

**CIC Insurance Limited**  
**ACN 004 078 880**  
**(In liquidation and subject to a Scheme of Arrangement)**

Scheme Administrators' annual report to  
creditors

30 June 2012

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# 1 Introduction & background

## 1.1 Introduction

This is the sixth annual report to the Creditors of CIC Insurance Limited - in liquidation and subject to a Scheme of Arrangement ("CIC").

The report has been prepared in accordance with clause 43.2 of the Scheme of Arrangement, which became operative in Australia on 30 May 2006. Under the terms of the clause: "Within three months after each anniversary of the date, being either 31 December or 30 June, at the discretion of the Scheme Administrators, after The Australian Scheme becomes effective, the Scheme Administrators shall report to the Scheme Creditors on the progress of The Australian Scheme, including details of remuneration paid to the Office Holders, since the date of the last such report". Accordingly this report has been prepared for the period to 30 June 2012.

## 1.2 Background

HIH Insurance Limited and certain of its major subsidiaries were placed into Provisional Liquidation on 15 March 2001, and subsequently into liquidation on 27 August 2001. In total, eighty-two HIH Group companies in Australia have been placed into liquidation.

Summary details of the history of the group; its failure; and background information are available on the HIH website at [www.hih.com.au](http://www.hih.com.au). Extensive information on the failure of the group, including the final report of the HIH Royal Commission established by the Australian Federal Government, is available on the website [www.hihroyalcom.gov.au](http://www.hihroyalcom.gov.au).

Schemes of Arrangement for the eight licensed insurance companies in the HIH Group in Australia became effective on 30 May 2006, following approval by Creditors and the Court. Schemes of Arrangement for the UK branches of the four of these companies became effective in the UK on 13 June 2006. Each of the Schemes has a Record Date (the date at which liabilities are measured) of 27 August 2001. The earliest bar date permissible under the terms of the Schemes was 31 May 2011.

In light of the progress made to date on the "run-off" phase of the Scheme, the Scheme Administrators expect the actual bar date to be 31 May 2013.

## 2 Principal developments to report during the period

The principal developments to report during the period were:

- + The members of the CIC Creditors' Committee approved a further interim Scheme Payment of 2 cents in the dollar, payable to all creditors. It should be noted that all creditors of CIC are considered to be creditors with liabilities in Australia.

Scheme Payments made to date total:

	Creditors with insurance liabilities in Australia	Creditors with insurance liabilities outside of Australia	Creditors with non insurance liabilities in Australia	All other creditors worldwide
CIC	60.00%	n/a	60.00%	n/a

More detail on Scheme Payments and the estimated ultimate Scheme Payment Percentage for CIC is included in section 3 of this report.

- + In light of the progress made to date in managing the CIC claims run-off, the Scheme Administrators see no reason to postpone the Scheme Estimation date, which is currently 31 May 2013.

Further information in respect of the Estimation Date and the lodgement of final claims, is included in section 5 of this report.

- + The liquidations of a further 16 HIH Group subsidiary companies have now been completed.

To date, the liquidations of 35 HIH Group subsidiary companies have been completed with those of a further 10 companies expected to be finalised by August 2012. CIC will not receive any distributions from the closure of these 10 additional companies as they are neither subsidiaries nor debtors of CIC.

Upon completion of these liquidations, the remaining HIH Group Australian subsidiary liquidations will total 37.

## 3 Current and projected Scheme Payment Percentages

### 3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentage for CIC is 60%. This represents the lower end of the Scheme Administrators' current estimated range for final Scheme Payment percentages.

To date the Scheme Administrators have only made distributions out of non-reinsurance assets in Australia, to creditors with liabilities in Australia. Based on the information available to the Scheme Administrators, they are not aware of any creditors of CIC who do not fall within the definition of "creditors with liabilities in Australia" under the terms of the Scheme.

