

**TO ALL KNOWN CREDITORS**

10 May 2021

Ref: MLP/RB/CC/GMR

Telephone: 0333 4000 393

Email: eastwestinsurance@uk.ey.com

Dear Sirs

## **East West Insurance Company Limited (in Administration) (“the Company”)**

### **High Court of Justice, Business and Property Courts of England and Wales, Insolvency and Companies List (ChD), Number CR-2020-003913**

The Company entered administration on 12 October 2020 and Richard Barker and Simon Edel were appointed to act as Joint Administrators. The appointment was made by the High Court following an application under the provisions of paragraph 12(1)(b) of Scheme B1 to the Insolvency Act 1986. Under the terms of the appointment, any act required or authorised to be done by the Joint Administrators can be carried out by any one of them.

This report, including its appendices, constitutes the Joint Administrators’ first report on the progress of the administration in accordance with the requirements of The Insolvency (England and Wales) Rules 2016. This report covers the period from 12 October 2020 to 11 April 2021 and should be read in conjunction with the Joint Administrators’ Statement of Proposals dated 3 December 2020 (“the Proposals”) and the Joint Administrators’ fee estimate, and details of expenses dated 3 December 2020.

Copies of the above documents and other announcements are available at the following website: [www.ey.com/en\\_uk/eastwestinsurance](http://www.ey.com/en_uk/eastwestinsurance).

Statutory information about the Company, the administration and the office holders are provided in Appendix A.

### **Summary of progress to 11 April 2021**

#### **Approval of the Proposals**

The Proposals were issued to all known creditors of the Company on 3 December 2020. The Joint Administrators sought approval of the Proposals from the Company’s creditors by deemed consent. The Proposals were approved without modification on 17 December 2020 by deemed consent.

## **Operations**

### **Run off operating model**

Immediately on appointment, the Joint Administrators worked with key suppliers to agree revised terms to ensure critical operations could be maintained and the Company's business of administering claims in respect of its insurance policies could continue to operate during the administration.

The main priority for the first six months of the administration was to stabilise the operations of the Company, including embedding new processes and procedures to enable funding of investigatory and remedial works, where appropriate, which were integrated into the Financial Services Compensation Scheme's ("FSCS") operational environment such that funding for eligible policyholders is provided as soon as reasonably possible. Following continued collaboration with third party claims handling service providers and the FSCS, significant developments have been made to determine the appropriate next steps to progress eligible claims through to resolution.

At the commencement of the administration, the Joint Administrators initially retained Armour Risk Management Limited ("ARML") to continue to provide claims handling services for the Company to ensure continuity of service for policyholders and retention of critical knowledge across the Company's complex claims portfolio. On 22 February 2021, it was announced that Premia Holdings Limited had agreed to acquire the Armour Group and, as a result of this transaction, ARML advised that it would cease to provide services to the Company by 30 June 2021. In advance of this, the Joint Administrators had commenced planning for a tender process for the claims handling contract for the Company's policies and these were accelerated appropriately.

The Company's principle liabilities arise from buildings guarantee policies and there are a limited number of parties in the market with the relevant knowledge and experience to manage claims arising from these policies. However, the Administrators approached nine parties as part of the tender process, which concluded at the end of March 2021.

Weightmans LLP, a law firm with significant insurance claims handling experience and, in particular, building guarantee claims experience, has been selected as the Company's new claims handling service provider. The Joint Administrators and Weightmans have been working extensively throughout April 2021 in planning and commencing the transition activity to enable Weightmans to formally handle the Company's claims from 10 May 2021. The transition is being managed such that there is minimal impact upon policyholders and ongoing claims.

Other suppliers are mostly comprised experts necessary to support the evaluation of specific claims made by policyholders, including loss adjusters, fire safety experts, quantity surveyors and law firms. The Joint Administrators have undertaken negotiations with key suppliers to the Company in order to secure their services during the administration.

The Company's operations are being funded through realisations made from the Company's assets, namely cash balances and financial investments. Certain investigatory costs fall under the terms of the Company's insurance policies and are being funded by the FSCS for eligible claims.

## **Asset recoveries**

### **Cash at bank**

All cash held in bank accounts in the name of the Company or with ARML on behalf of the Company at the date of administration, equating to £17.6 million, was transferred to bank accounts controlled by the Joint Administrators.

A further £5.0 million was received in November 2020 from a third party in respect of a pre-administration debt due to the Company.

The Company's funds are held in accounts with five different banks to spread funds for credit risk management purposes.

