



KPMG Inc.

Suite 3300 Commerce Court West  
PO Box 31 Stn Commerce Court  
Toronto ON M5L 1B2

Telephone (416) 777-8500  
Telefax (416) 777-3364  
Telefax (416) 777-8818  
[www.kpmg.ca](http://www.kpmg.ca)

**December 3, 2001**

**To: Investigators, Engineers, etc.**

**Re: The Canadian branch of Reliance Insurance Company**

On December 3, 2001, the Ontario Superior Court of Justice (the "Court"), on the application of the Attorney General of Canada, granted an order (the "Appointment Order") appointing KPMG Inc. as provisional liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance (Canada)") and ordered that Reliance (Canada) be wound-up.

Reliance (Canada) is the Canadian branch of Reliance Insurance Company, which is a property and casualty insurer in the United States of America ("Reliance"). Reliance was placed in liquidation in Pennsylvania on October 3, 2001. The Insurance Commissioner for the Commonwealth of Pennsylvania is the court-appointed liquidator of Reliance.

The Liquidator is attempting to find one or more companies who will assume the policy liabilities of Reliance (Canada). With respect to all policy liabilities (other than policies issued as part of the Meridian program), the Liquidator has set the objective of finding a new insurance carrier by April 30, 2002. For the Meridian program, the Liquidator has set the objective of January 31, 2002. The Liquidator may return to Court to extend these dates if it appears necessary. If no other insurance carriers agree to assume the policy liabilities, the Liquidator will institute a process to deal with policyholder claims and may seek approval from the Court to cancel some or all of the in-force policies. The Liquidator will provide you with further information as this matter progresses.

The books and records of Reliance (Canada) have been reviewed and your name appears on the records as having performed services for Reliance (Canada) or its named insured.

In accordance with the Appointment Order the following procedures will apply to all policies issued by Reliance (Canada) (other than those issued under the Meridian program) until April 30, 2002 or such later date as the Court may order:

1. The Liquidator will pay up to \$25,000 on all settled and adjusted claims for loss, including claims in respect of unearned premiums. Any amounts above \$25,000 will be claims in the liquidation, on which distributions will be made as the liquidation progresses. The Liquidator is hopeful that all claimants will eventually recover 100% of their claims. However, at this time it is not certain.
2. The \$25,000 limit will not apply to claims covered by the Property and Casualty Insurance Compensation Corporation ("PACICC"). Policyholders with PACICC-



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covered claims will be entitled to payments up to PACICC's limits of \$250,000. Any amounts above \$250,000 will be claims in the liquidation, on which distributions will be made as the liquidation progresses. As stated above while the Liquidator is hopeful that all claimants will recover 100% of their claims, it is not certain.

3. In addition to the above, the Liquidator will pay all reasonable legal and other costs, incurred to and including April 30, 2002, which Reliance (Canada) is obligated to pay for defending any insureds against losses under Reliance (Canada)'s policies in accordance with the applicable policy, subject to the applicable terms and limits of such policies.
4. The Liquidator will also continue to pay reasonable fees of expert witnesses, investigators, etc., including your fees. You will continue to take your instructions from the same individuals who were instructing you prior to the winding-up.
5. Any payments made in respect of policies, including the above-referenced payments, will be deemed to be payments made on account of claims in the liquidation of Reliance (Canada) and will be deducted from the amount which would otherwise be distributed at such time as further distributions or similar arrangements are made in respect of such claims.

**The fact that payments are being made to April 30, 2002 does not obligate the Liquidator to continue to make any payments beyond that date.** The Liquidator will report back to the Court by April 30, 2002 on the status of the marketing process and the estate of Reliance (Canada). The Liquidator cannot give you any assurances that payments will continue beyond April 30, 2002. Accounts should be submitted on a monthly basis for all time through to April 30, 2002.

Please provide the undersigned with a written summary outlining the nature and extent of any cases being handled by your firm. In addition, please issue a bill for all unpaid time to November 30, 2001. The Liquidator is a court officer and its accounts are subject to taxation. Accordingly, on a go-forward basis, all bills must include the hours and hourly rates of the individuals working on the matter as well as a detailed description of the work performed.

The Liquidator will advise you of any major developments in the liquidation. In the meantime, if you have any questions with respect to a specific claim, you should deal with your contact at Reliance (Canada). If you have any general questions regarding the liquidation, please contact the undersigned in writing.

Yours very truly,

KPMG Inc., in its capacity as Court-appointed  
Provisional Liquidator of Reliance (Canada)



Per: I. George Gutfreund  
Vice President