

CBL Insurance Limited (In Liquidation)

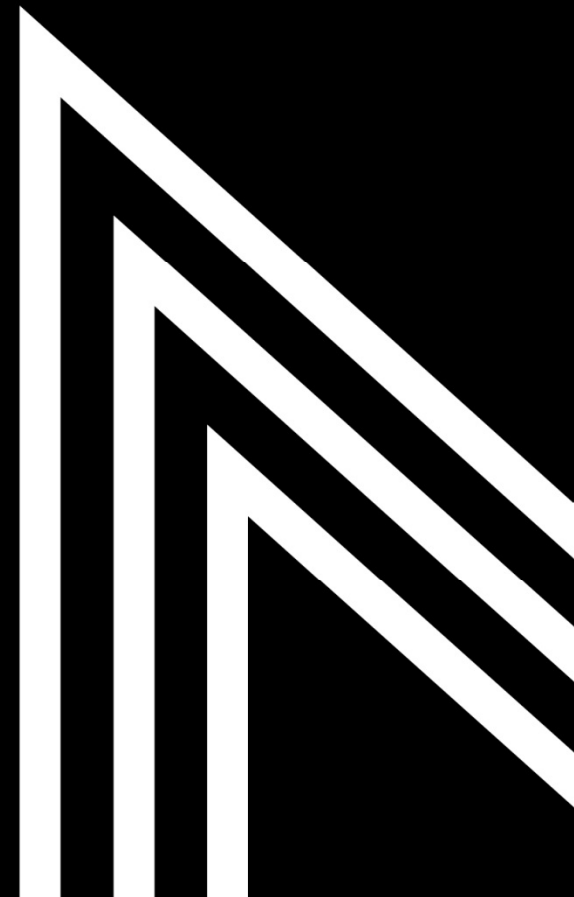
Company number: 27582

Liquidators' first six monthly statutory report
For the period 12 November 2018 to 11 May 2019

10 June 2019



McGrathNicol



CBL Insurance Limited (In Liquidation)

Liquidators' first six monthly statutory report

Appointment

- Pursuant to an application under section 246 of the Companies Act 1993 (**Companies Act**) by CBL Insurance Limited's (**CBLI** or the **Company**) prudential supervisor, the Reserve Bank of New Zealand (**RBNZ**), the Company was placed into interim liquidation by an Order of the High Court dated 23 February 2018, pending the determination of the RBNZ's liquidation application. Kare Johnstone and Andrew Grenfell were appointed joint and several interim liquidators.
- Following a number of adjournments, the RBNZ's application to appoint liquidators to CBLI was heard in the Auckland High Court on 12 November 2018, which resulted in an order by the Court placing the Company into liquidation and the appointment of Kare Johnstone and Andrew Grenfell (**Liquidators**) as joint and several liquidators.
- A copy of the High Court Order dated 12 November 2018 and the Judgment of Justice Courtney were attached as Appendix 1 to our first report dated 17 December 2018 (**Liquidators' First Report**). A copy of the Liquidators' First Report is available at www.companiesoffice.govt.nz or www.mcgrathnicol.com/creditors/cbl-insurance-limited.
- As Accredited Insolvency Practitioners, the Liquidators are bound by the Restructuring Insolvency and Turnaround Association of New Zealand Inc's (**RITANZ**) Code of Professional Conduct, a copy of which can be located on RITANZ's website (www.ritanz.org.nz).

Disclaimer

- The purpose of this report is to report to CBLI's creditors and shareholder in accordance with section 255 of the Companies Act.
- This report has been prepared based on the information known to the Liquidators as at the date of this report. We reserve the right (but will be under no obligation) to review this report and if we consider it necessary to revise the report in light of any information existing at the date of this report that becomes known to us after that date. We have not independently verified the accuracy of information provided to us, nor have we conducted an audit in respect of the Company. We express no opinion on the reliability, accuracy, or completeness of information provided to us and upon which we have relied.
- The Liquidators do not accept responsibility or liability for any losses occasioned to any party as a result of the circulation, publication, reproduction, or use of this report.
- Certain numbers included in tables in the report have been rounded and therefore may not add exactly. Unless otherwise stated all amounts are stated in New Zealand dollars.

