

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

Scheme Administrators' annual report to  
creditors

30 June 2011

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# 1 Introduction & background

## 1.1 Introduction

This is the fifth 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 2011.

## 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 30 May 2011. However, at this stage, the Scheme Administrators expect the actual bar dates to be 30 May 2013.

## 2 Principal developments to report during the period

The principal developments to report during the period were:

- + Agreement of Scheme Payment Percentages by the members of the requisite Scheme Creditor Committee, which now total as follows:

	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	58.00%	n/a	58.00%	n/a

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

- + During the year, the liquidations of 6 HIH Group subsidiary companies have been completed. To date, the liquidations of 19 HIH Group subsidiary companies have been completed and a further 16 companies are close to completion.

The winding up of the additional 16 companies has resulted in the flow of funds to CIC in July 2011 as follows:

- \$2.8 million creditor distribution from Industrial Mutual Compensation; and
- \$3.4k creditor distribution from 422 Collins Street.

In addition to the distributions above, CIC will receive statutory interest pursuant to section 563B of the Corporations Act 2001 of \$0.5 million from Industrial Mutual Compensation prior to the completion of its liquidation in October 2011. The statutory interest will be paid in the form of cash and the distribution in-specie of an outstanding intercompany loan.

There is not expected to be any surplus capital receivable by CIC from the liquidations of its wholly owned subsidiaries.

### 3 Current and projected Scheme Payment Percentages

#### 3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentage for CIC is 58%.

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 intercompany dividends. The imminent closure of further HIH Group companies and estimated interim dividends to be declared by other HIH Group companies, will see CIC receiving further funds from non-reinsurance assets in Australia within the next twelve months.

The major determinant of the final Scheme Payment Percentages is the level of the total final creditor claims. In light of this and the fact that the Scheme cut-off date of 30 May 2013 is now less than two years away, the Scheme Administrators do not expect to materially increase the Scheme Payment percentage further, prior to this date.

#### 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 estimates of the ultimate Payment Percentage 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 Payment Percentage could vary significantly either above or below that predicted.

Scheme Company	Estimated Total Scheme Payment Percentage at Scheme date	Updated Total Scheme Payment Percentage at 30 June 11
CIC	30% to 40%	60% to 70%

The total Scheme Payment Percentage has remained in line with that set out in the last annual report as there have been no material movements in the total forecast recoverable assets or total forecast liabilities.

## **4 Financial position**

### **4.1 Estimated balance sheet at 30 June 2011**

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 2011, is included as Appendix 1 to this report.

### **4.2 Receipts and payments to 30 June 2011**

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2011 is set out in Appendix 2 to this report.

During this period \$451,373.50 has been approved by the Scheme Creditors' Committee, and paid to the Scheme Administrators in their role as Office Holders.

## 5 Closure

The Scheme for CIC provides for an Estimation Date of seven years after the Australian Scheme became effective, which means that the Estimation Date is expected to be in June 2013. By that time the Scheme Administrators expect that the majority of the reinsurance asset will have been collected or commuted, and the remaining tail of insurance liabilities will be sufficiently small to justify closure of the insolvency on cost benefit grounds.

The Scheme provides that the Estimation Date may be moved two years either way from the expected seven years (to be as early as five years or as late as nine years after the Effective Date) by special resolution of creditors, on the recommendation of the Scheme Administrators and Creditors' Committees. Under the terms of the Scheme all creditors will be given notice of the actual Estimation Date between six and three months prior to the time.

Following the Estimation Date all remaining outstanding and IBNR creditor claims will be crystallised by estimation, to allow for the closure of the insolvency.

At the date of this report, the Scheme Administrators consider that June 2013 remains the most likely Estimation Date for the Scheme.

## 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 FAI Re have previously been outsourced to Capita CMGL, who are a specialist run-off organisation based in Sydney and London.

Following an extensive review of the ongoing resources required to manage the run-off process for all business of the company, HIH terminated Capita CMGL's contract on 30 June 2011, and employed the personnel necessary to manage the run-off process in-house with effect from 1 July 2011.

