

**LEMMA EUROPE INSURANCE COMPANY LIMITED (IN LIQUIDATION)**

**LIQUIDATOR'S SEVENTH PROGRESS REPORT**

**as at 23 August 2016**

An order winding up Lemma Europe Insurance Company Limited ("the Company") was made by the Supreme Court of Gibraltar on 24 January 2013 ("the Order") and I was appointed under the Order to act as the Company's Liquidator.

Paragraph 10 of the Order directed me:

*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*

When I reported to the Court on 18 March 2013, I considered that it was not feasible or appropriate to recommend the appointment of a Committee of Inspection given the circumstances of the Company's liquidation, but instead proposed that I would report to the Company's creditors twice yearly on the conduct of the liquidation by publishing a progress report on the website and making it available in hard copy upon request.

My first report was as at 31 July 2013 and included a Receipts and Payments account from 24 January 2013 to 30 June 2013. I presented my second report to creditors as at 24 January 2014, my third report as at 31 July 2014, my fourth report as at 6 February 2015, my fifth report as at 27 August 2015 and my sixth report to creditors as at 12 February 2016. I now present my seventh report to creditors as at 23<sup>rd</sup> August 2016. A Receipts and Payments account for the period 24 January 2013 to 30 June 2016 is attached. Matters included in my previous reports are also included in this report.

**1. Notification and Advertisement**

- 1.1. My appointment has been advertised in the Gibraltar Gazette and in the following publications: The Gibraltar Chronicle, The Panorama Newspaper, The Irish Times, The BVI Beacon, Aftenposten.
- 1.2. The opening of these winding up proceedings has also been published in the Official Journal of the European Union on 16 January 2013.
- 1.3. I have sent out notices to 12,265 addressees who it appeared from the records available to me are or may be policyholders (ie holders of a contract of insurance issued by the Company), and to 22 recipients indicated by the records available to me to be a creditor of the Company ("the Notices").
- 1.4. I have also continued to make documents relevant to the liquidation of the Company available on the liquidation internet web-site at [www.lemmaeurope.com](http://www.lemmaeurope.com) ("the Website"), and I have drawn attention to the Website in the Notices.

**2. Recognition**

- 2.1. Following a further hearing on 24 January 2013, the Supreme Court of Gibraltar issued a Letter of Request to the High Court in London asking the Court to recognise the liquidation of the Company and grant further relief.

- 2.2. On 14 February 2013, the Honourable Mr Justice Briggs made an order in the English High Court (“the Recognition Order”) recognising the liquidation of the Company (and my status as the Company’s *foreign representative*) in Great Britain under the English Cross-Border Insolvency Regulations 2006 (which implement the UNCITRAL Model Law on cross-border insolvency) and also granting relief under section 426 of the English Insolvency Act 1986, in particular recognising the disclaimer of contracts of insurance and reinsurance which the Gibraltar Court permitted under the Order and which I effected before the Court on 24 January 2013.

### **3. Interviews**

- 3.1 I have conducted extensive interviews with a number of directors, managers and employees of the Company, as well as service providers to the Company.

### **4. Service Providers**

- 4.1 To assist me in understanding and addressing the issues arising in the Company’s liquidation, and in particular the quantification and determination of validity of claims arising under contracts of insurance which may fall to be admitted as insurance creditors in the estate of the Company, I have retained solicitors and counsel in Gibraltar and the UK and engaged a number of professional advisors with suitable expertise. These firms include a claims manager, loss adjusters and a panel of lawyers providing specialist coverage advice and (where relevant) claims defence services. The majority of these firms are in the United Kingdom where the Company wrote about 75% of its business.
- 4.2 The Company also wrote insurance business and faces claims in a number of other jurisdictions. I have therefore engaged similar advisors in other jurisdictions where I have considered it necessary to do so. These include the Republic of Ireland, France and Italy.
- 4.3 I am extremely mindful of the need to monitor and control the costs of the Company’s liquidation, and in general I have engaged specialists on similar commercial terms to those which would have been entered into by the Company prior to my appointment. Nonetheless, given the volume of claims arising and the legal issues resulting from the nature and geographical spread of insurance business written by the Company the costs of the liquidation are very considerable.