Company information

- Company number: 27582
- Date of incorporation: 19 April 1973
- Previous trading address: Level 8, CBL House, 51 Shortland Street, Auckland
- Type of business: Provision of insurance and reinsurance
- Date ceased trading: 23 February 2018
- Shareholder: LBC Holdings New Zealand Limited (Subject to Deed of Company Arrangement)
- Ultimate parent: CBL Corporation Limited (In Liquidation)
- Directors at date of liquidation: Peter Alan Harris
Alistair Leighton Hutchison
- Director resignations since the date of interim liquidation: Sir John Wells
Ian Kelvin Marsh
Anthony Charles Russell Hannon
Norman Gerald Paul Donaldson

Events leading to the appointment of liquidators

- The events leading to the appointment of liquidators are set out in the Liquidators' First Report.

CBL Insurance Limited (In Liquidation)

Liquidators' first six monthly statutory report

Conduct of the liquidation during the preceding six months

- As set out in the Liquidators' First Report, the focus in the first six months of the liquidation has predominantly been to take control of CBLI's assets and reduce the Company's balance sheet risk and liabilities (**Risk Reduction Strategy**), where possible, through appropriate transfers, commutations or other mechanisms, together with the run-off of short term policies to enhance recoveries to creditors.
- The Liquidators' strategy continues and the following key events have been achieved since the date of liquidation:
 - An agreement has been negotiated and entered into with one of CBLI's major ceding insurers which will remove significant risk in respect of CBLI's exposure;
 - A significant reduction in the number and value of bonds issued by CBLI through pursuing bond holders to procure alternative cover from other providers and natural run-off. This includes, but is not limited to:
 - > A significant reduction in number and value of the Australian fuel bonds from 89 bonds as at 1 November 2018 to five bonds as at 15 May 2019;
 - > A reduction in performance bonds;
 - > CBLI coming off risk completely in respect of the following bond categories, which due to removing the risk of the bonds being called has resulted in a material reduction in contingent liabilities:
 - New Zealand and United Kingdom fuel bonds;
 - Travel bonds; and
 - Surety bonds.
 - Foreign regulator consent to the cancellation of a retrocession quota share agreement over a portfolio of bonds effective 1 January 2019 removing CBLI from significant exposure;
 - Agreed cancellation of a significant credit enhancement policy;
 - Cancellation/novation of a number of significant after the event (**ATE**) insurance policies;
 - Disclaiming insurance agreements pursuant to section 269 of the Companies Act where appropriate;
 - Invoking cancellation provisions within insurance contracts where CBLI has the contractual right to do so;
 - Assessing potential commutations or transfers of policies in respect of other reinsurance or direct insurance programs across multiple jurisdictions; and
 - Reviewing the New Zealand Builders Warranty policies recorded by the Company as being on risk, which identified 2,131 policies that CBLI was no longer on risk - reducing "live" policies from 12,705 to 10,574 and reducing CBLI's exposure by approximately \$133m.
- In addition to the Risk Reduction Strategy, the following has been undertaken:
 - Clarification of the reinsurance position with various international insurers including progressing recovery of reinsurance proceeds;
 - Implementation of a robust infrastructure and system for the review and processing of insurance claims (note while valid claims are being recorded they are not yet being paid);
 - Management of a number of disputed major claims, including dealing with foreign entities, jurisdictions and legal systems;
 - Reduction of CBLI's operations by closing overseas representative offices, reducing headcount and relocating to more appropriate premises. CBLI currently has seven employees that are undertaking claims management and financial reporting functions;
 - Ongoing liaison with various regulatory authorities in New Zealand who are conducting an investigation into the conduct of various entities in the CBL Group and its directors;
 - Compliance with Insurance (Prudential Supervision) Act 2010 (**IPSA**) statutory requirements; and
 - Ongoing investigation into the affairs of the Company and its directors, officers and other parties (see further below).

CBL Insurance Limited (In Liquidation)

Liquidators' first six monthly statutory report

Receipts and payments

- A summary of receipts and payments for the period 12 November 2018 to 11 May 2019 is attached as Appendix 1.

