

**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**

**Docket No. 03-E-0112**

**In the Matter of the Liquidation of  
US International Reinsurance Company**

**AFFIDAVIT OF PETER A. BENGELSDORF,  
SPECIAL DEPUTY LIQUIDATOR, IN SUPPORT OF  
MOTION FOR APPROVAL OF AGREEMENTS**

I, Peter A. Bengelsdorf, hereby depose and say:

1. I was appointed as Special Deputy Liquidator of The Home Insurance Company ("The Home") and US International Reinsurance Company ("USI Re") by Paula T. Rogers, Commissioner of Insurance, as Liquidator of The Home, effective June 11, 2003. I submit this affidavit in support of the Liquidator's Motion for Approval of (1) Short Term Transition Services Agreement and (2) Asset Transfer Agreement with Risk Enterprises Management (the "Motion").

2. The Liquidator has determined to create stand-alone liquidation operation for The Home and USI Re (collectively, the "Companies") in liquidation to achieve cost efficiency. As part of my duties as Special Deputy Liquidator, I have been charged with assembling a liquidation staff and preparing facilities, including computer systems, to conduct the liquidations.

3. Risk Enterprise Management Limited (“REM”) had administered the run-off of the Companies since 1995 pursuant to a Services Agreement with the Companies dated June 12, 1995, as amended. The Liquidator disavowed the Services Agreement by notice dated June 19, 2003.

4. 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. 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.

5. It will greatly assist 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”), consulting arm of Ernst & Young.

6. 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.

7. For these 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. Copies of the Asset Transfer Agreement and the Transition Services Agreement are attached to the Motion.

8. 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).

9. 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. A copy of CGE&Y evaluation letter is attached as Exhibit 1.

10. 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.

11. 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.)

12. I believe that 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.

Signed under the penalties of perjury this 18<sup>th</sup> day of July, 2003.

Peter A Bengelsdorf  
Peter A. Bengelsdorf  
Special Deputy Liquidator

STATE OF NEW YORK  
COUNTY OF NEW YORK

Subscribed and sworn to, before me, this 18<sup>th</sup> day of July, 2003

Nelly Gomez  
Notary Public/Justice of the Peace

NELLY M. GOMEZ  
Notary Public, State of New York  
No. 5005271  
Qualified in Brook County  
Certificate Filed in N.Y. County  
Commission Expires December 7, 2006