



CBL Insurance Limited (In Liquidation)

Company Number: 27582

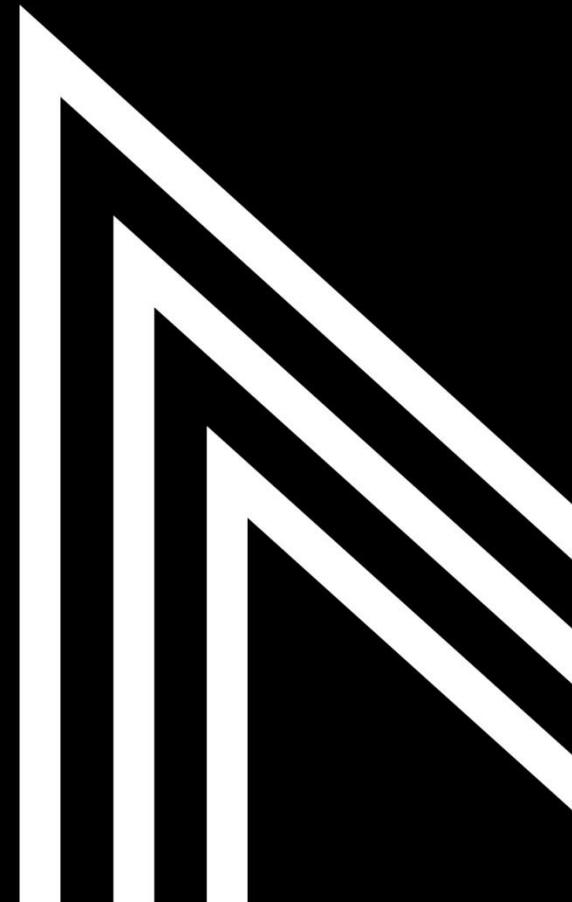
New Zealand Business Number: 9429040858852

Liquidators' six monthly statutory report
for the period 12 May 2020 to 11 November 2020

9 December 2020



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, together with all statutory reports, is available at www.mcgrathnicol.com/creditors/cbl-insurance-limited.
- The Liquidators are Licensed Insolvency Practitioners pursuant to the Insolvency Practitioners Regulation Act 2019. The Liquidators are members of the Restructuring Insolvency and Turnaround Association of New Zealand Inc's (**RITANZ**) and accordingly act in compliance with the 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 their efforts to reduce 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 and bonds to enhance recoveries to creditors.
- The following key risk reduction matters have been progressed since our previous report:
 - Satisfied the outstanding conditions and completed a commutation with one of CBLI's major ceding insurers;
 - Continued negotiations with the offshore Liquidator of another of CBLI's major ceding insurers with a view to entering into a commutation and settlement agreement; and
 - Resolved a potential US\$75 million claim under a financial security provided by CBLI.
- The Liquidators filed a Statement of Claim against CBLI's directors and other parties on 20 December 2019. Statement of Defences have been filed by all of the directors. We are presently dealing with the discovery and interlocutory requirements in respect of our proceeding. Given the matter is before the Court, we are unable to provide details of the specific claim as doing so could prejudice the proceedings.
- The investigation in respect of other parties has progressed significantly during the period that this report covers. However, until we complete our investigations, we are unable to provide details regarding our findings to date as doing so could prejudice any settlements or proceedings, which may take place at a later date.
- As set out in the Liquidators' second statutory report, a number of potential voidable transactions were identified, which resulted in two notices being issued to creditors to set aside specific transactions entered into prior to RBNZ's liquidation application. The transactions subject to one of the two notices have been set aside by the High Court and settlement has been reached. The creditor in respect of the other voidable notice has objected to the transaction being set aside and the matter is presently before the High Court. In addition to these two transactions, we are also investigating other payments that may also be able to be voided. Our investigation in this area is nearing completion so we would expect to be in a position to update creditors further on these in our next report.
- In addition to the Risk Reduction Strategy and ongoing investigations, the following has been undertaken:
 - We completed our review of the historical financial position and taxation affairs of the Company and have filed a section 113 Notice with the Inland Revenue with a view to obtaining tax recoveries;
 - Ongoing assessment and processing of insurance claims (note while valid claims are being recorded they are not yet being paid);
 - Ongoing 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 three employees (plus one on maternity leave) undertaking claims management and financial reporting functions;
 - Ongoing liaison with various parties relating to the different proceedings issued against the directors of entities in the CBL Group; and
 - Compliance with Insurance (Prudential Supervision) Act 2010 (**IPSA**) statutory requirements.
- We indicated in our last statutory report that we may have been in a position to provide creditors with an initial estimated range as to the possible outcome of the liquidation. Settlements have been reached with two of CBLI's largest reinsurers this year and once we have ascertained if we can complete a settlement with the third reinsurer we would expect to be in a position to provide creditors with the initial estimated range based on an updated actuarial valuation. As time progresses the run-off of policies reduces the quantum and value of creditors who will need to file a creditors claim in the liquidation.

Receipts and payments

- A summary of receipts and payments for the period 12 May 2020 to 11 November 2020 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. An application for the Court to review the remuneration has been made by the Liquidators in this six month reporting period.
- The Liquidators' remuneration received for the period 12 May 2020 to 11 November 2020 totalled \$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.
- 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 ongoing 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 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, AIG Building, 41 Shortland Street, Auckland.
- Telephone enquiries should be directed to Helen Gair, direct dial +64 (09) 926 5111.

