

Report for Special Master's Status Conference

July 23, 2018

R-559 Access Insurance Company

SDR: CANTILO & BENNETT, L.L.P.
Primary Responsible Person: Susan E. Salch
Estate Counsel: Christopher Fuller
Receiver's Counsel: David Wheelus
RLO Analyst: Vicente Aguillon

Background on Receivership

- Date of Permanent Injunction (Liquidation): March 13, 2018
- Date of Appointment of SDR: March 14, 2018
- Claims Filing Deadline: TBD (Anticipated deadline: September 13, 2019)
- States where Licensed: TX, AL, AZ, AR, CA, DE, TN, FL, GA, IN, KY, LA, MS, MO, MT, NV, NM, NC, OK, OR, PA, SC
- Lines of Business: Non-standard auto
- Texas Guaranty Association Triggered: Texas Property and Casualty Insurance Guaranty Association ("TPCIGA")
- Date of Impairment: March 14, 2018
- Early Access Distributions: TBD (Anticipated distribution in Winter 2018)

Statement of Assets and Liabilities as of June 30, 2018

Total Assets:	\$111,978,838
Cash Assets:	\$ 61,105,294
Non-Cash Assets:	\$ 50,873,544
Total Liabilities:	\$219,871,509
Negative Equity:	(\$107,892,671)

Asset Recovery through June 30, 2018

Premium Collected:	\$ 10,795,664
Subrogation/Salvage:	\$ 486,836
Reinsurance Collected:	\$ 10,713,708
FF&E Sold:	\$ 0
CDs Sold/Matured:	\$ 3,996,044
IOLTA Funds Recovered:	\$ 550,465

Status and Activity Since Last Status Conference

General Matters

Takeover: The Permanent Injunction was entered on March 13, 2018. The SDR was appointed effective March 14, 2018. The SDR began the receivership takeover process on March 15, 2018, when Ms. Salch and estate subcontractors met with representatives from Access Holdco Management, LLC (“AHM”) at their offices in Atlanta. Takeover team members were present at those offices until the end of May 2018. At this time, the SDR contracts with AHM for continued use of the IT systems, four claims servicing personnel, and access to accounting, reinsurance, subrogation professionals still working at AHM.

Phones/Mails/Faxes/E-Mails: The SDR hired third-party vendors to handle telephone calls and voice messages, scanning and indexing paper mail, e-mails and faxes. Volume remains steady and high.

Early Access: The SDR submitted a draft Early Access Report to RLO for review and approval. The SDR will report that there is not sufficient financial information available at this time to accurately determine “distributable assets.” The SDR expects to seek authority to make a distribution before year end.

Financial Institutions: SunTrust, AIC’s primary banker, informed the SDR that the account history, images of cancelled checks and other such items, would be deleted if the accounts were closed. The bank would charge more than \$75,000 to download the history for all the accounts to CDs but would not commit to providing software to access the raw data. Instead, the SDR transferred all the money from the premium trust, salvage and claims accounts while leaving them technically “open” so that the history would be saved. The AIC operating account at SunTrust is the one account which still has a small balance to pay analysis fees and ACH returns.

Payment on claim checks stopped as of May 14, 2018, roughly sixty (60) days after the last claim check was issued. Each AIC check bore a notation that it had to be cashed within sixty (60) days or would be considered stale. In addition, CIGA urged that the estate cease honoring pre-receivership claim checks due to fears of double payment to claimants. Once payment was stopped on the checks, the SDR transferred more than \$37 million from the SunTrust accounts to the Texas Treasury account.

In March, the SDR posted a \$750,000 CD as collateral for ACH withdrawals. There have been very few ACH refund demands to date, and they have been funded from the operating account at SunTrust. Under the terms of the agreement, the SDR withdrew \$187,500 from the CD in July 2018. Another draw will be made on September 1, 2018. The pledged CD expires on September 30, 2018.

