



*We know you have a choice*

4 June 2019

Dear Sir or Madam

## **PROPOSED SOLVENT SCHEME OF ARRANGEMENT**

**This letter is important, and you should consider its contents carefully. It concerns matters which may affect your legal rights and entitlements and you may wish to take legal advice on its contents.**

We are sending you this letter because we believe that you may have a relationship with Elite Insurance Company Limited (**Elite Insurance or Elite**), a Gibraltar company either as a known or potential creditor, broker, coverholder, agent who has placed business with Elite Insurance on behalf of your client or a third-party provider.

Brokers, coverholders and agents are requested to forward a copy of this letter to any of their clients they believe may be affected by the Scheme (defined below).

Our letter of 14 February 2019 referenced the proposal that Elite Insurance implement a solvent scheme of arrangement (the **Scheme**) with its creditors (**Scheme Creditors**) pursuant to Part VIII of the Gibraltar Companies Act 2014. A further copy of that letter may be obtained from the Elite Insurance's website, [www.elite-insurance.co.uk](http://www.elite-insurance.co.uk).

As set out in that letter following the announcement that a commutation agreement had been agreed with CBL Insurance, Elite's largest reinsurer, Elite was granted a court order from the Supreme Court of Gibraltar to take steps to design and implement a scheme of arrangement. The reasons for and purpose of the Scheme include the following considerations:

- 1) Elite does not meet the minimum capital requirements imposed upon it under the European Union's Solvency II directive (**Regulatory Capital Requirements**);
- 2) Elite remains solvent and able to pay its liabilities in full;
- 3) the Scheme provides a framework for an orderly run-off and solvent winding up and avoids the appointment of a liquidator as a result of MCR non-compliance under Solvency II;
- 4) liquidation will be costly for creditors and could delay claims payments and hinder the collection of assets; and
- 5) the Elite Directors believe the Scheme represents the best way to protect policyholders, and accordingly the Directors encourage them to support the Scheme.

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A solvent scheme of arrangement of the kind Elite Insurance proposes is a compromise or arrangement provided for under Part VIII of the Gibraltar Companies Act 2014 between Elite Insurance and its creditors (or any class of creditors). The Scheme is being structured in consultation with Elite Insurance's regulator, the Gibraltar Financial Services Commission (**GFSC**). For the Scheme to be implemented it must be:

1. agreed by a majority in number representing 75% in value of creditors for each class of creditors present and voting in person or by proxy at a meeting convened with the leave of the Supreme Court of Gibraltar (**Court**); and
2. subsequently sanctioned by the Court.

The Scheme then takes effect and is binding on all creditors.

The purpose of this letter is:

- to inform you of Elite Insurance's intention to propose the Scheme in July 2019 and its reasons for doing so;
- to explain the objective that the Scheme is designed to achieve;
- to set out the class composition of the meetings of creditors Elite Insurance intends to convene for the purpose of considering, and, if thought fit, approving the Scheme (**Scheme Meetings**); and
- to provide a summary of the key features of the Scheme, where these are relevant in determining the composition of the class meetings.

### **Background to Elite Insurance**

As explained in our letter of 14 February 2019, Elite Insurance was established in Gibraltar in 2004 to offer insurance products in both the commercial and retail markets throughout Europe. Following an investigation by the GFSC and as a result of the impact on its financial position of various unprofitable business lines, Elite Insurance ceased writing new business on 5 July 2017 and has since been in solvent run-off.

In January 2018 Elite Insurance was purchased by the Armour Group and certain of its affiliates, specialists in the run-off insurance sector. Since acquiring the company Armour has been working to improve Elite's solvency in order to protect its policyholders and ensure valid claims can be paid in full as they are agreed and fall due.

Elite is solvent and continues to pay all valid claims in full as they fall due. However, it does not currently meet minimum Regulatory Capital Requirements under Gibraltar law.

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Elite Insurance has worked closely with the GFSC to identify a course of action that will allow the orderly run off of its business in an efficient manner which protects the interests of all policyholders and other creditors, as an alternative to a liquidation. With the agreement of the GFSC, Elite Insurance obtained an order from the Court to oversee the design and development of a Scheme of Arrangement.

### **Purpose and aim of Elite Insurance's solvent Scheme**

The primary objectives of the solvent Scheme are to:

- provide a framework to manage Elite Insurance business going forward, maintaining its solvency;
- allow Elite Insurance to continue to pay valid claims and collect valid recoveries in full in the ordinary course of business as they fall due;
- if appropriate, and ensuring it is not prejudicial to the interest of creditors as a whole, provide a mechanism to obtain finality for certain groups of creditors in the future; and
- provide a mechanism to protect policyholders in the event of any future deterioration in Elite Insurance's assets.

