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To all known creditors, potential creditors and  
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Limited

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30 September 2014

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 seventh report to creditors of HIH Casualty & General Insurance Limited (“HIH C&G”) by the English Scheme Administrators (“SAs”) covering the period ending 30 June 2014 (“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 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**

- The SAs have now collected reinsurance debts of over £106 million and, having liaised closely with the Australian SAs, completed the sale of a proportion of the remaining reinsurance debt via an auction process in September 2014 (see Section 6).
- The Bar Date for creditors to submit Final Claim Forms for Estimation (“FCFs”) against HIH C&G passed on 2 September 2013 (see Section 3.1).
- The SAs have completed their assessment of the FCFs received by the Bar Date and agreed their value with the relevant creditors. No FCFs were referred to the Scheme Adjudicator (see Section 3.2).
- In March 2014, the Creditors’ Committee (“Committee”) approved a 5.2% uplift on the interim effective Scheme Payment Percentage to 31.6% for creditors with insurance

liabilities outside of Australia and an uplift of 4% to 24% for creditors with non-insurance liabilities outside of Australia. These uplifts were paid to creditors in April 2014 (see Section 5.2).

- In July 2014, the Committee approved a further uplift of 5.76% on the current effective Scheme Payment Percentage to 37.36% for creditors with insurance liabilities outside of Australia and a further uplift of 4% to 28% for creditors with non-insurance liabilities. These uplifts were paid to creditors in July 2014. It is anticipated that a further uplift will be proposed before the end of 2014 (see Section 5.2).
- Barry Gale replaced John Wardrop as one of the SAs, Joint Provisional Liquidators and Liquidators of a number of the HIH Group companies (see Section 7.1).

### **3 Claims submission**

#### **3.1 The Estimation Period**

All creditors without an Established Scheme Claim (“ESC”), or who wanted to increase the value of their ESC, in respect of the English Scheme Companies were required to submit FCFs by the Bar Date.

The Scheme provided for a period of three months after the Bar Date for the SAs to determine whether any Notified Liability (as set out by the claimant in the FCF) gives rise to an ESC. After that period, each claimant that submitted an FCF was provided with a Notice of Determination (“NOD”) by the SAs which confirmed if their claim had been accepted, either in full or in part, or rejected.

Once the NOD had been issued to the claimant, the Scheme provided for a further period of three months for the SAs and the claimant to reach an agreement on the value of the claim. If no agreement has been reached within that period the Scheme states that the claim must be referred to the Scheme Adjudicator, who will then make a final and binding decision on the disputed claim within 6 months of the claim being referred to him.

As detailed below, the SAs have agreed the vast majority of the FCFs received and do not anticipate that any of the remaining disputed claims will need to be referred to the Scheme Adjudicator.

#### **3.2 FCFs submitted in the Scheme**

Of the 175 FCFs lodged with UK balances, 170 were dealt with by the SAs in the UK and five by the Australian SAs.

Claims totalling over £107 million were agreed with the relevant creditors. No FCFs were required to be referred to the Scheme Adjudicator.

The total value of ESCs agreed through the closure process is approximately £28 million less than the value submitted by the claimants on the FCFs relating to those ESCs.

## **4 Interaction between Australian and English Schemes**

All creditors worldwide were entitled to claim in both the Australian and English Schemes for HIH C&G. The SAs and the Australian SAs co-operate fully with each other and therefore Scheme Creditors needed only to lodge their FCF in one location, as their claim submission would then be effective under both Schemes. For the avoidance of doubt, the location in which a Scheme claim was lodged had no bearing on whether it was a liability “in Australia” or “outside of Australia”; that was a function of where the business was written.

The SAs and the Australian SAs operate a unified principal-to-principal ledger and dividend payment system. The entitlements of individual creditors under both Schemes are automatically calculated by the unified system. When a Scheme payment is made the creditor receives a statement showing how their liability has been classified and, consequently, from which classes of assets their payment has been made.

The SAs continue to report trial balances, receipts and payments and ad hoc queries to the Australian SAs for incorporation into the overall financial ledgers. A number of further discussions have been held in this area focussed on streamlining the process between the UK and Australian estates during the closure period.

The SAs continue to attend Australian Creditors' Committee meetings. The Australian SAs likewise continue to attend the UK Committee meetings.

## **5 Scheme Payment Percentages**

### **5.1 How the Scheme Payment Percentages are set**

The SAs continue to work closely with the Australian SAs to agree appropriate dividend uplifts on a regular basis in the lead up to the final dividend payment and the planned closure of the Schemes in 2015. Under the terms of the Schemes the SAs and Australian SAs review the Scheme Payment Percentage for each class of asset in consultation with the Australian Creditors' Committee and the Committee.

Both the Australian and English Schemes reflect the distribution priorities which apply to liquidations of insurance companies in Australia. This requires particular classes of assets to be distributed in a prescribed order of priority to particular classes of creditor claims.

The estimates below are dependent on a wide range of factors including the volatility of the value of the remaining claims to be agreed; levels of set-off; litigation outcomes; levels of reinsurance recovery/proposed debt sale; and the class of creditor claim.

As a general rule, creditors with insurance liabilities and those based in Australia are expected to receive higher ultimate distributions than creditors with non-insurance liabilities and/or those with liabilities outside of Australia.

### **5.2 Current Scheme Payment Percentages**

The Scheme Payment Percentage for creditors with liabilities not in Australia was increased to 10% (from 8%) on Fund 2 and 24% (from 20%) on Fund 4 following a meeting of the Committee in March 2014. This raised the effective Scheme Payment Percentage to 31.6% for creditors with insurance liabilities outside of Australia and to 24% for creditors with non-insurance liabilities outside of Australia. These uplifts were paid to creditors in April 2014.

