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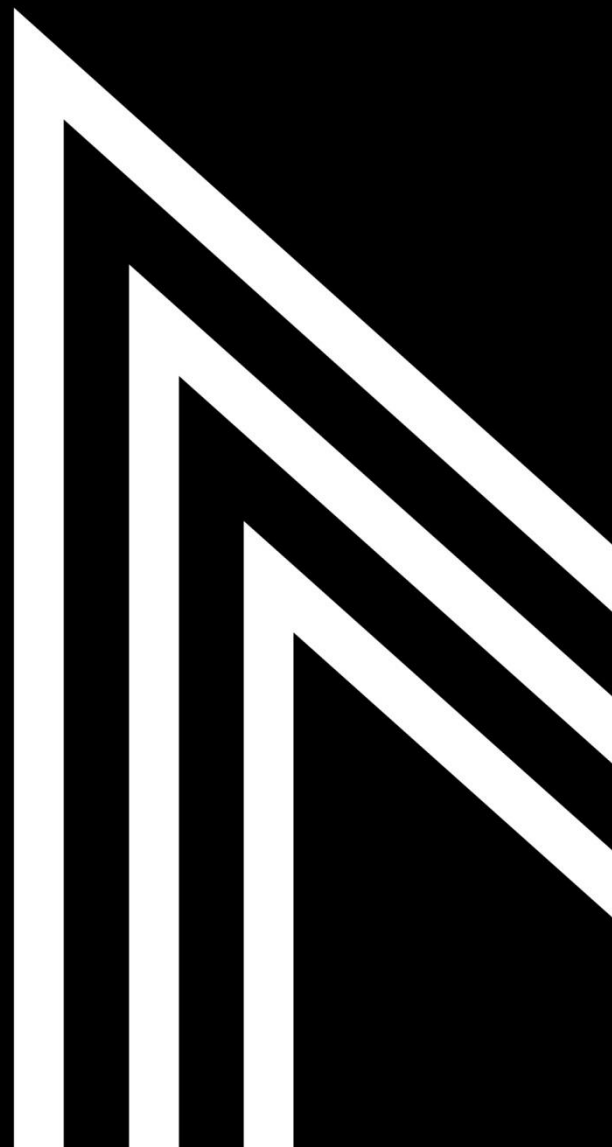
**HIH Casualty and General Insurance Limited**  
**ACN 008 482 291**  
**(In Liquidation and subject to Schemes of**  
**Arrangement)**

**Scheme Administrators' Annual Report to Creditors**

30 June 2019



McGrathNicol



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# 1 Introduction & Background

## 1.1 Introduction

This is the thirteenth annual report to the Creditors of HIH Casualty and General Insurance Limited (In Liquidation and subject to Schemes of Arrangement) (**HIH C&G**).

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 2019. It also covers any significant events between that date and completion of the report.

An annual report has also been prepared by the Scheme Administrators of the UK Scheme of Arrangement for HIH C&G. This will be published on the HIH website as a supplement to the Australian annual report for this company.

## 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). The HIH Royal Commission established by the Australian Federal Government has also prepared an extensive report on the failure of the group.

Schemes of Arrangement for the eight licensed insurance companies in the HIH Group in Australia, including HIH C&G, became effective on 30 May 2006, following approval by Creditors and the Court. Schemes of Arrangement for the UK branches of four of these companies, including HIH C&G, 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 and an estimation date of 31 May 2013 wherein all outstanding claims are valued.

The bar date for submission of Final Claim Forms by Scheme Creditors against the eight licensed insurance companies in the HIH Group was set at midnight British Summer Time on 2 September 2013 (**Bar Date**). Under the terms of the Schemes, no further claims can be accepted after this date.

Five of the eight Schemes have now been finalised and terminated in accordance with clause 63.1. The three remaining Schemes of the HIH Group are in respect of HIH C&G, FAI General Insurance Company Limited (**FAIG**) and CIC Insurance Limited.

The HIH C&G Schemes remain in the "Estimation" phase. All claims lodged by Scheme Creditors prior to the Bar Date have been agreed and quantified.

In 2016, various groups of shareholders of HIH Insurance Limited (**HIH Insurance**) had their damages claims for purchasing HIH Insurance shares successfully admitted in the Schemes of HIH C&G and FAIG and in the Liquidation of HIH Insurance, subject to certain parameters.

