

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

COMMONWEALTH OF VIRGINIA *ex rel.* §
STATE CORPORATION COMMISSION, §
§
Applicant, §
§
v. § Case No. INS-2003-00024
§
RECIPROCAL OF AMERICA and §
THE RECIPROCAL GROUP, §
§
Respondents. §

**ELEVENTH DIRECTIVE REGARDING INCREASED PAYMENT PERCENTAGE
AND CANCELLATION OF NINTH DIRECTIVE AND TENTH DIRECTIVE**

1. On January 29, 2003, in a case styled Commonwealth of Virginia ex rel. State Corporation Commission v. Reciprocal of America, The Reciprocal Group, and Jody M. Wagner, Treasurer of Virginia, Case No. CH03-135, the Circuit Court of the City of Richmond (the “Court”) found that Reciprocal of America (“ROA”) and The Reciprocal Group (“TRG”) (collectively, ROA and TRG are referred to as “ROA” or the “Companies”) are in a condition where any further transaction of business will be hazardous to the policyholders, creditors, members, subscribers, and the public. Therefore, the Court issued its Final Order Appointing Receiver for Rehabilitation or Liquidation (the “Receivership Order”), appointing the State Corporation Commission (the “Commission”) of the Commonwealth of Virginia, as Receiver, Alfred W. Gross, the Commissioner of the Commission’s Bureau of Insurance, as Deputy Receiver, and Melvin J. Dillon as Special Deputy Receiver of the Companies, in accordance with Title 38.2 Chapter 12 and 15 of the Virginia Code. On June 1, 2005, Mike R. Parker succeeded Melvin J. Dillon as the Special Deputy Receiver of the Companies. On January 1, 2011, Jacqueline K. Cunningham succeeded Alfred W. Gross as the Virginia Commissioner of Insurance and as Deputy Receiver of the Companies. Both upon commencement, and throughout these receivership proceedings, the Deputy Receiver’s staff has been undertaking a continuous financial analysis of ROA’s financial position in order to properly establish a claims payment plan which is in the best interest of the insureds and policyholders of the Companies.

2. On March 28, 2007, pursuant to authority granted by the Commission’s Final Order issued in the case styled Application of Reciprocal of America and The Reciprocal Group for Approval to Increase Payment Percentage from 17% to 25%, Case No. INS-2007-00065, the Deputy Receiver issued the Ninth Directive which, among other things, (1) authorized ROA to make payments at the percentage of 25% on the claim amount for approved claims that had not previously received a distribution, and (2) authorized ROA to make payment of an additional 8% to all claimants who had received a 17% distribution on their claims as of that date.

3. On July 9, 2010, pursuant to the authority provided in the Receivership Order and the March 28, 2007, Final Order of the Commission, the Deputy Receiver issued the Tenth Directive which deferred payment of all “Other Policy Claims” (policy claims by associations, policyholders, and insureds that were not Policy Claims for Economic Damages, the latter being those for indemnification or defense costs covered under an ROA insurance policy) until such time as Policy Claims for Economic Damages were paid in full.

4. On May 6, 2011, in a case styled Application of Reciprocal of America and The Reciprocal Group for Approval to Increase Payment Percentage from 25% to 95%, Case No. INS-2011-00048, the Commission entered its Final Order which, among other things, (1) authorized payment by ROA of approved claims by associations, policyholders, and insureds for losses, indemnification, or defense costs covered by ROA insurance policies (hereinafter “Direct Claims”) at the increased payment percentage of 95%, (2) authorized the payment of an additional 70% to all claimants who have received a 25% distribution on their Direct Claims, (3) approved the modification or cancellation of the Ninth Directive regarding claim payments so as to permit payments to be made at the increased percentage, and (4) approved maintaining those provisions of the Tenth Directive related to the suspension of payments on any claim other than an approved Direct Claim. As the Commission’s May 6, 2011, Final Order authorized an increased payment percentage, the Ninth Directive is no longer necessary and may now be canceled.

5. The following terms are defined for purposes of this directive:

- a. “Direct Claims” – claims by associations, policyholders, and insureds for indemnification or defense costs covered under an ROA insurance policy (also known as “Policy Claims for Economic Damages”).
- b. “Indirect Claims” – policy claims by associations, policyholders, and insureds other than Direct Claims, such as claims for non-economic damages, punitive damages, exemplary damages, extra-contractual claims, and awards of attorney fees for substantially prevailing in litigation against ROA (also known as “Other Policy Claims”).

THEREFORE, in accordance with the powers granted to the Deputy Receiver in the Commission’s May 6, 2011, Final Order and other applicable authority, THE DEPUTY RECEIVER HEREBY DIRECTS:

1. ROA shall make payments at the increased payment percentage of 95% to associations, policyholders, and insureds for their approved Direct Claims.
2. ROA shall make payments of an additional 70% for the approved Direct Claims of associations, policyholders, and insureds who previously received a 25% distribution on their claims.
3. Indirect Claims are subordinate to Direct Claims.

4. No payments shall be made on any approved Indirect Claims until all approved Direct Claims have been paid in full.

5. The percentage of such payments may be increased when, and to the extent that, an increased payment percentage is authorized by further orders of the Commission.

6. ROA shall continue to pay administrative expenses in full and pay secured claims against ROA at 100%, to the extent of applicable security.

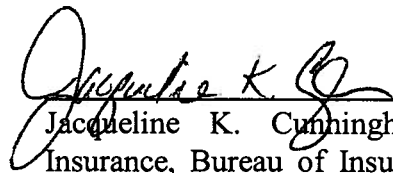
7. The Ninth Directive is no longer necessary and is hereby canceled.

8. The relevant portions of the Tenth Directive are restated and superceded by the provisions herein making the Tenth Directive no longer necessary, and it is hereby canceled.

9. In all other respects, the Fifth Directive effective as of April 30, 2003, shall remain in full force and effect.

This Eleventh Directive shall take effect whenever the Commission's May 6, 2011, Final Order becomes final and non-appealable. All of the foregoing is subject to further directives of the Deputy Receiver and orders of the Commission.

It is so directed, effective on this 17th day of May 2011:



Jacqueline K. Cunningham, Commissioner of Insurance, Bureau of Insurance, State Corporation Commission, Commonwealth of Virginia, and Deputy Receiver of Reciprocal of America and The Reciprocal Group