

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF KANSAS**

In the Matter of HIGHLANDS
INSURANCE COMPANY

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)

Docket No. 3034-CO

CONSENT ORDER

Pursuant to the authority granted the Commissioner of Insurance by Kansas Statutes Annotated (K.S.A.) 40-222, K.S.A. 40-222b, K.S.A. 40-222d, and K.S.A. 40-222e, and in accordance with the Kansas Administrative Procedures Act, K.S.A. 77-501, et seq.,

I, Kathleen Sebelius, the duly elected, qualified, and acting Commissioner of Insurance of the State of Kansas, hereby make the following findings of fact, conclusions of law, and order, to wit:

Findings of Fact

1. Highlands Insurance Company is an insurance company incorporated under the laws of the State of Wisconsin, with their main administrative office being located at 1000 Lenox Drive, Lawrenceville, NJ, 08648.

2. Highlands Insurance Company was licensed to transact the business of insurance in the State of Kansas on October 1, 1964, under the authority of K.S.A. 40-901, K.S.A. 40-1102, and K.S.A. 40-1104.

3. The Commissioner of Insurance has jurisdiction over the subject matter of this proceeding and over Highlands Insurance Company and this proceeding is held in the public interest.

4. Highlands Insurance Company's policyholders' surplus decreased from \$166,740,343 as of December 31, 1999 down to \$127,405,561 as of December 31, 2000, which represents a decrease of \$(39,334,782).

5. Highlands Insurance Company's policyholders' surplus was reported as \$94,664,274 as of September 30, 2001, which represents a further decrease in policyholders' surplus of \$(32,741,286) during the first nine months of 2001.

6. The reduction in Highlands Insurance Company's policyholders surplus is primarily due to a net underwriting loss of \$(54,497,905) during 2000 and another \$(49,000,656) in the first nine months of 2001.

7. Highlands Insurance Company's nonadmitted assets decreased surplus by \$(11,777,614) during 2000 and another \$(23,262,657) in the first nine months of 2001.

8. The September 30, 2001 financial statement reflects a \$12.3 million deficiency in the development of the December 31, 2000 total loss and loss adjustment expense reserves.

9. Highlands Insurance Company's financial status currently remains above the minimum of capital and surplus requirements, as stated in K.S.A. 40-901 and K.S.A. 40-1104. However, the circumstances, as viewed by the Kansas Insurance Department, produce sufficient evidence regarding the financial stability and well-being of the insurance company to warrant the suspension of its Certificate of Authority in the State of Kansas.

Conclusions of Law

10. K.S.A. 40-222d provides in relevant part:

For the purposes of this act a company may be deemed to be in a hazardous financial condition when the commissioner has determined...that the loss experience of the company, when reviewed in conjunction with the kinds and nature of risks insured, the financial condition of the company and its ownership or the ratio of the annual premium volume in proportion to the company's policyholders surplus creates a condition that would make further assumption of risks hazardous to the insuring public.

11. Based upon paragraphs 4 through 8, it appears to be in the best interest of the policyholders of Highlands Insurance Company that the Kansas Insurance Department suspend Highlands Insurance Company's Certificate of Authority pursuant to K.S.A. 222, K.S.A. 40-222b and K.S.A. 40-222e.

13. Highlands Insurance Company neither admits nor denies the allegations set forth herein this order as described above.

14. Highlands Insurance Company waives its right to a formal hearing under the Kansas Administrative Procedure Act, K.S.A. 77-501, et seq., and notice thereof, and voluntarily consents to the following order of the Commissioner of Insurance.

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

1. The Certificate of Authority of Highlands Insurance Company is hereby suspended, effective the date of this Consent Order. Said suspension will continue until such time as the Commissioner of Insurance determines the company is able to meet this state's minimum financial requirements and is no longer in a hazardous financial condition.

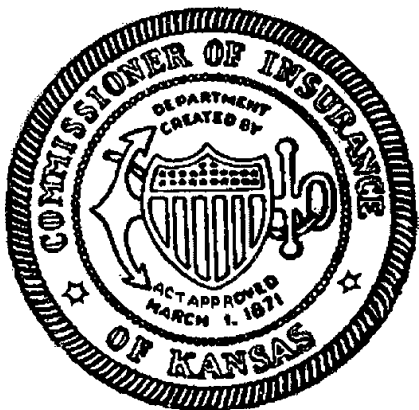
2. Highlands Insurance Company shall refrain from writing any new or renewal business in the State of Kansas.

3. Highlands Insurance Company may petition the Commissioner of Insurance to modify the provisions of this Consent Order at any time by a written request that demonstrates the hazardous financial condition of the company has been rectified.

4. Highlands Insurance Company shall take appropriate action to increase its capital and surplus to a level whereby the company's continued operation would no longer be in a hazardous financial condition.

5. The Commissioner of Insurance retained jurisdiction over this subject matter for the purpose of entering such further order or orders as may be deemed proper and necessary.

IT IS SO ORDERED THIS 27th DAY OF FEBRUARY, 2002, IN THE CITY OF TOPEKA, COUNTY OF SHAWNEE, STATE OF KANSAS.



/s/ Kathleen Sebelius
Kathleen Sebelius
Commissioner of Insurance

BY:

/s/ Kathy Greenlee
Kathy Greenlee
General Counsel

Highlands Insurance Company

BY: /s/ Stephen L. Kibblehouse
Stephen L. Kibblehouse
Chief Executive Officer & General Counsel