On May 9, 2018, Bank of America (“BOA”) inexplicably froze the personal bank accounts of various officers and at least one director, apparently after reviewing a copy of the Permanent Injunction. The SDR had not served the formal writ on the bank out of a

concern that the institution would unnecessarily freeze accounts. The SDR did not request any hold on any accounts. After learning of the freeze, estate counsel contacted BOA and had it reverse the hold on the accounts the next day. Subsequently, BOA notified the SDR that it held no accounts for AIC, apparently failing to note the two statutory deposits held by the bank. Estate counsel had a similar exchange with an attorney for Regions Bank. That institution demanded that the SDR acknowledge that there was no court order freezing accounts for individuals and entities identified in the Permanent Injunction. As with BOA, Regions notified the SDR that it did not hold any accounts for AIC failing to identify a statutory deposit on file with that bank.

Defense Counsel: To date, the SDR has recovered \$550,465 from AIC defense counsel who held AIC funds in their IOLTA accounts. Some defense counsel have not yet returned the money. The SDR will continue to prod these counsel, although ultimately, it may be necessary to file turnover actions in the receivership court. The SDR believes that there may be additional defense counsel holding funds who have not yet been asked to return them, because, AHM failed to maintain detailed records reflecting the deposits. Turnover demands will be made as the firms are identified.

Defense counsel continue to contact the SDR regarding the filing of claims for unpaid legal fees, demands for payment to them by third-party vendors – experts, deposition services, court reporters, process services, and on cases where the guaranty association has not retained new counsel or appointed an adjuster.

IT Matters: The SDR’s takeover team is working with outside vendors to establish a virtual server to hold estate IT data. One of the vendors will manage the servers while providing access to the SDR, subcontractors, and guaranty associations. The SDR and guaranty associations will continue to use AHM systems until the virtual server is completed.

Records: The SDR still has not been able to recover all pre-receivership business records but does have current financial/accounting; claims and reinsurance materials. Substantial data records remain commingled with AHM’s materials.

There are several thousand boxes of paper records in an off-site storage facility in Atlanta held in AHM’s name. The inventory provided by AHM does not clearly delineate whether the boxes contain AIC records, AHM records, or are mixed. The SDR’s subcontractor plans to conduct an on-site review of the records July 23 – 25, 2018. The project has been delayed due to limited office space availability, at the records center, to review the materials. Depending on the nature of the records, the SDR may leave them in place, or have them transferred to Austin.

Insurance: All E&O, D&O, and professional liability insurance policies have been reviewed, and their mid-June 2018 expiration/claim extension deadlines noted. RLO approved a CBA to purchase one-year extensions for reporting/making claims on the policies. The extensions were purchased by the deadline.

Claims Activity

Proof of Claim Application: The SDR has submitted a draft Proof of Claim application to RLO for review and approval.

All claims adjusting stopped shortly after receivership. AHM still provided customer service personnel and continued to answer the phones, respond to e-mails, open and image the mail, until the end of April 2018. The SDR has retained third-party vendors to provide these services. AHM apparently had a practice of closing claims prematurely. Numerous claims have been re-opened since receivership, and the SDR expects this to continue even though claims handling responsibility has been transferred to the guaranty associations.

Guaranty Associations: Claim data is being provided to all affected guaranty associations via transfer of UDS records. As of June 30, 2018, UDS-A records have been sent to the associations for 38,589 open/reopened claims. UDS-A records have also been transferred for 13,230 related closed claims, to allow the guaranty associations to evaluate policy limits. The claims staff is working with the NCIGF to transfer UDS-I (images) records in the format preferred by each association. Additionally, the associations have been offered remote access to the AHM database to review images.

The SDR's claims subcontractors estimate that the current volume of work relating to claims and responding to communications (calls/e-mails/faxes) will continue through the summer.

