



Western Pacific Insurance Limited (in Liquidation)

Report to Creditors dated 7 June 2011

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Introduction and history

On 1 April 2011, the Shareholders by Special Resolution appointed David Ian Ruscoe and Simon John Thorn, of Grant Thornton New Zealand Limited, as Joint and Several Liquidators of Western Pacific Insurance Limited (In Liquidation) (“the Company”).

At the date of our appointment, the Company operated an insurance business with interests and exposure in New Zealand, Australia and the wider Asia Pacific region. It is understood there is approximately 7000 policy holders in New Zealand alone.

The Company’s insurance business has exposure to the recent earthquakes in Christchurch and it was determined by the directors that the Company was not in a position to meet such claims. As a result, it was resolved by shareholders that the Company be placed in liquidation.

Steps taken following appointment

Immediately following our appointment, we determined it necessary to try and protect the ongoing exposure of policy holders while also looking to realise a value from the Company’s business to some way bridge the funding gap expected between total claims and available funds.

This strategy involved two main parts:

- 1 Maintaining the operation of the claims department; and
- 2 Going to market to seek a sale/transfer/assignment of the insurance business. Despite our best efforts and direct contact with numerous local and international insurers, there was no interest in the business as a whole.

Business operations

The Company had ceased writing new business and renewals of insurance policies prior to our appointment.

We determined it appropriate to retain the Company's claims department as there is a large volume of claims that are yet to be assessed and determined, a lot of which relates to the February earthquake in Christchurch.

Reasons for failure

Our initial assessment of the Company's affairs indicates a significant lack of capital and an aggressive approach to winning market share may have led to the failure of the Company. It was simply incapable of meeting the claims from Christchurch earthquakes.

We have some key preliminary observations in the way the insurance business was structured which if correct, are likely to have contributed to its difficulties. These include:

- the cost of reinsurance was costly and given the size of this business it amounted to approx 40% of total premium income (reinsurance is where insurers take out insurance policies with specialist insurers to cover certain claims of the Company)
- coupled with commissions paid to Brokers, which were often between 20% and 25%, the Company only had 40% of its premium income to cover operating costs and meet claims not covered by reinsurance
- premiums were priced low possibly in an attempt to gain market share and grow the business. However, in some instances the premiums were too low with some policies in Christchurch written at a price significantly lower than what is being offered by other insurers
- the Company accepted risks outside the scope of its reinsurance policies and chased premium income in numerous countries, including: Australia; Abu Dhabi; Chile; Fiji; Rarotonga; Samoa; Singapore; and Vanuatu.

Policy cancellations

With insufficient funds to meet claims arising prior to our appointment, it was not acceptable for us as liquidators to continue receiving premium payments on contracts we were not able to meet should an insurance event occur in the future. It was also important that we advised policy holders that they might not receive payments on policies that they thought were effective. Accordingly we cancelled all contracts on 21 April 2011 and advised policyholders to arrange alternative cover.

We know this decision has put certain policyholders in a difficult position as alternate cover may not be available but it was essential that everyone was informed that the Company would not be able to meet claims.

To help in finding alternative insurance cover we entered into a preferred supplier agreement with Tower Insurance Limited (Tower). Under this agreement Tower agreed to consider offering cover to all New Zealand based policy holders of the Company at current market rates. Normal underwriting criteria will apply.

To take up this option please contact Tower on 0800 847 020

Claims

The claims department remains open and claims for losses incurred prior to the cancellation of all policies will need to be assessed in full.

If you do have a claim for losses incurred prior to cancellation of your policy please contact our claims department on (09) 365 1642 or claims@westernpacins.com to notify them of any potential claim as soon as practical.

Claim Assessments

The Company used a number of loss adjusters including Cunningham Lindsey and McLarens Young International to assess claims. We understand that prior to our appointment all loss adjusters ceased to work on assessments due to non payment of their fees.

We have met with both Cunningham Lindsey and McLarens Young and are working through arrangements for the assessments to be completed and released to us.

After all assessments have been completed, any payments to claimants will need to be made from any reinsurance proceeds received subject to advice from the Court as discussed later in our report.

Claims exposure

It is not possible at this stage to know the total claims exposure as a large number of claims relating to the February 2011 earthquake are yet to be assessed and some claims may not have been notified yet.

