

15 October 2009

Ref:

Dear

**PROPOSED SCHEME OF ARRANGEMENT FOR THE ENGLISH & AMERICAN UNDERWRITING AGENCY POOLS**

**1. WHY HAVE WE WRITTEN TO YOU?**

We write to advise you that the Scheme Companies (as defined below) are to propose a scheme of arrangement under Part 26 of the English Companies Act 2006 (the "**Scheme**").

**We are writing to you as we believe that you are, or may be, a creditor of one or more of the Scheme Companies (a "Scheme Creditor") and that you may be affected by the proposed Scheme. Alternatively, you may be a broker or other agency who has acted on behalf of such Scheme Creditors in placing business with a Scheme Company, in which case please forward a copy of this letter to such of your clients as you believe may be affected by the Scheme, or alternatively provide us with your clients' names and addresses so we can write to them directly.**

Following guidance given by the High Court of Justice of England and Wales (the "**English Court**"), we are writing to inform you of:

- (i) the objectives which the Scheme is designed to achieve; and
- (ii) the composition of the meetings of Scheme Creditors which the Scheme Companies propose to convene for the purpose of voting on the Scheme.

**2. THE SCHEME COMPANIES**

The 16 companies listed in Part A of the appendix to this letter (the "**Scheme Companies**") which participated in one or more of the English & American Underwriting Agency Limited Pools, the Transglobe Aviation Underwriting Syndicate Pool, the Transglobe Re Pool and the E&A Re Pool (the "**Pools**"), propose to implement a unified Scheme in respect of their Pools liabilities.

Three of the Scheme Companies, namely English & American Insurance Company Limited ("**EAIC**"), The Insurance Corporation of Singapore (UK) Limited ("**ICS**") and The Home Insurance Company (in liquidation) ("**Home**") are insolvent. EAIC and ICS are already subject to existing "run-off" schemes of arrangement, whilst Home is subject to a liquidation proceeding in the State of New Hampshire. EAIC's existing scheme dated 1 June 2000 and ICS's existing scheme dated 19 October 2001 will each be amended so as to take the form of the Scheme.

A brief history of EAIC and of the Pools can be found in the Scheme Document (at Schedule 1 of the Explanatory Statement), the relevant extract of which can be found at the Scheme website [www.englishandamericanpools.com](http://www.englishandamericanpools.com) (the "**Website**").

### **3. THE SCHEME MANAGER**

PRO Insurance Solutions Limited ("**PRO**") is the Pools' run-off manager and proposed scheme manager ("**Scheme Manager**"). Please see paragraph 10 below for our contact details and details of how to obtain further information in relation to the Scheme.

### **4. THE OBJECTIVE OF THE SCHEME**

The Pools have been in run-off for 16 years. PRO estimates that in the normal course it would take at least another 17 years to run off the remaining Pools' liabilities. EAIC has the largest share of the Pools liabilities. A large part of EAIC's realisable assets have now been collected or secured and the scheme administrators of EAIC's existing scheme (the "**EAIC Scheme Administrators**") believe that, in view of this and the future costs of continuing its run-off, it is no longer in the best interests of EAIC's creditors to continue with EAIC's existing scheme in its current form. EAIC therefore wishes to implement the Scheme in order to accelerate the closure of its estate. EAIC's liabilities amount to approximately 89% of the liabilities to be included in the Scheme.

In view of this, ICS, Home and the other Scheme Companies consider that, given their complex inter-relationships with EAIC in the Pools, it would be appropriate and administratively beneficial to both Scheme Creditors and the Scheme Companies to promote their own closing schemes in respect of their Pools business at the same time as EAIC.

If you are a Scheme Creditor of the Scheme Companies, the Scheme will facilitate an accelerated valuation of your claims (including an estimate of contingent and prospective claims) by means of the imposition of a "bar date" (by which all claims must be filed by creditors). Once the Scheme becomes effective, you must submit details of all your claims and supporting information against the Scheme Companies in respect of business covered by the Scheme ("**Scheme Claims**") within a period of six months. If you do not do so, you will lose the right to be paid for claims, apart from claims which have already been agreed but not paid by the Scheme Companies. If claims are not accepted as submitted, the Scheme Manager will enter into discussion with you to attempt to agree a fair value for your Scheme Claims. However, if agreement cannot be reached there will be a procedure for the adjudication of these disputed claims by an independent adjudicator.

The total value of Scheme Claims, as shown on a valuation statement to be issued by the Scheme Manager, will be paid in full by each solvent Scheme Company. EAIC will pay a percentage of each Scheme Claim currently 35% for EAIC, which may be reviewed from time to time by the EAIC Scheme Administrators.

