

**Hill Insurance Company Limited (In Compulsory Liquidation)**

**Liquidator's First Report to Creditors**

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## 1. Introduction and background

- 1.1 On 28 August 2012 the directors of Hill Insurance Company Limited (“the Company”) petitioned the Supreme Court of Gibraltar (“the Court”) to wind up the Company on the basis that it was insolvent and could not pay its liabilities in full.
- 1.2 On 7 September 2012 the Court ordered my appointment as Provisional Liquidator. By paragraph 4 of the Order, I was directed to report to the Court as to:
  - the assets and liabilities attributable to the Company’s general insurance business;
  - whether a winding up order should be made in respect of the Company;
  - any course of action I would recommend to the Court such as, but not restricted to, the run-off of the Company’s general insurance business.
- 1.3 On 21 January 2013 I submitted my report to Court (available on [www.hillinsurance.eu](http://www.hillinsurance.eu)) recommending that the Court should make an order to wind up the Company and also that it should make an immediate appointment of a liquidator.
- 1.4 On 24 January 2013 the Supreme Court of Gibraltar ordered the winding up of Hill Insurance Company Limited and appointed me as liquidator. The Court also permitted me to disclaim all contracts of insurance and all contracts of reinsurance under which the Company was or may have been liable, which I did by written notice of disclaimer signed before the Court on 24 January 2013.
- 1.5 Paragraph 10 of the Court’s Order provided that “the liquidator is to report to the Court within 8 weeks of the date of this Order with a recommendation as to the constitution of a Committee of Inspection to be appointed by the court, having regard to the provisions of section 13(2) of the Reorganisation Act, and (if the liquidator’s recommendation is that such Committee should be appointed) is to fix an appointment for the Court to consider the recommendation and, if thought fit, appoint a Committee of Inspection.”
- 1.6 On 20 March 2013 I reported to the Court that no creditors had expressed interest in participating in such a Committee and, given the fact that nearly all insurance creditors were based in Italy, that it was not feasible to recommend the appointment of a Committee of Inspection. Instead I proposed that I would report to the Company’s creditors bi-annually on the conduct of the liquidation by publishing a report on the website and making it available in hard copy upon request.
- 1.7 This is my first such report (available for download from [www.hillinsurance.eu](http://www.hillinsurance.eu)) in which I set out the strategy and actions taken so far since my appointment.

## **2. Liquidation Strategy**

- 2.1 I am seeking to collect amounts due from brokers and reinsurers. For insurance claims that are admitted to rank as insurance creditors in the liquidation, I am seeking legal advice on the Company's ability to recover against counterindemnities provided by policyholders.
- 2.2 The background to the Company's collapse and insolvency is that there appears to have been significant fraud from the outset in that no share capital was ever paid into the Company and the purported capital on which the Company relied for regulatory and trading purposes did not exist. I have also identified that insurance policies in the name of the Company were written and recorded outside the Company's regular records. Premium on these policies (presently quantified at approximately €3.4 million) appears to have been diverted. I am liaising with the appropriate authorities in Gibraltar and Italy in connection with these matters and investigating the responsibility for them. I am taking active steps with my legal advisors to consider various possible legal proceedings which I might commence with a view to making recoveries for the benefit of the Company's creditors.
- 2.3 Once the above actions are completed and recoveries have been made, I will be looking to distribute dividends to creditors in accordance with the statutory scheme as early as possible. I am not yet in a position to say when that is likely to be, or whether I will consider it appropriate to pay an interim dividend.

## **3. Notices and Advertisement**

- 3.1 My appointment as Liquidator of the Company and the Notice of Disclaimer of Contracts of Insurance have been advertised in Gibraltar, in the Gibraltar Gazette, The Chronicle and The Panorama and in Italy in La Stampa and Corriere della Sera.
- 3.2 The opening of the winding up proceedings has also been published in the Official Journal of the European Union.
- 3.3 I have sent out Notices in English and in Italian to the addresses of all those who, it appeared from the records available to me, are or may be policyholders or beneficiaries under contracts of insurance issued by the company, or otherwise a creditor of the Company. In summary, Notices have been sent to 3,320 policyholders and 1,916 beneficiaries. A further 164 Notices have been sent to brokers, and to others who are believed to be creditors of the Company.
- 3.4 I have also continued to make documents relevant to the liquidation of the Company available on the website [www.hillinsurance.eu](http://www.hillinsurance.eu) and have drawn attention to this website in the Notices.

