

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
- COMMERCIAL LIST**

**IN THE MATTER OF  
RELIANCE INSURANCE COMPANY**

**AND IN THE MATTER OF THE  
INSURANCE COMPANIES ACT, S.C. 1991, C.47, AS AMENDED**

**AND IN THE MATTER OF THE  
WINDING-UP AND RESTRUCTURING ACT, R.S.C. 1985, C.W-11, AS AMENDED**

**BETWEEN:**

**THE ATTORNEY GENERAL OF CANADA**

Applicant

- and -

**RELIANCE INSURANCE COMPANY**

Respondent

**REPORT OF KPMG INC., THE LIQUIDATOR OF  
RELIANCE INSURANCE COMPANY – CANADIAN BRANCH**

**(Motion returnable June 24, 2008)**

**TABLE OF CONTENTS**

I. THE MOTION.....1

II. BACKGROUND .....2

    A. General Background .....2

    B. Scheme of Distribution .....3

    C. Policy Loss Claims -- Payments and Distributions .....3

III. ADMISSION AND DISALLOWANCE OF CLAIMS.....7

IV. RECOMMENDATIONS .....9

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
- COMMERCIAL LIST**

**IN THE MATTER OF  
RELIANCE INSURANCE COMPANY**

**AND IN THE MATTER OF THE  
INSURANCE COMPANIES ACT, S.C. 1991, C.47, AS AMENDED**

**AND IN THE MATTER OF THE  
WINDING-UP AND RESTRUCTURING ACT, R.S.C. 1985, C.W-11, AS AMENDED**

**BETWEEN:**

**THE ATTORNEY GENERAL OF CANADA**

Applicant

- and -

**RELIANCE INSURANCE COMPANY**

Respondent

**REPORT OF KPMG INC., THE LIQUIDATOR OF  
RELIANCE INSURANCE COMPANY – CANADIAN BRANCH**

**June 19, 2008**

**I. THE MOTION**

- 1. This Report is respectfully filed in support of a motion by KPMG Inc., the liquidator (the “Liquidator”) of the insurance business in Canada of Reliance Insurance Company (“Reliance Canada”), for an Order setting the terms and procedure for a call for ordinary creditor claims in the winding-up of Reliance Canada.

## II. BACKGROUND

### A. General Background

2. Reliance Insurance Company (“Reliance”) is a property and casualty insurer in the United States of America, domiciled in the Commonwealth of Pennsylvania. Reliance carried on business in Canada as a “foreign company”, within the meaning of the *Insurance Companies Act*, through a branch. In October 2000, Reliance Canada stopped issuing new policies and began “running off” (winding-down) its existing business.
3. Reliance was ordered liquidated by Order of the Commonwealth Court of Pennsylvania dated October 3, 2001, under the Pennsylvania *Insurance Department Act of 1921*. The Commissioner of Insurance for Pennsylvania (then M. Diane Koken) was appointed liquidator (the “U.S. Liquidator”).
4. By Orders of this Court made December 3, 2001, the insurance business of Reliance Canada was ordered wound-up pursuant to the provisions of the *Winding-up and Restructuring Act*, and KPMG Inc. was appointed provisional liquidator.
5. This Court appointed the U.S. Liquidator and the Property and Casualty Insurance Compensation Corporation as Inspectors. By Order dated January 30, 2002, this Court ordered that the Superintendent of Financial Institutions of Canada may attend meetings of Inspectors, be included in the service list, and attend and be heard in matters before this Court.
6. The Inspectors are not opposing this motion.

**B. Scheme of Distribution**

7. Section 161 of the *Winding-up and Restructuring Act* sets out the scheme of priorities in the liquidation of insurance companies. Since Reliance Canada was a branch, regard must be had to the foreign insurance company provisions, being subsections 161(6) through (9). For the purposes of this winding-up, the relevant priorities therefore are:

- a) costs of the liquidation;
- b) policyholders for loss claims ("Policy Loss Claims"); and
- c) ordinary creditors.

**C. Policy Loss Claims -- Payments and Distributions**

8. Pursuant to Orders of this Court, the Liquidator has paid claimants with Policy Loss Claims the following benefits:

- a) defence costs as authorized by this Court;
- b) a first interim distribution on Policy Loss Claims of 25%, as approved by the Court's Order made June 26, 2003;
- c) a second interim distribution on Policy Loss Claims of a further 25%, bringing the total distributions to 50%, as approved by the Court's Order made September 2, 2004;

- d) a third distribution on Policy Loss Claims of a further 15%, bringing the total distributions to 65%, as approved by the Court's Order made December 21, 2005;
- e) a fourth distribution on Policy Loss Claims of a further 15%, bringing the total distributions to 80%, as approved by the Court's Order made December 15, 2006;
- f) a fifth distribution on Policy Loss Claims of a further 20%, bringing the total distributions on Policy Loss Claims to 100%, as approved by the Court's Order made April 8, 2008.