### 6.3 Creditors' Committee

The interests of creditors in the Australian Scheme 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 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	Mr Ashur Merza
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 [enquires@hih.com.au](mailto:enquires@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 2011

**CIC Insurance Limited - (In Liquidation and subject to a Scheme of Arrangement)**

**Balance Sheet as at 30 June 2011**

**All values in AUD**

	RATA as at 30 June 2011	RATA as at 30 June 2010
	\$'000	\$'000
<b>Assets not specifically charged</b>		
<b>Cash</b>		
Cash at bank	32,702	55,619
	<u>32,702</u>	<u>55,619</u>
<b>Receivables</b>		
Amounts owing by related bodies corporate	46,652	34,397
GST Recoverable	23	22
	<u>46,675</u>	<u>34,419</u>
<b>Investments</b>		
Short term deposits	49,543	31,234
Managed Investments	27,999	61,655
ADD back: Dividends Paid	257,108	210,864
	<u>334,649</u>	<u>303,753</u>
<b>Reinsurance recoveries receivable</b>	<u>2,942</u>	<u>4,381</u>
<b>Total assets not specifically charged</b>	<b><u>416,968</u></b>	<b><u>398,172</u></b>
<b>Assets subject to specific charges</b>		
<b>Investments</b>		
Statutory Reinsurance Cut-Through	5,275	7,429
<b>Total assets subject to specific charges</b>	<b><u>5,275</u></b>	<b><u>7,429</u></b>
<b>TOTAL ASSETS</b>	<b><u>422,243</u></b>	<b><u>405,601</u></b>
<b>Liabilities secured by specific charge over assets</b>		
<b>Accounts payable</b>		
Statutory Reinsurance Cut-Through	(5,275)	(7,429)
<b>Total liabilities secured by specific charge over assets</b>	<b><u>(5,275)</u></b>	<b><u>(7,429)</u></b>
<b>Unsecured creditors</b>		
<b>Accounts payable</b>		
Trade Creditors	(19,208)	(18,760)
Sundry creditors	(146)	(146)
	<u>(19,353)</u>	<u>(18,906)</u>
<b>ACCs</b>	<u>(383,149)</u>	<u>(387,370)</u>
<b>Claims Reserves</b>	<u>(27,188)</u>	<u>(27,356)</u>
<b>IBNR Claims</b>	<u>(80,738)</u>	<u>(80,924)</u>
<b>Outstanding claims</b>	<u>(491,075)</u>	<u>(495,650)</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>(526,314)</u></b>	<b><u>(530,442)</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>(531,589)</u></b>	<b><u>(537,871)</u></b>
<b>NET DEFICIT</b>	<b><u>(109,345)</u></b>	<b><u>(132,269)</u></b>

## Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2011

**CIC Insurance Limited (In Liquidation and subject to a Scheme of Arrangement)  
Receipts and Payments Account 1 July 2010 to 30 June 2011**

	\$	\$
<b>Balance at 1 July 2010</b>		<b>148,585,304.70</b>
<b>Receipts</b>		
Reinsurance recoveries	4,687,030.38	
Interest on cash and deposits	3,947,708.54	
Unrealised Gain on Investments	1,704,790.02	
Scheme Payment Received	1,595,327.90	
Dividend received from FAI Underwriting - UK	1,271,889.66	
GST Refund from ATO transferred from HIH C&G	175,249.09	
Other Receipts	<u>21,655.62</u>	
<b>Total receipts</b>		<b>13,403,651.21</b>
<b>Payments</b>		
Scheme Payments to Creditors	(45,550,814.63)	
Outsourced Claims Management Fees	(851,505.38)	
Central expense reimbursement paid to HIH C&G	(639,082.59)	
Professional Fees	(416,043.00)	
Unrealised Foreign Exchange Movement on Overseas Accounts	(2,851,649.61)	
Scheme Administrators' Fees	(287,911.00)	
GST on payments	(165,470.70)	
Claims run-off expenses	(128,860.92)	
Other Sundry Payments	(19,880.99)	
Computer Costs	(19,797.05)	
Insurance	(10,965.87)	
Liquidators Fees	<u>(889.00)</u>	
<b>Total payments</b>		<b>(50,942,870.74)</b>
<b>Balance at 30 June 2011</b>		<b><u>111,046,085.17</u></b>