In light of the above, the HIH C&G and FAIG Scheme Administrators and the HIH Insurance Liquidators made an application to Court for directions on the method of dealing with the remaining HIH Insurance shareholders with potential claims (**New Shareholder Creditors**). The Court application was heard by the Supreme Court in December 2017. In December 2018, the NSW Supreme Court granted amongst other orders, a specified extension of time for the Scheme Administrators to determine the damages claims of the remaining shareholders of HIH Insurance, as being Acknowledged Creditor Claims under the HIH C&G and FAIG Schemes (**Shareholder Determination Date**). Following the Shareholder Determination Date, the HIH C&G and FAIG Scheme Administrators are authorised to finalise the Schemes without making provisions for any further claims by HIH Insurance shareholders.

Based on the timeline of events stipulated in the final Orders issued on 14 December 2018, the Shareholder Determination Date was set at 15 June 2019. Further details on the New Shareholder Creditors' claims are set out below.

## 2 Principal Developments To Report During The Period

The principal developments to report during the period were:

- In December 2018, the NSW Supreme Court handed down its judgment on the HIH C&G and FAIG Scheme Administrators' and HIH Insurance Liquidators' application for directions on their proposed method of dealing with the New Shareholder Creditors' claims.
- The judgment granted, amongst other orders, the following in respect of the HIH C&G and FAIG Schemes:
  - A specified extension of time for the Scheme Administrators to determine the New Shareholder Creditors' damages claims as Acknowledged Creditor Claims under the Schemes; and
  - following the specified timeframe i.e. the Shareholder Determination Date, the Scheme Administrators are authorised to finalise the Schemes without making provisions for any further claims by HIH Insurance shareholders.
- On 2 April 2019, the HIH C&G and FAIG Scheme Administrators and HIH Insurance Liquidators wrote to the New Shareholder Creditors regarding the Supreme Court judgment, the status of their claims (if any) and the steps to take if they wished to object to the calculations of their claims.
- Following the communication with the shareholders, the Scheme Administrators dealt with all objections lodged against the Schemes by the HIH Insurance shareholders, and determined the claims of the New Shareholder Creditors as Acknowledged Creditor Claims in the Scheme(s) before 15 June 2019, being the Shareholder Determination Date.
- Prior to the Shareholder Determination Date, a group of HIH Insurance shareholders objected to their claim amounts to be admitted in the HIH Insurance Liquidation and commenced legal proceedings against HIH Insurance in respect of those claims. They have accepted their claim amounts, calculated in accordance with the methodology approved by the Supreme Court, to be admitted in the HIH C&G and FAIG Schemes.
- The New Shareholder Creditors admitted claims against the HIH C&G and FAIG Schemes and HIH Insurance Liquidation calculated in accordance with the Supreme Court methodology, amount to approximately \$18 million.
- The Scheme Administrators and Liquidators have now paid the admitted claims of most of the New Shareholder Creditors.
- With the exception of certain New Shareholder Creditors dividend payments which the Scheme Administrators and Liquidators intend to seek Court directions on and settlement of the cost orders granted in favour of the various groups of shareholders in the previous legal proceedings, all other claims against the HIH C&G Schemes have been finalised.

### 3 Current and Projected Scheme Payment Percentages

#### 3.1 The Current Scheme Payment Percentages

During the period, there has been no change to the current Scheme Payment Percentages paid to the different HIH C&G creditor groups are set out below:

Creditors with insurance liabilities in Australia	48.61%
Creditors with insurance liabilities outside of Australia	47.82%
Creditors with non-insurance liabilities in Australia	35.50%
Creditors with non-insurance liabilities outside of Australia	34.50%

For convenience, we reproduce below the information from our previous report as follows:

The Scheme Administrators have made final distributions out of reinsurance assets in Australia, to creditors with insurance liabilities in Australia, totalling 16.05%. They have also made final distributions out of reinsurance assets outside of Australia to creditors with insurance liabilities outside of Australia of 16.05%. A further final distribution of 4.28% has been made from reinsurance assets outside of Australia to all creditors with insurance liabilities worldwide. As any distribution to creditors with insurance liabilities from assets other than reinsurance recoveries, is made after accounting for any proceeds that have been received from reinsurance assets, the effective total Scheme Payment percentage to date for creditors with Australian insurance liabilities is 48.61%. The effective total Scheme Payment percentage to date for creditors with insurance liabilities outside of Australia is 47.82%.

Scheme Payment Percentages totalling 47.82% for those US domiciled creditors eligible to be paid from the US Trust Fund assets have also been paid. All of the US Trust Fund assets have now been exhausted and US domiciled creditors eligible to be paid from those assets will continue to be paid the same Scheme percentage as all other creditors with insurance liabilities outside of Australia.