Dated: 9 December 2020



Kare Johnstone
Liquidator



Andrew Grenfell
Liquidator

Appendix 1

Summary of receipts and payments for the period 12 May 2020 to 11 November 2020 (GST inclusive)

(in thousands)	AUD	EUR	GBP	NOK	SGD	USD	NZD	Total NZD
Cash held 11 May 2020 brought forward	492	370	40	394	-	118	201,192	
Receipts								
Dividends received	-	-	-	-	-	517	-	
Interest received	-	-	-	-	-	-	1,165	
Recoveries	456	-	-	-	22	-	-	
Sundry	-	-	-	-	-	-	1	
Funds transferred from foreign bank accounts	-	-	-	-	-	-	1,139	
Funds transferred from NZ bank account	-	-	-	-	-	10,000	-	
Total receipts	456	-	-	-	22	10,517	2,305	
Payments								
Actuarial fees	-	-	-	-	-	-	(77)	
Claims expenses	(10)	(24)	(3)	(178)	-	(40)	(84)	
Settlements	-	-	-	-	-	(10,000)	(62,372)	
Liquidators' fees	-	-	-	-	-	-	(1,172)	
Liquidators' disbursements	-	-	-	-	-	-	(42)	
Legal fees and disbursements	-	-	-	-	-	-	(1,340)	
Operating and occupancy expenses	-	-	-	-	-	(1)	(118)	
Salaries	-	-	-	-	-	-	(275)	
Tax advisory fees	-	-	-	-	-	-	(67)	
Funds transferred to foreign bank accounts	-	-	-	-	-	-	(15,785)	
Funds transferred to NZ bank account	(500)	-	-	-	(22)	(400)	-	
Total payments	(510)	(24)	(3)	(178)	(22)	(10,441)	(81,332)	
Cash held as at 11 November 2020 in foreign currency	438	345	37	217	-	194	122,165	
Conversion rate	1.0662	1.7310	1.9417	0.1623	1.1078	1.4643	1.0000	
Cash held as at 11 November 2020 in NZ dollars	467	598	72	35	-	285	122,165	123,622

Appendix 2

Liquidators' remuneration and disbursements for the period 12 May 2020 to 11 November 2020

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 2020 to 11 November 2020

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	39.5	25	118.4	76	189.3	121	37.3	24	25.5	16	410.0	262
Directors	545	12.6	7	187.6	102	167.7	91	262.7	143	35.6	19	666.2	363
Senior Managers	475	1.3	1	145.8	69	77.9	37	50.3	24	16.0	8	291.3	138
Managers	415	6.4	3	36.8	15	462.3	192	23.6	10	10.8	4	539.9	224
Senior Analysts	295	-	-	-	-	-	-	101.7	30	-	-	101.7	30
Administrators	275	-	-	-	-	-	-	1.9	1	0.2	0	2.1	1
Secretary	170	-	-	2.0	0	-	-	2.5	0	-	-	4.5	1
Total (excl GST)		59.8	35	490.6	263	897.2	441	480.0	232	88.1	48	2,015.7	1,019

Liquidators' disbursements for the period 12 May 2020 to 11 November 2020

\$'000	Total
Office service charge	30.6
Couriers	0.1
IT services and consumables	1.2
Overseas travel	5.4
Total (excl GST)	37.3

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 2020 to 11 November 2020

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"> ▪ Satisfaction of the outstanding conditions required to be met, and completion of a commutation with one of CBLI's major ceding insurers. ▪ Ongoing liaison with a third major ceding insurer regarding a potential commutation to reduce significant exposures from CBLI's balance sheet. ▪ Ongoing liaising with CBLI's Appointed Actuary regarding the actuarial valuations and assessments in respect of various books of business. ▪ 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"> ▪ 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 in respect of the Statement of Claim filed against various parties in December 2019. ▪ Receive and respond to the defendants requests for Further and Better Particulars in respect of Liquidators' Statement of Claim. ▪ Receive and evaluate the Statements of Defences filed by the various defendants. ▪ Attending to litigation requirements including discovery, the sharing of data held on the CBLI server and ongoing investigations. ▪ Investigating the history and dealings in respect of various claims and bonds. ▪ Continuing 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.
Creditors / Policyholders	<ul style="list-style-type: none"> ▪ Managing the claims assessment and processes to record and approve claims for liquidation purposes. ▪ 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, Luxembourg and Australia. ▪ Working with outwards reinsurers to ensure ongoing coverage and recovery of CBLI exposures. ▪ Managing complex high value claims in multiple jurisdictions. ▪ Recovery actions under Deposit Power bonds and assessment of claim lodged by the Administrators of Deposit Power. 	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, including pursuing a potential tax recovery. ▪ Ongoing review and monitoring of IT and record retention requirements. ▪ Updating the CBLI website, including uploading statutory reports. ▪ Implementing a further Covid-19 lockdown programme.
		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, etc. ▪ Complying with the reporting/filing requirements of the Inland Revenue. ▪ Preparation and issuing of statutory reports to creditors and the shareholder. ▪ Preparation of section 258 report to the Registrar of Companies.

