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To all known creditors, potential creditors and  
brokers of HIH Casualty & General Insurance  
Limited

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5 November 2018

Dear Sir/Madam

**HIH Casualty & General Insurance Limited (In Provisional Liquidation and subject to  
Scheme of Arrangement)  
English Scheme Administrators' Report to Creditors**

**1 Introduction**

This is the eleventh report to creditors of HIH Casualty & General Insurance Limited (“HIH C&G”) by the English Scheme Administrators (“SAs”) covering the period ending 30 September 2018 (“the Report”). It will be published on the HIH website as a supplement to the Report to creditors of the Australian Scheme Administrators (“Australian SAs”).

Background information in relation to the failure of HIH C&G and the operation of the Scheme of Arrangement is contained in Appendix 1. The purpose of this Report is to provide creditors with information on the progress of the English Scheme (the “Scheme”) to date.

**2 Key developments since the last Report**

- Following the resolution of the legal action taken by various HIH Insurance shareholder groups, catch-up dividends and Scheme Payments were paid to successful Plaintiffs in September 2017.
- Whilst the legal action has been finalised in relation to the initial batch of HIH Insurance shareholder groups, the New South Wales (“NSW”) Supreme Court judgement has resulted in further groups of HIH Insurance shareholders (“New Shareholder Creditors”), who did not participate in the Plaintiff proceedings, seeking to lodge claims against HIH C&G, FAIG and HIH Insurance.
- At the end of last year, the Australian SAs sought directions from the Court in NSW on how to deal with the New Shareholder Creditors of HIH Limited. The two key areas where directions were sought were in relation to whether the C&G and FAIG

schemes could be treated as closed; and what communications should be made with the New Shareholder Creditors. The Australian SAs are still waiting for the Courts directions in this matter.

- As far as the English SAs' are concerned, in addition to general day-to-day activities, other key areas of activity for the period related to continuing liaison with the Australian SAs, the application for the adjournment of winding-up petition, interaction with the purchasers of the HIH residual debt and measures taken to ensure compliance with the new GDPR rules.
- There is no further interim dividend payment planned until the Australian SAs have a definitive position as to whether New Shareholder Creditors are to be permanently excluded from the HIH C&G and FAIG Schemes.

### 3 Scheme Payment Percentages

#### 3.1 Current Scheme Payment Percentages

By way of a reminder, and as previously reported, in November 2015 the English Scheme Creditors' Committee authorised an increase in the Scheme Payment Percentage of 1.33% (from 19% to 20.33%) for creditors with insurance liabilities outside of Australia (Fund 2) and of 1% (from 33.5% to 34.5%) for creditors with non-insurance liabilities outside of Australia (Fund 4).

For insurance liabilities, the current effective Scheme Payment Percentage is 47.82% as payments out of Fund 4 are made after taking into account payments from Fund 2. Creditors with non-insurance liabilities cannot access the Fund 2 distribution so currently receive 34.5% on their entire Established Scheme Claims ("ESC") from Fund 4.

The table below uses an illustrative ESC of £1 million to show the current effective Scheme Payment Percentages for insurance and non-insurance liabilities not in Australia respectively, as a result of the current Fund 2 & Fund 4 payment percentages.

<b>Figures in £000s</b>	Insurance liability	Non-insurance liability
Example ESC	1,000	1,000
Payment out of Fund 2 (20.33%)	(203.3)	-
Residual claim after payment from Fund 2	796.7	1,000
Payment out of Fund 4 (34.5%)	(274.9)	(345)
Total amount paid from Funds 2 & 4	478.2	345
<b>Effective Scheme Payment Percentage</b>	<b>47.82%</b>	<b>34.5%</b>

The current Scheme Payment Percentages for the various classes of assets for all of the HIH Scheme companies, of which HIH C&G is one, are set out on the HIH website: [www.hih.com.au](http://www.hih.com.au).

#### 3.2 Expected final Scheme Payment Percentages

The quantum and timing of further Scheme Payment(s) remains wholly dependent on whether the New Shareholder Creditors are admitted in the Schemes. As the Australian SAs are awaiting the

outcome of the December 2017 Court hearing, they are currently not in a position to determine the timing of the further Scheme Payments.

The SAs' estimate of the ultimate Scheme Payment Percentages for the various HIH C&G creditor groups as stated in the previous report remains the same and is set out below:

<b>Type of Creditor</b>	<b>Range as at 30 June 2018</b>
Creditors with insurance liabilities in Australia	51.3 - 51.9%
Creditors eligible to be paid from US Trust Funds	48.2%
Creditors with insurance liabilities outside of Australia	48.2%
Creditors with non-insurance liabilities in Australia	38.9% - 39.7%
Creditors with non-insurance liabilities outside of Australia	35%

#### **4 Others matters to be resolved prior to closure**

##### **4.1 Reinsurer set-off**

During the claims finalisation process, the English and Australian SAs identified a number of counterparties who were net creditors at the Record Date but who subsequently paid balances (in respect of reinsurance payments, reinstatement premium, claims refunds etc.) to HIH C&G without taking into account the overall net debtor/creditor position between the parties.

As previously reported, repayments to those counterparties who remain net creditors will be delayed until after the payment of the final dividend.

#### **5 Completion timetable**

The only issue preventing the closure of the HIH C&G Schemes and liquidation is reaching a definitive position on whether the New Shareholder Creditors' claims should be admitted in the Schemes. Once resolved, the SAs will be in a position to make the final Scheme Payments and close the Scheme.