### **Investments**

The Company has a portfolio of investments in government, treasury and corporate issued financial instruments in accounts with New England Asset Management Limited ("NEAM").

An asset management agreement with NEAM is in place and the Joint Administrators have requested that NEAM allow the Company's investments to mature at their respective redemption dates. The vast majority of the investments are due to mature by the end of 2021 and the Joint Administrators will consider reinvestment options as appropriate.

During the period, £5.7 million of investments matured and £0.3 million of interest was earned on the investment portfolio.

The latest valuation of the Company's investment portfolio was £17.3 million, as at 31 March 2021.

### **Third party funding**

As noted in the Proposals, immediately prior to administration, a third party made a proposal to the Company that, subject to agreement of appropriate terms with the Company and the FSCS, it would be willing to make a material financial contribution to the Company. The purpose of this financial contribution being to support an improved outcome for the Company's policyholders than would otherwise be possible.

The Joint Administrators assessed the funding proposal as part of their duty to enquire into the affairs of the Company and events leading up to the Administration. Following extensive discussion between the Company and relevant stakeholders, a revised funding proposal has been received.

Following consultation with the Creditors' Committee, the Administrators have concluded that acceptance of the funding proposal, subject to terms of an appropriate contribution agreement being finalised, is in the best interests of the Company's creditors as it will support a better outcome than would otherwise be possible.

At the time of this report, the terms of the contribution agreement are still being negotiated and, therefore, the Joint Administrators are unable to provide any further information in this respect. It is anticipated that the contribution agreement will be finalised within the next month and further details will be provided in our next progress report.

## **Recoveries**

In accepting liability under an insurance policy, the Company may have the right to pursue claims against third parties to recover the relevant liabilities.

The Joint Administrators' strategy in relation to recoveries is to minimise liability arising on insurance claims by ensuring that any rightful parties settle or contribute towards claims, as appropriate, as part of the claim's management process. In circumstances where it is necessary for an insurance policy claim to be settled by the Company before any recovery action can be pursued, the Joint Administrators will assess the merits of potential recovery actions at the time the claim is being handled.

The Joint Administrators are reviewing potential recovery options on all open and recently closed insurance claims and taking appropriate action. The Joint Administrators are also working closely with the FSCS to agree an appropriate strategy to pursue recoveries for claims which will be fully or partially settled by the FSCS. This is a particularly complex area of law on which both the Joint Administrators and the FSCS are taking legal advice.

The Joint Administrators are ensuring reviews of recovery prospects and cost-benefit assessments are conducted in relation to each insurance claim to either minimise liabilities of the Company or maximise realisations into the administration estate. Legal advisors from a panel of law firms are supporting the recovery activity and advising the Joint Administrators, where appropriate, due to the technical legal aspects of recovery action for these complex claims.

During this period, the Joint Administrators have received £18k of recoveries and a further recovery of approximately £115k is expected to be received shortly in respect of a historic recovery action on a paid claim. In addition, since the start of the administration, the Joint Administrators have successfully negotiated contributions from third parties on certain claims made under the Company's insurance policies resulting in a reduction of £20m in the value of insurance claims in the estate.

The Joint Administrators are also aware of an escrow account held with an escrow agent, containing funds in the amount of approximately £0.6 million, in respect of deposits made by certain developers, which may remain available to the Company in certain circumstances which the Joint Administrators are currently reviewing.

It is not possible at this point in time to estimate the likely level of future recoveries to be made by the Joint Administrators and the FSCS, but it is expected to be a material amount.

## **Liability management**

### **Insurance claimants**

The administration of the Company does not terminate or cancel a current policyholder's contract of insurance (unless specifically stated in their policy). Accordingly, claims continue to be directed to the Company in the normal course of business.

### **Insurance claimants – structural warranty and building guarantee policies**

As noted in the Proposals, the vast majority of the Company's liabilities are anticipated to relate to claims under the Company's structural warranty and building guarantee policies, which were transferred from Zurich Insurance plc in March 2018, in accordance with a framework agreement to acquire such policies entered into November 2016.

The administration represents a default by the Company under the Policyholder Protection Rules and, therefore, policyholders who are deemed protected by the FSCS will receive 100% of any valid claim under their contract of insurance.

Due to the nature of the Company's financial difficulties and consequent delays in progression of policyholder claims in the period prior to administration, policyholders were and remain understandably frustrated and concerned with any delay in progression of their claims. Additionally, the Company was party to active or threatened legal proceedings across multiple claims at the date of administration. The Joint Administrators have sought to engage with relevant stakeholders to such claims to identify consensual resolution of disputes, where possible.

