

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

Docket No. 03-E-0106

In the Matter of the Liquidation of  
The Home Insurance Company

RECEIVED

Docket No. 03-E-0112

JUL 29 2003

In the Matter of the Liquidation of  
US International Reinsurance Company

N.H. INSURANCE DEPARTMENT

**LIQUIDATOR'S MOTION FOR APPROVAL OF (1) SHORT-TERM  
TRANSITION SERVICES AGREEMENT AND (2) ASSET TRANSFER  
AGREEMENT WITH RISK ENTERPRISES MANAGEMENT**

NOW COMES Paula T. Rogers, Commissioner of Insurance ("Commissioner"), as Liquidator ("Liquidator") of The Home Insurance Company ("The Home") and US International Reinsurance Company ("USI Re")(collectively, the "Companies"), by her attorneys, the Office of the Attorney General, and moves for an order approving (1) a short-term Transition Services Agreement, and (2) an Asset Transfer Agreement, both with Risk Enterprise Management Limited ("REM"). As reasons therefore, the Liquidator states:

1. The Court placed The Home and USI Re in liquidation and appointed the Commissioner of Insurance as their Liquidator by Orders of Liquidation entered on June 11 and 13, 2003. The Court entered a superseding Order of Liquidation for The Home on June 13, 2003.

2. REM had previously administered the run-off of the Companies since 1995, when REM was created in connection with a complex recapitalization transaction involving the Companies and their corporate parent.

3. The Liquidator concluded that it was in the best interest of the Companies' policyholders and other creditors that she disavow the Services Agreement among REM, the Companies, and others, dated as of June 12, 1995, as amended (including the first and second amendments to the Services Agreement and subsequent letter amendments dated July 19, 2000, and May 6, 2003). Her disavowal notice pursuant to RSA 402-C:25, XI, was dated June 19, 2003.

4. The Liquidator believes that cost efficiency can be achieved through an effective, stand-alone liquidation operation for the Companies in liquidation. To that end, the Liquidator is assembling a liquidation staff and preparing facilities, including computer systems, to conduct the liquidations. See Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, in Support of Motion for Approval of Agreements ("Bengelsdorf Aff.") ¶ 2.

5. REM has possession of many of the records and information of The Home and USI Re, including data contained on computer systems that have been operated and maintained by REM. While the Court's prior orders require REM to deliver such data to the Liquidator, the computer systems holding the Companies' financial, reinsurance, policy, claims and other operational information include intermingled data concerning both the Companies and other of REM's clients. REM has developed system enhancements and applications to handle and provide access to the Companies' data. Further, certain of the computer software and applications are owned by REM. Any

“download” of the Companies’ data from REM systems must be accomplished by the migration of that data to new software and hardware capable of accessing that data.

Bengelsdorf Aff. ¶ 4.

6. It will greatly assist the Liquidator in promptly establishing a cost-effective stand-alone liquidation operation, to acquire title to and interests in the computer software and applications, and other non-information processing related assets, owned by REM that have heretofore been used to administer the run-off of the Companies. In order to help her in valuing those assets, the Liquidator engaged Cap Gemini Ernst & Young U.S. LLC (“CGE&Y”), the consulting arm of Ernst & Young. Bengelsdorf Aff. ¶ 5.

7. The transfer of the records and information of the Companies, in particular the data on the computer systems, to the new stand-alone facilities and computer systems is a complicated undertaking, and one that needs to be accomplished quickly and in an organized fashion. The Liquidator needs to have immediate access to the existing computer systems and the data on those systems and to minimize any disruption in access to organize and run the liquidations. Access to the information and systems is important for a number of functions, including: (a) the processing of information concerning claims and other matters that continues to flow to the companies, (b) keeping records of the file transfers to guaranty associations, (c) billing and collecting reinsurance, (d) keeping records of proofs of claims as they are mailed and returned, (e) providing coverage and claims payment information to guaranty associations so they can handle claims, (f) processing vendor invoices, and (g) arranging for the transfer of the foregoing information to computer systems being established for the liquidations. The transfer of

records and computer data would be more quickly and efficiently made with the assistance of the company that has been maintaining those records and operating the computer systems. Bengelsdorf Aff. ¶ 6.

8. For the foregoing reasons, the Liquidator has negotiated two agreements with REM: (a) an Asset Transfer Agreement to acquire rights to software and applications, as well as other non-information processing related assets, to permit the stand-alone liquidation operation to readily maintain, access and process the Companies' financial, reinsurance, policy, claims and other operational information, and (b) a short-term Transition Services Agreement to provide a smooth transfer of records and computer data access and processing and quickly establish a functioning, stand-alone liquidation operation. Bengelsdorf Aff. ¶ 7. Copies of the Asset Transfer Agreement and the Transition Services Agreement are attached as Exhibits A and B to this motion.

