

PROMETHEUS INSURANCE COMPANY LIMITED

In Administration

ADMINISTRATOR'S PROGRESS REPORT

Pursuant to S87 Insolvency Act, 2011

Date 24 September 2021

Prometheus Insurance Company Limited – In Administration

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1. The Administration

By Order of the Supreme Court on 27 January 2021 (“the Order”), I was appointed Administrator of Prometheus Insurance Company Limited (“the Company”). The Order included the following power:

“The Administrator shall in addition to the express powers set out in Section 71 and Schedule 1 to the Insolvency Act 2011 (“the Act”) be granted leave pursuant to Section 72 (1) (b) of the Act to make distributions to insurance creditors up to the value of 80% of the agreed/ admitted insurance claim.”

Section 250 of the Gibraltar Financial Services (Insurance Companies) Regulations 2020 provides that insurance claims take precedence over other claims against an insurance undertaking. The only exception to this precedence are certain claims by employees and tax authorities. The effect of this legislation in respect of an insurance undertaking unable to meet all its insurance liabilities is that the assets of the Company are applied to meet the preferential insurance creditors. Only once insurance creditors are met would any remaining assets be distributed to non-insurance creditors.

Section 87 (1) of the Insolvency Act 2011 requires the administrator to prepare an account of the receipts and payments of the company in administration and a report on the progress of the administration. The accounts and report are to cover the period of six months following my appointment with further accounts and reports prepared each subsequent six months. This is my first report of the administration. Section 87 (3) requires that a copy of the accounts and report is filed with the Court and with the Registrar. I have also placed a copy on the administration website www.prometheusinsurance.com.

2. Background

The Company was licensed on 7 November 2001 under the Gibraltar Financial Services (Insurance Companies) Act and was authorised to write the following classes of business:

- Class 3 (Land Vehicles)
- Class 7 (Goods in Transit)
- Class 8 (Fire and Natural Forces)
- Class 9 (Damage to Property)
- Class 10 (Motor Vehicle Liability)
- Class 13 (General Liability)
- Class 17 (Legal Expenses)

The Company was authorised to carry out services in the United Kingdom, Ireland, Spain, Portugal and Cyprus and additionally provided private and commercial motor insurance in Gibraltar.

On 31 December 2019, the Company ceased writing new business and went into run-off. All live policies expired on or before 31 December 2020.

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3. Administration Strategy and Objective

The Administrator has an obligation to perform his duties with the purpose of achieving one of the following objectives

- a. Rescuing the Company as a going concern
- b. Achieving a better result for the Company's creditors as a whole than would be likely if the company were to enter into liquidation, without first being in administration or
- c. Realising property in order to make a distribution to one or more secured or preferential creditors.

The rescuing of the company as a going concern was not a viable objective given the extent of the insolvency and the deficit of assets in respect of insurance liabilities. The objective set out at (c) does not apply. It was therefore the objective set out at (b) above, of achieving a better result for the creditors as a whole than would be likely if the company were to enter into liquidation without first being in administration that was proposed as the intended purpose and objective of the administration.

An advantage of administration is that the administrator is able to continue the run-off of the Company's insurance claims by the management and adjudication of claims in a cost-efficient manner utilizing similar claims management procedures previously operated by the Company.

While the Administration Order granted me leave to make distributions to insurance creditors up to the value of 80% of the agreed/admitted insurance claim my assessment of realisable assets and the estimated cashflows available to me led me to set the initial level of distribution to insurance creditors at 65%. The Company has an extensive program of reinsurance including excess of loss, quota share and coinsurance and I have met with reinsurers to facilitate their engagement and the collection of reinsurance recoveries to assist me in meeting the objective of the administration.

The great majority of insurance creditors are resident in the UK and eligible policyholders are protected by the Financial Services Compensation Scheme ("FSCS"). I am currently in correspondence with the Insurance Compensation Fund of Ireland to clarify if insurance creditors in the Republic of Ireland will be eligible for compensation from the fund. Insurance creditors in Gibraltar, Spain, and Portugal are not protected by a compensation fund.

