

SEP 19 1996

DEPT. OF INSURANCE  
BY CLB

STATE OF ARIZONA  
DEPARTMENT OF INSURANCE

4	In the matter of:	)	
		)	Docket No. 96A-155
5	SENATE INSURANCE COMPANY	)	NOTICE OF DETERMINATION
		)	
6	NAIC No. 73628	)	AND ORDER
		)	
7	Respondent.	)	FOR SUPERVISION

8  
9 Upon information obtained by the Assistant Director of the Corporate and  
10 Financial Affairs Division of the Arizona Department of Insurance, the  
11 Director of Insurance makes the following findings of fact and conclusions of  
12 law and issues the following order:

13 FINDINGS OF FACT

14 1. Senate Insurance Company (Respondent), NAIC No. 73628, is  
15 domiciled in Arizona and presently holds a certificate of authority issued by  
16 the Arizona Department of Insurance ("ADOI") to transact business as a  
17 domestic life and disability reinsurer with direct writing authority pursuant  
18 to A.R.S. § 20-1089(B).

19 2. Respondent is a wholly owned subsidiary of United Republic  
20 Insurance Company ("URIC"), a Texas domiciled property and casualty insurer  
21 whose NAIC Number is 29220.

22 3. The common stock of URIC is owned 21.4% by United Community  
23 Insurance Company ("UCIC"), a New York domiciled property and casualty company  
24 whose NAIC Number is 15741, and 78.6% by Lawrence Insurance Group, Inc.  
25 ("LIG"), a Delaware corporation. The common stock of UCIC is owned 100% by  
26 LIG.

27 4. The common stock of LIG is 83.2% owned by Lawrence Group, Inc.  
28 ("LGI"), a New York corporation, with the rest of LIG's shares owned by the

1 public.

2 5. On or about January 14, 1994, UCIC and URIC were caused by their  
3 management and controlling persons to loan \$13,000,000 and \$14,000,000,  
4 respectively, to an entity known as the "Alpha Trust." Alpha Trust in turn  
5 loaned the funds to LGI, which used the funds for its own purposes. UCIC and  
6 URIC subsequently reported the Alpha Trust collateral loans as admitted assets  
7 on their respective March 31, 1994 Quarterly Statements.

8 6. UCIC's March 31, 1994 Quarterly Statement reported a negative  
9 surplus as regards policyholders in the amount of \$(20,865,482). UCIC's  
10 liabilities and required reserves together with its total issued and  
11 outstanding capital stock exceeded its assets by \$23,865,482. UCIC was  
12 therefore "insolvent" within the meaning of A.R.S. § 20-611(6), and UCIC's  
13 Certificate of Authority to transact insurance in Arizona was therefore  
14 suspended by ADOI on June 3, 1994. On July 7, 1994, UCIC was placed into  
15 Rehabilitation by an order of the New York State Supreme Court, County of  
16 Schenectady, with the Superintendent of Insurance of the State of New York  
17 appointed as Rehabilitator.

18 7. LIG's fiscal 1995 Form 10-K Report filed with the United States  
19 Securities and Exchange Commission discloses that the only assets of the Alpha  
20 Trust are its collateral loans to LGI. The New York Insurance Department  
21 ("NYID") and the Texas Department of Insurance ("TDI") took the position that  
22 the loans from UCIC and URIC, respectively, did not qualify as admitted  
23 assets.

24 8. On June 22, 1994, the TDI issued a confidential order creating a  
25 state of supervision and appointing a supervisor of the operations of URIC.  
26 The order was based upon disagreements with valuations of several assets,  
27 chief among them the Alpha Trust loan, in financial statements filed by URIC  
28 with the TDI and upon net operating losses during the first quarter of 1994.

1           9.     URIC's Certificate of Authority to transact insurance in Arizona  
2 was suspended by ADOI on August 5, 1994, by Order of the Director, which Order  
3 was amended on December 20, 1994. URIC was found to be in hazardous financial  
4 condition per A.A.C. R20-6-308(A)(7) and (9) by reason of its operating loss  
5 of \$9.6 million for the six months ended June 30, 1993, and its affiliation  
6 and reinsurance with UCIC.

