

IN THE CIRCUIT COURT OF COLE COUNTY, MISSOURI

CHLORA LINDLEY-MYERS, Director,)	
Department of Insurance, Financial Institutions)	
and Professional Registration, State of Missouri)	
)	
Petitioner,)	
)	Case No. 17AC-CC00005
v.)	
)	
GALEN INSURANCE COMPANY,)	
)	
Respondent.)	

FIRST ANNUAL REPORT

Chlora Lindley-Myers, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration, in her capacity as Liquidator, of Galen Insurance Company, pursuant to ¶ 10 of this Court’s Judgment, Decree and Final Order of Liquidation (“Liquidation Order”) in the above captioned matter and §§ 375.1150, RSMo, *et seq.*, submits this First Annual Report (“Report”). This Report includes information concerning Galen’s history, actions taken by the Liquidator in accordance with the Liquidation Order, and Galen’s current financial condition.

Background

Galen Insurance Company (“Galen”) is a Missouri-domiciled Chapter 379 property and casualty stock insurance company, authorized to write a single line of insurance business, liability, pursuant to § 379.010.1(2), RSMo (2000). Galen was organized as a Missouri corporation on or about December 8, 2004, for the purpose of providing medical malpractice insurance to physicians, medical professionals and

stand-alone surgical centers on a claims-made basis (Certificate of Incorporation I00626573, NAIC #12361). Galen was first licensed by the Department as a property and casualty insurance company in Missouri under Chapter 379, RSMo on December 14, 2005. Galen also was authorized to write medical malpractice liability insurance in Florida, Illinois, Kansas, Maryland, and New Jersey. Policies are written on a 12-month, claims-made basis with typical limits of \$1,000,000 per claim and \$3,000,000 in the aggregate. Galen maintained its offices in the St. Louis area.

On September 30, 2015, the Director of the Department issued a Notice and Order of Administrative Supervision (“Order of Supervision”, also known as Administrative Supervision) under § 375.1160, RSMo (Supp. 2013) based on, *inter alia*, a rapid reduction in Galen’s surplus and corporate governance concerns. During Administrative Supervision, Galen management was required to obtain Department approval before engaging in certain business activities. Galen was also subject to a brief period of seizure during which the Director sought, but never secured, an order of rehabilitation in Case No. 16AC-CC00250 and WD80155. The Order of Supervision was extended several times while the Director sought an order of rehabilitation and Galen’s financial condition continued to decline. The Order of Supervision was superseded by this Court’s Liquidation Order on May 31, 2017 (“Liquidation Date”) whereby the Court found Galen to be insolvent and that Galen’s further transaction of business would be hazardous, financially or otherwise, to its policyholders, its creditors or the public.

On May 31, 2017, this Court entered a Judgment, Decree and Final Order of Liquidation (“Liquidation Order”) against Galen. The Court appointed Chlora Lindley-Myers, the Director of the Department and her successors in office as the Liquidator of Galen.

Transition to the SGAs & Early Access

As a result of the liquidation, various State Guaranty Associations (“SGAs”) became obligated to pay certain claims arising out of Galen’s insurance policies. Leading up to and following the Liquidation Date, the Liquidator and the SGAs worked together to ensure claim information was transmitted on a timely basis and consistent with the NAIC’s Uniform Data Standards (“UDS”) Operations Manual. To accomplish an orderly data transmission, the Liquidator contracted with the services affiliate of the National Conference of Insurance Guaranty Funds – Guaranty Services, Inc. At the Liquidation Date, Galen turned over approximately 53 claims to the SGAs. The Liquidator continues to work with the SGAs to ensure the timely transfer of UDS claim records as needed. As of year-end 2017, the SGAs for Illinois, Kansas, Missouri, and New Jersey were handling 41 claims on behalf of Galen. The SGAs are also handling one new and one reopened claim for a total of 43 claims as of this Report.

Section 375.1205, RSMo, requires “within one year of a final order of liquidation of an insurer by a court of competent jurisdiction of this state, the liquidator shall make application to the court for approval of a proposal to make early access disbursements out of marshaled assets to a guaranty association or

foreign guaranty association having obligations because of such insolvency," and the "[d]isbursements to guaranty associations [shall be] in sums as large as possible." Accordingly, the Liquidator developed an Early Access Plan, which is necessary and appropriate to carry out the provisions of §§ 375.1150, RSMo, *et seq.*, to assure equality in the treatment of the SGAs with respect to early access distributions, and to ensure the proper return of early access distributions if necessary to recognize the priority to be accorded all similar creditors of Galen under § 375.1218, RSMo. The Liquidator filed a Motion for Approval of Early Access Plan with this Court contemporaneously with this First Annual Report.

Proofs of Claim

The Court established a Proof of Claim ("POC") deadline of April 30, 2018. The Liquidator received approximately 100 timely POCs from various creditors including SGAs, insureds, attorneys, and others. The Liquidator and Galen staff are reviewing POCs to verify the information contained within the POCs and cross referencing POCs to avoid duplicate payments on matters that have already been submitted or resolved.

