

CBL Insurance Limited (In Liquidation)

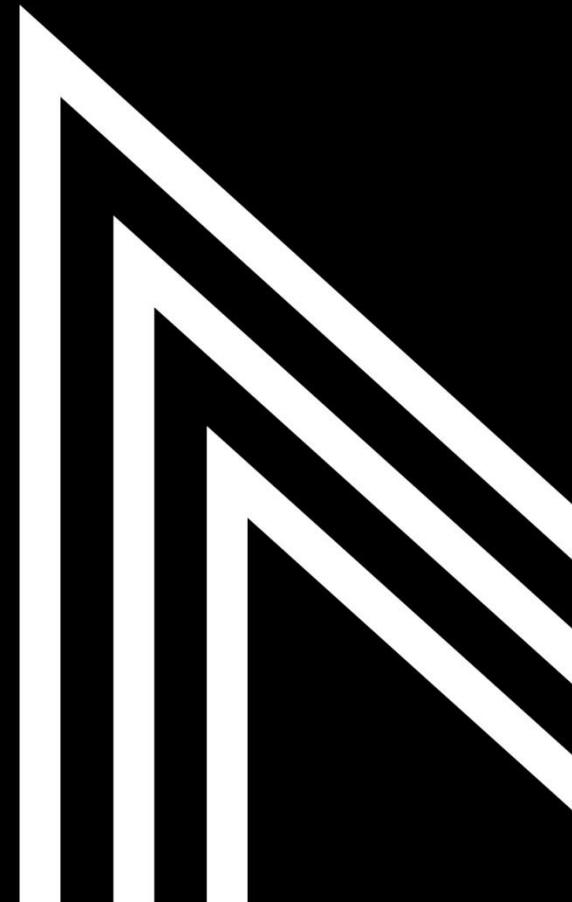
Company number: 27582

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

10 December 2019



McGrathNicol



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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 High 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.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.

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Conduct of the liquidation during the preceding six months

- The Liquidators have continued to focus on reducing the Company's balance sheet risk and liabilities (**Risk Reduction Strategy**), where possible, through appropriate transfers, commutations or other mechanisms, together with the continued run-off of policies to enhance recoveries to creditors.
- The following key events have been achieved since our previous report:
 - Further 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;
 - The retrospective cancellation of a retrocession quota share agreement over a portfolio of bonds removing CBLI from significant exposure;
 - 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; and
 - Continued assessment of potential commutations or transfers of policies in respect of other reinsurance or direct insurance programs across multiple jurisdictions. This has included testing the international market for the transfer of builders warranty products issued in Sweden, Norway and New Zealand.
- In addition to the above, the Liquidators have increased their focus on investigating the affairs of the Company and its directors, officers and other parties prior to the interim liquidation. Due to the ongoing nature of our investigation, we are unable to provide details regarding our findings to date since doing so could prejudice any proceedings, which may be taken at a later date.
- The Liquidators have issued further notices pursuant to section 261 of the Companies Act requiring various parties to provide information to assist us in our investigation and assessment of the deterioration in the financial position of the Company. The Liquidators are continuing to correspond with various parties, and their legal representatives where appropriate, in respect of the provision of information.
- The Liquidators have also reviewed and identified potential voidable transactions entered into prior to the RBNZ's liquidation application. These are summarised below:
 - Notices to set aside the identified transactions have been served on relevant parties, which has resulted in certain transactions being voided and set aside under the Companies Act;
 - Those transactions not yet voided and set aside under the Companies Act are continuing to be pursued by the Liquidators;
 - Other potentially voidable transactions are continuing to be investigated;
 - The transactions are complex, together with the recovery of funds, particularly those that involve offshore parties also subject to insolvency proceedings.
- In addition to the Risk Reduction Strategy and on-going investigations, the following has been undertaken:
 - Recovery of reinsurance proceeds;
 - The continued assessment 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;
 - Overview of CBLI's claims and finance functions. CBLI currently has five employees that are undertaking claims management and financial reporting functions;
 - Ongoing compliance with various statutory requests for the provision of information received from regulatory authorities in New Zealand who are conducting an investigation into the conduct of various entities in the CBL Group and its directors; and
 - Compliance with Insurance (Prudential Supervision) Act 2010 (**IPSA**) statutory requirements.

Receipts and payments

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

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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 May 2019 to 11 November 2019 charged at the hourly rates approved by the Court totalled to \$1.09m, 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.
- The Liquidators' rates, qualifications and experience generally of staff at each level, were set out in the Liquidators' First Report. There have been no changes since the Liquidators' First Report was issued.
- A schedule of the work undertaken during the six month reporting period is summarised in Appendix 3.

Creditors' claims

- While the Liquidators have not yet formally called for creditor claims, claims that are received in the normal course of business, are being reviewed and either accepted (but not paid) or declined by the Liquidators with these decisions being communicated to claimants. However, given that the majority of potential claims in the liquidation are contingent and based on actuarial estimates, which could take in excess of 10 years to materialise or for CBLI to come off risk, it is too early at this stage of the liquidation to 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.
- Once the Risk Reduction Strategy is completed, the Liquidators will formally call for claims, which will require the filing of a formal proof of debt form and supporting documentation.

