

SEP 19 1996

STATE OF ARIZONA
DEPARTMENT OF INSURANCE

DEPT. OF INSURANCE
BY CWB

4	In the matter of:)	Docket No. 96A-156
5	SENATE NATIONAL LIFE INSURANCE COMPANY)	NOTICE OF DETERMINATION
6	NAIC No. 78522)	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 National Life Insurance Company (Respondent), NAIC No.
15 78522, is domiciled in Arizona and presently holds a certificate of authority
16 issued by the Arizona Department of Insurance ("ADOI") to transact business as
17 a domestic life and disability insurer.

18 2. Respondent is a wholly owned subsidiary of Senate Insurance
19 Company ("Senate"), an Arizona domestic life and disability reinsurer whose
20 NAIC Number is 73628.

21 3. Senate is a wholly owned subsidiary of United Republic Insurance
22 Company ("URIC"), a Texas domiciled property and casualty insurer whose NAIC
23 Number is 29220.

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

1 5. The common stock of LIG is 83.2% owned by Lawrence Group, Inc.
2 ("LGI"), a New York corporation, with the rest of LIG's shares owned by the
3 public.

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

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

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

26 9. On June 22, 1994, the Texas Department of Insurance ("TDI") issued
27 a confidential order creating a state of supervision and appointing a
28 supervisor of the operations of URIC. The order was based upon disagreements

1 with valuations of several assets, chief among them a collateral loan to
2 "Alpha Trust," in financial statements filed by URIC with the TDI and upon net
3 operating losses during the first quarter of 1994.

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

10 11. On August 25, 1995 URIC was released by the TDI from a
11 confidential order of supervision, conditioned upon URIC achieving certain
12 minimum policyholders' surplus and other goals, including that URIC shall not
13 dispose of, encumber or transfer any of its assets without the prior approval
14 of the Supervisor for TDI, except in URIC's ordinary course of business. If
15 URIC did not achieve these goals the TDI could place URIC into
16 conservatorship. In connection with this order releasing URIC from
17 confidential supervision, and on the condition that URIC meets the financial
18 goals stipulated in the order, URIC consented to an administrative penalty by
19 the Texas Department of Insurance in the amount of \$50,000 for URIC's
20 consummation of its loan to the Alpha Trust. As of December 31, 1995, URIC
21 had not attained all of the goals stipulated in the TDI order of August 25,
22 1995.

23 12. On November 9, 1995, UCIC consented to an Order of Liquidation.
24 LIG's 1995 10-K Report indicated that the net worth of UCIC was a deficit
25 \$57,621,000.

26 13. A significant portion of LIG's internal sources of funds
27 historically consisted of dividends from its subsidiaries. Dividend payments
28 from LIG's subsidiaries have been suspended since the fourth quarter of 1993,

1 and based upon regulatory restrictions as of December 31, 1995, the insurance
2 subsidiaries will not be able to pay any dividends to LIG during 1996 without
3 prior approval from regulatory authorities. Dividends from LIG have also been
4 suspended pending future dividends from the subsidiaries.

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

12 15. Respondent reported in its Form B filing dated March 29, 1996,
13 that as of December 31, 1995, the common stock of LGI was owned by Albert W.
14 Lawrence and Barbara C. Lawrence, with each owning 50% of the total issued and
15 outstanding shares. Mr. and Ms. Lawrence reside in New York State and are
16 husband and wife, and by virtue of their ownership of LGI stock, were the
17 "ultimate controlling persons" of Respondent, Senate and URIC as of December
18 31, 1995, within the meaning of A.R.S. § 20-481.

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

23 17. By letter dated April 24, 1996, which was received by ADOI on
24 April 29, 1996, Senate informed ADOI that it had recently acquired an office
25 property from Barbara Lawrence, and that the total purchase price was
26 \$2,600,000, with Senate paying \$1,600,000 and assuming a mortgage in the
27 amount of \$1,000,000. The notification to ADOI indicated that Barbara
28 Lawrence was not a person within the holding company system, and that the

1 transaction therefore did not require prior notification under A.R.S. § 20-
2 481.12(B).

