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To all known creditors, potential creditors and
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01 November 2019

Dear Sir/Madam

HIH Casualty and General Insurance Limited (Subject to a Scheme of Arrangement)

English Scheme Administrators' Report to Creditors

1 Introduction

This is the twelfth and final report to creditors of HIH Casualty and General Insurance Limited ("HIH C&G") by the English Scheme Administrators ("SAs") covering the period ended 31 October 2019 ("the Report").

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 a final report on the administration of the English Scheme and plans for the termination of the English Scheme by mid-2020.

2 Key developments since the last report

2.1 NSW Supreme Court Judgement

- As reported last year, the HIH C&G and FAIG Australian Scheme Administrators ("Australian SAs") 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 handed down its judgment on the application for directions. 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 Australian SAs 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 Australian SAs 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 Australian SAs 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 Australian SAs 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, amounting to approximately \$18 million.
- The Australian SAs 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 Australian SAs 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.
- The continuation of legal proceedings in Australia means that the October 2019 target date for payment of a final dividend to Scheme Creditors of both the English and Australian Schemes will not be met. Accordingly, the SAs concluded in consultation with the Australian Officeholders and the English Creditors' Committee that it was in the best interests of the English Scheme Creditors to bring the English Scheme to a close as soon as possible, notwithstanding that the Australian Scheme and Liquidation will continue thereafter (section 3.1).
- On 28 October 2019, the SAs arranged final distributions to creditors of the English Scheme and have commenced arrangements to close the English Scheme and English Provisional Liquidation (section 3.1).
- The final effective Scheme Payment Percentage for non-Australian insurance creditors with ESCs was 48.21% (section 4.1).
- The final effective Scheme Payment Percentage for non-Australian non-insurance creditors with ESCs was 35% (section 4.1).
- In preparation for the termination of the Scheme, the SAs will shortly 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 Service & Markets Act 2000 ("FSMA") to carry on regulated activities and for its removal from the Financial Services Register (section 5.1).

- After the cancellation of HIH C&G's regulatory permissions has been obtained, it is proposed that the English Scheme will terminate by resolution of the SAs, in accordance with Clause 56.1(c) of its terms, after consultation with the English Creditors' Committee (section 3.2). The Australian Scheme and Liquidation will continue pending resolution of the ongoing legal proceedings.
- Shortly after the English Scheme terminates, it is anticipated that the English Provisional Liquidation will be brought to a close and the Joint Provisional Liquidators (the "JPLs") will be released (section 3.3) which will be achieved by way of a High Court application.

3 Termination of the English Scheme of Arrangement and Provisional Liquidation

3.1 Rationale for closure

The SAs are taking steps to bring the English Scheme of Arrangement and Provisional Liquidation to a close whilst the Australian Scheme and Liquidation will continue in operation. As previously discussed, the primary reason for this is that ongoing legal proceedings in Australia which were expected to be concluded by earlier this year, and which would have meant that the Australian and English Schemes could have been brought to a close at the same time, are set to continue until at least the end of 2019, and more likely beyond that date.

The resulting uncertainty for the closure timing and ongoing costs, meant that it was no longer in the interests of the English Scheme creditors for the SAs to synchronise the closure of the English Scheme with that of the Australian Scheme. The ongoing proceedings in Australia do not require any input from the SAs.

Accordingly, having consulted with their legal advisers, the Australian SAs and the English Creditors Committee, the SAs took steps to make a final distribution to English Scheme Creditors and to proceed to bring the English Scheme to a close.

3.2 Process for terminating the English Scheme of Arrangement

Clause 56.1 of the English Scheme states that the Scheme shall terminate:

- a) 12 months after the final Payment Date;
- b) If all of the Liabilities of the Company have been discharged in full; or
- c) By resolution of the SAs after consultation with the Creditors' Committee.

Invoking 56.1(a) of the Scheme would mean that the Scheme would remain open for an additional 6 months beyond that which is necessary to finalise the estate. The day-to-day administration costs associated with keeping the estate open will deplete the assets available to be distributed to Scheme Creditors. Therefore, the English SAs do not consider that it is in the interests of English Scheme Creditors to invoke clause 56.1(a).

Furthermore, 56.1(b) is not applicable to HIH C&G as there is no prospect of a 100% scheme payment to English Scheme Creditors.

Therefore, in accordance with clause 56.1(c), the English SAs are required to consult with the English Scheme Creditors Committee as a pre-requisite to terminating the English Scheme. Following and subject to the outcome of that consultation, it is expected that the English SAs will resolve to terminate the English Scheme of Arrangement.

We anticipate that this consultation process will be completed and the Scheme will terminate by mid- 2020.

In accordance with Clause 56.4 of the Scheme, the JPLs will, on behalf of the Company, publish notices stating that the Scheme has terminated on the Company's website for a period of six months and in newspapers which they consider appropriate for one day a week for four consecutive weeks following termination.

3.3 Process for terminating the English Provisional Liquidation

Once the Scheme has terminated and HIH C&G has had its regulatory permissions cancelled, the JPLs will make an application to the High Court to dismiss the winding-up petitions which will automatically terminate the Provisional Liquidation.

The process for doing so is set out below:

- a) the petitioning creditor (which is another UK company in the HIH Group - HIH Systems International Limited – of which Barry Gale and Darryl Ashbourne are Joint Liquidators) will contact the court to arrange a hearing date for the petition; and
- b) HIH C&G will file witness statements giving evidence in support of the petition at least five business days before the hearing;
- c) The petitioning creditor will write to the court giving its consent to the dismissal; and
- d) Once the petitions are dismissed, and the provisional liquidation is terminated, two kinds of notices must be published in the London Gazette and otherwise advertised as appropriate. The Registrar of Companies must be informed as soon as practicable.