### 3.2 Projected further Scheme Payments

The largest remaining asset recoveries for CIC are forecast to be intercompany dividends. While the liquidations of a number of HIH Group subsidiaries are expected to be completed within the next twelve months, there are not expected to be any distributions to CIC from these closures. Payment of the remaining intercompany dividends will be dependent upon the unwinding of a number of complicated intragroup debtor and creditor positions. This is only likely to be completed once the Scheme cut-off has taken place and the final creditor positions of the eight Scheme companies have been determined.

In addition to the above, the major determinant of the final Scheme Payment Percentages will be the level of the total final creditor claims. As the Scheme Administrators have now made interim Scheme Payments up to the minimum forecast Scheme Payment percentages, they do not consider it prudent to make any further interim Scheme Payments until the final creditor total is better known following the Scheme cut-off at 31 May 2013.

### 3.3 Agreement of the current Scheme Payment Percentage

The Scheme Administrators review the Scheme Payment percentages on a regular basis, as major asset recoveries are made and as claims estimates are updated. This review is undertaken in consultation with the Creditors' Committees. Factors taken into account when estimating these percentages include current cash held, expected future agreed claims levels and the remaining potential volatility of the account.

The Australian Scheme reflects the distribution priorities which apply to liquidators of insurance companies in Australia. This requires certain classes of assets, such as reinsurance recoveries to be distributed in priority to certain classes of creditor claims.

### 3.4 Scheme Payments for reinsurance creditors

As explained in previous annual reports, the Scheme Administrators remain willing to consider making Scheme Payments to reinsurance creditors with Acknowledged Creditor Claims before all potential set off has been finalised, provided the creditor is willing to give an undertaking to refund any amounts which subsequently prove to have been overpaid. Payment has been made to a number of such creditors over the last year and creditors interested in this should continue to contact the Scheme Administrators.

### 3.5 Estimated ultimate Scheme Payment Percentage

The Scheme Administrators' current best estimate of the ultimate Scheme Payment Percentages for CIC is shown below. This estimate remains dependent on a wide range of factors including the volatility of claims; levels of set-off; levels of reinsurance recovery; and the class of creditor claim. It is possible that the ultimate Scheme Payment Percentage could vary significantly from that predicted.

<b>Scheme Company</b>	<b>Estimated Total Scheme Payment Percentage at Scheme date</b>	<b>Updated Total Scheme Payment Percentage at 30 June 12</b>
CIC	30% to 40%	60% to 75%

The total Scheme Payment Percentage has remained in line with that set out in the last annual report although following review of ongoing claims development, there has been a small increase in the forecast upper percentage return to 75%.

## **4 Financial position**

### **4.1 Estimated balance sheet at 30 June 2012**

Included as Appendix 3 to the Australian Explanatory Statement section of the Scheme of Arrangement documentation, which was sent to creditors prior to the creditors' meeting on 29 March 2006, were balance sheets for each of the Scheme companies at 25 September 2005. An updated balance sheet for CIC as at 30 June 2012, is included as Appendix 1 to this report.

### **4.2 Receipts and payments to 30 June 2012**

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2012 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2011, \$320,152.50 has been approved by the Scheme Creditors' Committee for payment to the Scheme Administrators in their role as Office Holders.

## 5 Closure

### 5.1 Estimation Date

The CIC Scheme provides for an Estimation Date of seven years after the Australian Scheme became effective: that is 31 May 2013.

The Scheme provides that the Estimation Date may be moved up to two years prior to, or two years after the original seven years by special resolution of creditors, on the recommendation of the Scheme Administrators and Creditors' Committees.

The Scheme Administrators now consider that as the majority of the reinsurance asset has been collected and the remaining tail of insurance liabilities is sufficiently small to be managed as part of the cut-off process, that 31 May 2013 should be confirmed as the Estimation Date for the Scheme.

### 5.2 Notification of Estimation Date

Under the terms of the Scheme, the Scheme Administrators shall, within 180 days of, but not less than 90 days prior to, the Estimation Date of 31 May 2013:

- + send to each known creditors a notice of the Estimation Date and a final claim form for Estimation; and
- + give notice by publication of the Estimation Date.