In the absence of the proposed Scheme, the GFSC has indicated that it would consider itself obliged by its duties as a regulator to act to address the fact that Elite Insurance does not currently meet its minimum Regulatory Capital Requirements. In the absence of a scheme framework, the GFSC has indicated that it would apply for the appointment of a liquidator. Elite Insurance considers that the appointment of a liquidator would be extremely prejudicial to the interests of policyholders, as it would be likely to lead to a reduction in the value of Elite's assets through materially increased third party administration costs which would deplete assets that would otherwise be available to pay claims. Elite Insurance also believes that the appointment of a liquidator would significantly delay the payment of currently agreed and future to be agreed claims.

### **What does the Scheme do?**

The main benefit of the Scheme is to ensure an orderly and efficient run-off. Elite believes that the appointment of a liquidator would likely be less efficient, mean creditors would receive payments over a longer period of time and would likely receive less due to third party administrative costs.

The Scheme will apply to all creditors of Elite Insurance. Creditors are split into two groups:

1. Run-off Creditors
2. Crystallised Creditors

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These are discussed below:

#### *Run-off Creditors*

The majority of creditors will be Run-Off Creditors. For these creditors the Scheme means that all valid claims will continue to be paid in full as they fall due (save in the unlikely circumstances referred to below). Run-off Creditors will continue to submit claims as they arise in the ordinary course of business; and will be entitled to bring proceedings in the event of a dispute in the same way as they are currently able to do. However, they would only be able to take proceedings to wind up Elite Insurance where the quantum and liability of their claim had been established and Elite Insurance had not paid that claim in accordance with the Scheme provisions.

Run-off Creditors will be largely those policyholders with compulsory insurance policies and long tail creditors where valuation is complex or unknown.

#### *Crystallised Creditors*

A smaller proportion of creditors will be Crystallised Creditors. These are creditors with short tail and less complex liabilities where valuation is more straightforward. Please see Addendum 1 for the list of product lines included within the Crystallised Creditor group.

The current, future and contingent claims of Crystallised Creditors will be valued and paid in full at the estimated value as a final settlement of claims (save in the unlikely circumstances referred to below), subject to the application of set-off and deduction of any applicable security.

Crystallised Creditors will be obliged to submit details of their current claims and evidence of their policies with Elite Insurance by a set date, failing which they will have no further claims against Elite Insurance. Claims will be valued by Elite Insurance in the first instance based on guidelines set out in the Scheme (the **Estimation Guidelines**).

All claims which have to date been notified by Crystallised Creditors are easily capable of being valued. In some cases, though, although the policies have terminated, new claims may still be notified. The Scheme will provide that, if a new claim is submitted, and in the Scheme Manager's view it is not possible to value that claim with a sufficient level of confidence, the claim will be left to develop in the ordinary course of business, in the same way as claims of Run-Off Creditors.

Crystallised Creditors are entitled to dispute the valuation of their claims determined by Elite Insurance. In that event, the dispute will be resolved, and the valuation determined by an independent Scheme Adjudicator, whose decision will be final and binding on creditors and Elite Insurance to the extent permitted by law.

Claims will be paid in the currency in which they are incurred.

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In order to protect the interests of its policyholders and creditors, the Scheme provides a safeguard if at some point in the future Elite Insurance's liabilities exceed its assets and it may not be able to meet its liabilities in full (an **Insolvency Event**). In that event, the Scheme provides for a reduction in the percentage of an agreed claim that creditors are entitled to receive, which will be set at a level intended to ensure that all creditors will receive the same proportion of their agreed claims going forwards. Creditors who have already been paid in full will not have to pay back the funds that they have received. Those creditors will not be eligible to receive any further payment on any newly agreed claims, however, until the sums they have already been paid are less than their total agreed claims multiplied by the reduced payment percentage. The reduced percentage will be subject to regular review. Creditors who would be preferential creditors in a liquidation would however be likely to be paid in full, subject to prior payment and provision for the expenses of administering the Scheme.

Following an Insolvency Event, creditors will have the same rights they would have in a liquidation in relation to priority of payment, set-off, payment of interest and realisation of security.