To provide a full and proper position in respect of the Company's exposure to claims, it is useful to first understand the total sums insured by the Company. These can be broken down by geographic region and type of cover. Attached at Appendix A is a breakdown of the total sum insured amounts by region. The following is a summary of the property insurances:

	Canterbury sums insured \$	New Zealand sums insured \$	All Countries Total sums insured \$
Business Interruption	63,715,647	202,860,519	216,043,989
Commercial Property	476,116,729	1,760,973,964	1,861,574,125
House	7,259,647	141,522,359	142,627,359
Contents	2,470,879	25,842,906	25,842,906
Private Motor	105,001	4,107,516	4,107,516
IDNZ*	1,412,635	41,110,534	41,110,534
Commercial Motor	5,181,735	27,936,569	55,265,069
Total sum insured	556,262,273	2,204,354,367	2,346,571,498

*IDNZ is a small business package which covers such businesses as florists, photographers and musicians

In addition to the above exposures, the Company has also written casualty insurance, professional indemnity and public and product liability as follows:

	New Zealand sums insured \$	All Countries Total sums insured \$
Professional Indemnity	42,470,000	171,970,000
Public Liability	2,197,208,169	7,718,318,169
Total sum insured	2,239,678,169	7,890,288,169

Claims summary

There will be a shortfall of funds available for claims. A summary of the claims received to date along with an early estimate of the liabilities in respect of same and an early estimate of reinsurance potentially available is attached at Appendix B. A summary of the estimate claims is set out below.

	\$
Claims – Sept 2010 Earthquake	14,480,643
Claims – Feb 2011 Earthquake	20,721,088*
Other New Zealand claims	1,010,000
Australian based claims	2,863,000
Pacific and other claims	2,113,541
Estimated Total claims	41,188,272

*The figure for claims to date for the Feb 2011 Earthquake is a very rough estimate because claims assessments have not progressed very far to date.

The liquidators' early estimate of the reinsurance proceeds available to the Company is \$32,692,934. A bond of \$500,000 will also be available. Depending on court directions, the costs of liquidation may be deducted from these proceeds. Therefore a significant shortfall is expected in the Company's ability to pay out claims.

Current funds available

Attached as Appendix C is a copy of a Statement of Affairs constructed from the Company's records and included in our first report filed with the Companies Office.

The book value of the Company's assets was recorded at greater than \$4.5 million. However, the amount we expect to recover from these assets may only be in the hundreds of thousands rather than millions. The rationale for this assumption is outlined as follows:

- fixed assets comprise mainly office and computer equipment which is not considered to hold great value
- unremitted premiums held by brokers may not be fully recoverable eg if they relate to the period after we cancelled insurance contracts
- investments relate to the interest in subsidiaries in Australia and Hong Kong and the initial indications are that these will have no value

Reinsurance arrangements

The Company has a suite of reinsurance arrangements in place with a panel of reinsurers brokered through Singapore.

The key reinsurance arrangements (ie those for the Christchurch earthquakes) only take effect once a loss is greater than \$500,000 for a single claim or total claims exceed \$1,000,000 for a catastrophic event, such as the Christchurch earthquakes.

As it is critical that the reinsurance arrangements are maintained to ensure a maximum recovery for creditors, we have paid the initial premiums totalling approx NZ\$430,000 from funding borrowed from banks.

We have obtained legal advice on the reinsurance treaties to ascertain whether there was any risk of same being terminated or lost as a result of the Company's insolvency. Following are the key points from the advice:

- all reinsurance treaties bar one small policy have an insolvency clause which protects the Company even though it is insolvent.
- after claims have been assessed, even if the Company has not paid out claims the reinsurers will have an obligation to pay the Company.
- the availability of the reinsurance proceeds for all claimants and the general body of creditors of the Company is uncertain. We are going to seek directions from the Court on this point as set out on the following page.

Entitlement to reinsurance proceeds

The question is who is entitled to the reinsurance proceeds?

Legal advice we have received indicates that some claimants (those with claims for which reinsurance is available) will be entitled to the reinsurance funds received, but a level of uncertainty about this means that some clarifications from the High Court will be required.