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

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

15 20. At the request of ADOI, Senate made a Form "D" filing dated August
16 8, 1996, pursuant to A.R.S. § 20-481.12(B) and A.A.C. R20-6-1407, although the
17 filing was made under protest. The Form D represented that the acquisition by
18 Senate of improved real property at 430 State Street, Schenectady, New York,
19 from Barbara C. Lawrence, would be for \$2,600,000, to be paid as follows:
20 \$1,600,000 deposit on signing; and \$1,000,000 assuming the presently existing
21 mortgage in the amount of \$1,000,000.

22 21. Although the transaction as reported in the Form "D" filing
23 indicated that Senate would assume a mortgage in the amount of \$1,000,000,
24 Senate advised ADOI upon inquiry, that the office building is encumbered by a
25 blanket mortgage covering the property as well as seven other properties owned
26 by Ms. Lawrence, and the blanket mortgage is in the approximate amount of \$3.0
27 million, which exceeds the value of the office building acquired by Senate.
28 Senate further advised that the blanket mortgage is being negotiated, and the

1 mortgagee has not been agreeable to a partial release of Senate's office
2 building from the blanket mortgage.

3 22. Senate's interest in the office building is at risk, due to the
4 blanket mortgage and uncertainty as to the financial condition of the
5 mortgagor, Barbara Lawrence. Senate may be called upon to meet obligations
6 under the blanket mortgage to protect its interest in the office building.

7 23. The "Contract for Purchase and Sale" between Senate as Purchaser
8 and Ms. Lawrence as Seller, provides that Seller agrees to convey the premises
9 to Purchaser in fee simple, free from all material liens and encumbrances
10 except for the \$1,000,000 mortgage assumption by Senate. The full extent of
11 the blanket mortgage was not disclosed in the Contract for Purchase and Sale.
12 Ms. Lawrence did not use the proceeds from sale to satisfy the undisclosed
13 portion of the blanket mortgage in excess of \$1,000,000, but rather invested
14 the proceeds of the sale in LGI.

15 24. Although the Form "D" filing dated August 8, 1996, represented
16 that Senate would assume a mortgage in the amount of \$1,000,000, Senate's June
17 30, 1996 Quarterly Statement disclosed a payable for building purchase of only
18 \$350,000. Senate made payments of \$600,000 and \$50,000 to Ms. Lawrence in
19 May, 1996.

20 25. Senate's June 30, 1996 Quarterly Statement failed to disclose that
21 its real estate investment was encumbered by a \$3.0 million blanket mortgage.

22 26. Senate paid an additional installment of \$350,000 to Barbara
23 Lawrence on or about August 29, 1996, in connection with the building
24 purchase. Despite ADOI's stated concerns, Senate failed to inform ADOI of
25 Senate's payment or intention to pay the \$350,000 on August 29, 1996.

26 27. Notwithstanding Senate's assertion that its office building
27 transaction entered into with Barbara Lawrence is not subject to the filing
28 requirements of A.R.S. § 20-481.12(B), Senate failed to alternatively file

1 with ADOI and the NAIC, the information required by A.R.S. § 20-517, to report
2 the material dispositions of assets wherein cash payments of \$600,000, \$50,000
3 and \$350,000 were made by Respondent in May and August, 1996.

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

7 CONCLUSIONS OF LAW

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

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

14 3. It appears to the Director of Insurance, based upon information
15 provided by the Corporate and Financial Affairs Division, that Respondent's
16 condition is such as to render the continuance of its business hazardous to
17 its policyholders or to the people of this state within the meaning of A.R.S.
18 § 20-169 and A.A.C. R20-6-308.

19 ORDER

20 NOW, THEREFORE, I, JOHN KING, Director of Insurance for the State of
21 Arizona, for the purpose of protecting and preserving the public health,
22 safety and welfare, and by virtue of the authority vested in me by A.R.S. §§
23 20-142, 20-169 through 20-171, and A.A.C. R20-6-308, ORDER:

24 1. Respondent is hereby under the supervision of the Director and the
25 Director is applying and effectuating the provisions of Article 2, Chapter 1,
26 Title 20, Arizona Revised Statutes.

27 2. The requirements to abate the Director's Order are:

28 (a) Respondent shall provide evidence satisfactory to the

1 Director that its controlling persons are able to meet their
2 obligations as they come due, without utilizing the assets of
3 Respondent other than dividend income which may be lawfully
4 paid pursuant to A.R.S. §§ 20-481.19 and 20-722.

