
Highlands Insurance Company (U.K.) Limited - In Liquidation

Joint Liquidators' progress
report to members and creditors
for the year ended 16 April 2022

9 June 2022

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1. Summary information

The Company	Highlands Insurance Company (U.K.) Limited (in Liquidation) (the “Company” or “Highlands UK”)
Registered number	01190948
Registered office and trading address	c/o PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
Activity	Insurance and reinsurance run-off
Liquidators’ names and address	Dan Yoram Schwarzmann and Douglas Nigel Rackham (the “Joint Liquidators”) of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
Date of appointment of Liquidators	17 April 2012

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This report has been prepared by the Joint Liquidators to comply with the Joint Liquidators’ statutory duty to report to creditors under IR16 on the progress of the liquidation, and for no other purpose. It is not suitable to be relied upon by any other person, or for any other purpose, or in any other context.

This report has not been prepared in contemplation of it being used, and it is not suitable to be used, to inform any investment decision in relation to the debt of or any financial investment in the Company.

Any estimated outcomes for creditors included in this report are illustrative only and cannot be relied upon as guidance as to the actual outcome for creditors.

Any persons choosing to rely on this report for any purpose or in any context other than under IR16 do so at their own risk. To the fullest extent permitted by law, the Joint Liquidators do not assume any liability in respect of this report to any such person.

Please note you should read this report in conjunction with the Joint Liquidators’ previous reports issued to the Company’s creditors, which can be found at: <http://www.pwc.co.uk/business-recovery/issues/highlands-insurance>. Unless stated otherwise, all amounts in this report and appendices are stated net of VAT.

Dan Schwarzmann and Nigel Rackham have been appointed as Joint Liquidators and Joint Scheme Administrators of the Company. Both are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. The Joint Liquidators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>

The Joint Liquidators/Joint Scheme Administrators may act as controllers of personal data as defined by UK data protection law depending upon the specific processing activities undertaken. PricewaterhouseCoopers LLP may act as a processor on the instructions of the Joint Liquidators/Joint Scheme Administrators. Personal data will be kept secure and processed only for matters relating to the Liquidation/Scheme of Arrangement. Further details are available in the privacy statement on the PwC.co.uk website or by contacting the Joint Liquidators/Joint Scheme Administrators.

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.

2. Joint Liquidators' progress report

2.1. Introduction

On 1 November 2007 Dan Schwarzmann and Mark Batten of PricewaterhouseCoopers LLP ("PwC") were appointed Joint Administrators of the Company.

As previously reported, the Administration concluded on 17 April 2012, being the date the Company went into Creditors' Voluntary Liquidation. In their capacity as Joint Scheme Administrators, the Joint Liquidators continue to implement the scheme of arrangement pursuant to Part 26 of the Companies Act 2006 in relation to creditors with claims arising from contracts or policies of reinsurance or retrocession and non-insurance creditors (the "Cedant Scheme"). Further details are provided below.

Following Mark Batten's retirement from PwC, he was replaced as Joint Liquidator by Nigel Rackham by an order of the High Court of Justice (Chancery Division) dated 21 July 2017, which became effective on 4 August 2017. In addition, Nigel Rackham replaced Mark Batten as Joint Scheme Administrator following a meeting of Scheme Creditors held on 16 October 2017 to ratify his appointment by the Creditors' Committee in accordance with clause 4.2.7 of the Cedant Scheme.

This is the Joint Liquidators' tenth annual progress report to members and all known creditors. Previous progress reports can be found at <http://www.pwc.co.uk/business-recovery/issues/highlands-insurance>

2.2. Liquidation Committee

The Joint Liquidators consult with the Liquidation Committee in relation to significant issues and provide periodic updates on outstanding matters. The last meeting of the Liquidation Committee was held on 21 January 2014. At that meeting it was decided that, given the status of the Liquidation, future Liquidation Committee meetings would only be held when the Joint Liquidators considered it appropriate or when requested by the Liquidation Committee.