9. The Liquidator therefore now pays authorized defence costs and Policy Loss Claims at 100% of their valid and allowed amounts.

**D. Call for Claims**

10. As set out in prior Reports to this Court, the Liquidator has not undertaken a call for Policy Loss Claims, and has not recommended one to date, because such a call would be disproportionately expensive and inefficient, given the long-tail nature of Reliance Canada's policies. If required to file claims in a call for claims process, policyholders would likely file contingent claims of a magnitude that would make the claims process effectively meaningless. The Liquidator continues to be of the view that there is no compelling reason to undertake a call for claims for Policy Loss Claims at this point.

11. Until it was appropriate to declare a 100 cent on the dollar cumulative distribution on prior-ranking Policy Loss Claims, and that there would be funds for payment in whole or

in part for ordinary creditor claims, it was not appropriate to carry out a call for claims for these subsequent-ranking claims.

12. However, now that the cumulative authorized distribution on Policy Loss Claims is at 100 cents on the dollar, and it is anticipated that there will be funds in the Reliance Canada estate for the payment in whole or in part of ordinary creditor claims, the Liquidator is of the view that a call for ordinary creditor claims would be appropriate, as elaborated upon below.
13. The only ordinary creditors of Reliance Canada of which the Liquidator is aware are insurance brokers and agents who had placed policies with Reliance Canada prior to the commencement of the winding-up. In some cases, amounts may be owed to agents and brokers by virtue of unpaid refund of premiums for policies which they cancelled.
14. The Liquidator is not aware of any other trade, supply or similar creditors of Reliance Canada with amounts owing from Reliance Canada at the commencement of the winding-up. (All ongoing expenses of Reliance Canada since the commencement of the winding-up have been paid on a current basis.)
15. Early in the liquidation, the Liquidator made efforts to reconcile any balances with Reliance Canada's agents and brokers. The Liquidator was able to reach reconciliation with some of the agents and brokers, but in many instances the agents and brokers did not participate in the reconciliation process.

16. In light of the foregoing, in order to determine with finality the existence and amount of claims by agents and brokers, the Liquidator respectfully recommends that a call for claims of such agents and brokers and any other potential ordinary claim creditors be conducted.
17. The Liquidator proposes that the call for claims incorporate a mailing to those agents and brokers whom it appears from Reliance Canada's records may have claims, a newspaper publication in the national edition of *The Globe and Mail* and publication on the Reliance Canada liquidation website.
18. In order to try to minimize any confusion to those with Policy Loss Claims, the Liquidator recommends that the call for claims explicitly advise that the call is not one for Policy Loss Claims.
19. The Liquidator also respectfully recommends that September 30, 2008 be fixed under Section 74 of the *Winding-up and Restructuring Act* as the last day on which ordinary creditors may send in their claims.
20. In particular, the Liquidator proposes by no later than July 14, 2008, to: (i) send by ordinary mail a letter, together with a Notice of Claim and instruction sheet, substantially in the form attached as Schedule "A" hereto, to those agents and brokers to whom it appears to the Liquidator from the books and records of Reliance Canada a balance may be due, at their last known address according to the books and records of Reliance Canada, (ii) cause to be published a Notice to Ordinary Creditor Claimants of Reliance Canada, substantially in the form attached as Schedule "B" hereto, in the national edition



of *The Globe and Mail* newspaper, and (iii) publish on the website [www.relianceinsurance.ca](http://www.relianceinsurance.ca) a copy of the Notice to Ordinary Creditor Claimants of Reliance Canada, substantially in the form attached as Schedule "B" hereto, and the letter, Notice of Claim and instruction sheet, substantially in the form included in Schedule "A" hereto.

21. The Liquidator proposes to further endeavour to contact by telephone each agent and broker to whom it appears from the books and records of Reliance Canada a balance may be due from Reliance Canada.
22. The Liquidator proposes to also send a Notice of Claim form and instruction sheet by ordinary mail or by fax to any person making a request by September 30, 2008, at the address or fax number provided by the person, within 7 business days of the request being received. (As mentioned above, the Notice of Claim form will also be available for printing on the website referenced above.)
23. There are potential obligations between the estates of Reliance Insurance Company and of Reliance Canada arising from arrangements between them and activities carried out for the other's benefit, which will be addressed in due course in the liquidation. The Liquidator proposes that for clarity any such claims by the Liquidator of Reliance Insurance Company be exempted from the proposed call for claims of ordinary creditors.