Under Clause 56.1 (a), the Scheme will automatically terminate 12 months after the payment of the final dividend to Scheme Creditors. Following the final payments to Scheme Creditors, and in advance of the termination of the Scheme, the SAs will apply to the Financial Conduct Authority ("FCA") and Prudential Regulatory Authority ("PRA") for the cancellation of HIH C&G's permissions under Part 4A Financial Services & Markets Act 2000 ("FSMA") to carry on regulated activities and for its removal from the Financial Services Register.

After the termination of the Scheme, HIH will remain in Provisional Liquidation. The Joint Provisional Liquidators will take steps to bring the Provisional Liquidation to a close by means of an application to the High Court.

## 6 Financial position – receipts and payments to 30 September 2018

A summary of the SAs' receipts and payments for the period 16 March 2001 to 30 September 2018 is set out below.

<b>HIH Casualty &amp; General Insurance Company Limited</b>		
<b>Receipts and payments for the period 16 March 2001 to 30 September 2018</b>		
	<b>1 Oct 2017 to 30 Sept 2018 £'000s</b>	<b>16 Mar 2001 to 30 Sept 2018 £'000s</b>
<b>Receipts</b>		
Insurance and reinsurance recoveries		116,885
Property		10,931
Gains and interest on funds invested	3	21,964
Intergroup liquidation dividends		4,478
Tax refunds		6,035
LOC collateral refunded		8,887
Cash recovered		5,119
Film Finance & Genesis subrogation		8,274
Premium Income and Other receipts	3	3,172
<b>Total receipts</b>	<b>6</b>	<b>185,745</b>
<b>Payments</b>		
Officeholders' fees and expenses	357	24,953
Run-off managers' fees	164	18,991
Legal fees	20	13,704
Other professional and agents' fees	16	3,831
VAT	79	7,693
IT, market processing and other claims handling costs		5,289
R/I recoveries transferred to Australia and paid to State Funds		853
Court Costs Awards paid and R/I subrogation funding		5,811
Exchange losses/(gains)	8	1,922
Other payments	3	720
<b>Total Payments</b>	<b>647</b>	<b>83,767</b>
Balance before Scheme Payments	(641)	101,978
Scheme Payments to creditors		(99,627)
<b>Equivalent GBP Funds held as at 30 September 2018</b>		<b>2,351</b>

In addition to the general day-to-day activities of the SAs, other key areas of activity for the period related to the annual application for the adjournment of winding-up petition, interaction with the purchasers of the HIH residual debt and measures taken to ensure compliance with the new GDPR rules.

## 7 Creditors' Committee

The interests of creditors in the Scheme are represented by the Committee. The Committee sanctions significant transactions (such as commutations), is involved in the setting of the Scheme Payment Percentage, and approves the SAs' fees. The SAs continue to report to the Committee on a six-monthly basis and hold update calls as and when appropriate. The constitution of the Committee is as follows:

<b>Member</b>	<b>Represented by</b>
Financial Services Compensation Scheme	Mr M Greetham
Markel International Insurance Company Limited	Ms S Crofts
Riverstone Management Limited	Mr M Bannister
Syndicate 435, Faraday	Mr J Bond

### 7.1 Contact details

Scheme Creditors with enquiries in relation to the Scheme or Scheme Payments should call the SAs on +44 (0) 20 7694 3169 or write to them at KPMG LLP, 15 Canada Square, London E14 5GL.

Further information is available on the HIH website, [www.hih.com.au](http://www.hih.com.au).

Yours faithfully  
*For HIH Casualty & General Insurance Limited*

Michael S Walker  
*English Scheme Administrator*

Barry J Gale  
*English Scheme Administrator*

## Appendix 1

Background information on the insolvency:

- The HIH Group failed on 15 March 2001. HIH C&G was one of the 3 major licensed insurers in the group.
- Summary details of the history of the group; its failure; and other background information are available on the website maintained by the Australian Scheme Administrators at [www.hih.com.au](http://www.hih.com.au).
- Extensive information on the failure 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)
- On 30 May 2006, Schemes of Arrangement became effective for the eight licensed insurance companies in the HIH Group in Australia. Complementary Schemes of Arrangement became effective for four of those companies in England on 13 June 2006, following approval by creditors and the courts. Copies of the Scheme documents are available on the HIH website [www.hih.com.au](http://www.hih.com.au).
- For the first seven years, the Schemes operated as “reserving” Schemes, under which claims were made in the normal course of business. During this reserving period, interim Scheme distributions were paid to creditors with Established Scheme Claims at the applicable Scheme Payment Percentage.
- The Australian and English Scheme Administrators have co-operated fully. A unified principal to principal ledger system has been operated, together with a unified dividend payment system. Creditors were required to lodge claims in one location only, which was then effective under both Schemes.
- The Record Date (the date at which liabilities are measured) for each of the Schemes is 27 August 2001.
- In accordance with clause 24 of the Australian and English Schemes of Arrangement, the Estimation Date was set at 31 May 2013. Final Claim Forms for Estimation (FCFs) were required to be submitted so as to reach the Scheme Companies by midnight 2 September 2013 (British Summer Time); being three months after the Estimation Date.
- 386 creditors have Established Scheme Claims in the English Scheme with a value of almost £212 million (at 31 October 2016).
- The current effective Scheme Payment Percentage for creditors with insurance liabilities outside of Australia is 47.82%. Creditors with non-insurance liabilities have received a dividend of 34.5%.