If this is correct, this would mean that those of you with claims resulting from the two main Christchurch earthquakes for which reinsurance is available, may have the right to claim against the specific funds received from reinsurers for each earthquake.

If this is not correct, all of the reinsurance funds would be available to all the creditors of the Company.

Court Directions

Due to the uncertainty as to who is entitled to the potential reinsurance proceeds we are seeking directions from the Court to determine who is entitled to the reinsurance proceeds.

We are currently compiling the information required to seek directions from the Court and obtain a hearing date. The first part of this will be to seek an order for who is to be notified of the Court hearing and how parties are to be represented in order to ensure all creditors have an ability to have their case argued.

Our request for directions will also include a request that our fees, disbursements and expenses (including assessors' costs, reinsurance premiums and our advisers' reasonable costs) can be recovered from the reinsurance proceeds. We will also request that any funder of these costs is repaid from these funds.

We expect this process to take up to six months to receive the directions. We know this will be of concern, however there is no other way of ensuring creditors are all treated fairly.

Directors duties

The Companies Act 1993 puts certain performance obligations on the Directors when running a company including to act in what they believe to be the best interests of the Company.

We are reviewing the actions of the Directors to ascertain whether there are any actions available to us to recover funds for creditors. These actions can include claims for reckless trading, entering into transactions when insolvent and certain voidable preference payments.

Other Matters

Next report

We expect to provide you with a further report at the end of July 2011.

Contact details

Please forward general enquiries to westernpac@nz.gt.com and we will respond as soon as possible.

For any claims enquiries please call (09) 365 1642 or forward to claims@westernpacins.com.

To contact Tower to take up their insurance offer please contact Tower on 0800 847 020.

Further information

Further information including correspondence to date and frequently asked questions will be available on our website www.grantthornton.co.nz shortly.

Disclaimer

The statements and opinions expressed in this report have been made in good faith, and on the basis that all information that we have relied upon is true and accurate in all material respects. In preparing this report we have relied upon, and have not necessarily independently verified, the information and explanations provided to us and we express no opinion as to the accuracy or completeness of that information, other than to note that our investigations are ongoing.

The contents of this report are based on the information available to us at the date of this report. If we become aware of any additional information not known to us at the date of this report, we reserve the right, but shall not be obliged to, review or update this report.

Appendix A

WPIL - Property - Cresta Zone

LIVE at 05/04/2011 - Converted to \$NZD

State	Cresta No.	Business Interruption	Commercial Motor	Commercial Property	Contents	House	IDNZ	Private Motor	Total Sum Insured \$	Total Policy Count \$
		Sum Insured \$	Sum Insured \$	Sum Insured \$	Sum Insured \$	Sum Insured \$	Sum Insured \$	Sum Insured \$		
NZ	0 - Anywhere in New Zealand	650,000	220,720	1,502,500		165,000	352,892	721,885	3,612,997	377
	1 - Northland	1,424,920	273,300	29,337,597	487,390	3,895,575	55,500	24,000	35,498,282	258
	2 - Auckland	46,025,440	7,023,006	403,903,315	15,594,392	81,071,591	27,240,059	2,717,040	583,574,843	3,324
	3 - Waikato	7,605,790	2,002,736	123,979,961	1,755,125	15,189,585	142,973	51,000	150,727,170	789
	4 - Bay of Plenty	2,222,000	585,290	83,854,875	1,482,649	10,133,035	185,898	205,990	98,669,737	670
	5 - Taranaki	1,816,594	43,000	14,141,000	136,000	544,500	18,500		16,699,594	321
	6 - East Coast	75,000	6,000	15,008,900	50,000	2,038,500		-	17,178,400	54
	7 - Manawatu	25,073,320	1,160,251	103,328,976		341,284	20,000	12,000	129,935,831	501
	8 - Hawkes Bay	2,177,811	649,449	73,453,497	491,600	2,533,000	37,000	21,000	79,363,357	324
	9 - Wairarapa	2,807,978	674,979	40,918,622	20,000		1,000,000	27,000	45,448,579	390
	10 - Wellington	17,618,515	689,895	129,879,929	885,100	3,725,375	2,889,789	104,500	155,793,103	1,565
	11 - Nelson	5,979,800	1,120,725	73,127,114	393,585	1,739,300	265,000	31,100	82,656,624	798
	12 - Marlborough	43,475		2,696,975	160,000	712,001	10,000		3,622,451	20
	13 - Canterbury	63,715,647	5,181,735	476,116,729	2,470,879	7,259,647	1,412,635	105,001	556,262,273	1,996
	14 - Westland	42,000	10,000	6,120,000	60,000	468,000			6,700,000	43
	15 - Otago	22,708,041	4,896,727	150,944,285	1,422,100	9,361,466	5,480,288	64,000	194,876,907	2,755
	16 - Southland	2,874,188	3,398,756	32,659,690	434,086	2,344,500	2,000,000	23,000	43,734,220	486
NZ Total		202,860,519	27,936,569	1,760,973,965	25,842,906	141,522,359	41,110,534	4,107,516	2,204,354,368	14,671
AUS		12,783,471	27,285,000	96,285,161		1,105,000			137,458,631	208
ABU DHABI				800,000					800,000	2
CHILE				1,235,000					1,235,000	3
RAROTONGA		400,000	43,500	1,680,000					2,123,500	5
SINGAPORE				600,000					600,000	1
Grand Total		216,043,990	55,265,069	1,861,574,125	25,842,906	142,627,359	41,110,534	4,107,516	2,346,571,499	14,890