### **III. ADMISSION AND DISALLOWANCE OF CLAIMS**

24. The Liquidator proposes that it be authorized to:

- a) send a Notice of Allowance to the ordinary creditor claimants whose claims the Liquidator is of the view should be admitted in whole in the liquidation (“Allowed Claims”), substantially in the form attached as Schedule “C” hereto, by ordinary mail at the address set out on their respective Notices of Claim; and
- b) send a Notice of Disallowance in Part or in Whole (“Disallowance Notice”) to those ordinary creditor claimants whose claim the Liquidator disputes in whole, or disputes in part and admits in part, as the case may be (collectively, “Disputed Claims”), substantially in the form attached as Schedule “D” hereto, by prepaid registered mail at the address set out on their respective Notices of Claim.

25. The Liquidator proposes that ordinary creditor claimants with Disputed Claims be given 30 days from the date of the Disallowance Notice to serve the Liquidator by prepaid ordinary mail, fax or courier with a Notice of Appeal of Disallowance of Claim (“Notice of Appeal”) in substantially the form attached as Schedule “E” hereto, failing which the claim of such ordinary creditor claimants shall be deemed to be disallowed and non-admissible in the winding-up of Reliance Canada, or disallowed in part and allowed in part, as the case may be, in accordance with the Disallowance Notice.

26. The Liquidator is of the view that the proposed call for claims process will afford a fair and reasonable opportunity for all ordinary creditors with claims against Reliance Canada to file their claims.

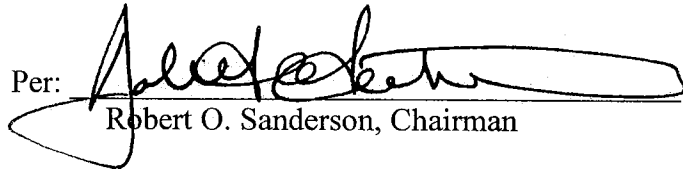
**IV. RECOMMENDATIONS**

27. The Liquidator therefore respectfully recommends that this Court authorize the proposed call for ordinary creditor claims, and grant the related relief, as sought in the Notice of Motion herein.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED,**

**KPMG INC.**, the Liquidator of Reliance Insurance  
Company – Canadian Branch

Per:

A handwritten signature in black ink, appearing to read "Robert O. Sanderson", written over a horizontal line. The signature is stylized and cursive.

Robert O. Sanderson, Chairman

**SCHEDULE "A"**

**[on the Letterhead of Reliance Insurance Company – Canadian Branch, in Liquidation]**

To: [●]

**Re: Ordinary Creditor Claimants of Reliance Insurance Company –  
Canadian Branch, in Liquidation ("Reliance Canada")**

On December 3, 2001, the Ontario Superior Court of Justice (the "Court") ordered the winding-up of Reliance Canada and appointed KPMG Inc. as liquidator (the "Liquidator").

Please be advised that the Court has fixed **Tuesday, the 30<sup>th</sup> day of September, 2008** as the last day for ordinary creditor claimants of Reliance Canada to send in their claims. If you are aware of any claims that you may have arising from your relationship as an agent or broker, or otherwise, other than Policy Loss Claims, please complete the attached Notice of Claim form, which must be submitted by September 30, 2008.

Claims must be sent to the Liquidator at the address noted below by ordinary mail and must be postmarked no later than midnight on September 30, 2008.

**Failure to submit to the Liquidator a properly completed Notice of Claim form by September 30, 2008 will result in any distributions being made without regard to any claim not submitted.**

If you have questions or require a further Notice of Claim form, please see our website [www.relianceinsurance.ca](http://www.relianceinsurance.ca) or make your request in writing to:

KPMG Inc., Liquidator,  
Reliance Insurance Company - Canadian Branch, in Liquidation  
199 Bay Street, Suite 3300  
Toronto, Ontario  
M5L 1B2

Attention: Ms. Janine Bradley

Tel: 416-777-8487  
Fax: 416-777-3683

E-mail: [jmbradley@kpmg.ca](mailto:jmbradley@kpmg.ca)

Yours very truly,

KPMG Inc.  
Liquidator of Reliance Insurance Company – Canadian Branch, in Liquidation

IN THE MATTER OF THE WINDING-UP OF THE INSURANCE BUSINESS IN CANADA OF  
RELIANCE INSURANCE COMPANY ("Reliance Canada")

NOTICE OF CLAIM

(ORDINARY CREDITOR CLAIMS)

NOTE: This form is not to be used for the submission of Policy Loss Claims.