#### **Proposed class meetings for voting**

Under the scheme of arrangement process where creditors have rights which are so dissimilar from each other as to make it impossible for them to consult together with a view to their common interest, separate classes must be created. A separate meeting must be convened for each creditor class for the purposes of voting on a scheme of arrangement. Determining the appropriate meetings requires a comparison of the rights of creditors outside the scheme, and the way in which those rights are treated in the scheme.

Elite Insurance has therefore considered the rights of Scheme Creditors in a liquidation under Gibraltar law, and the way in which those rights will be affected under the proposed Scheme. Elite Insurance has concluded that two separate class meetings should be convened for the purpose of voting on the Scheme:

- One meeting of Run-Off Creditors; and
- One meeting of Crystallised Creditors.

Elite Insurance has reached this conclusion for the following reasons:

- in a liquidation, aside from preferential creditors and others with priority, and those who may have the benefit of a national insurance guarantee scheme, each of the Scheme Creditors has materially the same rights against Elite Insurance;
- in the Scheme, if an Insolvency Event arises, the rules on priority of payment that would apply in a liquidation will be followed, so that preferential creditors and others with priority will have the same rights as they would have in a liquidation to be paid in advance of other creditors;

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- if an Insolvency Event arises, creditors who would not have priority in a liquidation may already have agreed claims paid in full, effectively ahead of creditors who would have priority but whose claims have not yet fallen due. However, given the expected negative impact of a liquidation, those creditors are still likely to be better off under the Scheme;
- while a liquidator may ultimately propose a scheme of arrangement to create a mechanism to (part) pay claims, this would likely be only after a significant number of claims have been notified and agreed (not paid) in the ordinary course of business, which will have a material impact on the speed and quantum of payments to creditors;
- while all Scheme Creditors will have the right to be paid in full (subject to the application of set-off and the occurrence of an Insolvency Event), the rights of Scheme Creditors will be compromised in materially different ways, given that:
  - Run-off Creditors will have their claims determined in the ordinary course of business and subject to the procedures which currently apply; and
  - Crystallised Creditors will have their claims valued and agreed or otherwise determined in the Scheme using an estimation methodology. There are no long tail business classes in the crystallised creditor class therefore the estimation methodology will apply similarly to each product type. Elite Insurance will wait for all Crystallised Claims to be determined and pay claims once it has determined all other claims can be paid in full; if not these will revert to the Run-off Creditor class.

### **What should you do now?**

Elite Insurance will make an application to the Court for an order granting leave to convene the Scheme Meetings. The application is expected to be heard in July 2019. Once a Court date is available this will be published on Elite's website.

If the Order is granted, shortly after this Elite will send a notice of the meetings to all creditors for whom contact details are available. Along with the notice Elite will provide voting information and proxy forms as well as a statement summarising the terms of the Scheme and explaining its effect and its advantages and disadvantages compared with the available alternative courses of action. Elite will also provide details of how to obtain a copy of the Scheme document itself. These documents will be available on the website [www.elite-insurance.co.uk](http://www.elite-insurance.co.uk).

Elite Insurance believe it is in policyholders' best interests to support the Scheme and Elite Insurance encourages policyholders to vote in favour of the proposals in order to avoid the risk of a liquidator being appointed as a result of Elite's regulatory capital non-compliance under Solvency II.

In the mean-time you should continue to submit claims in the normal course.

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**If you have any comments as to the proposed constitution of the meetings to vote on the Scheme you should contact Elite Insurance using the contact details set out below.**

Scheme Creditors are not required to but are entitled to attend the Initial Court hearing. Elite and its independent Scheme Manager, Barry Gale, a partner in KPMG LLP will draw to the Court's attention any concerns raised by Scheme Creditors which have been communicated to it prior to the hearing. It is the Scheme Managers' role to oversee the design and development of the Scheme, chair the Scheme meeting and ensure the Scheme is implemented in accordance with the Scheme Rules. If you have any concerns, it would be preferable to send them in writing so that Elite can be sure the Court is given an accurate representation of those concerns. Elite's contact details as well as those of the Independent Scheme Manager are set out below.

Elite's Board of Directors remain committed to executing their fiduciary duties with diligence and transparency throughout and continue to believe that the Scheme is in the best interest of its policyholders. Elite's Board of Directors will continue to consult with regulators throughout the process and ensure documents/communications will be translated into the main policyholder languages – English, Italian and French.

