



FACT SHEET

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State Auditor

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Report: 2005-115.1

The California State Auditor released the following report today:

Department of Insurance
Its Conservation and Liquidation Office Continues to Collect and Distribute Proceeds From the Liquidation of the Executive Life Insurance Company

KEY FINDINGS

- The insurance commissioner (commissioner) has received over \$1.1 billion in litigation proceeds from two significant legal matters on behalf of the Executive Life Insurance Company (ELIC) estate since 1991. The estate has expended over \$165 million on litigation costs to recover these proceeds. The Department of Insurance's (department) Conservation and Liquidation Office (CLO) has designated and distributed part of roughly \$988 million in proceeds to policyholders and guaranty associations. The commissioner anticipates receiving more litigation proceeds, which the CLO will distribute in the future.
- As of May 2006 the CLO was holding \$18.4 million from the ELIC estate because it lacked the information that it needs to distribute the funds, such as policyholder addresses. If the CLO still lacks the information that it needs to distribute the funds at the time it closes the ELIC estate, it will transfer the funds to the State Controller's Office as unclaimed property and the funds will ultimately again be transferred to the department for safekeeping until the rightful owners claim them. As of September 2006 the CLO estimates that it will close the ELIC estate in late 2008.
- The commissioner hired outside counsel with the knowledge of the Office of the Attorney General to handle the conservation and liquidation of ELIC as well as recent civil fraud litigation.
- Based on our review of a sample of the CLO's contracts with both outside counsel and others, the terms of the agreements were reasonable and the fees were generally comparable to fees paid by other public entities or were reasonable for the types of services rendered.
- The data needed to determine how much money policyholders have received and are yet to receive, the percentage of policyholders who have recovered their entire investment, and the percentage of the loss to ELIC policyholders that will ultimately be recovered resides with Aurora National Life Assurance Company (Aurora), ELIC's successor. We are in the process of obtaining the needed data from Aurora. We will analyze this data and issue an additional report addressing these and other topics when Aurora makes the data available to us.

BACKGROUND

ELIC was a multibillion-dollar life insurance company that operated in California from 1962 to 1991. On April 11, 1991, the commissioner took over the operation of ELIC having determined that the company was insolvent. After conserving ELIC, the commissioner took steps to rehabilitate and partially liquidate the estate, including drafting a rehabilitation plan that outlined terms significant to the sale of ELIC's assets, terms and conditions for restructuring ELIC's policy obligations, and how policyholders would share in the liquidation of ELIC's assets. The CLO has been responsible for managing the ELIC estate since August 1, 1997.

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