Trust are available for the benefit of policyholders, evidence that an interested party has both access to sufficient capital as well as to competent insurance management will continue to be required so that it may be considered before Trust incurs the expense of arranging for on-site due diligence and/or discussions with the Receiver's representatives. As of this date, discussions have not yet been completed with all parties who have signed confidentiality agreements.

10. The most difficult aspect of the rehabilitation of Trust remains the determination of its present financial condition. As outlined in the Verified Complaint, there is significant uncertainty attendant to both Trust's assets and liabilities. The Receiver's representatives have been working with Trust's staff to reconcile the financial data necessary to prepare Trust's Annual Statement as of December 31, 1999. That process is ongoing, and has been complicated by the significant absence of normal financial controls at Trust. As set forth in the Verified Complaint, actuarial advisers from the firm of Milliman & Robertson have indicated that Trust's loss reserves were likely deficient by approximately $13,500,000 as of December 31, 1998. The process of reconciling Trust's premium receivables is also continuing. It now appears that premium receivables may have been overstated as of December 31, 1998 by as much as $7,000,000. It also now appears that an adjustment to surplus of approximately $6,000,000 may be necessary due to the

incorrect reporting of a financial reinsurance transaction. Trust has also experienced negative cash flow for 1998, 1999 and 2000 (year to date), which will adversely affect its reported surplus. The recorded values for real estate assets may require adjustment as well. Trust had reported surplus (net worth) of approximately $30 million at September 30, 1999. Trust is deemed to be in a hazardous financial condition. In view of the need to complete the analysis of Trust's financial condition and discussions with possible acquirers, the Receiver intends to report with respect to her further recommendations within thirty (30) days.

Respectfully submitted,

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J. David Leslie
Special Assistant
Attorney General

Dated: April 10, 2000