Based on the Estimation Date of 31 May 2013, the Scheme Administrators expect to provide the written notice to creditors and publication of advertisement in accordance with the terms of the Scheme, in February 2013.

### 5.3 Estimation

Under the terms of the Scheme, creditors will only be entitled to have their claims determined to be Acknowledged Creditor Claims if:

- + prior to the Estimation Date, the creditors' claims have already been determined to be Acknowledged Creditor Claims. Creditors whose existing claims have been agreed by the Scheme Administrators will receive a notice from the Scheme Administrators in early 2013 confirming their Acknowledged Creditor Claims;
- + a final claim form for Estimation is completed by the creditor detailing each of its claims and returned to the Scheme companies on or before 3 months after the Estimation Date: i.e. by 2 September 2013; or
- + prior to the Estimation Date, the creditor commenced a proceeding in relation to their claim in accordance with the terms of the Scheme which has not been determined by the Estimation Date.

In light of the upcoming Estimation Date, the Scheme Administrators urge all creditors to review any outstanding claims they may have and if necessary, contact the HIH claims run-off team whose details are set out in section 7.1 of this report, as soon as possible.

## 6 Responsibilities

### 6.1 Scheme Administrators

The Australian Scheme Administrators are Tony McGrath and Chris Honey, partners of McGrathNicol, based in Sydney.

### 6.2 Run-off Managers

The day to day claims handling and reinsurance recovery activities of CIC are managed in-house by the HIH run-off team.

### 6.3 Creditors' Committee

The interests of creditors of CIC are represented by a Creditors' Committee. The Committee sanctions significant transactions (such as commutations), is involved in the setting of the Scheme Payment Percentage, and approves the Scheme Administrators' fees. It is currently reported to, and meets three times a year. The current constitution of the Committee is as follows:

Member	Represented by
ACT Workers Compensation Supplementation Fund	Mr John Fletcher
Motor Accidents Authority of New South Wales	Mr Andrew Nicholls
Law Cover Pty Limited	Mr David Martin
Queensland Motor Accident Insurance Commission	Ms Lina Lee
HCSL – Australian Government Treasury	Mr Trevor King
Avant Insurance Limited	Mr Scott Pearson
WA Workers Compensation & Rehabilitation Commission	Mr Harry Neesham
Motor Traders Association of NSW	Mr James McCall

## 7 Contact Details

Contact details for the Australian Scheme Administrators, and the Australian Run-Off Managers, are set out on the HIH website, [www.hih.com.au](http://www.hih.com.au).

### 7.1 Creditor Enquiries in Australia

Scheme Creditors with claims adjustment queries (excluding those in relation to branch business) should call HIH Help Desk on +61 (0) 2 9650 5777. Written claims adjustment queries should be directed to HIH Group at the following address: HIH Group, GP Box 9814, Sydney NSW 2001, Fax +61 (0) 2 9650 5710.

Scheme Creditors with enquiries in relation to the Scheme or Scheme Payments should call the HIH Help Desk on +61 (0) 2 9650 5777. Written scheme queries should be directed to the Scheme Administrators at the following address: McGrathNicol, GPO Box 9986, Sydney, NSW, 2001 or to the HIH Help Desk at [enquiries@hih.com.au](mailto:enquiries@hih.com.au).

Yours faithfully

*For CIC Insurance Limited – in liquidation and subject to a Scheme of Arrangement*



Tony McGrath  
*Scheme Administrator*



Chris Honey  
*Scheme Administrator*

## Appendix 1

Updated balance sheet for CIC as at 30 June 2012

**CIC Insurance Limited - (In Liquidation and subject to Scheme of Arrangement)**  
**Balance Sheet as at 30th June 2012**  
**All values in AUD**