2.3. Summary of the Liquidators' actions to date including progress in the period

Cedant Scheme

As previously reported, in February 2014 an initial payment percentage of 15% was set in accordance with the terms of the Cedant Scheme and a distribution to Cedant Scheme Creditors was made shortly thereafter.

The Joint Liquidators continued to monitor the possibility of additional reinsurance recoveries, the only substantive outstanding matter being a potential recovery from Highlands Insurance Company, US. The timing and amount of any recovery remained uncertain and we did not anticipate being able to make any further Scheme payments until 2022.

During the first quarter of 2021, we learned that Highlands Insurance Company, US had filed for liquidation in the Texas Court. Accordingly, in consultation with their actuarial advisers, the Joint Liquidators concluded that there was no longer any reasonable prospect of a recovery from this source.

In view of this, in January 2022, a revised and final payment percentage of 16.7% was set, representing an increase of 1.7% on the initial payment percentage of 15% paid in February 2014. Whilst outside the period of this report, we are pleased to inform Scheme Creditors that Final Scheme payments commenced in June and are expected to be completed during July, following which the Cedant Scheme will be terminated and steps taken for the closure of the Highlands UK estate.

Cash management

The receipts and payments account in Section 3 details expenses met from funds in the Liquidation to 16 April 2022. Funds are held in interest bearing accounts in various currencies as, under the terms of the Cedant Scheme, dividends may be payable to Scheme Creditors in US Dollars and Euros as well as Pounds Sterling.

Statutory reporting

The Joint Liquidators continue to advise the Prudential Regulation Authority (“PRA”) and Financial Conduct Authority (“FCA”) of any material developments in relation to the Liquidation.

Other matters

During the period covered by this report, the Joint Liquidators filed a corporation tax return for the year ended 16 April 2021. This showed a liability of £nil.

2.4. Professional advisers

For ongoing matters the Joint Liquidators have retained the professional advisers that were engaged in the preceding Administration as shown below:

Service provided	Name of firm / organization	Reason selected	Basis of fees
Legal advice	Clifford Chance LLP	Specialist insolvency and industry knowledge	Time costs, subject to pre agreed budget
Actuarial	PwC	Specialist industry knowledge	Time costs, subject to pre agreed budget and Liquidation Committee approval
Insurance run-off management	Pro Insurance Services Limited	Pre insolvency and specialist industry knowledge	Time costs, subject to pre agreed budget

The Joint Liquidators’ choice was based on an evaluation of the advisers’ experience and ability to perform this type of work, their knowledge of the complexity and nature of the assignment and the basis of the fee arrangement with them. The Joint Liquidators continue to review the fees charged and are satisfied that they are reasonable in the circumstances of the case.

2.5. Joint Liquidators’ remuneration and expenses

As previously reported, during the Administration, the Joint Administrators’ fees were fixed by reference to time properly given by the Joint Administrators and their staff in attending to matters arising. The Liquidation Committee resolved that the remuneration basis agreed in the Administration would continue in the Liquidation. The Liquidation Committee passed a resolution approving the Joint Liquidators’ costs for the period 17 April 2021 to 16 April 2022 and fees will be drawn pursuant to that resolution.

In accordance with the revised Statement of Insolvency Practice 9 (“SIP9”), which took effect on 1 December 2015 and was revised on 1 April 2021, the Joint Liquidators have provided the following information in Section 4:

- i) An analysis of the Joint Liquidators’ time costs for the year ended 16 April 2022, including the cumulative total time costs from the date of the Joint Liquidators’ appointment;
- ii) A summary of the Joint Liquidators’ time costs for the period under review, including the key categories of work, details of the work undertaken, a description of why the work was necessary and whether or not the work was of financial benefit to the creditors or if it was required by statute; and
- iii) Details of estimated future work.