7           10.    On August 25, 1995 URIC was released from the TDI's confidential  
8 order of supervision, conditioned upon URIC achieving certain minimum  
9 policyholders' surplus and other goals, including that URIC shall not dispose  
10 of, encumber or transfer any of its assets without the prior approval of the  
11 Supervisor for TDI, except in URIC's ordinary course of business. If URIC did  
12 not achieve these goals the TDI could place URIC into conservatorship. In  
13 connection with this order releasing URIC from confidential supervision, and  
14 on the condition that URIC meets the financial goals stipulated in the order,  
15 URIC consented to an administrative penalty by the Texas Department of  
16 Insurance in the amount of \$50,000 for URIC's consummation of its loan to the  
17 Alpha Trust. As of December 31, 1995, URIC had not attained all of the goals  
18 stipulated in the TDI order of August 25, 1995.

19           11.    On November 9, 1995, UCIC consented to an Order of Liquidation.  
20 LIG's 1995 10-K Report indicated that the net worth of UCIC was a deficit  
21 \$57,621,000.

22           12.    A significant portion of LIG's internal sources of funds  
23 historically consisted of dividends from its subsidiaries. Dividend payments  
24 from LIG's subsidiaries have been suspended since the fourth quarter of 1993,  
25 and based upon regulatory restrictions as of December 31, 1995, the insurance  
26 subsidiaries will not be able to pay any dividends to LIG during 1996 without  
27 prior approval from regulatory authorities. Dividends from LIG have also been  
28 suspended pending future dividends from the subsidiaries.



1           13.    The Alpha Trust Loans consist of term notes with differing  
2 maturities and repayment schedules with the initial principal repayment  
3 commencing April 1, 1996 and ending on January 1, 2001. Principal and  
4 interest installments payable by Alpha Trust to UCIC and URIC in the total  
5 amount of approximately \$1,585,000 were due on or about April 1, 1996. As  
6 previously indicated, LIG's 1995 10-K disclosed that the only assets of Alpha  
7 Trust are its collateral loans to LGI.

8           14.    Respondent reported in its Form B filing dated March 31, 1996,  
9 that as of December 31, 1995, the common stock of LGI was owned by Albert W.  
10 Lawrence and Barbara C. Lawrence, with each owning 50% of the total issued and  
11 outstanding shares. Mr. and Ms. Lawrence reside in New York State and are  
12 husband and wife, and by virtue of their ownership of LGI stock, were the  
13 "ultimate controlling persons" of Respondent and URIC as of December 31, 1995,  
14 within the meaning of A.R.S. § 20-481.

15           15.    Pursuant to A.R.S. § 20-481.12(B)(1), Respondent may not enter  
16 into sales, purchases, exchanges, loans or extensions of credit, guarantees or  
17 investments with any person in its holding company system if the transactions  
18 equal or exceed three percent of Respondent's admitted assets, unless  
19 Respondent notifies the Director in writing not less than thirty days before  
20 entering the transaction, of its intention to enter into the transaction and  
21 the Director does not disapprove the transaction within that period, unless  
22 the Director permits a shorter notification period and does not disapprove the  
23 transaction within that period.

24           16.    Respondent filed an Amended Form B dated April 12, 1996, and a  
25 Revised Amended Form C dated April 19, 1996, which amendments reflected that  
26 Barbara C. Lawrence was no longer a controlling person, officer or director of  
27 Respondent.

28           17.    By letter dated April 24, 1996, which was received by ADOI on

1 April 29, 1996, Respondent informed ADOI that it had recently acquired an  
2 office property from Barbara Lawrence, and that the total purchase price was  
3 \$2,600,000, with Respondent paying \$1,600,000 and assuming a mortgage in the  
4 amount of \$1,000,000. The notification to ADOI indicated that Barbara  
5 Lawrence was not a person within the holding company system, and that the  
6 transaction therefore did not require prior notification under A.R.S. § 20-  
7 481.12(B).

8 18. Upon inquiry by ADOI, Respondent disclosed that Barbara Lawrence  
9 sold her 50% interest in LGI to her husband Albert W. Lawrence on April 2,  
10 1996, and sold the office building to Respondent on April 4, 1996.