Litigation

Galen has been engaged in a variety of litigation since prior to the Liquidation Date. Most litigation has been resolved with either a settlement or approved POC.

Operations

From its inception to the Liquidation Date, Galen did not maintain any employees. Galen Insurance Management Company (“GIMC”), Galen’s sole shareholder, and Galen were parties to a management services agreement whereby GIMC provided all staff and services to Galen and Galen paid a fee to GIMC. As of the Liquidation Date, the Liquidator disaffirmed or repudiated the management services agreement with GIMC. The Liquidator hired three GIMC employees to be direct employees of Galen. As of this Report, Galen maintains 1.25 FTE accounting staff, and anticipates a reduction to 1.0 FTE accounting staff over the next year.

Galen and GIMC were also parties to a Tax Sharing Agreement. The Liquidator continues to work with counsel and tax accounting experts to disentangle the tax agreements between Galen and GIMC in a manner that is cost effective to the Galen estate. The tax matters are complicated by the fact that the Liquidator cannot identify someone with authority from GIMC willing to sign tax returns or other tax related documents.

The Liquidator disaffirmed or repudiated other contracts resulting in substantial reductions to operating expenses. Most significantly the Liquidator relocated Galen’s offices from Clayton, Missouri to Maryland Heights, Missouri – saving approximately 90% in monthly office rental fees. The Liquidator negotiated a continuation of the Maryland Heights office lease agreement on a month-to-month basis beginning July 1. This allows the Liquidator additional flexibility to promptly reduce Galen’s rental obligation as space needs decline. The Liquidator also

engaged an alternative information technology vendor at a savings of approximately 75% each month. The Liquidator renegotiated a payroll processing agreement at a savings of approximately 75% each month. The Liquidator sold the majority of Galen's furniture and equipment at liquidation prices that approximated 10% or less of the original purchase price. The Liquidator abandoned several pieces of furniture and equipment when vacating the Clayton office space due to the difficulty of moving the furniture and equipment and the former landlord's objection to such removal and assertion that the furniture and equipment constituted fixtures that were to remain with the leased property.

Reinsurance

Prior to the Liquidation Date, Galen terminated its reinsurance contracts. Coverage may exist for one or more claims currently being managed by the SGAs. The Liquidator is monitoring the claim situation and will later determine if filing one or more reinsurance claims is financially sound given the reinsurance contract swing rate terms. Unearned premium may also be a factor and the Liquidator is evaluating how to proceed.

Banking

The Liquidator consolidated Galen's banking and investment operations to Central Bank in Jefferson City, Missouri. The move provides the Liquidator with ready access to Galen's banking professionals.

State Licenses and Deposits

In addition to Missouri, Galen was authorized to write insurance contracts in Illinois, Florida, Kansas, Maryland, and New Jersey. The status of those state licenses and deposits is as follows:

	License Status	Deposit Status
Florida	Certificate of Authority Surrendered 6/8/16	N/A
Illinois	Certificate of Authority Suspended 3/28/17	N/A
Kansas	Certificate of Authority "in liquidation" as of 5/31/17	N/A
Maryland	Certificate of Authority "in liquidation" as of 5/31/17	N/A
Missouri	Inactive	\$350,000 approx. Deposit with Central Bank, under control of DIFP
New Jersey	Certificate of Authority "in liquidation" as of 5/31/17	N/A

Financial Reporting

Pursuant to § 375.1190, RSMo (2000), and in accordance with the Liquidation Order, on September 28, 2017, the Liquidator submitted to the Court a list of assets, including Fixed Assets and Cash and Other Assets.

Paragraph 10 of the Liquidation Order provides that the “Liquidator shall file periodic financial reports with the Court. Financial reports shall include, at a minimum, the assets and liabilities of Galen and all funds received or disbursed by the Liquidator during the current period. Financial reports shall be filed within one year of this Order and at least annual thereafter.” Exhibit A, submitted separately

for *in camera* review, is filed in accordance with paragraph 10 of this Court's Liquidation Order and in satisfaction of the Liquidator's financial reporting obligation to this Court.

More specific financial details are provided in the following exhibits, submitted separately for *in camera* review:

Exhibit B: receipts and disbursements detail, Liquidation Date to December 31, 2017.

Exhibit C: financial summary and detail, Liquidation Date to March 31, 2018.

Respectfully Submitted

/s/ Tamara W. Kopp

Tamara W. Kopp
Mo. Bar No. 59020
Receivership Counsel
Missouri Department of Insurance,
Financial Institutions and
Professional Registration
PO Box 690
Jefferson City, MO 65102
573 522-6115
Tamara.kopp@insurance.mo.gov
Attorney for Petitioner

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served electronically via the Missouri CaseNet e-filing system on this 31st day of May, 2018, to:

J. Kent Lowry
Sherry Doctorian
Alexander C. Barrett
ARMSTRONG TEASDALE, LLP

3405 W. Truman Blvd., Suite 210
Jefferson City, MO 65109
klowry@armstrongteasdale.com
sdoctorian@armstrongteasdale.com
abarrett@armstrongteasdale.com

/s/ Tamara W. Kopp
Tamara W. Kopp