Liquidators' remuneration

- Our remuneration is charged on an hourly basis and is based on the hourly rates approved by the High Court on 12 November 2018. The Court approval is subject to the power of the Court to review the overall remuneration under section 284(1)(e) of the Companies Act.
- The Liquidators' remuneration received for the period 12 November 2018 to 11 May 2019 charged at the hourly rates approved by the Court totalled to \$1.1m, exclusive of GST. All time and expenses incurred and billed in the liquidation are reasonable and necessary.
- A detailed breakdown of the Liquidators' remuneration and disbursements for the six month period is attached as Appendix 2. A schedule of the qualifications and experience generally of staff at each level is attached as Appendix 3. A schedule of the work undertaken during the six month reporting period is summarised in Appendix 4.

Creditors' claims

- The Liquidators have not yet formally called for creditor claims to be submitted. Once the Risk Reduction Strategy is complete, the Liquidators will formally call for claims, which will require the filing of a formal proof of debt form and supporting documentation.

Investigations

- The Liquidators are aware of the investigations being conducted by the various regulators in New Zealand, combined with the concerns of the general public regarding the activities of the Company prior to the interim liquidation. Accordingly, a thorough investigation into the affairs of the Company and its directors, officers and other parties in the period leading up to interim liquidators being appointed is being undertaken. The Liquidators have issued notices pursuant to section 261 of the Companies Act requiring various parties to provide information to assist us in our investigations.
- The Liquidators have commenced a review of transactions entered into by the Company prior to the RBNZ's liquidation application, which includes transfers of assets and payments made by the Company, in order to understand the deterioration in the financial position. The review also includes an investigation into potential voidable transactions.
- The Liquidators have a statutory duty to report any suspected offences they consider have been committed by the Company or any of its directors to the Registrar and to the RBNZ, the Company's prudential regulator.
- Due to the ongoing nature of these investigations and potential legal consequences, we are unable to provide details of our findings to date as doing so could prejudice any future proceedings that may be taken.

Proposals for completing the liquidation

- The Liquidators will continue with the Risk Reduction Strategy and once this has been completed we will write to all creditors, including policyholders, to provide an update on the Company's position and formally call for claims. In the event the Liquidators consider a scheme of arrangement is in the best interests of creditors, we would also expect to convene a meeting of creditors to allow creditors to consider and vote on any proposed scheme.

Estimated date of completion of the liquidation

- Given the long tail nature of some of CBLI's insurance policies (10 years plus) and the regulatory investigations currently underway, together with the Liquidators' investigations into the affairs of the Company prior to the RBNZ's liquidation application, it is not practicable to estimate the date of the completion of the liquidation at this stage.

CBL Insurance Limited (In Liquidation)

Liquidators' first six monthly statutory report

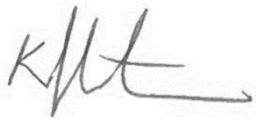
Further information

- Should you have any information that you consider would lead to realisations for the benefit of creditors, please set it out in writing, attaching copies of all documentary evidence, and send it to the Liquidators. Please note that the Liquidators may only act on written information as telephone, or other conversations may be regarded as hearsay by the Court.


Contact details

- The Liquidators can be contacted at PO Box 106-733, Auckland 1143 or:
 - Until 14 June 2019 McGrathNicol, Level 17, 34 Shortland Street, Auckland
 - From 17 June 2019 McGrathNicol, Level 17, 41 Shortland Street, Auckland
- Telephone enquiries should be directed to Helen Gair, direct dial +64 (09) 926 5111.

Dated: 10 June 2019



Kare Johnstone
Liquidator



Andrew Grenfell
Liquidator

Appendix 1

Summary of receipts and payments for the period 12 November 2018 to 11 May 2019 (including GST)

Summary of receipts and payments for the period 12 November 2018 to 11 May 2019 (GST inclusive)