11 19. By letter dated July 18, 1996, ADOI questioned the propriety of the  
12 office building acquisition by Respondent, and indicated that ADOI had been  
13 informed that the Alpha Trust had paid its quarterly installment payments in  
14 April 1996, with proceeds from Ms. Lawrence's transaction with Respondent.  
15 Respondent confirmed that the \$1,600,000 in proceeds received by Barbara  
16 Lawrence from the sale of the office building to Respondent, were invested by  
17 her in LGI. Information obtained by ADOI discloses that approximately  
18 \$1,585,000 of such funds were then directed to the Alpha Trust to enable Alpha  
19 Trust to make its installment payments due in April, 1996, to UCIC and URIC.

20 20. At the request of ADOI, Respondent made a Form "D" filing dated  
21 August 8, 1996, pursuant to A.R.S. § 20-481.12(B) and A.A.C. R20-6-1407,  
22 although the filing was made under protest. The Form D represented that the  
23 acquisition by Respondent of improved real property at 430 State Street,  
24 Schenectady, New York, from Barbara C. Lawrence, would be for \$2,600,000, to  
25 be paid as follows: \$1,600,000 deposit on signing; and \$1,000,000 assuming  
26 the presently existing mortgage in the amount of \$1,000,000.

27 21. Although the transaction as reported in the Form "D" filing  
28 indicated that Respondent would assume a mortgage in the amount of \$1,000,000,

1 Respondent advised ADOI upon inquiry, that the office building is encumbered  
2 by a blanket mortgage covering the property as well as seven other properties  
3 owned by Ms. Lawrence; and the blanket mortgage has a current outstanding  
4 principal balance of approximately \$3.0 million, which exceeds the value of  
5 the office building acquired by Respondent. Respondent further advised that  
6 the blanket mortgage is being negotiated, and the mortgagee has not been  
7 agreeable to a partial release of Respondent's office building from the  
8 blanket mortgage.

9       22. Respondent's interest in the office building is at risk, due to  
10 the blanket mortgage and uncertainty as to the financial condition of the  
11 mortgagor, Barbara Lawrence. Respondent may be called upon to meet  
12 obligations under the blanket mortgage to protect its interest in its office  
13 building.

14       23. The "Contract for Purchase and Sale" between Respondent as  
15 Purchaser and Ms. Lawrence as Seller, provides that Seller agrees to convey  
16 the premises to Purchaser in fee simple, free from all material liens and  
17 encumbrances except for the \$1,000,000 mortgage assumption by Respondent. The  
18 full extent of the blanket mortgage was not disclosed in the Contract for  
19 Purchase and Sale. Respondent has disclosed that Ms. Lawrence did not use the  
20 proceeds from sale to satisfy the undisclosed portion of the blanket mortgage  
21 in excess of \$1,000,000 but rather, invested the proceeds of the sale in LGI.

22       24. Although the Form "D" filing dated August 8, 1996, represented  
23 that Respondent would assume a mortgage in the amount of \$1,000,000,  
24 Respondent's June 30, 1996 Quarterly Statement disclosed a payable for  
25 building purchase of only \$350,000. Respondent made payments of \$600,000 and  
26 \$50,000 to Ms. Lawrence in May, 1996.

27       25. The \$2,600,000 investment in an office building constitutes a  
28 large single investment by Respondent, representing 40% of its 1995 admitted



1 assets. Respondent has advised that it acquired the office building pursuant  
2 to A.R.S. § 20-556(1), which allows an insurer to acquire the property in  
3 which it has its principal office. However, information provided by  
4 Respondent discloses that it was allocated only 4.8% of the building usage for  
5 1995, with the remainder occupied by Respondent's affiliates. Respondent has  
6 only one full time employee, and its officers devote only a portion of their  
7 time to Respondent's business. Other than the 4.8% of the building used by  
8 Respondent, the building exceeds Respondent's requirements for the convenient  
9 accommodation of the transaction of its business within the meaning of A.R.S.  
10 § 20-556(1).

11 26. In response to ADOI's request, Respondent provided a copy of an  
12 appraisal report on the office building. The appraisal report concluded that  
13 the property had a market value of \$2,800,000, which Respondent asserts is  
14 supportive of the \$2,600,000 purchase price paid. The referenced appraisal  
15 report is dated May 17, 1993 and is therefore more than three years old within  
16 the meaning of A.R.S. § 20-513(B). Additionally, the 1993 appraisal was based  
17 on certain assumptions, including completion of renovations and attainment of  
18 a 95% occupancy rate, which have not been realized. ADOI consequently  
19 disapproved Respondent's Form "D" filing on August 29, 1996.

