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9 **IN THE SECOND JUDICIAL DISTRICT COURT OF THE STATE OF NEVADA**
10 **IN AND FOR THE COUNTY OF WASHOE**

11 STATE OF NEVADA, EX REL.) Case No. CV14-00807
12 COMMISSIONER OF INSURANCE, IN HIS)
13 OFFICIAL CAPACITY AS STATUTORY) Dept. No. B13
14 RECEIVER FOR DELINQUENT DOMESTIC)
15 INSURER,)
16)
17 Plaintiff,)
18)
19 vs.)
20)
21 NATIONAL GUARANTY INSURANCE)
22 COMPANY, a Nevada Domiciled Property and)
23 Casualty Company,)
24)
25 Defendant.)
26)

21 **FIRST STATUS REPORT**

22 Scott J. Kipper, Commissioner of Insurance ("Commissioner") for the State of Nevada
23 in his capacity as Permanent Receiver of National Guaranty Insurance Company ("NGIC" or
24 the "Company"), and Regulatory Services Group ("RSG"), Receivership Manager of NGIC, file
25 this first Status Report in the above-captioned receivership.

26 **I. INTRODUCTION AND HISTORICAL BACKGROUND**

27 NGIC is a Property and Casualty Company organized under the Nevada Insurance
28 laws. The company is a stock insurer as defined in Nevada Revised Statutes

1 ("NRS") 694C.150. The company received its Certificate of Authority on July 26, 2013, after
2 re-domesticating from Arizona. The application to Nevada stated an intention to capitalize a
3 new property and casualty company called "Clarity Insurance Company" through an
4 Assumption, Novation and Transfer agreement, whereby all assets and the insurance
5 liabilities of NGIC would be transferred to "Clarity."

6 NGIC filed its September 30, 2013, quarterly financial statement on November 18,
7 2013. The company listed admitted assets of \$10,434,246 and total liabilities of \$7,829,055.
8 Of the \$10,434,246 in admitted assets listed by NGIC, \$5,118,083 was comprised of an
9 affiliated receivable from Lindsay General Agency ("Lindsay"). However, Lindsay filed for
10 Chapter 11 bankruptcy protection in February of 2013 and this receivable was not eligible for
11 admitted asset treatment due to its lack of collectability and the balance being over 90 days
12 past due status. The disqualification of the \$5,118,083 Lindsay receivable reduced the
13 admitted assets of the NGIC to \$5,316,163, which immediately rendered the company
14 insolvent, with a negative surplus of -\$2,512,892 as of September 30, 2014.

15 On March 1, 2014, NGIC failed to file the 2013 Annual Financial Statement as required
16 by NRS 690A.270 and Nevada Administrative Code ("NAC") 680A.160.

17 On May 6, 2014, the Commissioner was appointed as interim Receiver of NGIC by the
18 Second Judicial District Court of the State of Nevada. On June 12, 2014, the Court appointed
19 the Commissioner as Permanent Receiver of NGIC and an order of liquidation was issued.

20 On May 6, 2014, Commissioner Kipper as Interim Receiver of NGIC retained David E.
21 Wilson and Regulatory Services Group as Receivership Manager. The Receivership Manager
22 was authorized to retain the services of Joseph B. Holloway, Jr. of INS Consultants, Inc. as
23 his Receivership Supervisor. As provided for by the Receivership Order, the Receiver and
24 Receivership Manager are authorized to conduct the business of NGIC and to administer its
25 affairs for the protection of all secured creditors, insureds, policyholders, and general
26 creditors.

1 The Permanent Receivership and Liquidation Order found NGIC to be insolvent and
2 ordered liquidated pursuant to Chapter 696B of NRS. It also directed that among other things:

- 3 1. The Receiver is vested with exclusive title, both legal and equitable, to all of
4 Defendant's assets, books, records, property, real and personal, including all
5 property or ownership rights, choate or inchoate, whether legal or equitable of
6 any kind or nature, including, but not limited to, all causes of action, defenses,
7 letters of credit relating to NGIC or its business, all stocks, bonds, certificates of
8 deposit, cash, cash equivalents, contract rights, reinsurance contracts and
9 reinsurance recoverables in force, insurance contracts and business deeds,
10 mortgages, leases, book entry deposits, bank deposits, evidences of
11 indebtedness, bank accounts, securities of any kind and nature, both tangible
12 and intangible, including, but not limited to, any special statutory deposits or
13 other deposits or accounts made by or for NGIC;
- 14 2. That all persons be enjoined from commencing, bringing, maintaining, or further
15 prosecuting any action at law, suit in equity, arbitration, or special or other
16 proceeding of any nature against the Company, Receiver, or Receivership
17 Manager;
- 18 3. That all secured creditors or lienholders of property of the Company be enjoined
19 from transferring, selling, encumbering, attaching, or disposing of their purported
20 rights in the property;
- 21 4. That the Receiver establish a claim and appeal procedure for claims in the
22 receivership; and
- 23 5. That officers, directors, partners, agents, creditors, and all other persons of any
24 nature be enjoined from conducting the business of the Company, asserting
25 control or dominion over property of the Company, seeking to obtain preferences
26 of any kind, or interfering in any way with Receivership proceedings.

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1 **C. Policyholder Related Claims**

2 NGIC had in excess of 600 claims with stated loss reserves in excess of \$6.5 million at
3 the date of liquidation. The Receivership Manager has worked with the Nevada Insurance
4 Guaranty Association ("NIGA") to transfer electronic UDS records to them in order for NIGA to
5 fulfill their statutory duties and pay these claims on behalf of NGIC. More than one-third of
6 NGIC's claims involve litigation brought by third-party claimants. NIGA now is responsible for
7 the administration of those cases as well.

8 **D. Records and Assets Control**

9 The Receivership Manager has taken control and possession of NGIC's books and
10 records, both tangible and electronic. The majority of the Company's records were
11 maintained in electronic form, which takes substantial time to upload and convert to an
12 accessible format.

13 In addition to records' control, the Receivership Manager has taken control of NGIC's
14 bank accounts and other assets. The Receivership Manager has been successful in its efforts
15 to change over signatory access at KeyWorth Bank. Online account access has been
16 obtained at Key Worth.

17 The Receivership Manager also was successful in working with the Receiver's office to
18 get the release of a \$500,000 Certificate of Deposit, held as a statutory deposit. This
19 Certificate of Deposit matured on June 27, 2014, and was liquidated to help fund the cost of
20 the receivership. All NGIC accounts have been consolidated into one account to help save
21 time and money.

22 NGIC has a \$5 million receivable on its books from Lindsay General Insurance Agency
23 ("Lindsay"), an affiliate. Lindsay filed for bankruptcy protection on February 7, 2013. NGIC
24 has filed a claim for the \$5 million debt but is not likely to recover a material amount from the
25 filing of their claim. Lindsay is trying to re-organize and emerge from bankruptcy as an
26 insurance lead generation company. Their plan of re-organization has not been approved by
27 the Court and the Receivership Manager continues to monitor the case.\

28

1 **E. Financial Analysis**

2 NGIC has liquid assets of \$610,000 and claim liabilities in excess of \$6,000,000.
3 Based on the financial condition of NGIC, the Receiver likely will petition the Receivership
4 Court to forego the expense of a "proof of claim" process. There doesn't appear to be a
5 scenario where assets would be available to distribute to claimants below the policyholder and
6 claimant class. Additionally, due to the lack of funds in NGIC, the Receivership Manager will
7 attempt to complete their remaining tasks within the second half of 2014 and ask for a closing
8 order at that point.

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