The Scheme Payment Percentage for creditors with liabilities not in Australia was increased again to 13% on Fund 2 and 28% on Fund 4 following a meeting of the Australian Creditors' Committee on 8 July 2014 and subsequent agreement by the UK Creditors' Committee.

The table below uses a hypothetical 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. For insurance liabilities, the current effective Scheme Payment Percentage is 37.36%, 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 28% on their entire ESC from Fund 4.

The latest uplift payments were made in July 2014.

<b>Figures in £000s</b>	<b>Insurance liability</b>	<b>Non-insurance liability</b>
Example ESC	1,000	1,000
Payment out of Fund 2 (13%)	(130)	-
Residual claim after payment from Fund 2	870	1,000
Payment out of Fund 4 (28%)	(243.6)	(280)
Total amount paid from Funds 2 & 4	373.6	280
<b>Effective Scheme Payment Percentage</b>	<b>37.36%</b>	<b>28%</b>

It is anticipated that a further uplift will be proposed before the end of 2014.

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).

Additionally, the SAs and the Australian SAs have modelled the expected return for the differing types of claims against HIH C&G. These are shown below. It is entirely possible that the ultimate Scheme Payment Percentage could differ from the ranges predicted for the reasons set out in 5.1 above.

<b>Type of Creditor</b>	<b>Estimated final Scheme Payment Percentage</b>
Creditors with insurance liabilities in Australia	45% - 47%
Creditors eligible to be paid from US Trust Funds	43%
Creditors with insurance liabilities outside of Australia	43%
Creditors with non-insurance liabilities in Australia	34% - 36%
Creditors with non-insurance liabilities outside of Australia	31%

### 5.3 Completion timetable

The Australian SAs anticipate proposing a further uplift in the Scheme Payment Percentage later in 2014. It is expected that the final uplift in the Scheme Payment Percentage will be not be proposed until sometime in 2015, as it is anticipated that certain issues – such as the complex intercompany relationships and the appeals process in respect of any disputed claims – will not be resolved until 2015.

## 6 Financial position – receipts and payments to 30 June 2014

A summary of the SAs' receipts and payments for the period 16 March 2001 to 30 June 2014 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 June 2014</b>		
	<b>1 July 2012 to 30 June 2014 £'000s</b>	<b>16 March 2001 to 30 June 2014 £'000s</b>
<b>Receipts</b>		
Insurance and reinsurance recoveries	328	106,312
Property	-	10,931
Gains and interest on funds invested	1,765	21,102
Intergroup liquidation dividends	-	4,478
Tax refunds	236	5,776
LOC collateral refunded	1,653	7,151
Cash recovered	-	4,390
Film Finance & Genesis subrogation	458	6,380
Premium Income and Other receipts	852	2,452
<b>Total receipts</b>	<b>5,292</b>	<b>168,972</b>
<b>Payments</b>		
Officeholders' fees and expenses	3,143	21,581
Run-off managers' fees	2,038	17,567
Legal fees	123	13,441
Other professional and agents' fees	187	3,493
VAT	761	6,889
IT, market processing and other claims handling costs	519	4,829
R/I recoveries transferred to Australia and paid to State Funds	731	853
Court Costs Awards paid and R/I subrogation funding	-	5,553
Exchange losses/(gains)	37	(2,982)
Other payments	27	557
<b>Total Payments</b>	<b>7,566</b>	<b>71,780</b>
Balance before Scheme Payments	(2,274)	97,192
Scheme Payments to creditors	(12,329)	(61,118)
<b>Equivalent GBP Funds held as at 30 June 2014</b>		<b>36,074</b>

## **7 Responsibilities**

### **7.1 Change of Scheme Administrator**

Further to the acceptance of John Wardrop's resignation as one of the SAs, the Committee passed a resolution to appoint Barry John Gale as Scheme Administrator of the following companies with effect from 20 August 2013 under clause 45.3 of the Scheme:

- HIH Casualty & General Insurance Limited
- FAI General Insurance Company Limited
- FAI Insurances Limited
- World Marine & General Insurances Pty Limited

In addition, an order was made by the High Court of Justice on 16 October 2013 removing Mr Wardrop and replacing him with Mr Gale in relation to the following Insolvency Act 1986 appointments:

- As Joint Provisional Liquidator of:
  - HIH Casualty & General Insurance Limited
  - FAI General Insurance Company Limited
  - FAI Insurances Limited
  - World Marine & General Insurances Pty Limited
- As Joint Liquidator of:
  - FAI Underwriting Limited
  - Cotesworth Capital Limited
  - HIH Systems International Limited

The SAs of HIH C&G are, therefore, Michael Walker and Barry Gale, based in London.

The Australian SAs are Tony McGrath and Chris Honey, of McGrathNicol, based in Sydney.

### **7.2 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. It is reported to on a quarterly basis. 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

### 7.3 Contact details

Contact details for the SAs, the Australian SAs and the English and Australian run-off managers are set out on the HIH website, [www.hih.com.au](http://www.hih.com.au).

Scheme Creditors with FCF related queries in relation to UK branch business should call Asta Insurance Services on +44 (0) 20 7743 0900 or write to them at the following address: 5<sup>th</sup> Floor, Camomile Court, 23 Camomile Street, EC3A 7LL.

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, 8 Salisbury Square, London EC4Y 8BB.

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 at least the first five years, the Schemes will be “reserving” Schemes, under which claims are made in the normal course of business. During this reserving period, interim Scheme distributions will be paid to creditors with Established Scheme Claims at the current applicable Scheme Payment Percentage.
- The Australian and English Scheme Administrators co-operate fully. A unified principal to principal ledger system is operated, together with a unified dividend payment system. Creditors need to lodge claims in one location only, which is 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.