There has been minimal UDS reporting on paid claims and reserves from the affected guaranty associations. As of June 30, 2018, the associations made the following reports:

	Reporting Date	Paid Loss	Paid ALAE	Loss Reserve	ALAE Reserve
AL	5/31/2018	\$309,165.02	\$7,124.50	\$2,807,621.56	\$94,820.75
IN	5/31/2018	0.00	0.00	7,600.00	0.00
LA	6/30/2018	40,142.48	146.60	130,450.00	89.00
MS	5/31/2018	0.00	0.00	15,900.00	0.00
OK	5/31/2018	7,092.36	0.00	176,697.64	8,700.00
TX	6/30/2018	0.00	1,239.70	6,401.00	4.00

As of June 30, 2018, approximately 159,710 UEP claims totaling \$19,165,670 have been sent to the affected guaranty associations. More than 30,000 additional UEP records were scheduled to be sent to the associations in mid-July.

Subrogation: The SDR is compiling subrogation claims against the company to report them to reinsurers.

Asset Recovery Activity

Cash/Securities: All cash and securities have been secured. CDs in excess of FDIC insurance limits were liquidated. Cash has been transferred to the estate's Texas Treasury account.

Salvage: The SDR has recovered more than \$400,000 in salvage proceeds. The SDR retained three former AHM employees on a temporary basis to go through the salvage files and create an accurate picture reflecting who owed whom how much. An additional task was to split the salvaged vehicles between the SDR and the respective guaranty associations. The SDR owns the vehicle and related recovery for any loss paid before receivership; the associations own the rights on claims they pay. This project has been completed. The SDR recently reached an agreement with the salvage company for it to be paid certain pre-receivership fees that were not paid when non-claims payment checks were dishonored on approximately 220 vehicles. The salvage company will off-set the unpaid fees when the vehicles in question are sold and the remainder remitted to the SDR. There appear to be between 200-300 cars belonging to the estate that must be sold after resolving any document or title issues.

Reinsurance: Tharp & Associates ("Tharp") has been retained to advise the SDR on reinsurance and to oversee monthly reporting to the intermediary and reinsurers. Reporting has been transitioned from AHM to Tharp, and AIC has timely reported to the reinsurers since receivership. Most reinsurers continue to comply with their agreements by paying the amounts owed to AIC's broker, which in turn sends the money to the SDR. In June, the SDR rejected a reinsurer's request to reduce its letter of credit securing the reinsurance obligation.

Statutory Deposits: Work to recover the statutory deposits is underway. The SDR expects to transfer some of these deposits to the guaranty associations as advances towards Early Access.

General Legal Activities

Litigation: All first-party lawsuits involving the SDR or AIC are stayed. There do not appear to be any non-claim related litigation against the company.

Regulatory Action: AIC's license has been, or will be, restricted, revoked, or suspended in Alabama, North Carolina, Oregon, Mississippi, Montana, Florida, Louisiana, Tennessee, and Arkansas.

Subpoenas: The SDR continues to receive numerous records subpoenas, primarily from California. As in other estates, the SDR requires a non-refundable \$500 fee, in addition to any statutory subpoena fee, before undertaking the work to produce documents.

Conclusion

Summary of Major Achievements:

- Collected trust funds from defense counsel.
- Stopped payment on stale claim checks and recovered funds from attorney trust accounts.
- Transitioned reinsurance reporting to Tharp.
- Confirmed to reinsurers that all treaties remain in force.
- Purchased late reporting extensions on D&O and E&O policies.
- Set up separate telephone service for estate.
- Retained vendors to handle, scan and index incoming mail/faxes/emails.
- Provided claims and UEP data and images to guaranty associations and transitioned claims handling.
- Updated salvage records to recover funds owed to SDR and transfer collections to guaranty associations.

Estate Goals to achieve prior to next Status Conference:

- File application to establish Proof of Claim filing deadline.
- File First Early Access Report.
- Complete transition to separate IT system.
- Begin recovering statutory deposits.
- Continue reporting to reinsurers.

Estate Closing Date of Receivership: TBD

Identification of Factors Affecting Closing Date and Final Distribution: TBD