\$'000	AUD	DKK	EUR	GBP	NOK	SEK	SGD	USD	NZD	Total
Receipts										
Cash on hand at date of liquidation	36,984	82,877	26,844	3,394	45,015	19,207	1,722	22,678	30,251	
Claims recoveries	29	-	-	-	-	-	5	-	22	
GST refunds	-	-	-	-	-	-	-	-	83	
Interest received	60	-	-	0	-	-	-	57	819	
Other Income	-	-	-	-	-	-	-	-	16	
Funds transferred from foreign bank accounts	-	-	-	-	-	-	-	-	151,430	
Total receipts	37,072	82,877	26,844	3,395	45,015	19,207	1,727	22,735	182,620	
Payments										
Actuarial fees	-	-	-	-	-	-	-	-	(572)	
Claims expenses	(3)	-	(40)	-	(116)	-	-	(1)	(211)	
Forensic and IT expenses net of recoveries	638	-	-	-	-	-	-	(1)	(850)	
Interim Liquidators' fees	-	-	-	-	-	-	-	-	(772)	
Interim Liquidators' disbursements	-	-	-	-	-	-	-	-	(26)	
Legal fees - interim liquidation	-	-	-	-	-	-	-	-	(440)	
Liquidators' fees	-	-	-	-	-	-	-	-	(1,306)	
Liquidators' disbursements	-	-	-	-	-	-	-	-	(51)	
Legal fees	-	-	-	-	-	-	-	(20)	(564)	
Office and occupancy expenses	-	-	-	(0)	-	-	-	(16)	(243)	
Salaries and contractors	-	-	-	-	-	-	-	(93)	(900)	
Tax advisory	-	-	-	-	-	-	-	-	(64)	
Funds transferred to NZ bank account	(36,620)	(82,877)	(26,408)	(3,345)	(44,151)	(19,207)	(1,727)	(22,352)	-	
Total payments	(35,986)	(82,877)	(26,448)	(3,346)	(44,267)	(19,207)	(1,727)	(22,483)	(5,998)	
Cash held as at 11 May 2019 in foreign currency	1,087	-	396	49	748	-	-	253	176,623	
Conversion rate	1.0794	-	1.7147	1.9592	0.1734	-	-	1.4449	1.0000	
Cash held as at 11 May 2019 in NZ dollars	1,173	-	679	95	130	-	-	365	176,623	179,064

Appendix 2

Liquidators' remuneration and disbursements for the period 12 November 2018 to 11 May 2019 (excluding GST)

Charged on an hourly basis and per the hourly rates approved by the High Court on 12 November 2018

Liquidators' remuneration for the period 12 November 2018 to 11 May 2019

Position	\$/hour (excl GST)	Asset realisation/transfer		Creditors/policyholders		Investigations		Operational		Reporting		Total	
		Hours	\$'000	Hours	\$'000	Hours	\$'000	Hours	\$'000	Hours	\$'000	Hours	\$'000
Partners	640	208.2	133	161.1	103	25.2	16	176.7	113	53.8	34	625.0	400
Directors	545	103.6	56	312.0	170	21.2	12	436.0	238	22.6	12	895.4	488
Senior Managers	475	0.5	0	370.2	176	10.5	5	3.9	2	-	-	385.1	183
Managers	415	-	-	100.9	42	-	-	9.0	4	5.0	2	114.9	48
Senior Analysts	295	0.2	0	1.7	1	-	-	39.1	12	-	-	41.0	12
Administrators	275	-	-	-	-	-	-	0.1	0	2.0	1	2.1	1
Secretary	170	0.6	0	5.7	1	-	-	20.1	3	0.5	0	26.9	5
Total (excl GST)		313.1	190	951.6	492	56.9	33	684.9	371	83.9	49	2,090.4	1,136

Liquidators' disbursements for the period 12 November 2018 to 11 May 2019

\$000	Total
Office service charge	34.1
Public notices	11.3
Postage/couriers	0.3
Sundry	0.2
Total (excl GST)	45.9

The Liquidators declare that all disbursements were necessary and proper

Appendix 3

Explanation of hourly rates

Explanation of hourly rates

- Our hourly rates are set out in the table below, as approved by the High Court on 12 November 2018, together with a general guide showing the qualifications and experience generally of staff at each level.