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If you have any questions in relation to this letter or the Scheme, please contact Elite's agent Armour Risk Management Limited at:

Address: Elite Insurance Company Limited  
c/o 20 Old Broad Street  
London  
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Telephone: UK and other creditors: +44 (0)207 382 5467  
French creditors: +33 (0)1 76 77 45 12  
Italian creditors: +39(0)2 30 35 30 00

Email: UK & Ireland and other creditors: [Elite-scheme.uk@armourrisk.com](mailto:Elite-scheme.uk@armourrisk.com)  
French creditors: [Elite-scheme.fr@armourrisk.com](mailto:Elite-scheme.fr@armourrisk.com)  
Italian creditors: [Elite-scheme.it@armourrisk.com](mailto:Elite-scheme.it@armourrisk.com)

Independent Scheme Manager: Barry Gale  
KPMG LLP  
14 Canada Square  
London  
E14 5GL

You are encouraged to make contact if you require further information.

Yours faithfully

A handwritten signature in black ink, appearing to read "S. Barra", is positioned below the text "Yours faithfully".

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Addendum 1: List of products proposed to be included within the Crystallised Creditor Group, written by Elite Insurance Ltd up to July 2017

<b>PRODUCT LINE</b>	<b>POLICY SOLD THROUGH</b>	<b>COUNTRY OF POLICYHOLDERS</b>
<b>Professional Indemnity</b>	Asset PI	United Kingdom
<i>Excludes: Solicitors Professional Indemnity policies</i>		
<b>Paragon Shield Home &amp; Family Legal Expenses Insurance</b>	Paragon International Insurance Brokers Ltd	United Kingdom
<b>Ark Home Insurance Policy</b>	Ark Insurance Group	United Kingdom
<b>Equicover Horse Insurance Policy</b>	Equicover	United Kingdom
<b>Equicover Trailer Insurance</b>	Equicover	United Kingdom
<b>Small Business Insurance policies</b>	IPH Insurance Services (UK) Ltd	United Kingdom
<b>Commercial Combined</b>	Dual Oliva, Risk Alliance & Optimum	United Kingdom
<b>Showman</b>	BLW Insurance	United Kingdom
<b>Legal Expenses Insurance</b>	Paragon International Insurance Brokers Ltd	United Kingdom
<b>Legal Expenses Insurance</b>	Furnace	United Kingdom
<b>Rent Guarantee and Legal Expenses Insurance for Landlords</b>	Blinc-UK Ltd	United Kingdom
<b>Rent Guarantee and Legal Expenses Insurance for Letting Agents</b>	Blinc-UK Ltd	United Kingdom
<b>Smart Paws Pet Insurance</b>	Kainos Associates LLP	United Kingdom
<b>Cover4Pets Pet Insurance</b>	NCI Insurance Services Ltd	United Kingdom
<b>Gadget Insurance</b>	Ayax	Spain
<b>Wedding Insurance</b>	Ayax	Spain
<b>Excess Protect Insurance</b>	Ayax	Spain

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PRODUCT LINE	POLICY SOLD THROUGH	COUNTRY OF POLICYHOLDERS
Professional Indemnity	RK Harrison	Ireland
Professional Indemnity	Primassure	Ireland
Professional Indemnity	First Ireland Insurance Brokers	Ireland
Combined employers liability and public & products liability policies	Frost Insurances Ltd	Ireland
Club Care sports policies	First Ireland Insurance Brokers	Ireland
Multirisque Propriétaire Non Occupant	Acton Insurance	France
Multirisque Professionnelle	Acton Insurance	France
Multirisque Immeuble	Acton Insurance	France
Multirisque Habitation	Acton Insurance	France
Assurance de la responsabilité civile professionnelle des entreprises du bâtiment (RCP)*	European Insurance Services Ltd (EISL), Securities & Financial Solutions Europe (SFS), United Brokers International Ltd (UBI Ltd) & Profirst	France
Assurance de la responsabilité civile professionnelle des professions intellectuelles du bâtiment (RCP)*	European Insurance Services Ltd (EISL), Securities & Financial Solutions Europe (SFS), United Brokers International Ltd (UBI Ltd) & Profirst	France

*\*Excludes the following combined products: Assurance de la responsabilité civile décennale des entreprises du bâtiment (RCD) & Assurance de la responsabilité civile professionnelle (RCP).*

*\*For the avoidance of doubt this excludes the following compulsory products: Assurance de la responsabilité civile du maître d'ouvrage (RCMO); Assurance tous risques chantiers (TRC); Assurance de la responsabilité civile décennale des entreprises du bâtiment (RCD); Assurance multirisques des constructeurs de maisons individuelles(CCMI); Police Unique de Chantier (PUC); Garantie Financière D'Achevement (GFA); Dommages Ouvrage (DO).*

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