2.6. Statement of creditors' rights

Creditors have the right to ask for more information within 21 days of receiving this report as set out in Rule 18.9 IR16. Any request must be in writing. Creditors can also challenge our fees and expenses within eight weeks of receiving this report as set out in Rule 18.34 IR16. This information can also be found in the guide to fees at:

<https://www.icaew.com/-/media/corporate/files/technical/insolvency/creditors-guides/2021/liquidations-creditor-fee-guide-1-april-2021.ashx?la=en>

The guide to fees above is the current version available to creditors; below is a link to the guide which was in force at the time of our appointment:

<https://www.icaew.com/-/media/corporate/files/technical/insolvency/creditors-guides/2007/creditors-guide-to-liquidators-fees-england-and-wales-1-apr-2007.ashx?la=en>

Copies may also be obtained free of charge on request to the Joint Liquidators.

2.7. Next report and enquiries

It is anticipated that the Joint Liquidators will circulate their final report in approximately six months' time. If any creditor has any queries in the meantime, please contact Gary Bray on +44 (0)7730 733945.

Signed:



D Y Schwarzmenn
Joint Liquidator
Highlands Insurance Company (U.K.) Limited

3. Receipts and payments accounts

3.1. Sterling Receipts and Payments Account

		Total to 16 April 2021	Transactions 17 April 2021 to 16 April 2022	Total to 16 April 2022
Receipts		£000's	£000's	£000's
Funds transferred from the Administration		2,073		2,073
Interest received		12		12
Reinsurance collections		65		65
VAT recoveries	(i)	193		193
Transfers from US dollar account	(ii)	3,417	66	3,483
Total Receipts		5,760	66	5,826
Payments				
Administrators' remuneration		78		78
Liquidators' remuneration	(iii)	1,282	31	1,313
Liquidators' disbursements		2		2
Run-off fees		1,540		1,540
Other professional costs	(iv)	1,544	5	1,549
Legal fees		286		286
Legal settlements	(v)	54		54
Dividend payment to Cedant Scheme Creditors	(vi)	107		107
Statutory costs	(vii)	48		48
Net VAT	(viii)	645	7	652
Total Payments		5,586	43	5,629
Closing balance / movement		173	23	196

Notes:

- (i) Includes £25k recovery relating to the Administration period.
- (ii) Represents transactions undertaken to manage foreign exchange exposures.
- (iii) Relates to the Joint Liquidators and their staff at their standard charge out rates for assignments of this nature.
- (iv) Comprises tax services provided by PwC.
- (v) Settlement with the FSCS in order to conclude the Company's potential exposure to Employers' Liability policies.
- (vi) Initial dividend of 15% paid to Cedant Scheme Creditors in February 2014, in accordance with the terms of the Cedant Scheme.
- (vii) Includes costs relating to advertising, printing, postage and directors and officers insurance.
- (viii) Highlands UK is now de-registered for VAT purposes.
- (ix) The Joint Liquidators have not provided details of the "estimated to realise" values from the directors' statement of affairs in the preceding Administration as it would not facilitate a meaningful comparison.

3.2. US dollar Receipts and Payments Account

		Total to 16 April 2021	Transactions 17 April 2021 to 16 April 2022	Total to 16 April 2022
Receipts		US\$000's	US\$000's	US\$000's
Funds transferred from the Administration		13,308		13,308
Interest received		61	1	62
NAIC Trust fund	(i)	2,491		2,491
Reinsurance collections		1,450		1,450
Total Receipts		17,310	1	17,311
Payments				
Other professional costs		3		3
Letter of Credit drawdown	(i)	2,500		2,500
Bank charges		10		10
Transfer to sterling account	(ii)	5,450	90	5,540
Transfer to Euro account	(ii)	202	19	221
Dividend payment to Cedant Scheme Creditors	(iii)	8,092		8,092
Total Payments		16,257	109	16,366
Closing balance		1,053	(108)	945
Closing balance in Sterling	(iv)			724

Notes

- (i) The National Association of Insurance Commissioners trust fund of \$2.5m was drawn down by the Conservator, in accordance with the Conservation Agreement and returned to the Joint Liquidators, less expenses, in July 2013.
- (ii) Represents transactions undertaken to manage foreign exchange exposures and funding for Cedant Scheme dividend.
- (iii) Initial dividend of 15% paid to Cedant Scheme Creditors in February 2014, in accordance with the terms of the Cedant Scheme.
- (iv) Exchange rate as at 16 April 2022: 1 USD = 0.76570 GBP