20 27. Respondent paid an additional installment of \$350,000 to Barbara  
21 Lawrence on or about August 29, 1996, in connection with the building  
22 purchase. Despite ADOI's stated concern, Respondent failed to inform ADOI of  
23 Respondent's payment or intention to pay the \$350,000 on August 29, 1996.

24 28. Notwithstanding Respondent's assertion that the office building  
25 transaction entered into with Barbara Lawrence is not subject to the filing  
26 requirements of A.R.S. § 20-481.12(B), Respondent failed to alternatively file  
27 with ADOI and the NAIC, the information required by A.R.S. § 20-517, to report  
28 the material dispositions of assets wherein cash payments of \$600,000, \$50,000

1 and \$350,000 were made by Respondent in May and August, 1996.

2 29. LIG's Report of Independent Auditors as of December 31, 1995,  
3 expressed a qualified opinion, due to substantial doubt about LIG's ability to  
4 continue as a going concern.

5 CONCLUSIONS OF LAW

6 1. The Director has jurisdiction in this matter pursuant to A.R.S.  
7 Title 20.

8 2. Respondent's affiliates are impaired, unable to meet their  
9 obligations as they become due, or in a condition that would render the  
10 continuance of Respondent's business hazardous to its policyholders or the  
11 people of this state, within the meaning of A.A.C. R20-6-308(A)(9).

12 3. Respondent's Form "D" filing failed to disclose that its real  
13 estate investment is encumbered by a \$3.0 million blanket mortgage, and is  
14 misleading within the meaning of A.A.C. R20-6-308(A)(15).

15 4. Respondent's June 30, 1996 Quarterly Statement failed to disclose  
16 that its real estate is encumbered by a \$3.0 million blanket mortgage, and is  
17 misleading within the meaning of A.A.C. R20-6-308(A)(16).

18 5. Respondent's interest in its office building is at risk within the  
19 meaning of A.A.C. R20-6-308(A)(11), as Respondent may be called upon to meet  
20 contingent obligations under the blanket mortgage.

21 6. Respondent's asset values are attributable to transactions with  
22 affiliates, within the meaning of A.A.C. R20-6-308(A)(8).

23 7. It appears to the Director of Insurance, based upon Respondent's  
24 Quarterly Financial Statement as of June 30, 1996 and information provided by  
25 the Corporate and Financial Affairs Division, that Respondent's condition is  
26 such as to render the continuance of its business hazardous to its  
27 policyholders or to the people of this state within the meaning of A.R.S. §  
28 20-169 and A.A.C. R20-6-308.





- 1 (b) Withdraw any of its bank accounts;
- 2 (c) Lend any of its funds;
- 3 (d) Invest any of its funds;
- 4 (e) Transfer any of its property;
- 5 (f) Incur any debts, obligations or liabilities, whether
- 6 insurance related or otherwise;
- 7 (g) Merge or consolidate with another company; or
- 8 (h) Enter into any new reinsurance contract or treaty.

9 5. If Respondent fails to satisfy the requirements to abate this  
10 Order within sixty (60) days from the date hereof, the Director may take  
11 appropriate action including but not limited to commencing a conservatorship  
12 pursuant to A.R.S § 20-171 after the hearing provided for below.

13 6. This matter will be heard on the 18th day of November  
14 , 1996, at 9:00 a. m. at the Office of Administrative Hearings, 1700 West  
15 Washington, Suite 602, Phoenix, Arizona 85007 to consider whether Respondent  
16 has complied with the Director's requirements. If the Respondent has not  
17 complied, the Director will appoint a conservator who shall immediately take  
18 charge of Respondent and all of its property, books, records and effects. The  
19 conservator shall conduct the business of Respondent and take such steps  
20 toward the removal of the cause and conditions which have necessitated this  
21 Order, as the Director may determine.