At the date of administration, the Companies records showed that they were administering 194 live claims. A review of these claims identified that 139 related to active indemnity claims, 28 related to paid claims but where the Company was considering potential recovery action and 27 claims were duplicate indemnity claims relating to different properties within the same development. During the reporting period, a further 15 claims have been notified to the Company and 15 claims have been closed. As such, there are currently 139 open claims being handled by the Company.

The Joint Administrators have worked with ARML to identify and prioritise fire safety claims and claims where there is demonstrable hardship for the policyholder.

The Joint Administrators have reached agreement with the FSCS regarding the position on funding of investigation costs and loss adjusters which are critical to determine the nature and extent of any notified claim such that policy coverage can be determined and remedial works be scoped and commenced, where appropriate. This has enabled the Company's claims handlers to begin to progress the remainder of the Company's claims which were not initially prioritised. However, many of the claims are complex and, therefore, even the investigatory phase can take a number of months to conclude.

Due to the limited funds available and the uncertainty of future liabilities of the Company, the Joint Administrators are unable to fund any investigation or remedial work on building guarantee claims that relate solely to policyholders who are not eligible for compensation by the FSCS under its Policyholder Protection Rules. Further updates will be provided in due course in this respect and are engaging with individual policyholders with live claims where this situation arises.

Weightmans, as the Company's incoming claims handler, understand the priority on progressing the Company's claims portfolio and this will be a primary focus for the Joint Administrators in the next six months.

### **Insurance claimants – employers' liability policies**

As previously disclosed in the Proposals, the Company has exposure to potential future claims on employers' liability policies. It is expected that the FSCS will cover these claims at 100% of any valid claim under their contract of insurance.

It is not expected that claims arising under these contracts of insurance will be material to the Company. The Company has no outstanding claims and the Joint Administrators have not received any claim notifications in respect of employers' liability policies during the period.

#### **Reinsurance cedents and claimants - London Market excess of loss reinsurance cedents and claimants**

The Company has been notified of 37 outstanding claims from 10 cedents in relation to the pre-administration period. The Joint Administrators have not received any additional claim notifications in respect of reinsurance contracts during the administration.

In accordance with The Insurers (Winding-up and Reorganisation) Regulations 2004, any claims arising in respect of reinsurance contracts rank for distribution in the administration behind the claims of direct insurance policyholders.

#### **VAT registration**

All pre-administration VAT returns have been filed and the Joint Administrators have submitted the necessary VAT returns covering the post-administration period. As the Company is not expected to be able to recover input VAT during the administration period, the Joint Administrators will deregister for VAT in due course.

#### **Corporation Tax**

The Joint Administrators have engaged the Company's pre-administration tax advisors, Mazars LLP, to prepare corporation tax returns for the year ended 31 December 2019 and also the period ended 12 October 2020. This will enable the Joint Administrators to assess the post-administration corporation tax position and ensure ongoing compliance.

#### **Other matters**

##### **Regulatory engagement**

The Company remains a regulated insurance company and must comply with various regulatory requirements. The Joint Administrators engage regularly with the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") to provide information on the progress of the administration.

##### **Creditors' Committee**

In the Proposals, we requested creditors to consider if they wish to elect a Creditors' Committee. The creditors of the Company approved the Administrators' Statement of Proposals and voted to establish a Creditors' Committee by deemed consent. With respect to the establishment of the Creditors' Committee, the Administrators received five nominations, which is the permitted maximum numbers of formal members.

The Creditors' Committee was formally constituted on 1 February 2021 and formed of the following creditors:

1. Financial Services Compensation Scheme Limited
2. Marco Island Developments Limited
3. Hyde Housing Association Limited
4. Killearn Investments Limited
5. Mr M Woods

The main role of the Creditors' Committee is to consult on the administration strategy and ensure creditors' views are represented and considered.

The first formal meeting of the Creditors' Committee to discuss the progress of the administration was held virtually on 1 February 2021. A second virtual meeting with the Creditors' Committee was held on 11 March 2021 to discuss certain matters regarding operating model and the third-party contribution mentioned in this report. The third virtual Creditors' Committee meeting was held outside of the period of this report on 7 May 2021 to discuss the progress of the administration. A fourth Creditors' Committee meeting is likely to take place in September 2021 to discuss the progress of the administration.