### **5. Financial Services Compensation Scheme**

- 5.1 United Kingdom policyholders with claims arising under a valid insurance policy and who meet the eligibility criteria of the Financial Services Compensation Scheme (“FSCS”) operated in the United Kingdom may apply for compensation under that Scheme. I and my liquidation team have cooperated and worked closely with the FSCS to identify, quantify and process claims and enable eligible policyholders to make claims upon the Scheme. While it is beyond the scope of this report to provide a detailed explanation of the operations of the Scheme and the administrative process I have facilitated to enable claims to be made, it is worth highlighting that in order to obtain compensation, the policyholder is required to assign 100% of their claim to the FSCS. The FSCS is therefore in due course likely to become the single largest insurance creditor of the Lemma estate.
- 5.2 Defence solicitor’s costs incurred by me in relation to the defence of claims against FSCS eligible policyholders also attract compensation. As these solicitors have been engaged by me as Liquidator, they have been paid by me as an expense of the liquidation. A claim is then submitted for payment of 90% of these costs by the FSCS to the estate. I have been in discussions with the FSCS to arrange procedures as how claims may be appropriately managed in the later stages of the liquidation process. I have agreed with

the FSCS that as from 1 January 2016 while service providers will continue to be engaged by me the eligible costs will be met directly by the FSCS. The service providers who continue to be engaged have agreed to this arrangement.

## **6. British Virgin Islands**

- 6.1 The Company was licensed to carry on insurance business in the British Virgin Islands ("BVI"). Approximately US\$ 1.5 million stands to the credit of accounts in the Company's name at VP Bank in Tortola, British Virgin Islands ("the Deposit"). On the basis of the information available to me, this money was deposited by the Company in connection with its business in the BVI, but no trust of the Deposit was ever declared, and in particular no "domestic business trust" meeting the specifications in BVI legislation.
- 6.2 Following the Company's insolvency, the Financial Services Commission of the BVI ("BVI FSC") sought to take control of the Deposit and applied to the BVI Court for a declaration or order that the Deposit is held on trust, the effect of which would be that the money would be applied preferentially to meet liabilities to domestic insurance creditors in the BVI.
- 6.3 I engaged lawyers in the BVI and after taking legal advice on the correct characterisation of the Deposit and the arguments advanced by the BVI FSC I contested the BVI FSC's proceedings. A hearing in the BVI Court was held during the week commencing 26 May 2014. The Judge ruled that a trust had not been established and that the Deposit remained throughout in the beneficial ownership of the Company. This was in keeping with the legal advice I had been provided with. The Judge did however also rule that although the Company did not divest itself of its beneficial interest in the Deposit, so that it remains an asset of the Company, it did, for valuable consideration moving from the BVI FSC in the form of the grant of a licence to conduct insurance business in the BVI, surrender control of it. In his judgment the effect of the arrangements which were put in place was to put the Deposit beyond the reach of the general body of the Company's creditors unless and to the extent that the BVI FSC otherwise agreed. The effect of the judgment is to create a separate class of creditor, namely insurance creditors arising from BVI domestic business, whose claims would be met preferentially from the Deposit. I submitted a proposal to the BVI FSC for the administration of these claims which was subsequently agreed. On 22 February 2016 the BVI Court issued an order appointing me as receiver of the Deposit and any other assets located in the BVI. I and my service providers have commenced the management and adjudication of claims arising from BVI domestic insurance business in accordance with the terms of the Order. All costs relating to the receivership and the administration of the BVI claims will be met from the BVI Deposit and neither these funds nor the costs of the receivership have been included in my Receipts and Payments account to 30 June 2016. The receivership will be accounted for as a separate appointment conducted in accordance with the terms of the Order with assets and costs segregated from the Company's estate. In the event of a surplus after payment of the receivership costs and admitted claims, the surplus shall be remitted to Gibraltar and shall form part of the general assets of the Company to be dealt with in the ordinary course of the liquidation. I am unable to estimate at this stage if a surplus or deficit is likely to arise.

## **7. Reinsurance**

- 7.1 At the time the Company entered provisional liquidation and I was appointed its provisional liquidator, the Company had in place a program of reinsurance. After taking actuarial and legal advice I made payments of £313,194 then understood to be due in order to protect to a prudent degree the reinsurance cover available to the Company.

7.2 With the assistance of my Claims Manager, reinsurance claims have been formulated with supporting documents and presented to the relevant reinsurers. Correspondence is ongoing and I am unable at this stage to quantify the extent to which reinsurance will ultimately be recoverable by the Company.

7.3 I record however that Lemma Ukraine, the associated company which provided the Company's reinsurance for the years 2008-2010, has previously disputed that solicitor's professional indemnity insurance written by the Company in England and Wales in 2009-2010 and 2010-2011 was covered by its contracts of reinsurance, and has to date also failed to pay other claims for reinsurance recoveries submitted by me.

## **8. Reconciliation of Broker Accounts**

8.1 The Company had entered into contractual arrangements with some 33 insurance brokers distributing or writing business which bound the Company. A significant exercise in the first period of the liquidation has been for my team to conduct an extensive reconciliation of the accounting records of the Company with premium bordereaux, in order to establish the balance of funds due to the Company from brokers.