WPIL - Casualty - Value Band
LIVE at 23/03/2011 - Original Currencies

Category	Currency	Country	Value Band	Sum Insured	Policy Count			
PI	NZD	NZ	0-250k	\$ 970,000	27			
			250-500k	\$ 2,000,000	16			
			500k-1m	\$ 21,000,000	112			
			1-2m	\$ 13,500,000	15			
			4-5m	\$ 5,000,000	1			
			NZ Total	\$ 42,470,000	171			
			SAMOA	250-500k	\$ 500,000	1		
			SAMOA Total	\$ 500,000	1			
			NZD Total	\$ 42,970,000	172			
	AUD	AUS	250-500k	\$ 1,000,000	2			
			500k-1m	\$ 12,000,000	12			
			1-2m	\$ 22,000,000	12			
			2-4m	\$ 4,000,000	5			
			4-5m	\$ 30,000,000	12			
			7.5-10m	\$ 50,000,000	7			
			>15m	\$ -	2			
					AUS Total	\$ 119,000,000	52	
					VANUATU	500k-1m	\$ 1,000,000	1
					VANUATU Total	\$ 1,000,000	1	
			AUD Total	\$ 120,000,000	53			
USD	SAIPAN	7.5-10m	\$ 9,000,000	1				
		SAIPAN Total	\$ 9,000,000	1				
		USD Total	\$ 9,000,000	1				
PI Total			\$ 171,970,000	226				
PL	NZD	NZ	0-250k	\$ 2,014,169	136			
			250-500k	\$ 12,692,000	185			
			500k-1m	\$ 549,845,000	1320			
			1-2m	\$ 776,197,000	1400			
			2-4m	\$ 109,210,000	72			
			4-5m	\$ 425,000,000	398			
			5-7.5m	\$ 23,250,000	7			
			7.5-10m	\$ 220,000,000	65			
			>15m	\$ 71,000,000	7			
					NZ Total	\$ 2,189,208,169	3590	
					AUS	1-2m	\$ 2,000,000	1
					AUS Total	\$ 2,000,000	1	
					CHILE	1-2m	\$ 2,000,000	1
					CHILE Total	\$ 2,000,000	1	
			RAROTONGA	500k-1m	\$ 1,000,000	1		
			RAROTONGA Total	\$ 1,000,000	1			
			SINGAPORE	1-2m	\$ 2,000,000	1		
			SINGAPORE Total	\$ 2,000,000	1			
			VANUATU	500k-1m	\$ 1,000,000	1		
			VANUATU Total	\$ 1,000,000	1			
			NZD Total	\$ 2,197,208,169	3595			
	AUD	AUS	0-250k	\$ 110,000	2			
			500k-1m	\$ 7,000,000	10			
			1-2m	\$ -	2			
			4-5m	\$ 315,000,000	89			
			7.5-10m	\$ 3,030,000,000	395			
			>15m	\$ 2,120,000,000	147			
					AUS Total	\$ 5,472,110,000	645	
					JAPAN	>15m	\$ 20,000,000	1
					JAPAN Total	\$ 20,000,000	1	
					SINGAPORE, KL,HK	7.5-10m	\$ 10,000,000	1
					SINGAPORE, KL,HK Total	\$ 10,000,000	1	
					VANUATU	500k-1m	\$ -	2
		1-2m	\$ 2,000,000	3				
		4-5m	\$ 5,000,000	1				
		7.5-10m	\$ 10,000,000	1				
		VANUATU Total	\$ 17,000,000	7				
		AUD Total	\$ 5,519,110,000	654				
USD	FRENCH POLYNESIA	1-2m	\$ 2,000,000	1				
		FRENCH POLYNESIA Total	\$ 2,000,000	1				
		USD Total	\$ 2,000,000	1				
PL Total			\$ 7,718,318,169	4250				
Grand Total			\$ 7,890,288,169	4476				