### **Proposed Administration Exit**

In accordance with Paragraph 6 to the Schedule of The Financial Services and Markets Act 2000 (Administration Orders Relating to Insurers) Order 2010, the automatic end of the administration without an extension will be 30 months. In this case, the relevant date is 11 April 2023.

Due to the material uncertainties of the Company's ultimate liabilities, primarily in relation to the structural warranty and building guarantee policies, it is too early for the Joint Administrators to provide a detailed plan or timetable with regards to the likely exit route and distribution mechanism.

The Joint Administrators will liaise with the Creditors' Committee, the PRA and FCA on this topic in the next six months and updates will be provided to the creditors in future progress reports as matters progress.

### **Receipts and payments account**

A summary of the Joint Administrators' receipts and payments for the period from 12 October 2020 to 11 April 2021 is attached at Appendix B, which includes a summary of the received and payments for the reporting period. The Joint Administrators' receipts and payments account is a statement of cash received and cash paid out and does not reflect estimated future realisations or costs.



## **Investigations**

The Joint Administrators have concluded and made their confidential submission on the conduct of all persons who were directors, shadow directors or de-facto directors of the Company during the three-year period preceding the administration to the Insolvency Service, in accordance with their obligations pursuant to Statement of Insolvency Practice Number 2 (Investigations by Office Holders) and the Company Directors Disqualification Act 1986.

The Joint Administrators have undertaken an investigation into the Company's affairs and the events leading up to the commencement of the administration. There are a small number of matters which the Joint Administrators continue to review in this respect and will report on any matters which should be brought to the attention of creditors in future progress reports.

## **Joint administrators' statement of expenses incurred**

During the period covered by this report, expenses totalling £1,200,240 (net of VAT and excluding the Joint Administrators' fees and disbursements) have been paid to third parties in administering the Company's estate. A breakdown of expenses incurred in this period are enclosed in Appendix C of this report.

## **Joint administrators' remuneration**

The statutory provisions relating to remuneration are set out in Part 18 of the Insolvency (England and Wales) Rules 2016. In certain circumstances, creditors are entitled to request further information about our remuneration or expenses, or to apply to court if they consider the costs to be excessive (Rules 18.9 and 18.34 of the Insolvency (England and Wales) Rules 2016).

The Creditors' Committee passed a resolution on 1 February 2021 to fix the Administrators' remuneration on a time cost basis and authorised the Joint Administrators to draw 80% of their time costs (plus VAT and expenses) on a monthly basis, with the remaining 20% being subject to approval of the Creditors' Committee. The Creditors' Committee have agreed the Joint Administrators' proposed hourly rate card for all personnel across Ernst & Young LLP working on the administration of the Company. These hourly rates are included in Appendix D of this report.

During the period covered by this report, the Joint Administrators have incurred time costs of £2,883,788. Of this sum, £1,621,680 has been paid from the estate, representing 100% of time costs incurred in the period 12 October 2020 to 23 January 2021 in accordance with approval of the Creditors' Committee. A further £1,009,686, representing 80% of time costs incurred in the period 23 January 2021 to 11 April 2021 is authorised to be drawn in line with the resolutions passed by the Creditors' Committee. The Creditors' Committee approved the Joint Administrators to invoice the balance of £252,421, representing 20% of time costs incurred in the period 23 January 2021 to 11 April 2021, at a meeting held after the end of this reporting period.

An analysis of the time cost incurred, and a comparison with the fee estimate dated 3 December 2020 is attached as Appendix D to this report. Appendix D also provides a statement of the Joint Administrators' policy in relation to charging time and disbursements.



To date, the Joint Administrators have incurred disbursements of £37,244. Of this sum, £34,367 has been drawn. Analysis of the disbursements are set out in Appendix D of this report.

It is not currently expected that the Joint Administrators' remuneration will exceed the amount provided for in the fee estimate. However, this will remain under constant review as the conduct of the administration proceeds and, in particular, the exit strategy is formed.

### **Pre-administration costs**

A statement of pre-administration costs was made in the Proposals totalling £293,923 plus VAT, comprising the costs incurred by the Joint Administrators in preparing for the administration. Additional pre-administration costs relating to fees incurred by Clifford Chance LLP and legal counsel to prepare for and attend the Court Hearing appointing the Joint Administrators were erroneously omitted from the Proposals which totalled £48,648 plus VAT.