3.3. Euro Receipts and Payments Account

		<i>Total to 16 April 2021</i>	<i>Transactions 17 April 2021 to 16 April 2022</i>	<i>Total to 16 April 2022</i>
Receipts		€000's	€000's	€000's
Transfer from US dollar account	(i)	145	17	162
Total Receipts		145	17	162
Payments				
Dividend payment to Cedant Scheme Creditors	(ii)	145		145
Total Payments		145	-	145
Closing balance		-	17	17
Closing balance in Sterling	(iii)			14

Notes

- (i) Represents transaction undertaken to manage foreign exchange exposure.
- (ii) Initial dividend paid of 15% to Cedant Scheme Creditors in February 2014, in accordance with the terms of the Cedant Scheme.
- (iii) Exchange rate as at 16 April 2022: 1 EUR = 0.82802 GBP

4. Remuneration update

The time charged to the Liquidation is by reference to the time properly given by the Joint Liquidators and their staff in attending to matters arising.

It is the Joint Liquidators' policy to delegate tasks in the Liquidation to appropriate members of staff considering their level of experience and any requisite specialist knowledge, supervised accordingly, so as to maximise the cost effectiveness of the work performed. Matters of particular complexity or significance requiring more exceptional responsibility are dealt with by senior staff or the Joint Liquidators themselves.

4.1. Hourly rates

Set out below are the relevant maximum charge-out rates per hour for the grades of the Joint Liquidators' staff actually or likely to be involved on this assignment, for the period of this report. Time is charged by reference to actual work carried out on the assignment in six minute units. The minimum time chargeable is three minutes (i.e. 0.05 units). In common with all professional firms, the scale rates used by the Joint Liquidators may periodically rise (for example to cover annual inflationary cost increases) over the period of the Liquidation. However, in this case, the charge-out rates of the Joint Liquidator's staff have remained unchanged since 2013 as a reflection of the estate's mothballing status.

Grade	£
Partner	627
Director	565
Senior Manager	437
Manager	370
Senior Associate	313
Associate	202

Specialist departments within the Joint Liquidators' firm, such as Tax, Actuarial and Forensic services work, are also being used where the Liquidators require their expert advice. Such specialists' rates do vary but the figures below provide an indication of the maximum rate per hour for the period.

Grade	£
Partner	1,810
Director	1,660
Senior Manager	1,310
Manager	950
Senior Associate	690
Associate	375

4.2. Joint Liquidators' disbursements

The Joint Liquidators' firm's expenses policy allows for all properly incurred expenses to be recharged to the case. The Joint Liquidators' have not incurred any disbursements in the period covered by this report.

4.3. Other matters

The Joint Liquidators have not made any payments to associates in the period covered by this report, nor has any work been subcontracted out.

The Joint Liquidators have no business or personal relationships with the parties who approve their fees or who provide services to the Liquidation where the relationship could give rise to a conflict of interest.

4.4. Analysis of the Joint Liquidators' time costs for the period 17 April 2021 to 16 April 2022

Classification of work type	Hours						Costs (£'s)		Average hourly rate (£'s)
	Partner	Director	Senior Manager	Manager	Senior Associate	Associate	Total	Period	Cumulative
Total costs incurred to 17 April 2021									1,314,463
Administration and compliance			1.4	0.0	20.4	19.5	41.3	10,920	264
Collections			5.6	0.0	0.0	0.0	5.6	2,447	437
Creditor and statutory reporting		1.6	13.2	0.0	16.8	3.0	34.6	12,521	362
Finance			2.1	0.5	29.8	9.1	41.5	12,268	296
Project Management		0.9	30.3	0.0	40.2	4.9	76.3	27,028	354
Total in the period		2.5	52.6	0.5	107.2	36.5	199.3	65,184	327
Total costs incurred to 16 April 2022									1,379,647

4.5. Analysis of time costs of specialist departments within the Joint Liquidators' firm for the period 17 April 2021 to 16 April 2022