If the Company were to enter liquidation the FSCS would most certainly be obliged to protect 100% (or 90% dependent upon the FSCS rules) of the insurance claims arising and await distribution of reinsurance recoveries from the liquidator in due course. The objective of the administration is to continue the timely and cost efficient adjudication and settlement of claims with initially 65% of the claims settled from the assets of the Company with the shortfall (in respect of UK eligible policyholders) being protected by the FSCS. The obvious benefit of the administration process to the FSCS who will be the principal actual and contingent creditor of the Company is the vastly reduced drawdown on the compensation fund with the associated cash flow and finance cost savings.

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4. The Proposal

The Administrator's proposals agreed at the meeting of creditors held on 22nd February 2021 were as follows:

- It is proposed that the Administrator will continue to manage the affairs of the Company in order to achieve the objective of the Administration.
- It is proposed that the Administrator will continue his investigations and pursue appropriate actions for the recovery of the amounts due from Tradewise Insurance Services Ltd, Tradewise Group of Companies Ltd. and other group companies and related parties.
- It is proposed that the Administrator will make appropriate arrangements to continue with the timely management, adjudication and settlement of claims. It is understood that there are currently circa 4,500 open claims.
- It is proposed that additional claims managers will be engaged to facilitate the upload of claims data to the FSCS and submission of claims data to reinsurers for recoveries.
- It is proposed that 65% of the amount of agreed and settled claims be met from the assets of the Company.
- It is proposed that the FSCS upon receipt of the approved claims bordereaux provide the Company with the balance of 35% or whatever percentage of the claim is not met from the assets of the Company by way of protecting eligible policyholders/claimants in return for an assignment of the claim and acceptance by the Company as an insurance creditor. Such funds provided by the FSCS may only be used for the protection of United Kingdom policyholders eligible for protection in accordance with FSCS rules.
- It is proposed that the appropriate applications are made to the Insurance Compensation Fund of Ireland and other relevant compensation funds to enable protection of eligible policyholders with the protected amount being accepted by the Company as an insurance creditor. Any funds provided by any compensation fund may only be used for the protection of specific policyholders eligible for protection under the compensation scheme rules.
- It is proposed that the Company continues the submission of bordereaux and collection of recoveries from co insurers, quota share reinsurers and excess of loss reinsurers to use such funds, along with other asset recoveries, to meet the expenses of the administration and meet payments of insurance creditors at an initial 65% of the agreed claims.
- It is proposed that funds provided to the Company by the FSCS are used solely to meet the claims of United Kingdom insurance creditors and the Administrator will provide an undertaking to this effect.
- It is proposed that any funds that might be provided by any other relevant compensation fund would be used solely to meet the claims of insurance creditors protected by that fund.
- It is proposed that at the time of any outcome or conclusion reached in respect of the collection and realisation of the recorded assets of the Company external to reinsurance recoveries the Administrator will consider increasing the level of distributions to insurance creditors from the initial 65% and will communicate such decision to insurance creditors.

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- It is proposed that on or before 30 June 2022 remaining claims will be reviewed and an assessment of the claims management resource undertaken to determine a cost efficient management of claims to conclusion.

5. Progress to date

I attach my receipts and payments accounts for the period 27 January 2021 to 27 July 2021 as Appendix A.

I would highlight the following matters:

- Quest Group have been engaged to manage UK claims and to facilitate the upload of data to the FSCS.
- Tradewise Insurance Services Ltd continued to manage UK claims up to 15 September 2021.
- I have retained the services of Prestige Underwriting Services Ltd to manage claims in Ireland.
- I have retained three claims management staff based in Gibraltar to manage claims in Gibraltar, Spain, Portugal and Cyprus. Payroll costs for the period amount to £71,530.
- Payments during the period in respect of distributions to UK insurance creditors amount to £25.9 million with a corresponding receipt of funds from the FSCS of £8.3 million representing the 35% contribution from the FSCS in respect of claims paid.
- Payments in respect of a distribution of 65% of the admitted insurance creditors in Gibraltar amounted to £112,582, in Ireland £107,779 and in Spain £52,569
- Reinsurance recoveries of £16.2 million have been received to 27 July 2021. I have met remotely with the panel of reinsurers and reinsurers have been supportive of the administration process.
- Recoveries from co insurers during the period amounted to £244,872 with premium payable under the terms of the co insurance contracts of £149,893.
- I am currently in discussion with Tradewise Group of Companies Ltd for the reinstatement of repayment instalments in respect of the £7.4 million loan outstanding.
- I am currently in discussion with Tradewise Insurance Services Ltd in respect of disputed commission clawbacks amounting to circa £13.1 million. These discussions are ongoing and I consider it is not appropriate to disclose further details in a public document at this time.