The Joint Administrators have drawn fees of £200,000 plus VAT in full settlement of the pre-administration costs and paid the costs of Clifford Chance LLP and legal counsel in the amount of £48,648 plus VAT following a resolution approved by the Creditors' Committee on 1 February 2021.

### **Distributions to creditors**

The hierarchy of debts for an insurance company is set out in The Insurers (Winding-up and Reorganisation) Regulations 2004 and applied to the Company. The effect of which is that insurance creditors have priority over other classes of unsecured creditors, including reinsurance cedents.

### **Insurance claimants – those eligible for FSCS protection**

Insurance claimants with structural warranty, building guarantee and employers' liabilities policies who are eligible for FSCS protection will be covered 100% of any benefit under their contract of insurance. When paying compensation, the FSCS will take an assignment of any rights those insurance claimants might have against the Company and any third parties and the FSCS will have a subrogated insurance claim against the Company for the compensation payments made.

### **Insurance claimants – the FSCS and those not eligible for FSCS protection**

As mentioned above, the FSCS will have a subrogated insurance claim against the Company for the compensation payments made. Insurance claimants who are not eligible for FSCS protection will also rank as insurance claimants against the Company. It is not yet possible to provide an accurate estimate of the dividend prospects for insurance claimants against the Company. Further information on this will be provided in due course.

### **Unsecured creditors – including reinsurance and trade creditors**

Given the scale of estimated liabilities under the Company's insurance policies, it is not anticipated that there will be sufficient realisations to make a distribution to unsecured creditors, including reinsurance and trade creditors.

### Next report

We will report to you again in six months' time, by 11 November 2021. We will share this with creditors by publication on the Company's website.

Yours faithfully  
for the Company



Richard Barker  
Joint Administrator

Richard Barker and Simon Edel are licensed in the United Kingdom to act as Insolvency Practitioners by The Insolvency Practitioners Association.

The affairs, business and property of the Company are being managed by the Joint Administrators, Richard Barker and Simon Edel, who act as agents of the Company only and without personal liability.

The Joint Administrators may act as data controllers of personal data as defined by the UK General Data Protection Regulation (as incorporated in the Data Protection Act 2018), depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Company may act as a data processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrator's appointment. The Office Holder Data Privacy Notice can be found at [www.ey.com/uk/officeholderprivacy](http://www.ey.com/uk/officeholderprivacy).

## Appendix A

### Information about the proceedings, the company and the office holders, as required by Rule 18.3(1) of the Insolvency (England and Wales) Rules 2016

Name of court:	High Court of Justice, Business and Property Courts of England and Wales, Insolvency and Companies Court (ChD)
Court reference:	3913 of 2020
Registered name of the company:	East West Insurance Company Limited (in Administration)
Registered office address of the company:	c/o Ernst & Young LLP 1 More London Place London SE1 2AF
Registered number:	00811120
Date of appointment of the joint administrators:	12 October 2020 Richard Barker and Simon Edel
Name(s) and address(es) of the administrator(s):	Ernst & Young LLP 1 More London Place London SE1 2AF
Office holder number(s):	17150 and 9810
Division of Administrators' responsibility:	Any of the functions to be performed or power exercisable by the Administrators may be carried out/exercised by any one of them acting alone or by any or all of them acting severally
Name of alternative person to contact with enquiries about the case:	<a href="mailto:eastwestinsurance@uk.ey.com">eastwestinsurance@uk.ey.com</a> +44 (0) 20 7951 2000
Prescribed Part:	The Administrators have established that there are no valid fixed or floating charges registered against the Company. In the absence of a floating charge, there are no monies required to be set aside to the creditors under s176A of the Act being under the 'Prescribed Part' formula.
Statement concerning the EC regulation:	The EC Council Regulation on Insolvency proceedings does not apply to this Administration

