

4. Independence Indemnity Insurance Company provided professional and excess liability insurance, including medical malpractice, general liability and targeted environmental coverages, primarily in the health care industry.

5. The Company amended its Kansas certificate of authority in 2000 from a multiple-line company to a casualty company. (see attached Exhibits A and B)

6. Independence Indemnity Insurance Company decided to discontinue transacting business in Kansas, as of the second quarter of 2000. (see attached Exhibits B and C)

7. However, Independence Indemnity continues to write tail coverage for those insureds who elected to purchase tail when their claims-made policies were non-renewed by Independence Indemnity.(see attached Exhibit B)

8. Approximately 98.8% of premiums were for medical malpractice coverage. All premiums are immediately ceded to reinsurers.

9. Effective October 1, 2000, Independence Indemnity entered a commutation agreement with PHICO Insurance Company, which transferred all insurance liabilities to PHICO.

10. Independence Indemnity Insurance Company was a participant in a reinsurance pooling agreement with PHICO Insurance Company and Pennsylvania Casualty Company.

11. On October 1, 2000, Independence Indemnity amended the pooling agreement to change their participation from 10% to 0%.

12. All direct business of Independence Indemnity is ceded to PHICO Insurance Company.

13. As a result of Independence Indemnity transferring their insurance obligations, they determined its risk based capital requirement should be reduced. (see attached Exhibit B)

14. As a part of Independence Indemnity's plan to reduce its net worth, they received permission from the Kansas Insurance Commissioner to repurchase some of its common stock on two occasions during 2000. (see attached Exhibits A and B)

15. From June 30, 2000 to June 30, 2001, Independence Indemnity's policyholder surplus has decreased from \$16,410,404 to \$3,247,116.

16. On August 16, 2001, PHICO Insurance Company, a sister company of Independence Indemnity and a participant in the pooling agreement, was placed in rehabilitation by the Pennsylvania Insurance Department. This action was taken by the Pennsylvania Insurance Department because from, June 30, 2000 to June 30, 2001 PHICO's surplus decreased from \$127 million to \$6.8 million. The \$6.8 million surplus places PHICO in mandatory control level based on their risk based capital requirements.

Applicable Law

17. K.S.A. 40-3613(b) provides:

If upon examination or at any other time the commissioner has reasonable cause to believe that any domestic insurer is in such condition as to render the continuance of such domestic insurer's business hazardous to the public or to holders of its policies or certificates of insurance, or if such domestic insurer gives it consent, then the commissioner shall upon make such determination: (1) Notify the insurer of such determination;; and (2) furnish to the insurer a written list of the commissioner's requirements to abate the determination.

18. K.S.A. 40-3613(c) further provides:

If the commissioner makes a determination to supervise an insurer subject to an order under subsections (a) or (b), the commissioner shall notify the insurer that such insurer is under the supervision of the commissioner. During the period of supervision, the commissioner may appoint a supervisor to supervise such insurer. The order appointing a supervisor shall direct the supervisor to enforce orders issued under subsections (a) and (b) and may also require that the insurer may not do any of the following things during the period of supervision, without the prior approval of the commissioner or the supervisor:

(1) Dispose of, convey or encumber any of its assets or its business in force;

- (2) withdraw from any of its bank accounts;
- (3) lend any of its funds;
- (4) invest any of its funds;
- (5) transfer any of its property;
- (6) incur any debt, obligation or liability;
- (7) merge or consolidate with another company; or
- (8) enter into any new reinsurance contract or treaty.

19. K.A.R. 40-1-38 defines the standard and the commissioner's authority for companies deemed to be in hazardous financial condition.

20. K.A.R. 40-1-38, section 3, paragraphs 6 and 7, states:

The following standards, either singly or a combination of two or more, may be considered by the Commissioner to determine whether the continued operation of any insurer transacting an insurance business in this state might be deemed to be hazardous to the policyholders, creditors or the general public. The Commissioner may consider:

- (6) the insurer's operating loss in the last twelve month period or any shorter period of time, including but not limited to net capital gain or loss, change in non-admitted assets, and cash dividends paid to shareholders, is greater than 50% of such insurer's remaining surplus as regards policyholders in excess of the minimum required;
- (7) whether any affiliate, subsidiary or reinsurer is insolvent, threatened with insolvency, or delinquent in payment of its monetary or other obligation.

Conclusions of Law

21. During the last twelve months, Independence Indemnity's policyholder surplus has decreased from \$16,410,404 as of June 30, 2000 to \$3,247,116 as of June 30, 2001. The net decrease in "Surplus as Regards Policyholder Surplus" exceeds 50% of the excess of the minimum requirement. Secondly, PHICO Insurance Company, a sister company of Independence Indemnity was placed in rehabilitation on August 16, 2001 by the Pennsylvania

Insurance Department because of its hazardous financial condition. Therefore, due to these two conditions, the Kansas Insurance Commissioner determines that Independence Indemnity should continue to transact business with supervision of its operation by the Kansas Insurance Commissioner.