Under its existing scheme, ICS is paying General Creditors and E&A Pool Creditors (as those terms are defined in ICS's existing scheme) in full when their claims are agreed from the Creditors' Fund which contains assets set aside for that purpose. Those creditors of ICS will continue to be paid in full under the Scheme if the Creditors' Fund is considered sufficient to pay the Net Ascertained Claims of all such creditors in full. If it is not considered sufficient, the ICS Scheme Administrators will set an "ICS Payment Percentage", being the percentage at which such claims will be paid. The maximum ICS Payment Percentage will be 100%.

E&A Pool Participants (which are the eight largest creditors of ICS and are not being paid in full) will receive distributions from the assets of ICS other than the Creditors' Fund, including any surplus released from the Creditors' Fund after all other Scheme Creditors have been paid in full, after taking account of the expenses of the Scheme remaining to be paid. E&A Pool Participants will receive total distributions in proportion to the final valuation of their Scheme Claims against ICS under the Scheme, after taking account of payments received under the existing scheme.

In the case of Home, creditors' Scheme Claims, as valued under the Scheme, will be admitted to proof in the New Hampshire liquidation and will rank for distribution from the Home liquidation in accordance with the rules set down by New Hampshire insolvency law.

## 5. BUSINESS TO BE INCLUDED IN THE SCHEME

With respect to the majority of the Scheme Companies (including Home), the Scheme will only apply to their liabilities arising out of the Pools. However:

- (a) certain "**Protected Policyholders**" (Scheme Creditors who have claims against EAIC and ICS which are protected by virtue of the Policyholders Protection Act 1975) of EAIC and ICS will, subject to eligibility, still be entitled to receive payment from the Financial Services Compensation Scheme on their claims as they are agreed in the ordinary course.
- (b) two Scheme Companies, namely EAIC and City International Insurance Company Limited ("**City**") will be including certain non-Pools business in the Scheme:
  - o EAIC: all liabilities are to be included (subject to certain business which is to be excluded from the Scheme (the "**Excluded Business**") - as detailed in paragraph 8 of this letter);
  - o City: all liabilities are to be included. City's non-Pools liabilities are estimated to be less than 4% of its total liabilities.

### **Employer's Liability Insurance Covers**

The Scheme Companies wrote a small number of policies through the Non-Marine pool which included cover in respect of employer's liability risks. These covers constitute 'compulsory insurance' under applicable UK law. The Scheme Companies intend to include these policies in the Scheme. In the case of EAIC's and ICS's share of those employer's liability covers, the

Financial Services Compensation Scheme will, if necessary, pay any obligations which fall due to policyholders in the ordinary course, as already described above, so EAIC's and ICS's shares of those covers will not be subject to the mandatory acceleration and valuation mechanisms of the Scheme. In the case of the solvent Scheme Companies' shares of those employer's liability covers, in contrast, those covers will be subject to the mandatory acceleration and valuation mechanisms of the Scheme. However, in view of the compulsory nature of those covers, the solvent Scheme Companies intend to arrange for replacement cover to be put in place by a third party insurer of at least equivalent financial strength. This replacement cover will come into effect upon the Scheme becoming effective and will result in the affected Scheme Creditors continuing to have in place compulsory employer's liability insurance to which they can have recourse if a claim should arise in the future. The Scheme document will contain full details of this replacement cover and how it will operate.

If it does not prove possible for the relevant replacement cover to be obtained in time, the affected solvent Scheme Companies intend to exclude those employer's liability covers from the Scheme, so policyholders' rights thereunder will remain unaffected by the Scheme.

### **Pools Companies not participating in the Scheme**

The members of the Pools described in Part B of the appendix to this letter, whose share of the Pools liabilities amounts to less than 3% (and less than 1% of the total Scheme liabilities), are not proposing a scheme but, in order to preserve the benefits for policyholders of the unified closure of the Pools business, are willing to consider commuting with creditors of the Pools on parallel terms as if they were in the Scheme.

## **6. THE COURT HEARING**

The Scheme Companies will apply to the English Court, Strand, London WC2A 2LL, United Kingdom, for a court hearing (the "**Court Hearing**") to be held in late October or November 2009, for permission to convene the necessary meetings of Scheme Creditors in March or April 2010 to consider and, if thought appropriate, approve the Scheme. The date of the Court Hearing will be confirmed on the Website. Formal notice of the meetings of Scheme Creditors will be sent to you in due course.

## **7. THE MEETINGS AND THE PROPOSED VOTING CLASSES**

Legally the Scheme consists of a separate scheme of arrangement for each of the Scheme Companies, although the terms of the Scheme are the same for each Scheme Company with the exception of EAIC, Home and ICS, for whom certain differences are required due to the fact that each is insolvent.