	RATA as at 30 June 2012 \$'000	RATA as at 30 June 2011 \$'000
<b>Assets not specifically charged</b>		
<b>Cash</b>		
Cash at bank	22,121	32,702
	<u>22,121</u>	<u>32,702</u>
<b>Receivables</b>		
Amounts owing by related bodies corporate	42,190	46,652
GST Recoverable	0	23
	<u>42,190</u>	<u>46,675</u>
<b>Investments</b>		
Short term deposits	47,656	49,543
Managed Investments	28,714	27,999
ADD back: Dividends Paid	272,075	257,108
	<u>348,445</u>	<u>334,649</u>
<b>Reinsurance recoveries receivable</b>	617	2,942
<b>Total assets not specifically charged</b>	<b><u>413,374</u></b>	<b><u>416,968</u></b>
<b>Assets subject to specific charges</b>		
<b>Investments</b>		
Statutory Reinsurance Cut-Through	3,175	5,275
<b>Total assets subject to specific charges</b>	<b><u>3,175</u></b>	<b><u>5,275</u></b>
<b>TOTAL ASSETS</b>	<b><u>416,549</u></b>	<b><u>422,243</u></b>
<b>Liabilities secured by specific charge over assets</b>		
<b>Accounts payable</b>		
Statutory Reinsurance Cut-Through	(3,175)	(5,275)
<b>Total liabilities secured by specific charge over assets</b>	<b><u>(3,175)</u></b>	<b><u>(5,275)</u></b>
<b>Unsecured creditors</b>		
<b>Accounts payable</b>		
Trade Creditors	(19,731)	(19,208)
Goods and services tax	(7)	0
Sundry creditors	(151)	(146)
	<u>(19,889)</u>	<u>(19,353)</u>
<b>ACCs</b>	(396,305)	(383,149)
<b>Claims Reserves</b>	(25,008)	(27,188)
<b>IBNR Claims</b>	(70,339)	(80,738)
<b>Outstanding claims</b>	<u>(491,652)</u>	<u>(491,075)</u>
<b>Other liabilities</b>		
Amounts owing to related bodies corporate	(15,886)	(15,886)
	<u>(15,886)</u>	<u>(15,886)</u>
<b>Total unsecured creditors</b>	<b><u>(527,427)</u></b>	<b><u>(526,314)</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>(530,602)</u></b>	<b><u>(531,589)</u></b>
<b>NET DEFICIT</b>	<b><u>(114,053)</u></b>	<b><u>(109,345)</u></b>

## Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2012

**CIC Insurance Limited (In Liquidation and subject to a Scheme of Arrangement)  
Receipts and Payments Account 1 July 2011 to 30 June 2012**

	\$	\$
<b>Balance at 1 July 2011</b>		<b>111,046,085.17</b>
<b>Receipts</b>		
Dividend received from Non-Scheme Companies	3,766,784.74	
Interest on cash and deposits	3,527,101.87	
Scheme Payment Received	1,986,891.46	
Unrealised Gain on Investments	874,301.89	
Reinsurance recoveries	425,892.26	
Unrealised Foreign Exchange Movement on Overseas Accounts	333,098.78	
Dividend received from Cotesworth & Co Ltd	223,456.25	
GST Refund from ATO transferred from HIH C&G	108,466.04	
Claims recoveries	35,017.71	
Other receipts	71.98	
	<hr/>	
<b>Total receipts</b>		<b>11,281,082.98</b>
<b>Payments</b>		
Scheme Payments to Creditors	(22,027,737.78)	
Central expense reimbursement paid to HIH C&G	(836,582.59)	
Scheme Administrators' Fees	(483,615.00)	
Professional Fees	(276,163.95)	
GST on payments	(78,150.06)	
Outsourced Claims Management Fees	(24,420.49)	
Computer Costs	(19,370.15)	
Other Sundry Payments	(16,580.32)	
Insurance	(11,613.92)	
Claims run-off expenses	(2,255.80)	
Liquidators' Fees	(1,046.00)	
	<hr/>	
<b>Total payments</b>		<b>(23,777,536.06)</b>
<b>Balance at 30 June 2012</b>		<hr/> <b>98,549,632.09</b> <hr/>