I, \_\_\_\_\_, \_\_\_\_\_, residing in \_\_\_\_\_,  
(name) (relationship to Claimant) (City, town etc)

in the Province of \_\_\_\_\_, Canada,

DO HEREBY CERTIFY THAT:

1. \_\_\_\_\_ ("Claimant") has a valid claim ("Claim") in the amount of (Cdn.)  
\$ \_\_\_\_\_ against Reliance Canada.

2. The **address, telephone number, fax number and authorized contact person** for the Claimant  
for service of any notice or other materials in respect of the Claim are:

Address: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Fax Number: \_\_\_\_\_

Contact: \_\_\_\_\_

3. Attached to this Notice of Claim is an accurate and truthful calculation of the Claim and true and  
accurate copies of supporting documentation establishing the Claim.

**NOTE: You are required to provide a calculation of the Claim including  
supporting documentation, which must be attached to this Notice of Claim.**

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print Name and position with the Claimant

**INSTRUCTIONS FOR COMPLETION OF NOTICE OF CLAIM**

It is important that the Notice of Claim be correctly completed. The following points are set out to assist you:

- (a) The form must be completed in its entirety.
- (b) If this form is completed by some person on behalf of the Claimant, that person must state his or her authority and the capacity in which he or she is acting.
- (c) You are required to provide a calculation of the Claim and all supporting documentation.
- (d) The signature of the individual completing the form must be witnessed.
- (e) The form is not to be used for Policy Loss Claims.
- (f) You do not have to submit a form for claims for which you have been paid.
- (g) This form must be mailed to the Liquidator at the address below.

KPMG Inc., Liquidator,  
Reliance Insurance Company – Canadian Branch, in Liquidation  
199 Bay Street, Suite 3300  
Toronto, Ontario  
M5L 1B2

Attention: Ms. Janine Bradley

**FAILURE TO SUBMIT A PROPERLY COMPLETED NOTICE OF CLAIM BY SEPTEMBER 30, 2008 WILL RESULT IN DISTRIBUTIONS BEING MADE WITHOUT REGARD TO THAT CLAIM.**

**SCHEDULE "B"****IN THE MATTER OF THE WINDING-UP OF THE INSURANCE BUSINESS IN  
CANADA OF RELIANCE INSURANCE COMPANY ("Reliance Canada")****NOTICE TO ORDINARY CREDITOR CLAIMANTS OF RELIANCE  
CANADA**

KPMG Inc., as Liquidator of Reliance Canada, under the provisions of the *Winding-up and Restructuring Act*, hereby gives notice that the Ontario Superior Court of Justice has fixed **Tuesday, the 30<sup>th</sup> day of September, 2008** as the last day for ordinary creditor claimants of Reliance Canada to send in their claims.

**TAKE NOTE THAT FAILURE TO SEND IN A NOTICE OF CLAIM BY  
SEPTEMBER 30, 2008 WILL RESULT IN DISTRIBUTIONS BEING MADE WITHOUT  
REGARD TO ANY CLAIM NOT SENT IN BY THAT DATE.**

**Please note that this is not a call for policy loss claims.**

For further information or for a Notice of Claim form, please contact KPMG Inc. as set out below, or visit [www.relianceinsurance.ca](http://www.relianceinsurance.ca).

This Notice is being given pursuant to the Order of the Ontario Superior Court of Justice dated the 24<sup>th</sup> day of June, 2008.

KPMG Inc., Liquidator,  
Reliance Insurance Company – Canadian Branch, in  
Liquidation  
199 Bay Street, Suite 3300  
Toronto, Ontario  
M5L 1B2

Attention: Ms. Janine Bradley

Fax: 416-777-3683

Tel: 416-777-8487

E-mail: [jmbradley@kpmg.ca](mailto:jmbradley@kpmg.ca)



**SCHEDULE "C"**

**IN THE MATTER OF THE WINDING-UP OF THE INSURANCE BUSINESS IN  
CANADA OF RELIANCE INSURANCE COMPANY ("Reliance Canada")**

**NOTICE OF ALLOWANCE OF CLAIM**

**TO:** (IDENTIFY CLAIMANT)

**RE:** (DESCRIBE CLAIM)

(CLAIM No. \_\_\_\_\_)

**TAKE NOTICE** that we confirm receipt of your Notice of Claim dated \_\_\_\_\_  
\_\_\_\_\_. The Liquidator has reviewed your Claim and will allow your Claim as an  
ordinary creditor claim in the amount of \$ \_\_\_\_\_, as shown on your Notice of Claim.