The Scheme Administrators have made distributions from the realisations of non-reinsurance assets in Australia, to creditors with liabilities in Australia, totalling 35.5%. They have also made distributions totalling 34.5% to all other non-insurance creditors worldwide.

#### 3.2 Estimated ultimate Scheme Payment Percentages

The quantum and timing of the final Scheme Payment(s) remains wholly dependent on payment of the New Shareholder Creditors dividends and settlement of the costs orders in the previous legal proceedings.

The Scheme Administrators' latest estimate of the ultimate Scheme Payment Percentages for the various HIH C&G creditors groups is set out below:

	<b>As at 30 June 2019</b>
Creditors with insurance liabilities in Australia	51.3%
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%
Creditors with non-insurance liabilities outside of Australia	35%

The above estimate remains the same as the low estimate stated in our previous report which assumed that the HIH Insurance shareholders claims are admitted in the Schemes.

Once the shareholders claims and costs orders are fully settled and paid, the Scheme Administrators will review the available funds and reassess the ultimate Scheme Payment Percentages. They hope to be in a position to pay the final Scheme Payment to all classes of creditors with agreed claims by the middle of 2020.

## **4 Financial Position**

### **4.1 Estimated balance sheet at 30 June 2019**

Included as Appendix 3 to the Australian Explanatory Statement section of the Scheme of Arrangement documentation (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 HIH C&G as at 30 June 2019 is included as Appendix 1 to this report.

### **4.2 Receipts and payments to 30 June 2019**

A summary of the Scheme Administrators' receipts and payments from 1 July 2018 to 30 June 2019 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2018, \$296,843.50 has been approved by the HIH C&G Scheme Creditors' Committee for payment to the Scheme Administrators in their role as Office Holders covering the period from 28 April 2018 to 25 January 2019.

## **5 Closure**

### **5.1 Finalisation of the Schemes**

The only issue preventing the closure of the HIH C&G Schemes is payment of the New Shareholder Creditors' dividends and costs orders in the previous legal proceedings.

Once resolved, the Scheme Administrators hope to be in a position to make the final Scheme Payments by the middle of 2020, and terminate the Scheme 12 months after the final Scheme Payments are made.

## **6 Responsibilities**

### **6.1 Scheme Administrators**

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

The English Scheme Administrators of HIH C&G are Barry Gale and Darryl Ashbourne, partner and director respectively of KPMG LLP based in London. Darryl Ashbourne replaced Mike Walker as the English Scheme Administrator of HIH C&G following Mike Walker's resignation on 29 September 2019.

### **6.2 Run-off Managers**

All insurance claims handling and reinsurance recovery activities of HIH C&G in both Australia and the UK have been finalised.

### 6.3 Creditors' Committee

The interests of the HIH C&G creditors in the Australian Scheme are represented by a Creditors' Committee. The Committee sanctions significant transactions, is involved in the setting of the Scheme Payment Percentage and approves the Scheme Administrators' fees. It is currently reported to, and meets, on an ad-hoc basis. The constitution of the Committee at 30 June 2019 was as follows:

Member	Represented By
ACT Insurance Authority	Mr John Fletcher
ACT Workers Compensation Supplementation Fund	Mr John Fletcher
Lawcover Pty Limited	Mr Peter Candotti
NSW Motor Accidents Authority	Ms Mary Maini
Queensland Motor Accident Insurance Commission	Ms Lina Lee
HCSL – Australian Government Treasury	Ms Danielle Jakubowski
United Medical Protection	Ms Vikki Sellars-Jones
WA Workers Compensation & Rehabilitation Commission	Mr Harry Neesham
HIH Holdings (Asia) Limited	Mr Peter Whalley
Hong Kong Solicitors Indemnity Fund	Ms Orla McCoy
Building Insurers Guarantee Corporation NSW	Mr Michael Kelly
Motor Traders Association of NSW	Mr Greg Patten

## 7 Contact Details

Contact details for the Australian and English Scheme Administrators 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 queries (excluding those in relation to branch business) should call the HIH Help Desk on +61 (0) 2 9650 5777. Written claims queries should be directed to HIH at the following address: HIH Group, GP Box 2707, Sydney NSW 2001, Fax +61 (0) 2 8117 9000.