#### **4. Company's premises and staff**

- 4.1 The company's office premises were surrendered on 15 February 2013 following the bid sale of the company's furniture and equipment. The Company's computer servers and physical records were transferred to Deloitte's offices in Gibraltar.
- 4.2 At 24 January 2013 the Company had four full time employees. By 15 February 2013 staff numbers were reduced from four to two full-time employees who have been retained to assist with the liquidation.

#### **5. Claims handling and Legal Service Providers**

- 5.1 I inherited as liquidator a number of inwards insurance claims against the Company which were being handled by two independent lawyers in Italy whom the Company had engaged to deal with Italian insurance claims. Those two lawyers were originally retained on the same terms as they had been employed by the Company prior to my appointment as Provisional Liquidator.
- 5.2 The engagements of the two independent lawyers were terminated in June and July 2013, and all insurance claims are now being handled by the Milan office of Curtis, Mallet-Prevost, Colt & Mosle LLP ("Curtis Mallet") which I have also retained to advise me on all matters of Italian Law, including assisting with the recovery of debts due from Italian brokers.
- 5.3 In Gibraltar I engaged Isolaz as my solicitors to assist with insurance, insolvency, litigation and general legal issues.
- 5.4 My solicitors, Isolaz, instructed Glen Davis QC of South Square Chambers, London to provide specialist insurance insolvency advice.

#### **6. Investigations and Proceedings**

- 6.1 My team and I continue to undertake a comprehensive investigation into the affairs of the Company. The number and complexity of the issues surrounding the collapse of the Company is extensive and they are being given due and careful consideration. These investigations have uncovered a large amount of evidence which I am in the process of collating, reviewing and passing to my legal teams for, amongst other things, advice with a view to pursuing claims against third parties.
- 6.2 I am currently involved in legal proceedings in Gibraltar with a view to securing the recovery of up to some €3 million relating to the diverted premium of an insurance policy issued in the name of the Company (at least part of which is at present frozen in Gibraltar bank accounts). These proceedings are currently at a preliminary procedural

stage, with a final hearing presently expected to be heard by the Supreme Court of Gibraltar during the first quarter of 2014.

6.3 I am also taking steps to protect the Company's position in legal proceedings where I consider on advice that it is appropriate and proportionate for me to do so.

## **7. Broker debts**

7.1 We have reconciled most of the broker accounts and are seeking recovery of all sums identified as due from brokers in respect of insurance premiums collected on behalf of the Company. One significant account remains to be reconciled. We have instructed the Milan office of Curtis Mallet to assist in taking legal action where appropriate.

## **8. Reinsurance**

8.1 We are engaged with the Company's reinsurers in seeking to recover the unexpired re-insurance premiums relating to the period post 24 January 2013, being the date when all contracts of insurance were disclaimed, as well as claims for losses covered by the reinsurance treaties.

## **9. Disclaimer**

9.1 With the consent of the Court, on 24 January 2013 I signed a notice of disclaimer by which I disclaimed all contracts of insurance and all contracts of reinsurance under which the Company was or might be liable. The Disclaimer does not affect claims which had arisen under a contract of insurance prior to 24 January 2013, the date of the winding up. Beneficiaries should report any such claims to me at the address noted below or by email to [liquidatore@hillinsurance.eu](mailto:liquidatore@hillinsurance.eu).

9.2 As a result of the Disclaimer, beneficiaries will not be able to claim under their policy for an insured event or claim arising on or after 24 January 2013. Those policyholders with an unexpired period of a contract of insurance as at that date will have a pro rata claim for return of the premium which they have paid (unless the liquidator agrees or the Court directs that they are entitled to prove in the liquidation for a different amount). I am permitted to admit such return of premium claims without requiring a formal proof, and I hope to be writing in the near future informing policyholders with such claims of the figure to which I have calculated they are entitled.