## Appendix B

### East West Insurance Company Limited (in Administration)

#### Joint Administrators' summary of Receipts & Payments from 12 October 2020 to 11 April 2021

	Note	Directors' Statement of Affairs	12-Oct-20 to 11-Apr-21
<b>Receipts</b>			
Cash and cash equivalents	1	17,655,334	17,655,061
Investments	2	23,306,759	5,720,000
Accrued interest	2	290,143	290,143
Investment income	2	-	33,433
Other debtors	3	5,000,000	5,000,000
Insurance debtors		10,414	18,037
Miscellaneous receipts			725
Bank interest			572
<b>Total Receipts</b>		<b>46,262,650</b>	<b>28,717,970</b>
<b>Payments</b>			
Claims handling	4		533,154
Supplier payments	5		151,500
Legal fees – pre-administration	6		48,648
Legal fees – post-administration	6		195,469
Legal fees – recoveries	6		118,039
Investment Management fees			6,717
Joint Administrators' fees – pre-administration	7		200,000
Joint Administrators' fees – post-administration	7		1,621,680
Alternative accommodation expenses	8		137,214
Indemnity costs to be reimbursed by FSCS	8		9,360
Postage, photocopying and printing			34,367
Irrecoverable input VAT	9		512,069
Loss adjuster expenses			120
Bank charges			18
<b>Total Payments</b>			<b>3,568,356</b>
<b>Represented by:</b>			
RBS current account			3,656,225
BOS current account			5,000,260
LBG current account			5,000,000
Natwest current account			5,000,000
Barclays current account			5,000,007
BNY custody account			1,493,122
Total bank balance	10		<b>25,149,614</b>

## Notes

1. At 12 October 2020, £2.2 million of cash in the Company's bank accounts and £15.5 million of cash in the Bank of New York Mellon Custody account.
2. During the period, £5.7 million of investments matured and £0.3 million of interest was earned on investments. The latest valuation for the remaining investments as at 31 March 2021 is £17.3 million which are held by NEAM to the Joint Administrators' order.
3. On 4 November 2020, £5.0 million was received from a third party in respect of a pre-administration agreement.
4. Payment of fees in relation to ongoing claims handling services provided by ARML and other third parties.
5. Payments in respect of pre-administration costs made to three key loss adjusters and quantity surveyors to ensure the Company can continue to operate.
6. Legal fees in relation to advising the Joint Administrators and ongoing claims management and recoveries. Pre-administration legal fees were approved by resolution at the first Creditors' Committee meeting.
7. Joint Administrators' fees for the pre-administration period and the post-administration period to 22 January 2021 were approved by resolutions at the first Creditors' Committee meeting.
8. Payments made to date by the Joint Administrators in respect of alternative accommodation and other indemnity costs some of which may be recoverable from the FSCS in due course, subject to eligibility criteria.
9. EWIC is currently VAT registered but is not able to recover input VAT.
10. Funds are separated into six different banks for credit risk management purposes.

## Appendix C

### East West Insurance Company Limited (in Administration)

#### Summary of Joint Administrators' expenses incurred for the period from 12 October 2020 to 11 April 2021

##### Payments made from the estate which are not disbursements

Category of expense	Per estimate dated 3 December 2020 £ (exc VAT)	Incurred to 11 April 2021 £ (exc VAT)
<b><u>Administration costs</u></b>		
Alternative accommodation payments	500,000	137,214
Bank Charges	12,000	18
Investigation costs	1,200,000	-
Legal fees and expenses – claims advice	1,050,000	-
Legal fees and expenses– insolvency advice	900,000	244,118
Legal fees and expenses – recoveries	450,000	118,039
Legal secondments	600,000	90,390
Loss adjusters	1,500,000	120
NEAM fund management charges	45,000	6,717
Public Notices	1,000	-
Quantity surveyor / consultants	700,000	151,500
Storage costs	10,000	-
Sundry expenses	50,000	-
Tax advisors	50,000	-
Third party claims handling service providers	1,890,000	442,764
Zedra escrow account fees	1,500	-
Indemnity costs to be reimbursed by FSCS	-	9,360
<b><u>Scheme of Arrangement costs</u></b>		
Scheme of Arrangement planning legal costs	800,000	-
<b>Total expenses</b>	<b>9,759,500</b>	<b>1,200,240</b>
<b><u>Pre-administration costs</u></b>		
Joint Administrators' pre-administration costs	293,922	200,000
Legal fees and expenses – pre-administration	-	48,648
<b>Total pre-administration costs</b>	<b>293,922</b>	<b>248,648</b>
<b>TOTAL EXPENSES</b>	<b>10,053,422</b>	<b>1,448,888</b>
<b><u>Category 1 &amp; 2 disbursements</u></b>		
Specific penalty bond	1,280	1,280
Postage, photocopying and printing	60,000	34,367
<b>Total disbursements</b>	<b>62,280</b>	<b>35,647</b>
<b>TOTAL DISBURSEMENTS &amp; EXPENSES</b>	<b>10,114,702</b>	<b>1,484,535</b>

Expenses are expected to be incurred up to the end of the 30-month Administration period, at which time the Administration is due to automatically end (being 11 April 2023).