Specialist Department	Hours							Costs (£'s)		Average hourly rate (£'s)
	Partner	Director	Senior Manager	Manager	Senior Associate	Associate	Total	Period	Cumulative	
Tax and VAT										
Total costs incurred to 16 April 2021									160,024	
Total in the Period	0.5		0.8	1.1	4.1	2.3	8.8	5,984		680
Total costs incurred to 16 April 2022									166,008	
Actuarial										
Total costs incurred to 16 April 2021									1,318,369	
Total in the period	1		4.5					5,000		909
Total costs incurred to 16 April 2022									1,323,369	
Forensic services										
Total costs incurred to 16 April 2022									0	
Total in the period		12.5	58.0	25.2	0.2		95.9	35,117		366
Total incurred to 16 April 2022									35,117	

4.6. Details of work performed in the period 17 April 2021 to 16 April 2022

Area of work	Work undertaken	Why the work was necessary	What, if any, financial benefit the work provided to creditors OR whether it was required by statute
Administration and compliance	<ul style="list-style-type: none"> • Collating, reviewing and recording of estate costs. • Maintaining and updating case records and internal case management systems. • Complying with internal compliance requirements. 	<ul style="list-style-type: none"> • Ongoing maintenance of the Liquidation. 	<ul style="list-style-type: none"> • Statutory duty to keep proper books and records.
Collections	<ul style="list-style-type: none"> • Liaising with the Special Deputy Receiver of Highlands Insurance Company, US and monitoring the status of potential remaining reinsurance recoveries. 	<ul style="list-style-type: none"> • To realise the assets of the Company. 	<ul style="list-style-type: none"> • Overriding duty to realise the assets to the best advantage and distribute the proceeds, net of costs, to Scheme Creditors.
Creditors and statutory reporting	<ul style="list-style-type: none"> • Preparing and circulating statutory annual report to creditors. • Dealing with ad hoc creditor queries. • Liaising with the Committee, PRA and FSCS. 	<ul style="list-style-type: none"> • To comply with regulatory requirements or statute. 	<ul style="list-style-type: none"> • Required by statute.
Finance	<ul style="list-style-type: none"> • Preparing, reviewing and processing transactions. • Reconciling bank accounts to internal systems. • Preparing and reviewing the receipts and payments reports, authorising all payments and reviewing and managing cash flow. • Setting up sanctions screening with the forensics team for dividend payments. • Preparing for the processing and distribution of dividends to Scheme Creditors. 	<ul style="list-style-type: none"> • In order to pay Liquidation expenses. • Ongoing maintenance of the Liquidation. 	<ul style="list-style-type: none"> • Statutory duty to keep proper books and records. • Required by statute.
Project management	<ul style="list-style-type: none"> • Internal meetings to oversee day-to-day operations. • Internal meetings to review and update ongoing strategy. • Planning and preparation of closure plan. 	<ul style="list-style-type: none"> • Ongoing maintenance of the Liquidation. 	<ul style="list-style-type: none"> • Statutory duty to keep proper books and records.

4.7. Details of work performed by the specialist departments within the Joint Liquidators' firm for the period 17 April 2021 to 16 April 2022

Area of work	Work undertaken	Why the work was necessary	What, if any, financial benefit the work provided to creditors OR whether it was required by statute
Tax	<ul style="list-style-type: none"> Preparing and submitting the corporation tax return for the year ended 16 April 2021. Considering the timing of VAT submission in anticipation of case closure. 	<ul style="list-style-type: none"> In compliance with duties as proper officers for tax. 	<ul style="list-style-type: none"> Required by statute. Overriding duty to realise the assets to the best advantage and distribute the proceeds, net of costs, to Scheme Creditors.
Actuarial Services	<ul style="list-style-type: none"> Providing actuarial support. 	<ul style="list-style-type: none"> To enable valuation of potential reinsurance recoveries. 	<ul style="list-style-type: none"> Overriding duty to realise the assets to the best advantage and distribute the proceeds, net of costs, to Scheme Creditors.
Forensic Services	<ul style="list-style-type: none"> Drafting and agreeing sanction screening protocol. Preparing for and commencing Ultimate Beneficial Owner identification and searches. 	<ul style="list-style-type: none"> To enable the payment of the final dividend. 	<ul style="list-style-type: none"> Required by statute.