8.2 This work is largely complete and the process of writing to brokers to agree the balances due to the Company and arrange payment is still ongoing, however at this time I am unable to report accurately the amounts which may ultimately be recovered under this head.

## **9. Insurance Creditors**

9.1 Under Gibraltar legislation, insurance creditors have a priority over other non-insurance creditors. The current level of insurance claims indicates that such claims will not be met in full by the estate and that there will be no prospect of any distribution from the estate to creditors other than insurance creditors.

9.2 In broad terms, insurance creditors will result from claims under a policy of insurance which arose before 24 January 2013 or claims for return of premium in respect of unexpired periods after 24 January 2013 (when outstanding policies were disclaimed) to the end of the relevant policy term. I and my team have constructed a policyholder database to enable me to calculate and process these return of premium claims. For eligible policyholders, such return of premium claims may also be eligible for compensation from the FSCS. I have calculated the return of premium claims on behalf of such policyholders, and relevant FSCS documentation has been included in my communications to policyholders regarding these claims. As at the date of this report almost all return of premium claims have been processed. There are some 4,320 policyholders with return of premium claims amounting to some £1.1 million. Admitted and quantified insurance claims and estimated reserves applied to notified insurance claims at 30 June 2016 amounted to approximately £34 million. Of this £17.3 million relates to Solicitors Professional Indemnity claims. In my report at 31 December 2015 I had reported that admitted and quantified insurance claims and estimated reserves applied to notified insurance claims at that date amounted to approximately £33.3 million. My claims manager and I along with my other service providers have adopted a proactive approach to best manage claims and try to prevent their escalation, however the level of claims is an indication of the business written by the company and the high levels of underwriting risk it was exposed to.

## **10. Outward claims**

I have conducted enquiries regarding potential outward claims and have received advice from my legal Counsel in respect of these potential claims. Based upon this advice I have filed claims against the directors of the Company. As at the date of this report I have settled claims with two directors.

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

- 11.1 I have attached to this report a copy of my receipts and payments account from 24 January 2013 the date of my appointment as Liquidator to 30 June 2016. Due to the volume of transactions arising from the insurance claims admission, quantification and handling process, I have set up an accounting system for the estate based on standard company accounting software and incorporating a purchase ledger. Monthly accounts are prepared on an accruals basis which allows me and my team to monitor and control the approval, posting and payment of invoices while allowing me to monitor the assets and committed liabilities of the estate. Legislation relating to liquidations requires me to report receipts and payments in the prescribed form of a receipts and payments account reflecting actual bank transactions as opposed to accounts prepared on an accruals basis including creditors for services provided to me as liquidator. In preparing this receipts and payments account for the period from 24 January 2013 to 30 June 2016 from the estate accounts as at 30 June 2016 prepared on an accruals basis, I have reversed the movement of purchase ledger creditors balances as at 30 June 2016.
- 11.2 Items included in the Receipts and Payments account are for the most part self-explanatory but I offer further information and explanation as set out below:
- (i) I retained the services of two members of the Company's staff on the same terms as they were previously employed. As the liquidation approaches its later stages the level of work involved in the adjudicating and processing of claims has decreased and I have retained only one member of staff. I also retained the services of an IT consultant providing services on a self-employed basis as I required them. The previous knowledge of the Company's business retained by these individuals has been of considerable assistance to me, particularly in the areas of validating the policyholder database and receipts of premiums.
  - (ii) For a period of nine months, I retained the original Company's office. Rent for this office was £42,000 per annum. As of July 2013, a smaller office was rented on a 2 year lease at £18,000 per annum to accommodate the Company employees and Company records. I have continued to rent this office for a further year from 10 June 2016 at the annual rent of £19,500.
  - (iii) Advertising costs of £24,446 have been incurred which relate to the required advertising of the liquidation appointment in the national press of the countries in which the Company wrote insurance business along with advertisements placed in the Official Journal of the European Union.
  - (iv) I have faced numerous technical legal issues specifically in relation to recognition of my appointment in England and Wales as well as recognition of my disclaimer of the contracts of insurance. Advice and representation was required from my London counsel who advised me on technical legal matters relating to the admission of insurance claims, and potential outward claims as well as representing me in the BVI Court hearing. Legal fees have been paid to my solicitors in Gibraltar and England in relation to recognition of my appointment in England and Wales as well as recognition of my disclaimer of the contracts of insurance. Legal fees have been paid to my solicitors in the BVI in relation to the Court hearing and to solicitors in France and Italy in relation to insurance claims matters in those jurisdictions. As per the Winding Up Order issued by the Supreme Court of Gibraltar legal fees relating to that petition were ordered to be paid from the estate and amounted to £36,445. I have also obtained legal opinions on the merits of the various potential outward claims I have considered. Legal costs incurred of £1,245,592 have been very substantial but have been unavoidable due to the complexity and number of issues referred to above. The majority of the legal issues affecting the liquidation have now been addressed and with the exception of legal costs relating to specific outward claims will be materially reduced during the remaining period of the liquidation

Should creditors have any queries on this report or require any further information they should contact me or James Oton of my office.