Owing to the wide range of possible outcomes, it is not possible at this stage to estimate with any accuracy the expenses to be incurred. However, at present, expenses have not exceeded the original estimate provided. There are two lines which have individually exceeded the initial estimate:

1. **Indemnity costs to be reimbursed by FSCS.** As mentioned in Appendix B, these are expected to be recoverable from the FSCS in due course, subject to eligibility criteria.
2. **Legal fees and expenses – pre-administration.** As mentioned in the progress report, additional pre-administration costs relating to fees incurred by Clifford Chance LLP and legal counsel to prepare for and attend the Court Hearing appointing the Joint Administrators were erroneously omitted from the Proposals which totalled £48,648 plus VAT. The Joint Administrators have paid disbursements of £48,648 plus VAT in full settlement of the pre-administration legal fees and expenses following a resolution approved by the Creditors' Committee on 1 February 2021.

## Notes

- 1 Statement of Insolvency Practice 9 (SIP 9) defines expenses as amounts properly payable from the insolvency estate which are not otherwise categorised as office holders' remuneration or distributions to creditors.
- 2 SIP 9 defines disbursements as a type of expense which is met by, and reimbursed to, an office holder in connection with an insolvency appointment. Disbursements fall into two categories: Category 1 and Category 2.
  - Category 1 disbursements are payments to independent third parties where there is specific expenditure directly referable to the appointment
  - Category 2 disbursements are expenses which are directly referable to the appointment but not a payment to an independent third party. They may include shared and allocated costs.



## Appendix D

### Summary of the Joint Administrators' time costs incurred from 12 October 2020 to 11 April 2021

	Hours by grade						Total hours	Total costs £	Avg hourly rate £/hour
	Partner & Associate Partner	Director	Assistant Director & Senior Manager	Manager	Executive	Analyst and other staff			
Asset realisations	79	-	61	184	4	31	359	214,248	596
Insolvency process	54	-	299	53	405	111	922	462,123	501
Dealing with creditors	7	-	20	83	208	45	363	153,318	423
Insurance run off	290	-	882	1,312	120	228	2,832	1,612,965	570
Management of Company's affairs	52	1	70	38	61	169	390	172,815	443
Strategy and planning	48	-	170	95	105	97	516	268,320	521
Scheme of Arrangement	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>530</b>	<b>1</b>	<b>1,501</b>	<b>1,765</b>	<b>903</b>	<b>681</b>	<b>5,380</b>	<b>2,883,788</b>	<b>536</b>

  

<b>Total costs £</b>	489,880	1,008	1,013,310	882,450	361,040	136,100	2,883,788
<b>Avg hourly rate £/hour</b>	925	775	675	500	400	200	536

The above costs exclude VAT.

## Appendix D

### Summary of Joint Administrators' fees incurred for the period from 12 October 2020 to 11 April 2021

The following table includes the original estimate through to 11 April 2023 and summarises the time incurred during the Administration for the period 12 October 2020 to 11 April 2021. Please refer to the assumptions given in the Joint Administrators' fee estimate and details of expenses dated 3 December 2020.