It is anticipated that the High Court application to terminate the Provisional Liquidation will be made in mid-2020 shortly after the termination of the English Scheme.

4 Scheme Payments

4.1 Final English Scheme Payment Percentages

In October 2019, following consultations with Australian SAs, the SAs obtained English Creditors' Committee approval for an increase in the Scheme Payment Percentage for creditors with non-insurance liabilities outside of Australia (Fund 4) of 0.5% (34.5% to 35%).

The final dividend payable from Fund 2 for insurance creditors outside of Australia is 20.33%. After receiving payment from Fund 2, insurance creditors outside of Australia are also entitled to a dividend from Fund 4 on their residual claim.

This results in an effective dividend rate of 48.21% (increased from 47.82%) in respect of insurance creditors outside of Australia (please see explanation below which explains the calculation of the effective Scheme Payment Percentage).

This uplift was paid to Scheme Creditors on 28 October 2019. The total sum distributed (which also included some residual dividends due to Fund 2 creditors) was approximately AUD 1.8m, of which the English HIH C&G estate contributed approximately AUD 950k.

The table below uses a hypothetical Established Scheme Claim (ESC) of £1 million to show the current effective Scheme Payment Percentages for insurance and non-insurance liabilities outside of Australia.

Figures in £000s	Insurance liability effective rate	Non-insurance liability effective rate
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 (35.0%)	(278.8)	(350)
Total amount paid from Funds 2 & 4	482.1	350
Effective Scheme Payment Percentage	48.21%	35.00%

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.

4.2 Final HIH C&G Scheme Payment Percentages

The current scheme payment percentage and effective scheme payment percentage for each category of creditor is summarised below:

Scheme Payments paid to date	Payment %	Effective Payment %
Creditors with insurance liabilities in Australia	16.05	51.00
Creditors with insurance liabilities outside of Australia - FINAL	20.33	48.21
Creditors with non-insurance liabilities in Australia	38.50	38.50
Creditors with non-insurance liabilities outside of Australia - FINAL	35.00	35.00

Whilst the effective rates applicable to insurance & non-insurance creditors outside of Australia are now final and will not change, the effective rates that apply to insurance & non-insurance creditors in Australia are subject to increase depending on the outcome of the ongoing legal proceedings in Australia.

4.3 Total Claims and Dividends paid in the English Scheme

There were a total of 372 creditors with Established Scheme Claims (“ESCs”) in the English Scheme with a total value of approximately £207.7 million.

A total of £98.9 million was paid in Scheme Payments to English Scheme Creditors.

5 Others matters to be resolved prior to closure

5.1 Removal from the Financial Services Register

In accordance with the requirements of FSMA, the SAs will shortly make an application to the FCA and PRA for the cancellation of HIH C&G’s permissions to carry on regulated activities and for it to be removed from the Financial Services Register. This is a prerequisite for the termination of the Provisional Liquidation.

The regulatory cancellation process is likely to take six months, based on our experience with other HIH group companies.

5.2 Reinsurance set-off

As we reported last year, during the claims finalisation process, the English and Australian SAs identified a number of counterparties who were net creditors at the Record Date (27 April 2001) 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.



Consequently, unless the Company makes an additional payment to the creditors affected, the total amount they receive from the Company under the Schemes would be less than it would have been if a set-off had been applied before they made those payments. Therefore, in addition to paying affected creditors the final dividend under the English Scheme, a further amount will be paid to them by the Company. That that will happen either in December 2019 or when a final dividend is paid under the Australian Scheme depending on whether the creditor is entitled to a distribution from Australian or non-Australian assets.

6 Financial position

6.1 Receipts and payments to 31 October 2019

A summary of the SAs' receipts and payments from 16 March 2001 to 31 October 2019 is set out below.

HIH Casualty & General Insurance Company Limited Receipts and payments for the period 16 March 2001 to 31 October 2019		16 Mar 2001 to 31 Oct 2019 £'000s
Receipts		
Insurance and reinsurance recoveries		115,291
Property		10,931
Gains and interest on funds invested		21,562
Intergroup liquidation dividends		4,478
Tax refunds		6,110
LOC collateral refunded		8,979
Cash recovered		5,140
Film Finance & Genesis subrogation		8,329
Premium Income and Other receipts		3,171
Total receipts		183,991
Payments		
Officeholders' fees and expenses		25,436
Run-off managers' fees		19,153
Legal fees		13,705
Other professional and agents' fees		3,832
VAT		7,792
IT, market processing and other claims handling costs		5,292
R/I recoveries transferred to Australia and paid to State Funds		820
Court Costs Awards paid and R/I subrogation funding		5,819
Exchange losses/(gains)		1,444
Other payments		721
Total Payments		84,011
Balance before Scheme Payments		99,980
Scheme Payments to creditors		(98,862)
Equivalent GBP Funds held as at 31 October 2019		1,118

7 Final Fees and disbursements of the Scheme Administrators

The remaining balance of £1.118 million will be used to cover the SAs' final fees to closure of the Scheme as approved by the English Creditors Committee, legal fees, run-off agent fees and disbursements in connection with the termination of the Provisional Liquidation.

8 Creditors' Committee

The interests of creditors in the Scheme have been represented by the Committee. The Committee sanctioned significant transactions (such as commutations) and approved the SAs' fees. The constitution of the Committee is as follows:

Member	Represented by
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

9 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.

Yours faithfully
For HIH Casualty and General Insurance Limited

Barry J Gale
English Scheme Administrator

Darryl Ashbourne
English Scheme Administrator

Appendix 1

Background information on the insolvency

- The HIH Group failed on 15 March 2001. HIH Casualty and General Insurance was one of the 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.
- 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.
- 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.