

**HIH Casualty and General Insurance Limited
FAI General Insurance Company Limited
CIC Insurance Limited**

**Press Release by Provisional Liquidators
Dated 11 April 2001**

Immediately before our appointment as provisional liquidators on 15 March 2001, our analysis, based on the balance sheets of the major Australian insurance licence holders in the HIH group, was that at best the companies were marginally solvent.

It will be many months before we are able to give detailed reports on the financial position of each of the companies to the courts. However, we will be reporting to the courts regularly. The matter will next be before the NSW Supreme Court on 10 May 2001. The provisional liquidators are continuing the consideration of whether each company should go in to liquidation or be subject to a scheme of arrangement, however, having regard to the complexity of this matter, it is anticipated that the provisional liquidators will recommend to the court on 10 May, that the proceedings be adjourned.

However we are very conscious of the need to alert regulators, policyholders, employees and other interested parties as soon as possible to the fact that the position will be significantly worse than previously reported, and accordingly make this press release:

General financial position

Our preliminary views, formed on the basis of investigations to date are:

- Each of the major Australian insurance licence holding companies within the HIH group are clearly insolvent – that is, they will clearly not be able to pay their debts in full.
- The financial position of each of the three main licence holding companies is worse than the stated balance sheet position, by a very significant margin in each case.
- The deficiencies reflect previous optimistic valuation of assets, and extensive underestimation of liabilities.
- The very substantial losses which will be revealed will not be restricted to the last nine months of operation.
- Although significant losses have been suffered on some overseas elements of the businesses, the failure of the group cannot be attributed to this cause alone.

Impact on creditors

The impact on individual creditors and groups of creditors will not be uniform. Some policy holders will receive a good return as outlined below, but other policyholders and creditors generally are exposed to the risk of a very poor return.

Factors affecting the ultimate outcome for creditors will include: which of the companies they have a claim against, the nature of the claim, whether any special arrangements apply to them, and the extent to which any reinsurance proceeds will become available to give them effective priority under section 562A of the Corporations Law.

Most groups of policyholders who have special arrangements applicable to them (and so are in a good position) have already been identified. These include policyholders with CTP claims, and policyholders transferred to Allianz, QBE, or NRMA (as outlined in the press release dated 23 March 2001). In conjunction with industry bodies and regulators we are

investigating if special arrangements for other groups of policyholders are possible, but at this stage no further arrangements have been achieved.

Without such special arrangements the outcome for others will depend on the recovery of assets and the success of any litigation applicable to the individual HIH company which they are a creditor of, as well as the allocation of reinsurance recovered.

Policyholders requiring further clarification are invited to call the HIH hotline on 1800 600 400.

Reinsurance priority

Section 562A of the Corporations Law only applies once an insurance company is in liquidation. The effect of the section is that reinsurance recoveries collected by a liquidator are allocated in priority to the claims of creditors or groups of creditors whose claims lead to the particular reinsurance recovery.

The HIH companies have extensive and varied reinsurance arrangements. Although the intention of the section is very clear, its application in practice is not straightforward, particularly for complex treaty reinsurances covering a number of companies. It is likely that allocation of reinsurance recoveries between different groups of creditors will need court direction. In some cases this will involve extensive delay, because the pool of sharing creditors will not be known until all claims of the particular type are known.

We as provisional liquidators will preserve the position until the companies are in liquidation or are subject to schemes of arrangement approved by the courts and creditors.

Likely extensive delay before payments to creditors

The only creditors who can expect prompt payment of their claims are those identified for special arrangements which involve coverage by other organisations, as outlined in the 23 March press release.

The insolvency of complex insurance groups is not common in Australia. It is more common in the London market, and in the United States. In most of the complex insurance failures to date, the first payment has not been paid to creditors in less than two years, and a final payment has not been paid in less than seven years. There are many examples of insurance companies which remain subject to liquidation or schemes of arrangement after more than ten years.

The primary reason for extensive delays is the length of time over which long tail claims can be made and resolved, and any applicable reinsurance recovered. Creditors with these claims need to be taken into account when making payments to any creditors. Examples of these are claims for professional indemnity and public liability, where the claim against the policyholder (and so the policyholder's claim against the insurance company) can take a number of years to surface and be resolved.

In the case of each of the main HIH companies, we expect that reliable estimates of creditor payment outcomes will not be possible for at least one year. It is also likely that there will be a delay of at least two years before the first payment, and a delay of up to ten years before the final payment to creditors.

Registering claims

The creditor and claims recording systems of the companies are being maintained. Prior to any payment to creditors, any additional creditor claim procedures will be notified. Individual creditors do not need to record their details separately with the provisional liquidators at this stage.

Further information

We are continuing investigations and will be reporting to the courts regularly. We regret that it will not be possible to provide better financial details to creditors for a number of months. As any further significant initiatives become known, we will announce them, and the enquiry hotline (1800 600 400) will remain available.



Tony McGrath
Provisional Liquidator
11 April 2001