	Estimated to 11 April 2023			Actuals to 11 April 2021		
	Total hours	Total fees £	Average hourly run rate £/hour	Total hours	Total fees £	Average hourly run rate £/hour
<b><u>Asset realisations</u></b>						
Third party contributions and/or recoveries	687	421,980	615	359	214,248	597
<b>TOTAL</b>	<b>687</b>	<b>421,980</b>	<b>615</b>	<b>359</b>	<b>214,248</b>	<b>597</b>
<b><u>Insolvency process</u></b>						
Initial letters and notices	174	88,351	509	204	77,763	380
Proposals, deemed consent and creditor consultation	315	221,933	704	293	155,390	530
CDDA and SIP2 compliance	272	176,814	650	180	85,103	472
Creditors' committee	424	282,173	665	168	101,393	602
Reporting to creditors	347	194,034	559	39	18,663	479
Statement of Affairs	30	25,907	855	34	22,603	659
Insurance	1	1,109	855	2	1,210	605
<b>TOTAL</b>	<b>1,564</b>	<b>990,321</b>	<b>633</b>	<b>922</b>	<b>462,123</b>	<b>501</b>
<b><u>Dealing with creditors</u></b>						
Creditor enquiries and management	431	247,958	576	362	153,318	423
<b>TOTAL</b>	<b>431</b>	<b>247,958</b>	<b>576</b>	<b>362</b>	<b>153,318</b>	<b>423</b>
<b><u>Insurance run off</u></b>						
Claims litigation matters	824	646,121	784	188	121,918	648
Payment processes	541	262,110	485	89	33,530	377
Administrators' supervision of run off	130	87,327	673	634	326,768	515
Protected claims handling	909	612,316	673	1,345	773,733	575
Non-protected claims handling	261	175,863	674	183	119,150	651
Claims handling operations	-	-	-	392	237,868	607
<b>TOTAL</b>	<b>2,664</b>	<b>1,783,737</b>	<b>669</b>	<b>2,832</b>	<b>1,612,965</b>	<b>570</b>
<b><u>Management of Company's affairs</u></b>						
Accounting and treasury	239	117,764	493	225	78,108	347
VAT & Tax	48	31,702	662	26	14,683	556
Regulatory	325	232,717	716	103	55,008	534
Data & Software	99	63,285	640	23	16,225	696
Public relations	16	10,381	645	12	8,793	727
<b>TOTAL</b>	<b>727</b>	<b>455,848</b>	<b>627</b>	<b>390</b>	<b>172,815</b>	<b>443</b>
<b><u>Strategy and planning</u></b>						
Project management and statutory requirements	305	203,976	670	460	222,233	483
Joint Administrators' oversight	164	151,439	921	56	46,088	827
<b>TOTAL</b>	<b>469</b>	<b>355,415</b>	<b>758</b>	<b>516</b>	<b>268,320</b>	<b>521</b>

**Scheme of arrangement**

Effecting a Scheme of Arrangement	1,624	880,460	542	-	-	-
<b>TOTAL</b>	<b>1,624</b>	<b>880,460</b>	<b>542</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total hours and fees estimate</b>	<b>8,165</b>	<b>5,135,720</b>	<b>629</b>	<b>5,380</b>	<b>2,883,788</b>	<b>536</b>

Further to ARML withdrawing from servicing the claims portfolio of the Company. The Joint Administrators had to complete a tender and transition process which was unforeseen at the start of the administration. To capture this additional time incurred we have added an additional activity:

- Claims handling operations

## Appendix D

### Statement of Administrators' charging policy for remuneration and disbursements pursuant to Statement of Insolvency Practice No.9

The Administrators have engaged managers and other staff to work on the Administration. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Additional assistance is provided by accounting and treasury executives dealing with the company's bank accounts and statutory compliance issues / work carried out by all staff is subject to the overall supervision of the Administrators.

All time spent by staff working directly on the case related matters is charged to a time code established for the case. Time is charged in units of six minutes. Each member of staff has a specific hourly rate which is subject to change over time. The hourly rate for each category of staff, including the maximum rate for specialist staff, over the period is shown below.

<b>Grade</b>	<b>Current hourly rate £/hour</b>
<b>Partner / Associate Partner</b>	925
<b>Director</b>	775
<b>Senior Manager</b>	675
<b>Manager</b>	500
<b>Executive</b>	400
<b>Analyst</b>	200

## Appendix D

### Summary of Joint Administrators' expenses incurred

Type of expense	Incurred in the period (£)	Paid in the period (£)	Outstanding (£)
<b>Category 1 disbursements (see note 1)</b>			
Specific penalty bond	1,280.00	-	1,280.00
Postage, photocopying and printing	34,367.17	34,367.17	-
<b>Category 2 disbursements (see note 2)</b>			
Postage, photocopying and printing	1,596.55	-	1,586.55
<b>Totals</b>	<b>37,243.55</b>	<b>34,367.17</b>	<b>2,876.55</b>

### Office Holders' Charging Policy for Disbursements

**Statement of Insolvency Practice No. 9 ("SIP 9") published by R3 (The Association of Business Recovery Professionals) divides disbursements into two categories.**

1. Category 1 disbursements are defined as specific expenditure relating to the administration of the insolvent's affairs and referable to payment to an independent third party. Such disbursements can be paid from the insolvent's assets without approval from the Creditors' Committee. In line with Statement of Insolvency Practice No. 9, it is our policy to disclose Category 1 disbursements drawn but not to seek approval for their payment. We are prepared to provide such additional information as the Committee require to support the disbursements drawn.
2. Category 2 disbursements are charges made by the office holder's firm that include elements of shared or overhead costs. Statement of Insolvency Practice No. 9 provides that such disbursements are subject to approval as if they were remuneration. It is our policy, in line with SIP 9, to seek approval for this category of disbursement before they are drawn.