## **10. Creditors**

### ***Insurance Creditors***

- 10.1 Under Gibraltar legislation, insurance creditors have priority over non-insurance creditors.
- 10.2 Insurance creditors include:
- a) all insurance claims under a policy of insurance issued by the Company arising before 24 January 2013 and approved by me as liquidator; and
  - b) claims for return of premium for the unexpired terms of policies cancelled on 24 January 2013 by the Notice of Disclaimer.
- 10.3 Notified and admitted insurance claims at 30 June 2013 amount to circa €5million.
- 10.4 Before we can calculate the amount of unexpired premium due to policyholders following the Notice of Disclaimer, we need to finalise all broker reconciliations to ensure all such claims are properly identified.

### ***Other Creditors***

- 10.5 The current level of insurance claims indicates that such claims will not be met in full and therefore there is at present no prospect of any distribution from the estate to anyone other than insurance creditors.

## **11. Receipts and Payments Account**

- 11.1 I attach a copy of the Liquidation Receipts and Payments from 24 January 2013, being the date of my appointment as Liquidator, to 31 July 2013. Additional notes to the accounts follow:
- a) Staff numbers were decreased from four, at the time of my appointment, to two effective 15 February 2013. The two employees I have retained have good knowledge of the Company's history, systems and processes and are an invaluable resource for the liquidation.
  - b) Liquidation fees paid cover the period to 31 May 2013. Fees have been computed on the basis of time spent by team members at our standard charge out rates (as per the Schedule of charge out rates annexed to the Order by which I was appointed) and have been approved for payment by the Registrar of the Supreme Court.
  - c) The Company's office premises were surrendered on 15 February 2013. The Company's records were transferred to a dedicated store at a cost of £1,200 per annum.

- d) Bank balances are held predominantly in Euros, being the base currency in which the Company operated. Interest rates over the period have been at historically low levels giving rise to a nominal sum of bank interest received. My team monitors interest rates offered by different international banks on a monthly basis to ensure the Company earns an appropriate level of bank interest without exposing the funds to counterparty, liquidity or currency risk.

This Report is intended to cover the major steps in the liquidation of the Company up to 31 July 2013. I have taken account of subsequent developments where I consider it relevant to do so.



**JOSEPH CARUANA Esq**  
**Liquidator**

**13 September 2013**



**Hill Insurance Company Limited**  
**Liquidator's Receipts and Payments Account**  
**For The Period 24 January to 31 July 2013**

	Notes	€
<b>Receipts</b>		
Bank balances taken over from Provisional Liquidation		3,766,968
Premiums collected from brokers		132,585
Counter Indemnities recoveries		76,714
Proceeds from sale of company's office furniture and equipment		17,619
Bank interest		60
		<hr/> <b>3,993,946</b> <hr/>
<b>Payments</b>		
Staff salaries & employment costs	(a)	(34,281)
Legal fees – Gibraltar & UK counsel		(170,556)
Legal fees – Italian counsel		(84,289)
Translation fees		(5,275)
Liquidator's fees	(b)	(217,719)
Professional fees		(13,645)
Office and store rent	(c)	(4,312)
Computer expenses		(7,342)
Telephone		(1,753)
Internet		(348)
Couriers		(4,268)
Office insurance refund		164
Office expenses		(1,671)
Travel expenses		(709)
Bank charges		(1,702)
Exchange difference on revaluation of GBP bank accounts		(15,793)
		<hr/> <b>(563,502)</b> <hr/>
<b>Bank balance at 31st July 2013</b>		<hr/> <b>3,430,444</b> <hr/>
 <b><u>Breakdown of Accounts by Currencies</u></b>		
	<b>£</b>	<b>€</b>
Euros		3,411,595
GBP Sterling	16,508.21	18,849
		<hr/> <b>3,430,444</b> <hr/>