*Freddie White*

**F D J White**  
**Liquidator**

23 August 2016

**Lemma Europe Insurance Company Limited**  
**(in Liquidation by the Court)**

**Liquidator's Receipts and Payments Account for the Period**  
**24 January 2013 to 30 June 2016**

|                                                                   | £                |
|-------------------------------------------------------------------|------------------|
| <b>RECEIPTS</b>                                                   |                  |
| Bank balances taken over from Provisional Liquidation             | 4,730,890        |
| Premium debtor received from brokers                              | 277,752          |
| Return of funds held by solicitors                                | 100,547          |
| Sale of laptop                                                    | 550              |
| Sale of furniture                                                 | 8,700            |
| Defence solicitors costs refunded by FSCS                         | 1,261,380        |
| Compensation from Metropolitan Police                             | 58,169           |
| Claims recoveries                                                 | 111,628          |
| Settlement of outward claims                                      | 53,946           |
| Bank Interest Receivable                                          | 57,393           |
| <b>Total Income</b>                                               | <b>6,660,955</b> |
| <b>PAYMENTS</b>                                                   |                  |
| Claims management services                                        | 786,622          |
| Loss adjusting services                                           | 532,207          |
| Defence costs in relation to UK insurance claims                  | 1,720,330        |
| Forensic investigation services                                   | 12,594           |
| Conditional fee arrangement costs                                 | 17,387           |
| Arbitration costs                                                 | 1,518            |
| Additional claims management services for French claims           | 17,442           |
| Defence costs in relation to Republic of Ireland insurance claims | 5,496            |
| Legal fees re claims coverage advice                              | 138,877          |
| Liquidator's fees                                                 | 1,140,176        |
| Consultancy IT                                                    | 136,206          |
| Staff Salaries                                                    | 132,121          |
| Staff Employer's NIC                                              | 10,644           |
| Translation costs                                                 | 1,548            |
| Rent                                                              | 75,978           |
| Rates                                                             | 2,221            |
| Water & electricity                                               | 4,334            |
| Office cleaning                                                   | 3,371            |
| Repairs                                                           | 894              |
| Printing and Stationery                                           | 7,669            |
| Software                                                          | 2,535            |
| IT assistance                                                     | 1,661            |
| PC/Printer Consumables                                            | 5,224            |
| Other office costs                                                | 935              |
| Telephone                                                         | 15,873           |
| Postage                                                           | 19,003           |
| Financial Services Commission licence fee                         | 45,474           |
| Bank Charges                                                      | 2,485            |
| Tax advice                                                        | 1,900            |
| Insurance                                                         | 738              |
| General Expenses                                                  | 2,342            |
| British Virgin Islands agent's fee                                | 366              |

|                                  |           |
|----------------------------------|-----------|
| Employment & Training Board fees | 160       |
| Advertising                      | 24,446    |
| Commissioner of Oaths            | 180       |
| Notary Public                    | 688       |
| Legal fees                       | 1,245,592 |
| Actuarial fees                   | 8,000     |
| Travel expenses                  | 17,749    |
| Bank interest payable            | 117       |
| Foreign exchange movement        | 124,710   |

|                       |                  |
|-----------------------|------------------|
| <b>Total expenses</b> | <u>6,267,813</u> |
|-----------------------|------------------|

|                        |                       |
|------------------------|-----------------------|
| <b>BALANCE IN HAND</b> | <u><u>393,142</u></u> |
|------------------------|-----------------------|

|                 |         |
|-----------------|---------|
| Represented by: |         |
| Natwest £       | 393,142 |

|  |                       |
|--|-----------------------|
|  | <u><u>393,142</u></u> |
|--|-----------------------|

I, Frederick D J White, of Grant Thornton (Gibraltar) Limited, the Liquidator of the above company, make oath and say:-

That the account above contains a full and true account of my receipts and payments in the winding-up of the above named company from the 24th January 2013 to the 30th June 2016 inclusive and that I have not nor has any other person by my order or for my use during such period received or paid any monies on account of the said company other than and except the items specified in the said account.

*Freddie White*

Signed

Frederick D J White  
LIQUIDATOR

Sworn at *6A Queensway, Gibraltar*

this 23rd day of August 2016

*Sergio M. Martinez*

**SERGIO M. MARTINEZ**  
**COMMISSIONER FOR OATHS**