

**OFFICE OF THE LIQUIDATOR OF
PHYSICIANS STANDARD INSURANCE COMPANY**

September 26, 2022

Re: Liquidation of Physicians Standard Insurance Company

Dear Claimant:

You are receiving this letter because you have filed a proof of claim with the Liquidation Estate of Physicians Standard Insurance Company (“PSIC”), and that claim is still pending final action. As the Kansas Commissioner of Insurance and the Court-appointed Liquidator of PSIC, I want to give you an update on the liquidation proceedings and the status of claim reviews.

Liquidation Case Status. The District Court of Shawnee County, Kansas (“Liquidation Court”), is overseeing liquidation of PSIC, Case No. 2019 CV 351. The Liquidation Court set June 30, 2020, as the deadline for parties to submit proofs of claim against the PSIC estate and, pursuant to Kansas law, appointed me to serve as the Liquidator of PSIC. As Liquidator, my team and I are in the process of reviewing the claims against the estate and any supporting materials provided to determine which should be allowed or denied.

If Your Claim is Denied. If I determine a claim should be denied, I will provide written notice of the denial under K.S.A. 40-3639 and the claimant will have an opportunity to submit an objection to the denial within 60 days from the mailing of the notice of the denial. If an objection is timely filed, I will consider the objection and any additional related material or information you provide. At that point, if we are not able to agree on disposition of the claim, the matter will be set for a hearing before the Liquidation Court, and you will be provided with notice of the hearing date and other details.

If You Have Not Received a Notice of Disposition. Unless you receive a notice of denial from me, you should assume your claim is still under review and consideration.

If Your Claim is Allowed. If I determine a claim should be allowed, that simply means the claim will be recorded as a valid claim against the estate.

Please note that a determination that a claim should be allowed does **not** necessarily mean the claim will be paid, in whole or in part. That is because payment of claims against the estate is dictated by Kansas Statute 40-3641, which requires payment of claims in the following order:

Class	Description of Claim
Class 1	Administrative expense claims of the Liquidator and Guaranty Associations

Class 2	Claims arising under PSIC policies, including policyholder claims paid by the Guaranty Associations.
Class 3	Federal government claims
Class 4	Employee claims (with certain statutory caps)
Class 5	General unsecured creditors
Class 6	State and local government claims
Class 7	Late filed claims
Class 8	Surplus, contribution notes or premium refund claims
Class 9	Shareholder/equity claims

Under Kansas law, all claims of higher priority must be paid in full before any payment of any lower priority claims. Thus, Class 1 claimants must be paid in full before any Class 2 claimants can be paid. Class 2 claimants, in turn, must be paid in full before any Class 3 claimants can be paid, and so on. Finally, if the estate assets are insufficient to fully pay a class of claims, the allowed claims in that class are paid a *pro rata* distribution of the remaining funds and, thereafter, no other lower classes of claimants would be paid.

Even if you hold a Class 2 claim (i.e., a claim under a PSIC policy) with higher priority than other creditor claims, please note that final disposition of Class 2 claims will likely take several more years. This is for a few reasons. First, as Liquidator, I am pursuing action against some parties to reclaim assets for the benefit of the PSIC estate and those making claims against the estate. This litigation, which is funded by the estate and are administrative expenses (Class 1 claims), is ongoing and will take time to resolve.

Second, Class 2 claims include still unresolved medical malpractice claims against PSIC insureds. Most of these claims are being handled by the Missouri Property & Casualty Insurance Guaranty Association (“MIGA”). The medical malpractice claims are at various stages of civil litigation which could take years to resolve. Because we cannot make any Class 2 payments until disposition of all Class 2 claims, including the medical malpractice claims, it will most likely take three to four more years for disposition of those medical malpractice Class 2 claims.

In addition, we have received several requests for refund of premium paid for PSIC “tail” or extended reporting policies. Such claims, if not denied, will not be paid until all policy claims – including the pending medical malpractice claims – are resolved and the Liquidation Court approves a distribution to all similarly situated creditors. In summary, if your claim is allowed, payment of the claim from the estate will depend upon the claim priority, the available assets, and the amount of competing class claims.

At this stage, it seems likely there will be insufficient assets to pay all Class 2 policy holder claims after all litigation and disputed policyholder claims are resolved. If that remains true, all policyholder claims, including claims paid by the Guaranty Associations, will – as stated above – be paid by the Liquidation Estate on a *pro rata* basis. For example, if Class 2 policyholder claims total \$10 million and funds remaining after payment of Class 1 claims is \$4 million, each claimant would be paid an amount equal to 40% of their claim.

Conclusion. As the Liquidator of PSIC, I am charged with marshalling all estate assets so that the funds can be distributed to claimants in accordance with the priority distribution statute. The estate's assets include various claims and lawsuits to recover monies owed to the estate and its creditors. Unfortunately, the litigation process takes time. Funds from those lawsuits do not come into the estate until there is either a settlement or a judgment is collected. All the funds must be collected before an accurate distribution can be calculated. That means it may be a quite a lengthy time before all funds are collected so that distributions can be made.

I realize that this situation must be frustrating to you. I very much understand and wish I could expedite the process. I will continue to direct my team to diligently move this matter along to a final resolution. We continue to update our website with information on PSIC, including status reports filed with the Liquidation Court. I would encourage you to review the website at <https://insurance.kansas.gov/legal-issues/> to see these reports. If you have questions about this letter or other aspects of the Liquidation process, please contact Barbara Rankin, my Assistant Commissioner and the Deputy Liquidator for PSIC, at (785) 296-2752 or barbara.w.rankin@ks.gov, or Toni Garrard at (785) 296-7811 or kdoi.psic@ks.gov. In addition, you can submit questions or documents to the Liquidator via kdoi.psic@ks.gov.

Thank you for your patience and understanding.

Sincerely,

A handwritten signature in black ink that reads "Vicki Schmidt". The signature is written in a cursive, flowing style.

Vicki Schmidt
Kansas Insurance Commissioner
Liquidator of Physicians Standard Insurance Company