Title	Guide to qualifications and role	Hourly rate (excl GST)
Appointee/ Partner	Accredited Insolvency Practitioners, Chartered Accountant or equivalent and generally degree qualified with more than twelve years of experience. Leads assignments with full accountability for strategy and execution.	\$640
Director	Generally, Chartered Accountant or comparable relevant qualification and degree qualified with more than ten years of experience. Autonomously leads insolvency appointments reporting to Appointee/Partner.	\$545
Senior Manager	Generally, Chartered Accountant or comparable relevant qualification and degree qualified with more than seven years of experience. Self-sufficiently conducts small to medium insolvency appointments and leads major work streams in larger matters.	\$475
Manager	Generally, Chartered Accountant or comparable relevant qualification and degree qualified with more than five years of experience. Self-sufficiently conducts small insolvency appointments and takes a supervisory role on work streams in larger matters.	\$415
Assistant Manager	Generally, Chartered Accountant or comparable relevant qualification and degree qualified with more than three years of experience. Autonomously manages work stream activity within appointments.	\$365
Senior Analyst	Generally, degree qualified and undertaking Chartered Accountant's qualification or comparable relevant qualification with more than 16 months of experience. Completes tasks within work streams and appointments under supervision.	\$295

Title	Guide to qualifications and role	Hourly rate (excl GST)
Analyst	Generally, degree qualified and undertaking or about to undertake Chartered Accountant's qualification or comparable relevant qualification with less than one year of experience. Assists with tasks within work streams and appointments under supervision.	\$280
Administrator	Appropriately experienced and undertakes senior level administrative support activities or Treasury activities. May be responsible for day to day management of projects or operations and may have supervisory responsibility for junior staff.	\$275
Secretary	Appropriately experienced and undertakes support activities, such as meeting co-ordination and preparation of materials where it is efficient and appropriate to do so.	\$170

Appendix 4

Summary of work performed in relation to the Liquidators' remuneration for the period 12 November 2018 to 11 May 2019

Summary of work performed		Summary of work performed	
Task area	General description	Task area	General description
Asset realisation / Transfers	<ul style="list-style-type: none"> Regular liaison with CBLI's major ceding insurers regarding potential commutations. Negotiating and agreeing an agreement with CBLI's largest creditor, removing significant exposure from CBLI's balance sheet. Various discussions and review regarding opportunities in respect of CBLI's New Zealand builders warranty book of business. Obtain and evaluate independent actuarial valuations and assessments in respect of various books of business. Implementing and undertaking a sale process for the sale of an IT licence. Reviewing intercompany loans, advances and receivables. Commence initial assessment regarding the potential for a scheme of arrangement. Continuing with the realisation of the shares in an offshore entity. Assessing and implementing de-risking strategies across various books of business. 	Investigations	<ul style="list-style-type: none"> Secure books and records. Forensic back-up of systems. Ongoing investigation into the affairs of the Company and its directors, officers and other parties in the period leading up to the appointment of interim liquidators. Review of potential voidable transactions, transfers of assets and payments made by the Company in the period leading up to the filing of the liquidation application. Liaison with various New Zealand Regulators regarding the investigations being conducted into the affairs of the Company and its directors.
Creditors / Policyholders	<ul style="list-style-type: none"> Correspondence to creditors/policyholders regarding the appointment of liquidators and position regarding claims. Managing the claims assessment and processes and implementing a robust system to record and approve claims for liquidation purposes. Liaison with New Zealand builders warranty brokers regarding access to information during the liquidation. Ongoing liaison with brokers and various parties holding offshore reinsurance collateral funds. Monitoring claims administration outsourced to external claims managers in Norway, Sweden and Mexico. Overseeing and managing progress on complex litigation in Romania, Mexico, Ecuador, United Kingdom and Australia. Exploring opportunities to take CBLI off risk in respect of insurance provided to litigation funders under ATE policies. Working with outwards reinsurers to ensure ongoing coverage and recovery of CBLI exposures. Managing complex high value claims in multiple jurisdictions. 	Operational	<ul style="list-style-type: none"> Issuing new Liquidators' employment contracts to key staff required to implement the business run-off. Relocate the business operations to new premises and maintain the administrative support operations in respect of claims and finance to assist the Liquidators for the run-off. Undertaking the Treasury function for the Company including operational payments, payroll and funds investment. Attendance to both pre and post appointment tax (corporation tax, PAYE, GST) matters. Completion of all obligations in respect of the Assetinsure agency contract requirements. Ongoing review and monitoring of IT and record retention requirements.
		Reporting	<ul style="list-style-type: none"> Attendance to all IPISA licence and statutory reporting requirements, including but not limited to the preparation of monthly management accounts, insurer solvency returns, report on progress of the liquidation, conference calls etc. Complying with the reporting/filing requirements of the Inland Revenue. Attendance to public notices and statutory reports to creditors and the shareholder.