The Liquidator will at a future date seek the authority of the Ontario Superior  
Court of Justice with respect to making a distribution or distributions with respect to your Claim.

**Please keep the Liquidator advised of any change of address or contact  
information.**

**DATED** at Toronto, this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

\_\_\_\_\_  
Janine Bradley

KPMG Inc., Liquidator,  
Reliance Insurance Company – Canadian Branch, in  
Liquidation  
199 Bay Street, Suite 3300  
Toronto, Ontario  
M5L 1B2

Tel: 416-777-8487

Fax: 416-777-3683

Email: [jmbradley@kpmg.ca](mailto:jmbradley@kpmg.ca)

**SCHEDULE "D"**

**IN THE MATTER OF THE WINDING-UP OF THE INSURANCE BUSINESS IN  
CANADA OF RELIANCE INSURANCE COMPANY ("Reliance Canada")**

**NOTICE OF DISALLOWANCE OF CLAIM IN PART OR IN WHOLE**

**TO:** (IDENTIFY CLAIMANT)

**RE:** (DESCRIBE CLAIM)

(CLAIM NO. \_\_\_\_\_)

**TAKE NOTICE** that we confirm receipt of your Notice of Claim dated \_\_\_\_\_ . The Liquidator has reviewed your Claim and allows your Claim (in part in the amount of \$ \_\_\_\_\_ , and disallows your Claim in part in the amount of \$ \_\_\_\_\_ /disallows your Claim in whole).

**AND FURTHER TAKE NOTICE THAT** if you are dissatisfied with the Liquidator's decision in respect of your Claim, you must serve the Liquidator by prepaid ordinary mail, fax transmission or courier, at the address or fax number below, with a properly completed Notice of Appeal in the form attached hereto, **within thirty (30) days of the date hereof**, with any further support for your Claim and setting out the reasons for disputing the decision of the Liquidator.

If no Notice of Appeal is served on the Liquidator within thirty (30) days of the date hereof, then this Notice of Disallowance in part or in whole will be deemed final and conclusive and the Liquidator shall conduct the liquidation and distribute the assets of Reliance Canada or any part thereof among the persons entitled thereto without regard to your Claim, if disallowed in whole, or without regard to the disallowed part of your Claim, as the case may be.

This notice is being served pursuant to the *Winding-up and Restructuring Act* and to the Order of the Ontario Superior Court of Justice dated the 24<sup>th</sup> day of June, 2008.

**DATED** at Toronto, this            day of            , 2008.

---

Janine Bradley

KPMG Inc., Liquidator,  
Reliance Insurance Company – Canadian Branch, in  
Liquidation  
199 Bay Street, Suite 3300  
Toronto, Ontario  
M5L 1B2

Fax:            416-777-3683

**SCHEDULE "E"**

**IN THE MATTER OF THE WINDING-UP OF THE INSURANCE BUSINESS IN CANADA OF RELIANCE INSURANCE COMPANY ("Reliance Canada")**

**NOTICE OF APPEAL OF DISALLOWANCE OF CLAIM**

**TO:** KPMG INC., LIQUIDATOR OF RELIANCE CANADA

**FROM:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
[IDENTIFY CLAIMANT AND FULL CONTACT INFORMATION]

**RE:** \_\_\_\_\_ [INSERT CLAIM NUMBER PROVIDED ON THE NOTICE OF DISALLOWANCE IN PART OR IN WHOLE]

The Claimant herein disputes the Notice of Disallowance of Claim dated the  
day of \_\_\_\_\_, 2008.

**REASONS FOR APPEAL FROM DISALLOWANCE OF CLAIM**

The Claimant disputes the Notice of Disallowance of Claim for the reasons set out on Appendix "A":

**[You must attach an Appendix "A" setting out the reasons for the dispute.]**

In support of this appeal, the Claimant submits the evidence and documentation attached hereto as Appendix "B".

**[You must attach evidence/documentation to support your claim as Appendix "B".]**

**DATED** at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

\_\_\_\_\_  
**CLAIMANT**