Appendix B

Western Pacific Insurance Limited (in Liquidation)

Outstanding Claims

Country	Class of Insurance	Claims Estimate \$	Reinsurance – initial estimate of Recovery \$	Reinsurance Deductible \$	Extent claims estimate not covered by reinsurance \$
New Zealand	Material Damage and Business Interruption (EQ Sept 2010)	14,480,643	13,480,643	1,000,000	1,000,000
New Zealand	Material Damage and Business Interruption (EQ Feb 2011)	20,721,088*	18,500,000	1,000,000	2,221,088
Australia	Material Damage	52,000			52,000
Australia	Casualty	2,811,000			2,811,000
New Zealand	Domestic (House and Contents)	90,000	45,000		45,000
New Zealand	Motor	31,000	7,750		23,250
Samoa	Material Damage (Fire)	117,000			117,000
Fiji	Material Damage	1,659,541	Potentially 659,541 (may be offset against unpaid resinsurance premiums)	1,000,000	At least 1,000,000
New Zealand	Motor	390,000			390,000
New Zealand	Casualty	53,000			53,000
New Zealand	Material Damage and Business Interruption (excluding EQ Losses)	446,000			446,000
Pacific		337,000			337,000
		41,188,272	32,692,934	3,000,000	8,495,338

*The figure for claims to date for the Feb 2011 Earthquake is a very rough estimate because claims assessments have not progressed very far to date.

Appendix C

Western Pacific Insurance Limited (In Liquidation)
as at the date of the appointment of Liquidators
being 1 April 2011

	Book Value \$	Estimate Realisation \$	Notes
Assets not specifically charged			
Cash at Bank	199,912	199,912	
Fixed Assets (at 30 June 2010)	457,593	unknown	1
Premiums held by brokers	2,604,865	unknown	2
Funds held by reinsurer's broker	257,280	257,280	3
Other reinsurance proceeds	unknown	unknown	4
Government Bond	500,000	500,000	5
Investments	560,332	unknown	6
GST Refund	<u>113,890</u>	<u>unknown</u>	
Less: Preferential Creditors (estimated at date of Report)			
Employees	41,522	41,522	
Inland Revenue Department	<u>20,440</u>	<u>unknown</u>	
Assets subject to security interests including, debentures General Security Agreement's, mortgages hire purchase agreements			
	unknown	unknown	
Estimated Assets Available To Unsecured Creditors			
		unknown	
Unsecured creditors		3,881,537	7
Unsettled Claims		1,952,735	7
Estimated Surplus/(Deficit)			
(Subject to the costs of liquidation)		<u>unknown</u>	

The Company does not maintain its own accounting records. They are looked after by an external party. At the time of producing this report, the Liquidators are unsure as to how up to date the information provided is.

Notes

1. The fixed assets are comprised of motor vehicles, office furniture and IT Equipment. These items are in the process of being valued.
2. Records indicate unremitted premiums are held by Brokers
3. It is understood these funds have been released by the Reinsurers and are held by the reinsurance Broker in Singapore
4. It is expected the reinsurance arrangements will provide funds to meet the many claims yet to be assessed and determined
5. This is a security bond held by The Public Trust for the benefit of insured claimants in the event the company is unable to satisfy claims
6. These investments relate to various related parties including subsidiaries in Australia and Hong Kong
7. It is expected the claims and creditor amounts will increase as insurance claims following the recent Earthquakes are assessed.



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