

Moore & Van Allen

July 14, 2003

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VIA FACSIMILE AND REGULAR MAIL

Stephen T. Gheen
Chief Deputy Commissioner
North Carolina Industrial Commission
4338 Mail Service Center
Raleigh, North Carolina 27699-0282

Moore & Van Allen PLLC

Suite 1700
One Hannover Square
Post Office Box 26507
Raleigh, NC 27611-6507

Re: Reciprocal of America ("ROA"), in Receivership

Dear Chief Deputy Commissioner Gheen:

I write on behalf of the North Carolina Insurance Guaranty Association (the "NCIGA") concerning ROA, a Virginia insurer that was declared insolvent and placed into liquidation on June 20, 2003. The NCIGA activated in connection with the ROA insolvency on June 25, 2003. The purpose of this letter is to notify you of the NCIGA's position with respect to one group of claims arising from the ROA insolvency.

Prior to its insolvency, a predecessor of ROA, the Virginia Insurance Reciprocal, entered into an "Acquisition of Assets and Assumption or Liabilities and Reinsurance Agreement" dated June 24, 1999 with the SunHealth Group Self Insurance Association of North Carolina ("SunHealth"). The NCIGA has reviewed the terms of this agreement, and concluded that the NCIGA has no responsibility under the North Carolina Insurance Guaranty Association Act, N.C. Gen. Stat. § 58-48-1, *et seq.* (the "Guaranty Act") for workers' compensation claims against SunHealth or its member employers that arise under the "Acquisition of Assets and Assumption or Liabilities and Reinsurance Agreement" dated June 24, 1999.

Enclosed is a copy of a letter dated June 30, 2003 sent by the NCIGA to ROA, notifying the receiver that claims arising under the SunHealth agreement are not "covered claims" under the Guaranty Act. Attached to this letter is a listing of what the NCIGA understands to be the ROA claims arising under the SunHealth agreement. It is our understanding that the ROA receiver is continuing payments on all claims, including the SunHealth claims, for a period of four weeks after the date of the ROA liquidation order. As you can see from the enclosed letter, the NCIGA has notified the receiver that the NCIGA will not accept responsibility for those claim payments after that period of time. It is our understanding that the ROA receiver is considering whether to continue payments on these claims after the expiration of four weeks.

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Durham, NC
Charleston, SC

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Mr. Stephen T. Gheen

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If we learn any other additional information concerning these claims, we will notify you. If you have any questions, or would like to discuss this further, please give me a call. With best regards, I am

Very truly yours,

Moore & Van Allen PLLC

A handwritten signature in black ink that reads "Christopher J. Blake". The signature is written in a cursive style with a large, sweeping initial "C".

Christopher J. Blake

CJB/njw/430041

cc: Ms. Clem Peterson
Mr. Raymond F. Evans
Mr. Robert M. Newton
Mr. William C. Delbridge
Mr. Joseph W. Eason



NORTH CAROLINA INSURANCE GUARANTY ASSOCIATION
5401 Six Forks Road • Raleigh NC • 27609
(919) 783-9813 • www.ncrb.org

June 30, 2003

Mr. Mark J. Hyland, Second Vice President
The Reciprocal Group, In Receivership
4200 Innslake Drive
Glen Allen, Virginia 13060

Re: Reciprocal of America, In Receivership

Dear Mr. Hyland:

This should serve to acknowledge receipt of your June 18, 2003 letter directed to Mr. Raymond F. Evans, Managing Secretary of the North Carolina Insurance Guaranty Association (NCIGA). Included with that letter was a diskette showing a listing of all the indemnity payments made between April 1, 2003 and June 18, 2003 to claimants that you felt would fall under the authority of the NCIGA.

We have reviewed the terms of the "Acquisition of Assets and Assumption of Liabilities and Reinsurance Agreement" dated June 24, 1999 by and between SunHealth and the Virginia Insurance Reciprocal. Based upon that review, and the provisions of the North Carolina Insurance Guaranty Act, NC Gen. Stat. 58-48-1, et. seq. (Act), it is the NCIGA's position that SunHealth losses pending at the time of the assumption would not be "covered claims" within the scope of the NCIGA's statutory obligations under the Act. Accordingly, the NCIGA will not accept responsibility of any SunHealth losses pending at the time of assumption and I note that there were 12 losses listed on the aforementioned diskette. The question becomes will the receivership continue handling those files, or should we inform the North Carolina Industrial Commission that continued payments will need to be taken up with SunHealth or the employers that constituted the membership of that self-insured. group.

If prepayments were made on behalf of the SunHealth Group prior to the shipping of those files, it is the NCIGA's express position that those payments do not constitute any obligations on behalf of the NCIGA.

I would appreciate your contacting me after your review and determination of the receiver's intended course of action. We are in receipt of some of those SunHealth claims and are holding all action in obedience at present time.

Yours very truly,

Robert M. Newton
Claims Manager

RMN:lm

cc: Mr. Mark F. Bennett
Counsel to the Deputy Receiver
Reciprocal Group, In Receivership
4200 Innslake Drive
Glen Allen, Virginia 23060