Proposals for completing the liquidation

- Given the level of uncertainty remaining in respect of the outcome of a number of significant claims and contingent long-tail insurance liabilities, combined with the various investigations being conducted, it is not practicable to estimate the date of the completion of the liquidation, or form a view as to the potential outcome for creditors, at this stage.

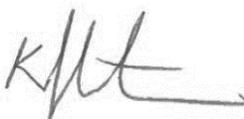
Further information

- If you have any information 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
 - Level 17, 41 Shortland Street, Auckland.
- Telephone enquiries should be directed to Helen Gair, direct dial +64 (09) 926 5111.

Dated: 10 December 2019



Kare Johnstone
Liquidator



Andrew Grenfell
Liquidator

Appendix 1

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

(in thousands)	AUD	EUR	GBP	NOK	SGD	USD	NZD	Total NZD
Cash held 11 May 2019 brought forward	1,087	396	49	748	-	253	176,623	
Receipts								
Claims recoveries	1,434	13	1,821	-	21	-	-	
GST refunds	-	-	-	-	-	-	-	
Interest received	1	-	0	-	-	1	2,092	
Occupancy bond refunds	-	-	-	-	-	-	20	
Recovery of overheads through cost sharing arrangements	-	-	-	-	-	-	244	
Refund of LOC fees	-	-	-	-	-	-	182	
Sundry	29	-	-	-	-	-	27	
Funds transferred from foreign bank accounts	-	-	-	-	-	-	663	
Total receipts	1,464	13	1,821	-	21	1	3,227	
Payments								
Actuarial fees	-	-	-	-	-	-	(29)	
Claims expenses	(6)	(15)	-	-	-	(2)	(61)	
Forensic and IT expenses	-	-	-	-	-	(1)	(170)	
Liquidators' fees	-	-	-	-	-	-	(1,252)	
Liquidators' disbursements	-	-	-	-	-	-	(41)	
Legal fees and disbursements	-	-	-	-	-	-	(584)	
Operating and occupancy expenses	(0)	-	-	-	-	-	(90)	
Salaries and contractors	-	-	-	-	-	-	(432)	
Tax advisory fees	-	-	-	-	-	-	(20)	
Funds transferred to NZ bank account	(600)	-	-	-	(21)	-	-	
Total payments	(606)	(15)	-	-	(21)	(2)	(2,679)	
Cash held as at 11 November 2019 in foreign currency	1,944	393	1,870	748	-	252	177,171	
Conversion rate	1.0817	1.7385	2.0190	0.1730	N/A	1.5778	1.0000	
Cash held as at 11 November 2019 in NZ dollars	2,103	683	3,775	129	-	397	177,171	184,259

Appendix 2

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

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 May 2019 to 11 November 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	40.2	26	165.4	106	140.3	90	54.9	35	24.0	15	424.8	272
Directors	545	97.1	53	304.0	166	87.9	48	283.1	154	7.9	4	780.0	425
Senior Managers	475	1.5	1	398.4	189	17.8	8	19.4	9	21.5	10	458.6	218
Managers	415	26.7	11	88.2	37	194.0	81	43.7	18	17.4	7	370.0	154
Senior Analysts	295	0.3	0	5.8	2	-	-	37.6	11	11.0	3	54.7	16
Secretary	170	-	-	7.0	1	1.5	0	14.8	3	-	-	23.3	4
Total (excl GST)		165.8	91	968.8	500	441.5	227	453.5	230	81.8	40	2,111.4	1,088

Liquidators' disbursements for the period 12 May 2019 to 11 November 2019	
\$'000	Total
Office service charge	32.7
Public notices and relations	0.5
Postage/couriers	1.0
Sundry	1.3
Total (excl GST)	35.4

The Liquidators declare that all disbursements were necessary and proper

Appendix 3

Summary of work performed in relation to the Liquidators' remuneration for the period 12 May 2019 to 11 November 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 to reduce significant exposures 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. Undertaking a sale process in respect of an IT licence and dealing with residual transition matters. Consideration around the potential for a scheme of arrangement and appropriate timing. Continuing with the realisation of the shares in an offshore entity. Assessing and implementing de-risking strategies across various books of business. Obtaining the necessary information to support a claim in an offshore solvent entity. 	Investigations	<ul style="list-style-type: none"> 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. Continue to pursue voidable transactions, transfers of assets and payments made by the Company in the period leading up to the RBNZ's liquidation application. Ongoing forensic investigation and analysis of company information and transactions entered into prior to the interim liquidation. Attending to various New Zealand Regulators' statutory requests regarding the provision of information surrounding the investigations being conducted into the affairs of the Company and its directors.
Creditors / Policyholders	<ul style="list-style-type: none"> Managing the claims assessment and processes 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 and Sweden. Overseeing and managing progress on complex litigation in Romania, Mexico, Kuwait, Luxembourg 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"> 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. Ongoing review and monitoring of IT and record retention requirements. Upgrade and migration to new server and operating system. Upgrade the CBLI website. Finalisation of cost sharing recoveries from the CBL Corporation liquidators.
		Reporting	<ul style="list-style-type: none"> Attendance to all IPSA 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. Preparation and issuing of statutory reports to creditors and the shareholder.

