

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.)	

SECOND 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 dated May 31, 2017, (“Liquidation Order”) in the above captioned matter and §§ 375.1150, RSMo, *et seq.*, submits this Second Annual Report (“Report”). The Liquidator continues to administer the Galen Insurance Company (“Galen”) estate. 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 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. 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 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 the 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 2018, the SGAs for Illinois, Kansas, Missouri, and New Jersey were handling 31 claims on behalf of Galen.

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 the First Annual Report and subsequently made Early Access Distributions on October 1, 2018.

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. Two claims were received after the POC deadline. The Liquidator and 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.

The Liquidator made determinations on eighteen Proofs of Claim. She advised thirteen claimants of her denial of their claims, and five of her acceptance. Two claimants filed timely objections to the Liquidator’s determination. The Liquidator upheld her denial in each case and notified the Court. One claimant opted to withdraw his objection to the Liquidator’s determination. For the other claimant, the Court conducted a hearing and ultimately affirmed the denial of the claim by the Liquidator.

Litigation

As noted in the first annual report, Galen has been engaged in a variety of litigation since prior to the Liquidation Date. Most litigation has either been resolved with 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 no employees and one independent contractor.

Since the Liquidation Date, the Liquidator continues to reduce operating expenses. Most significantly, as the Galen estate continued to liquidate, the need for office space declined. Rather than enter into an annual lease, the Liquidator negotiated a continuation of an office lease on a month-to-month basis beginning July 1, 2018. Entering into a month-to-month lease allowed the Liquidator to terminate the lease as of November 30, 2018, when the office space was no longer needed.

Additionally, the Liquidator engaged an alternative information technology vendor at a savings of approximately 75% each month, which was further reduced

by approximately 50% each month beginning January 2019. The Liquidator also discontinued employee benefits and payroll processing services as of December 31, 2018, when the remaining employee converted to an independent contractor beginning January 1, 2019. The Liquidator sold and donated the majority of Galen's furniture and equipment at liquidation prices that approximated 10% or less of the original purchase price.

The Liquidator determined that Galen required space to securely store records until such time that she could review and request this Court's authority to destroy records in accordance with § 375.1228, RSMo. The Liquidator negotiated a contract with the St. Louis Record Center for secure storage, including record retrieval and destruction services.

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

Galen's banking and investment operations continue to be held at Central Bank in Jefferson City, Missouri. The Liquidator has 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	N/A
New Jersey	Certificate of Authority "in liquidation" as of 5/31/17	N/A

Since the filing of the first annual report, the deposit account for Missouri was closed and the entire balance in the account was transferred into Galen's operating account and Galen's investment account held at Central Bank.

Financial Reporting

Pursuant to § 375.1190, RSMo, 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 and Exhibit B, both submitted separately for *in camera* review, are 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.

The specific financial details provided in Exhibit A and Exhibit B, both submitted separately for *in camera* review, include:

Exhibit A: Statement of Assets, Statement of Liabilities, Statement of Receipts and Statement of Disbursements as of December 31, 2018.

Exhibit B: Statement of Assets, Statement of Liabilities, Statement of Receipts and Statement of Disbursements as of March 31, 2019.

May 31, 2019

Respectfully Submitted

/s/ Shelley L. Forrest
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Financial Institutions and
Professional Registration
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was filed electronically with the Clerk of the Court on May 31, 2019, to be served by operation of the Court's electronic filing system upon all counsel of records.

/s/ Shelley L. Forrest _____
Shelley L. Forrest