22 7. Pursuant to A.R.S. § 20-171(C), the costs incident to the services  
23 of the Director, or his Supervisor, or both, including the cost of preparing a  
24 transcript of proceedings in any hearing requested by Respondent, shall be  
25 charged against the assets and funds of Respondent and shall be paid when  
26 fixed and determined by the Director.

27 8. A.R.S. § 20-164 entitles any person affected by the hearing  
28 referenced in paragraph 6 of this Order, to appear in person and by counsel,

1 to be present during the giving of all evidence, to have a reasonable  
2 opportunity to inspect all documentary evidence, to examine witnesses, to  
3 present evidence in support of his or her interest and to have subpoenas  
4 issued by the Director of Insurance to compel attendance of witnesses and  
5 production of evidence in his or her behalf.

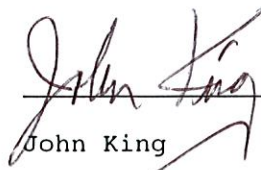
6 9. Pursuant to A.R.S. § 20-150, the Director of Insurance delegates  
7 the authority vested in the Director of Insurance, whether implied or  
8 expressed, to the Director of the Office of Administrative Hearings or his  
9 designee to preside over the hearing of this matter as the Administrative Law  
10 Judge, to make written recommendations to the Director of Insurance consisting  
11 of proposed findings of fact, proposed conclusions of law, and a proposed  
12 order. This delegation does not include a delegation of the authority of the  
13 Director of Insurance to make the order on hearing or other final decisions in  
14 this matter.

15 10. Notwithstanding any provision of this Order, nothing herein does  
16 or should be interpreted to preclude the Department from taking any regulatory  
17 action at any time, including but not limited to initiation of delinquency  
18 proceedings at any time, even if prior to the hearing set herein.

19 11. Because good cause exists therefor, this Notice and Order shall  
20 become effective immediately.

21 Any person aggrieved by this Order may make written demand for a hearing in  
22 accordance with A.R.S. § 20-161.

23  
24 DATED THIS 19<sup>th</sup> day of September, 1996.

25  
26   
27 John King  
28 Director of Insurance



1 NOTICE

2 The determination set forth in this notice and order is an "appealable  
3 agency action" pursuant to A.R.S. § 41-1092. Consequently, Respondent has the  
4 right to obtain a hearing on this determination by filing a Notice of Appeal  
5 within thirty (30) days after its receipt of this notice and order. If a  
6 Notice of Appeal is received after that thirty (30) day period, it will not be  
7 accepted unless Respondent demonstrates that it had good cause to file it  
8 late. The Notice of Appeal must identify the party appealing, the party's  
9 address, the determination being appealed, and must contain a concise  
10 statement of the reasons for the appeal. The hearing will be held within  
11 sixty (60) days after the Notice of Appeal is filed, unless the hearing is  
12 advanced or delayed by agreement or a showing of good cause by any party. The  
13 Department of Insurance will serve a Notice of Hearing at least thirty (30)  
14 days before the hearing, which will inform Respondent of the date, time and  
15 location of the hearing as well as the issues in controversy.

16 If Respondent files a Notice of Hearing, it may also request an Informal  
17 Settlement Conference by filing a written request no later than twenty (20)  
18 days before the scheduled hearing. The conference will be held within fifteen  
19 (15) days after receipt of Respondent's request. If an Informal Settlement  
20 Conference is requested, a person with the authority to act on behalf of the  
21 Department of Insurance will be present. Please note that Respondent may  
22 waive any right to object to the participation of the Department's  
23 representative in the final administrative decision of the matter if it is not  
24 settled.

1 The Notice of Appeal and Request for an Informal Settlement Conference  
2 described above may be addressed to:

3 Deputy Director

4 Arizona Department of Insurance

5 2910 North 44th Street, Suite 210

6 Phoenix, Arizona 85018-7256

7 Attn: Hearing Administration

8  
9 COPY of the foregoing mailed/delivered this 19th day of September,  
10 1996, to:

11 Randall J. Ezick  
12 General Counsel  
13 Senate Insurance Company  
14 430 State Street  
15 Schenectady, New York 12305

16 Robert Ong Hing  
17 Stockton & Hing, P.A., Law Offices  
18 Deauville Building  
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21 Charles Cohen, Deputy Director  
22 Erin Klug, Market Conduct Chief Examiner  
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