For each Scheme Company's scheme to be implemented, it must be approved by a majority in number, and not less than 75 per cent. in value, of those creditors who vote (in person or by proxy) at the meeting in respect of that Scheme Company, or at each such meeting if there were to be more than one class of creditors. If the rights of creditors are so different or would be affected so differently by a scheme of arrangement as to make it impossible for them to consult together in their common interest, they must be divided into classes and vote at separate class meetings.

### Solvent Scheme Companies

Each solvent Scheme Company intends to propose calling two class meetings of Scheme Creditors for the purpose of voting on the Scheme for that Scheme Company. The first meeting will be for Scheme Creditors in relation to their claims other than IBNR claims whilst the second meeting will be for Scheme Creditors in relation to their IBNR claims. Some Scheme Creditors may have claims under both classes and accordingly be entitled to vote at both meetings.

### Insolvent Scheme Companies

With respect to EAIC and Home, only one class meeting of Scheme Creditors will be held with respect to each company. The rationale for this is that, since both companies are insolvent the claims of creditors would - if the Scheme were not implemented - ultimately fall to be valued in accordance with the statutory rules governing the insolvent liquidation of insurers in their respective jurisdictions, which rules apply universally to all creditors in any event.

With respect to ICS, two class meetings of Scheme Creditors will be held, the first class comprising 'General Creditors' and 'E&A Pool Creditors' and the second class comprising 'E&A Pool Participants' (as defined in ICS's existing scheme). The rationale for this is that, under ICS's existing scheme, 'General Creditors' and 'E&A Pool Creditors' have priority recourse to a ring-fenced fund (known as the 'Creditors' Fund') for payment of their claims. The 'E&A Pool Participants' only have recourse to the assets in the Creditors' Fund once the claims of the 'General Creditors' and the 'E&A Pool Creditors' have been paid in full. This order of priority as between these classes of creditors will be preserved under the proposed Scheme, so this class division will be necessary for the purpose of voting on the proposed Scheme. Under ICS's existing scheme there was a fourth category of creditors known as the 'Oberon Pool Creditors'. However, under ICS's existing scheme the liabilities to the Oberon Pool Creditors fall to be paid by SPRE Limited (formerly known as St Paul Reinsurance Company Limited) and ICS retains no liability to make payment to those creditors: those provisions are unchanged by the Scheme, so it is not necessary for those creditors to vote on the Scheme.

The insolvent schemes of EAIC and ICS will also include "**Protected Policyholders**". However, Protected Policyholders' claims will not be automatically subject to valuation under the Scheme. Instead, Protected Policyholders will continue to present their claims to the EAIC Scheme Administrators and ICS Scheme Administrators respectively as they fall due in the ordinary course of business. When such claims are agreed by the EAIC Scheme Administrators and ICS Scheme Administrators respectively, Protected Policyholders will, as they would in an insolvent liquidation, receive payment of the protected percentage of their claim from the Financial Services Compensation Scheme. However, given the relatively very small exposures of EAIC and ICS to future claims of Protected Policyholders and the immaterial impact of the proposed Scheme upon those policyholders' existing rights, EAIC and ICS do not consider that it is necessary to convene separate meetings of their Protected Policyholders to vote on the Scheme.

Accordingly, it is the view of all the Scheme Companies that it is appropriate to convene two meetings of Scheme Creditors for each Scheme Company (with the exception of EAIC and Home) to consider and, if thought appropriate, approve the Scheme. The application to Court will be made on this basis.

## 8. EAIC EXCLUDED BUSINESS

For the reasons explained below, EAIC will not be including in the Scheme certain claims under policies which EAIC wrote through the Institute of London Underwriters (as more fully described below). Therefore, those claims will not be subject to the mandatory valuation and acceleration procedures for which the Scheme provides and will, therefore, be unaffected by the Scheme.

- *EAIC policies signed and issued by the Institute of London Underwriters between 3 July 1980 and 6 October 1983 (both days inclusive):* these policies - which were underwritten by EAIC as part of the Pools business - may be protected by a letter of credit arrangement procured by The Marsh & McLennan Companies, Inc in September 1993. As a result of this arrangement, holders of these policies may be entitled to additional payments in respect of their claims under this letter of credit arrangement as those claims are agreed in the ordinary course. Prior to publishing the Scheme proposal to creditors, the EAIC Scheme Administrators had invited The Marsh & McLennan Companies, Inc to undertake that if these policies were included in the Scheme the letter of credit arrangements would likewise cover the claims valuations attaching to these policies under the Scheme. However, no such undertaking was forthcoming from The Marsh & McLennan Companies, Inc. Therefore, the EAIC Scheme Administrators decided that to include uncrystallised liabilities under these policies in the Scheme may incur a material risk that holders of these policies would be disqualified from their potential rights of recourse to the letter of credit arrangements. Consequently, the EAIC Scheme Administrators decided to exclude from the Scheme all liabilities under these policies which have not become Established Scheme Liabilities under the existing EAIC Scheme by the effective date of the proposed Scheme. As a result, all such claims arising under these policies will continue to be adjusted by EAIC under the provisions of the existing scheme in the ordinary course.