4.8. Future work

The table below shows the current estimate of the Joint Liquidators' costs for the period 17 April 2022 to closure of the Highlands UK estate.

Area of work	Work to be undertaken	Estimated cost £'000	Whether or not the work will provide a financial benefit to creditors
Administration and compliance	<ul style="list-style-type: none"> Budget setting, updating and monitoring. Collation, review and recording of estate costs. Maintaining and updating case records and internal case management systems. Complying with internal compliance requirements. 	10	<ul style="list-style-type: none"> Statutory duty to keep proper books and records.
Creditors and statutory reporting	<ul style="list-style-type: none"> Preparing and distributing annual and final progress reports to creditors. Dealing with ad hoc creditor queries. Complying with other statutory requirements. Liaising with the Committee. 	10	<ul style="list-style-type: none"> Required to comply with regulatory requirements or statute.
Finance	<ul style="list-style-type: none"> Preparing, reviewing and processing transactions. Reconciling bank accounts to internal systems. Preparing and reviewing the receipts and payments reports, authorising all payments and reviewing and managing cash flow. Preparing, processing and distributing dividends to Scheme Creditors. 	15	<ul style="list-style-type: none"> Statutory duty to manage the affairs, business and property of the Company and keep proper books and records.
Project management	<ul style="list-style-type: none"> Internal meetings to oversee day-to-day operations. Internal meetings to review and update ongoing strategy. Consulting with legal advisors as required. Implementing closure plan and all related tasks. 	10	<ul style="list-style-type: none"> Statutory duty to keep proper books and records.
Total		45*	

**Please note that payment of any fees in excess of £14,816, being the sum remaining from the costs to closure approved by the Liquidation Committee, is subject to there being sufficient funds available and the additional approval of the Liquidation Committee.*

Specialist Department	Work to be undertaken	Estimated cost £'000	Whether or not the work will provide a financial benefit to creditors
Tax	<ul style="list-style-type: none"> • Tax compliance including preparing and submitting corporation tax and VAT returns. • Closure planning and advice. 	9	<ul style="list-style-type: none"> • In compliance with duties as proper officers for tax.
Forensics Services	<ul style="list-style-type: none"> • Undertaking Scheme Creditor sanctions screening including Ultimate Beneficial Owner identification and searches. 	10	<ul style="list-style-type: none"> • Required by statute.
Total		19	

5. Expenses incurred in the period

The following table provides details of the Joint Liquidators' expenses. Expenses are defined as amounts payable by the Joint Liquidators from the estate, they include the Joint Liquidators' fees but exclude distributions to creditors. The table also excludes any potential tax liabilities that may be payable as a Liquidation expense, as amounts becoming due will depend on the position at the end of the tax accounting period.

The table should be read in conjunction with the receipts and payments account in Section 3 of this report, which shows expenses actually paid during the period and the total paid to date.

In estimating future expenses, assumptions have been made relevant to the annual run rate and length of the forecast duration of the Liquidation.

	Brought forward from preceding period £k	Paid in the period £k	Cumulative £k	Incurred and not paid £k	Estimated future £k	Anticipated total £k
Administrators' remuneration	78	0	78	-	-	78
Liquidators' remuneration	1,282	31	1,313	65	45	1,423
Liquidators' disbursements	2	0	2	-	-	2
Run-off fees	1,540	0	1,540	-	-	1,540
Other professional costs	1,544	5	1,549	46	19	1,614
Legal fees	286	0	286	-	10	296
Legal settlements	54	0	54	-	-	54
Statutory costs	48	0	48	-	10	58
Irrecoverable VAT	483*	7	490	22	4	516
Total	5,317	43	5,360	133	88	5,581

*Restated due to a prior adjustment