9. Briefly, the Asset Transfer Agreement provides for REM to transfer to the Liquidator all right, title and interest in a number of technology assets, including among other things the Assumed Reinsurance System, the modifications and enhancements to the Ceded Reinsurance System and Claims System made by REM, software rights to all systems used by REM for the business of the Companies, all data and databases developed for or used for the business of the Companies, and any and all other REM proprietary systems, links and applications used for the Companies (including financial, accounts payable, accounts receivable, and budget systems). Bengelsdorf Aff. ¶ 8.

10. The Liquidator agrees to pay \$7.5 million for the assets. The Asset Transfer Agreement will only become effective when approved by the Court. The payment will be made within two business days of that approval, and title will be

transferred to the Liquidator at that time. The payment is fair and reasonable based on the evaluation by CGE&Y. CGE&Y has estimated the total value of the assets to be acquired pursuant to the proposed Asset Transfer Agreement, excluding REM proprietary intellectual property and non-business related software, to fall between a range of \$6.8 to 9.17 million. Bengelsdorf Aff. ¶ 9. A copy of CGE&Y evaluation letter is attached as Exhibit 1 to the Bengelsdorf Affidavit.

11. In order to facilitate and expedite the transition to an independent liquidation operation able to fully use the computer systems and information, the Liquidator entered into the short-term Transition Services Agreement. That Agreement provides that REM will perform a number of essential tasks, including providing support for follow-up mailings of notices to potential claimants, delivering an operational proof of claim system, assisting the Liquidator separating and transferring the Companies' data to the Liquidator's systems and accessing the data, upgrading personal computers and servers to be used by the liquidation operation, assisting the Liquidator in installing computers and creating a separate data center and in transferring mainframe and related systems, and training liquidation staff to operate the systems. Bengelsdorf Aff. ¶ 10.

12. The Liquidator will compensate REM for these services by paying fees consisting of (i) the employee compensation and benefits of REM personnel during the term of the Agreement multiplied by the portion of their time spent performing services for the Liquidator, (ii) an allocation of REM's costs relating to the provision of the Services, and (iii) the sum of \$295,000 for REM's extraordinary transition costs. The cost of the Agreement to the liquidation thus will depend on the amount of services called for by the Liquidator. The Liquidator also agrees to indemnify REM against claims and

expenses arising from the services performed for the Liquidator. The Transition Services Agreement's term begins on the liquidation date, June 11, 2003, and ends 45 days after Court approval of the Agreement; however, the Agreement only becomes effective when approved by the Court. (Until that time, the Liquidator will pay REM on the basis of a letter dated June 20, 2003 providing for interim payments after disavowal of the prior Services Agreement.) Bengelsdorf Aff. ¶ 11.

13. The Asset Transfer Agreement and the Transition Services Agreement will facilitate and expedite the establishment of an independent liquidation operation for a price that is fair and reasonable. See Bengelsdorf Aff. ¶ 12. The Liquidator accordingly requests that the Court approve both the Asset Transfer Agreement and the Transition Services Agreement.

14. Counsel to the Liquidator has not sought the concurrence of Attorney Gottesman because he has already objected to the hiring of REM so his objection to this motion can be presumed. In any event, upon information and belief, the claim of Attorney Gottesman's client has been settled and her reasons for intervention may no longer exist.

15. On July 23 and 24, 2003, counsel to the Liquidator sought the concurrence of Attorneys Rakowsky, Wiebusch, and Serrell, each representing intervening parties. Attorney Wiebusch is out of the country until August 4, 2003; his office indicated that he would not be responding to our request to concur. Attorney Rakowsky did not respond to counsel's request before this motion needed to be filed. Attorney Serrell's office responded that they had no objections to this motion.

## CONCLUSION

For the foregoing reasons, the Liquidator requests that the Court grant her motion and enter an order approving the Asset Transfer Agreement and the Transition Services Agreement. A proposed order is submitted herewith.

Respectfully submitted,

PAULA T. ROGERS, COMMISSIONER OF  
INSURANCE OF THE STATE OF NEW  
HAMPSHIRE, SOLELY IN HER CAPACITY AS  
LIQUIDATOR OF THE HOME INSURANCE  
COMPANY AND US INTERNATIONAL  
REINSURANCE COMPANY,

By her attorneys

PETER W. HEED, ATTORNEY GENERAL



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July 25, 2003