5 (b) Respondent's parent, Senate, shall provide evidence
6 satisfactory to the Director, that Senate's purchase of its
7 office building was fair and reasonable and complies with the
8 applicable provisions of Title 20, Arizona Revised Statutes,
9 or alternatively, the transaction shall be reversed and all
10 amounts expended by Senate returned to it, within the meaning
11 of A.A.C. R20-6-308(C)(6) and (7).

12 3. Pursuant to A.R.S. § 20-170, the Director hereby appoints
13 FitzGibbons, Tharp & Associates, Inc., as Supervisor.

14 4. Pursuant to A.R.S. § 20-170, the Director herewith orders that
15 Respondent, during the period of supervision, may not do any of the following
16 things without the approval of the Director or his Supervisor:

- 17 (a) Dispose of, convey or encumber any of its assets or its
18 business in force;
- 19 (b) Withdraw any of its bank accounts;
- 20 (c) Lend any of its funds;
- 21 (d) Invest any of its funds;
- 22 (e) Transfer any of its property;
- 23 (f) Incur any debts, obligations or liabilities, whether
24 insurance related or otherwise;
- 25 (g) Merge or consolidate with another company; or
- 26 (h) Enter into any new reinsurance contract or treaty.

27 5. If Respondent fails to satisfy the requirements to abate this
28 Order within sixty (60) days from the date hereof, the Director may take

1 appropriate action including but not limited to commencing a conservatorship
2 pursuant to A.R.S § 20-171 after the hearing provided for below.

3 6. This matter will be heard on the 18th day of November
4 , 1996, at 1:30 p. m. at the Office of Administrative Hearings, 1700 West
5 Washington, Suite 602, Phoenix, Arizona 85007 to consider whether Respondent
6 has complied with the Director's requirements. If the Respondent has not
7 complied, the Director will appoint a conservator who shall immediately take
8 charge of Respondent and all of its property, books, records and effects. The
9 conservator shall conduct the business of Respondent and take such steps
10 toward the removal of the cause and conditions which have necessitated this
11 Order, as the Director may determine.

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

17 8. A.R.S. § 20-164 entitles any person affected by the hearing
18 referenced in paragraph 6 of this Order, to appear in person and by counsel,
19 to be present during the giving of all evidence, to have a reasonable
20 opportunity to inspect all documentary evidence, to examine witnesses, to
21 present evidence in support of his or her interest and to have subpoenas
22 issued by the Director of Insurance to compel attendance of witnesses and
23 production of evidence in his or her behalf.

24 9. Pursuant to A.R.S. § 20-150, the Director of Insurance delegates
25 the authority vested in the Director of Insurance, whether implied or
26 expressed, to the Director of the Office of Administrative Hearings or his
27 designee to preside over the hearing of this matter as the Administrative Law
28 Judge, to make written recommendations to the Director of Insurance consisting

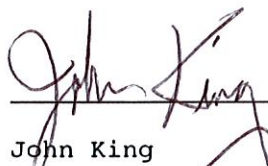
1 of proposed findings of fact, proposed conclusions of law, and a proposed
2 order. This delegation does not include a delegation of the authority of the
3 Director of Insurance to make the order on hearing or other final decisions in
4 this matter.

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

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

11
12 Any person aggrieved by this Order may make written demand for a hearing in
13 accordance with A.R.S. § 20-161.

14
15 DATED THIS 19th day of September, 1996.

16
17 
18 John King
19 Director of Insurance

NOTICE

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

If Respondent files a Notice of Hearing, it may also request an Informal Settlement Conference by filing a written request no later than twenty (20) days before the scheduled hearing. The conference will be held within fifteen (15) days after receipt of Respondent's request. If an Informal Settlement Conference is requested, a person with the authority to act on behalf of the Department of Insurance will be present. Please note that Respondent may waive any right to object to the participation of the Department's representative in the final administrative decision of the matter if it is not 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 National Life Insurance Company
14 430 State Street
15 Schenectady, New York 12305

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17 Stockton & Hing, P.A., Law Offices
18 Deauville Building
19 6609 North Scottsdale Road
20 Scottsdale, Arizona 85250

21 Charles Cohen, Deputy Director
22 Erin Klug, Market Conduct Chief Examiner
23 Catherine O'Neil, Assistant Director
24 Gary Torticill, Assistant Director/Chief Examiner
25 Deloris Williamson, Assistant Director
26 Kelly McKay, Deputy Assistant Director
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12 Cursey Walters Burtor
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