## 9. THE ACTION YOU SHOULD NOW TAKE

If you have any concerns, having considered appropriate professional advice, on the proposed constitution of classes, you should write, fax or e-mail us, using the contact details below, as soon as possible and in any event seven days prior to the date of the Court Hearing (which will be notified on the Website).

Any concerns which you communicate in writing to us on this issue will be drawn to the Court's attention at the Court Hearing. You also have the right to attend the Court Hearing for the purpose of making representations and we will be pleased to provide you with further information regarding the Court Hearing, if requested.

Please note that if the Scheme is approved at the meetings of Scheme Creditors, it will be possible for Scheme Creditors to raise objections on the question of classes at the subsequent Court hearing to sanction the Scheme which it is anticipated will be held in June 2010. However, were this to be the case, the Court is likely to expect creditors to show good reason why they did not object at an earlier stage.

**Additionally, if you are a broker or other agency who has acted on behalf of a Scheme Creditor in placing business with a Scheme Company you will also be receiving a separate letter from PRO requesting that you provide a reconciliation statement so that unpaid balances recorded on the books of Scheme Companies may be compared and if**

matched, included on claim forms as unpaid agreed claims. Please respond to this letter as soon as possible. Scheme Creditors should be aware that all unmatched unpaid balances (including where a broker has failed to respond or provide a reconciliation statement) will not be automatically included on the claim form uploaded onto the Website at the claim submission stage.

## 10. CONTACT DETAILS AND FURTHER INFORMATION

**By Post:** Toby Wooldridge, PRO Insurance Solutions Limited, Bruton Court, Bruton Way, Gloucester, GL1 1DA  
**By e-mail:** Pro\_eauapools@pro-ltd.co.uk  
**By Phone:** +44 (0) 1452 330 514  
**By Fax:** +44 (0) 1452 523 437

Further information regarding the Scheme, the Court Hearing dates and the Pools business is available on the Website at [www.englishandamericanpools.com](http://www.englishandamericanpools.com). If you are unable to access the Website and would like details sent to you by alternative means, or if you have any other queries, please contact the PRO helpline on +44 (0)1452 330 514.

Yours faithfully

*Pro Insurance Solutions Limited*

**PRO INSURANCE SOLUTIONS LIMITED**

**APPENDIX**  
**Part A – The “Scheme Companies”**

<b>Current name</b>	<b>Previous names / additional information (if applicable)</b>
Baloise Insurance Company Limited (The)	
City International Insurance Company Limited	City Insurance Company (UK) Limited
Dowa Insurance Company (Europe) Limited	Dowa Insurance Company (UK) Limited
East West Insurance Company Limited	
English & American Insurance Company Limited	
Fuji International Insurance Company Limited	Fuji Fire & Marine Insurance Company (UK) Limited
Hiscox Insurance Company Limited	Economic Insurance Company Limited
The Home Insurance Company (In Liquidation)	City Insurance Company of New Jersey
The Insurance Corporation of Singapore (UK) Limited	
KX Reinsurance Company Limited	Continental Management Services Limited, Lombard Continental Insurance Limited, Lombard Continental Insurance PLC, Lombard Elizabethan Insurance PLC, Lombard Insurance Company (UK) PLC, Lombard Insurance Company (UK) Limited and Maltese Cross Insurance Company Limited
Metropolitan Reinsurance Company (U.K.) Limited	
Moorgate Insurance Company Limited	Pohjola Insurance Company (UK) Limited
Nippon Insurance Company of Europe Limited	Nippon Fire & Marine Insurance Company (UK) Limited (The)
Polygon Insurance Company Limited	
Swiss Re International SE, UK Branch	SR International Business Insurance Company PLC, SR International Business Insurance Company Limited, Switzerland Insurance Company (UK) Limited, and Switzerland General Insurance Company (London) Limited as a subsidiary of Schweiz Allgemeine Versicherungs-AG
Tower Insurance Limited	National Insurance Company of New Zealand Limited

**Part B – Pool Companies not proposing to Scheme**

<b>Current name</b>	<b>Previous names / additional information (if applicable)</b>
ACE European Group Limited	ACE INA UK Limited, Insurance Company of North America (UK) Limited, Continental Assurance Company of London Limited, Crusader Insurance PLC
Swiss Re Europe S.A., UK Branch	Swiss Reinsurance Company UK Limited, ERC Frankona Reinsurance (II) Limited, GE Frankona Reinsurance Limited, Kemper Reinsurance London Limited, Tower Hill Insurance Company Limited