6. Estimated Outcome

As per the insurance claims information available to me at 5 February 2021 the date of the preparation of my Administrator's proposal, claims reserves gross of reinsurance but including IBNR for all territories within which the Company issued insurance policies amounted to circa £131.4 million. Since my appointment the deterioration in the settlement pattern of certain large loss UK claims increased dramatically. Following this I instructed Quest to review all files for claims reserved over £100,00 which led to further very material increases in reserves being applied. I have instructed actuaries to review UK claims data to advise me as to the appropriate levels of IBNR I should retain in respect

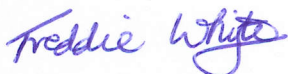
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of new claims arising and the potential deterioration in attritional (claims expected to settle below £100,000) claims. I have received certain information from the actuaries and have instructed them to undertake further work in respect of the UK motor business.

Based upon the information now currently available to me it is considered that appropriate reserves to be applied to all open insurance claims gross of reinsurance amounts to circa £209 million. Of this figure some £185 million relates to UK claims.

I will provide more detailed claims information in my next report upon completion of our file review work and receipt of the further actuarial reports.

While the increase in claims reserves gross of reinsurance is very material the claims do give rise to corresponding reinsurance recoveries for the Company. Large loss claims result in recoveries for the Company under excess of loss reinsurance contracts of the admitted claim values above the £500,000 retention level retained by the Company. Reinsurance recoveries are assets of the Company to be applied in the distributions to all insurance creditors on a *pari passu* basis. While the conduct of the administration may provide challenges in the management of cashflow I consider that the results to date confirm that the objectives of the administration as set out in the proposal to creditors are being met and that the affairs of the Company should continue to be managed in accordance with the administration proposal, utilising the assets of the Company to meet the expenses of the administration and settling agreed and admitted insurance claims at 65% of the value of the claim.



F D J White

Administrator

A copy of this report can be found on the administration website –
www.prometheusinsurance.com

APPENDIX A

Prometheus Insurance Company Ltd (in Administration by the Court)

Administrator's Receipts and Payments Account for the Period 27 January 2021 to 27 July 2021

	£
Opening Balance	22,746,082.16
<u>Receipts</u>	
Reinsurance Recoveries	16,248,541.37
UK FSCS Contribution	8,383,771.82
Co Insurance recoveries	244,872.36
UK Premium	19,514.43
Gibraltar claim recovery	3,700.83
Interest receivable	56,768.80
<u>Total receipts</u>	<u>24,957,169.62</u>
<u>Payments</u>	
UK Claims	25,993,294.52
Gibraltar Claims	112,582.16
Irish Claims	107,779.00
Spain Claims	52,569.00
UK Claim FSCS refund	169.58
Co Insurance premium	149,893.40
Administrator fees	557,363.93
Pre Administration fees	106,110.82
Administrator Costs	684.72
Professional fees	89,302.96
Legal fees	71,823.73
Payroll	71,530.68
Loss on Investments	84,030.72
Office expenses	15,323.52
Bank charges	3,850.78
<u>Total payments</u>	<u>27,416,309.52</u>
FX Gain	58,282.23
<u>BALANCE IN HAND</u>	<u>20,345,224.49</u>
Represented by:	
Natwest International	20,180,282.08
Moneycorp Bank Ltd	164,538.01
Barclays Bank Plc	300.00
Cash in Hand	104.40
	<u>20,345,224.49</u>