

# **Penn. official claims accountant at fault in Reliance financial collapse**

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PHILADELPHIA (AP) — Deloitte, the nation's second-largest accounting firm, contributed to the worst insurance failure in U.S. history by not telling state regulators about its client's poor financial condition, the Pennsylvania Insurance Department alleged in a court filing, The Philadelphia Inquirer reported.

Deloitte signed off on an audit in February 2000 that said Reliance Insurance Co. had enough cash reserves to stay in business, but less than a week later its accountants told an investment partnership that Reliance had a "seriously deficient" \$350 million shortfall, according to the department's filing in Commonwealth Court last month.

State Insurance Commissioner Diane Koken began liquidating Philadelphia-based Reliance Insurance in late 2001 after determining that the company, formerly headed by financier and 1980s corporate raider Saul Steinberg, could not be reorganized.

The Insurance Department filed a civil lawsuit last year accusing Deloitte of failing to audit Reliance effectively. The department is trying to force Deloitte and its insurers to pay part of the estimated \$2 billion-plus cost of Reliance's collapse.

Deloitte, in a written statement, accused the state of "serious distortion of the facts." The firm declined to say what was distorted and blamed Koken and her staff for Reliance's collapse.

Koken has accused former Reliance executives, directors, lawyers and accountants of covering up losses, allowing Steinberg and his family to loot the company.

Steinberg and other executives have denied wrongdoing and say state regulators knew Reliance's true condition.

The state alleges that Deloitte knew of Reliance's troubles, as evidenced by its presentation to KKR, which at the time was considering an investment in Reliance. KKR later bought part of Reliance's auto business.

Deloitte told KKR about the shortfall "in exchange for millions of dollars" in accounting fees, the state alleges. Deloitte "exploited the competing interests of KKR and Reliance and benefited financially by receiving payments from clients on opposite sides" of the proposed deal, according to the state.

KKR has not been accused of wrongdoing. It had no comment on Reliance or the state's charges, spokeswoman Ruth Pachman said. □