Scheme Creditors with enquiries in relation to the Scheme or Scheme Payments should call the HIH Help Desk on +6 (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 HIH Casualty & General Insurance Limited (In Liquidation and subject to Schemes of Arrangement)



Tony McGrath  
Scheme Administrator



Jason Preston  
Scheme Administrator

## Appendix 1

Updated balance sheet at 30 June 2019

*All values in AUD*

	As at 30 June 2019 \$'000	As at 30 June 2018 \$'000
<b>Assets not specifically charged</b>		
<b>Cash</b>		
Cash on hand	1	1
Cash at bank	16,571	18,771
	<u>16,572</u>	<u>18,772</u>
<b>Receivables</b>		
Amounts owing by related bodies corporate (Interco rec)	16,662	12,534
	<u>16,662</u>	<u>12,534</u>
<b>Investments</b>		
Short term deposits	58,287	55,840
ADD back: Dividends Paid Less FAC Paid	1,225,064	1,211,630
	<u>1,283,352</u>	<u>1,267,470</u>
<b>Refund to Reinsurance Creditors</b>		
	(907)	(864)
	<u>(907)</u>	<u>(864)</u>
<b>Other</b>		
Adverse Legal Costs	(1,333)	(1,333)
HIH Shareholders Claim	(6,184)	0
	<u>(7,518)</u>	<u>(1,333)</u>
<b>TOTAL ASSETS</b>	<b><u>1,308,160</u></b>	<b><u>1,296,578</u></b>
<b>Amounts payable in advance of secured creditors</b>		
Provision for redundancy, employee entitlements and employee claims	(2,603)	(2,591)
<b>Total amounts payable in advance of secured creditors</b>	<b><u>(2,603)</u></b>	<b><u>(2,591)</u></b>
<b>Unsecured creditors</b>		
<b>Accounts payable</b>		
Trade Creditors (A/P and Special Principals) - ESC at Estimation Date	(44,357)	(44,356)
Goods and services tax	(701)	(692)
Sundry creditors - ARS - ESC at Estimation Date	(19,561)	(19,575)
	<u>(64,619)</u>	<u>(64,623)</u>
<b>Provisions</b>		
Other - section 1321 Taian Insurance USD5,117,253	(7,297)	(6,924)
	<u>(7,297)</u>	<u>(6,924)</u>
ACCs - ESC at Estimation Date	(2,062,135)	(2,034,992)
Commutations - ESC Verified	(42,050)	(41,477)
Add back: Creditors with Statutory Cut Through & s. 562A (4) claims	41,027	41,027
<b>Outstanding claims</b>	<b><u>(2,063,158)</u></b>	<b><u>(2,035,442)</u></b>
<b>Other liabilities</b>		
Other creditors and accruals (Eurobonds)	(122,000)	(122,000)
Other creditors and accruals (Shareholder Claims)	0	(21,000)
Amounts owing to related bodies corporate (Interco liabilities)	(451,391)	(450,982)
	<u>(573,391)</u>	<u>(593,982)</u>
<b>Total unsecured creditors</b>	<b><u>(2,708,465)</u></b>	<b><u>(2,700,970)</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>(2,711,068)</u></b>	<b><u>(2,703,561)</u></b>
<b>NET DEFICIT</b>	<b><u>(1,402,907)</u></b>	<b><u>(1,406,983)</u></b>



## Appendix 2

Summary of the Scheme Administrators' receipts and payments from 1 July 2018 to 30 June 2019

	\$	\$
<b>Opening balance at 1 July 2018</b>		<b>70,072,029</b>
<b>Receipts</b>		
Central Expense Reimbursement from Other HIH Companies	4,406,241	
Interest on Cash and Deposits	1,479,327	
GST Refund	369,862	
Other Receipts	858	
<b>Total Receipts</b>		<b>6,256,289</b>
<b>Payments</b>		
IT Outsource Costs	(1,493,597)	
Salaries/ Annual Leave / Redundancy Cost	(1,329,759)	
Rent and Outgoings	(841,445)	
GST Paid	(357,800)	
Contractors & Temporary Staff	(323,419)	
Scheme Administrators' Fees	(296,844)	
Legal and Taxation Fees	(275,084)	
Computer/Systems Costs	(209,377)	
Superannuation Contributions	(115,553)	
Other Staff Costs	(99,597)	
Other Payments	(44,447)	
Communication Costs	(39,489)	
Scheme Administrators' Disbursements	(4,930)	
Liquidators' Fees	(677)	
<b>Total Payments</b>		<b>(5,432,016)</b>
Adjustments for Unrealised Foreign Exchange Gain on Foreign Cash Accounts		<b>545,858</b>
<b>Balance at 30 June 2019</b>		<b>71,442,159</b>

**Note:** In addition to the cash balance held by the Australian Scheme Administrators above, the HIH C&G English Scheme Administrators held \$3,415,918 of cash at 30 June 2019.