22. Therefore, pursuant to the provisions of K.S.A. 40-3613 the Commissioner has determined that the continued operation of Independence Indemnity, without supervision of the Kansas Insurance Commissioner would be hazardous to the public.

IT IS THEREFORE, BY THE COMMISSIONER OF INSURANCE, ORDERED THAT:

1. Pursuant to the provisions of K.S.A. 40-3613, the Kansas Insurance Commissioner finds and orders that Independence Indemnity Insurance Company is placed under supervision of the Kansas Insurance Commissioner

2. The Commissioner hereby appoints Don Gaskill, Chief Financial Examiner, of the Kansas Insurance Department as supervisor of the affairs of Independence Indemnity Insurance Company pursuant to the terms of this order.

3. That, as of the effective date of this order Independence Indemnity Insurance Company shall not do any of the following things during the period of supervision, without the prior approval of the supervisor or the Commissioner:

- (a) dispose of, convey or encumber any of its assets or its business in force;
- (b) withdraw from any of its bank accounts;
- (c) lend any of its funds;
- (d) invest any of its funds;
- (e) transfer any of its property;
- (f) incur any debt, obligation or liability;

- (g) merge or consolidate with another company;
- (h) enter into any new reinsurance contract or treaty;
- (i) submit information for the review of the commissioner or supervisor at their request concerning operations and administration of Independence Indemnity Insurance Company
- (j) provide the Commissioner and her appointed Supervisor with access to all records of Independence Indemnity;
- (k) make any material change in management; or
- (l) pay salaries or benefits or bonuses or compensation to officers, directors or independent contractors as agreed to by Independence Indemnity prior to the date of this order;

4. Independence Indemnity's officers directors, administrators, agents and employees are required to cooperate with the Commissioner and the Supervisor.

5. Independence Indemnity may request the Commissioner to modify the provisions of this order or to review any action taken or proposed to be taken by the Supervisor at any time by a written request demonstrating the conditions which warrants the modification of this order or specifying whether the action complained of is believed not to be in the best interests of Independence Indemnity.

6. The Commissioner retains jurisdiction over this matter and over Independence Indemnity for the purpose of entering into any further orders as may be deemed proper and necessary after notice and hearing in accordance with the Kansas Administrative Procedures Act.

Notice of Rights

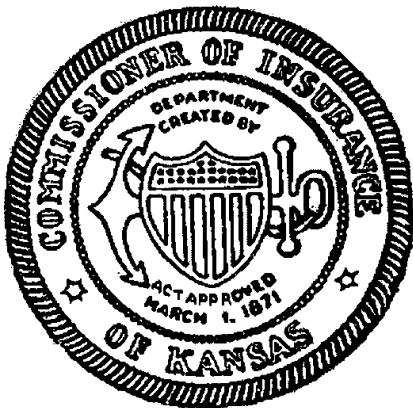
Independence Indemnity Insurance Company is entitled to a hearing pursuant to K.S.A 77-537, of the Kansas Administrative Procedures Act. If Independence Indemnity desires a hearing the company must file a written request for a hearing with:

Kathy Greenlee
General Counsel
Kansas Insurance Department
420 S.W. Ninth Street
Topeka, Kansas 66612
(785) 296-7806

This request must be mailed within fifteen (15) days from the date of this Order. If Independence Indemnity requests a hearing, the Kansas Insurance Department will notify the company of the date and time of the hearing and information on procedures, right of representation and other rights of parties relating to the conduct of the hearing, before commencement of the hearing.

If a hearing is not requested in the time and manner stated above, this Summary order shall become final and effective upon the expiration of time for requesting a hearing.

IT IS SO ORDERED THIS __20th__ DAY OF NOVEMBER, 2001, IN THE CITY OF TOPEKA, COUNTY OF SHAWNEE, STATE OF KANAS.



____/s/ Kathleen Sebelius_____

Kathleen Sebelius

Commissioner of Insurance

BY:

____/s/ Kathy Greenlee_____

Kathy Greenlee

General Counsel

Certificate of Service

The undersigned hereby certifies that the above and foregoing Summary Order of Supervision was served this __21st__ day of November, 2001, by depositing the same in the United States Mail, first class postage prepaid, addressed to the following:

Mr. Ronald E. Chronister
Senior Vice-President/Reinsurance and Regulatory Affairs
Independence Indemnity Insurance Company
Post Office Box 85
Mechanicsburg, Pennsylvania 17055-0085

_s/ Rebecca A. Sanders _____
Rebecca A. Sanders
Staff Attorney