



## To Direct Scheme Creditors

16 November 2020

Dear Sirs or Madams

**Proposed Scheme of Arrangement pursuant to Part 26 of the Companies Act 2006 between Stronghold Insurance Company Limited (In Administration) (the "Company") and its creditors in respect of contracts of direct insurance (the "Direct Scheme")**

**This letter is important. It concerns matters which may affect your legal rights and entitlements.**

### Introduction to the Direct Scheme

1. The Company proposes to enter into a scheme of arrangement pursuant to Part 26 of the Companies Act 2006 (the "**Part 26**") with its creditors with claims arising in respect of contracts of direct insurance (collectively the "**Direct Scheme Creditors**"). The Direct Scheme is being proposed for the purposes of bringing closure to the Company's direct insurance business following the commencement of administration proceedings on 27 June 2019 due to its insolvency.
2. We are sending you this letter because we believe that you are:
  - (a) a Direct Scheme Creditor with a claim arising under or pursuant to a contract of direct insurance, and therefore may be affected by the Direct Scheme; or
  - (b) a broker who placed relevant business of the Company with Direct Scheme Creditors. Brokers are requested to forward a copy of this letter to any clients which may be affected by the Direct Scheme; or
  - (c) another party which may potentially be involved in the Direct Scheme Creditor claim process.
3. This letter is sent in accordance with the Practice Statement (Companies: Schemes of Arrangement under Part 26 and Part 26A of the Companies Act 2006) issued by the Chancellor of the High Court dated 26 June 2020 (the "**Practice Direction**"). We ask that you read this letter, consider its contents carefully and take legal advice if you consider it appropriate to do so.
4. **IMPORTANT NOTE: Direct Scheme Creditors will be required to submit a claim form in respect of any claims they have in respect of the Direct Scheme by a deadline. The deadline is 11.59 pm (London time) on the first day falling 180 calendar days after (and not including) the date on which the Direct Scheme becomes effective (the "Direct Final Claims Time"). The Direct Final Claims Time will be notified to Direct Scheme Creditors if the Direct Scheme becomes effective.**

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**No Direct Scheme Creditor shall be entitled to receive any payment from (or have any further rights against) the Company in respect of a claim which is the subject of the Direct Scheme unless such claim has been notified to the Company by the Direct Final Claims Time.**

## **The General Scheme**

5. The Company is also proposing to enter into a separate scheme of arrangement pursuant to Part 26 with creditors other than the Direct Scheme Creditors or creditors with claims arising in respect of certain excluded liabilities on or around the same time as the Direct Scheme. Such scheme is referred to in this letter as the "**General Scheme**", and the creditors to be party to it as the "**General Scheme Creditors**". A separate letter will be sent to General Scheme Creditors in respect of the General Scheme. The effectiveness of the Direct Scheme shall not be conditional on whether the General Scheme also becomes effective.
6. A separate letter prepared in accordance with the Practice Direction (the "**General Practice Statement Letter**") will be sent to relevant parties in respect of the General Scheme. If you believe that you are a General Scheme Creditor and you have not received the General Practice Statement Letter, a copy of it is available on the Websites or by contacting the Company using the details in paragraph 34 below.

## **Background**

7. The Company was incorporated on 28 September 1962 and wrote Excess of Loss and Stop Loss business (excluding windstorm), and risks of a similar nature. Originally formed to write exclusively non-proportional insurance and reinsurance, in the 1970s the Company extended its activities into some proportional treaty business.
8. The Company ceased active underwriting in 1985 and entered solvent run-off. In terms of London market insurance coverage, the Company is one of the smallest participants.
9. Upon introduction of the European Solvency II directive in 2016, the Company was no longer able to meet the capital requirements imposed under that directive. In 2018, a solvent scheme of arrangement pursuant to Part 26 was proposed but was not implemented.
10. Following this, the Board re-examined the Company's financial position and, after careful review, concluded that the Company did not have sufficient assets to meet its liabilities and was insolvent on a balance-sheet basis. The Company ceased paying creditors' claims as of 31 May 2019.
11. On 27 June 2019, following an application to the Court by its directors, the Company was placed into administration under section 8 and Schedule B1 of the Insolvency Act 1986 (the "**Administration**") and Dan Yoram Schwarzmann and Douglas Nigel Rackham of PricewaterhouseCoopers LLP were appointed as joint administrators of the Company (together the "**Joint Administrators**").
12. The purpose of the Administration is to achieve a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in administration). The Company cannot be rescued as a going concern as it has

been determined that it is balance sheet insolvent and the options available to return it to solvency are not feasible.

13. Details on the progress of the Administration have been sent to creditors and are available on the Company websites [www.strongholdinsco.co.uk](http://www.strongholdinsco.co.uk); and [www.pwc.co.uk/services/business-restructuring/administrations/stronghold.html](http://www.pwc.co.uk/services/business-restructuring/administrations/stronghold.html) (the "**Websites**").

### **The objective of the Direct Scheme**

14. The Direct Scheme is being proposed for the purpose of bringing closure to the Company's contracts of direct insurance given its insolvency. Accordingly, the Direct Scheme provides a mechanism for determining Direct Scheme Creditors' claims under direct insurance contracts (the "**Direct Scheme Claims**") and making appropriate payments in respect of them.
15. Since their appointment, the Joint Administrators have considered various alternative exit options, including:
  - (a) the commutation of liabilities on an ad hoc basis;
  - (b) an informal arrangement with creditors;
  - (c) a company voluntary arrangement;
  - (d) an insolvent liquidation; and
  - (e) a distribution in administration.

These alternatives, whilst capable of being utilised to tackle the problems of an insurance company in financial difficulties in appropriate circumstances, have significant disadvantages which render them inappropriate for the Company.

16. Given the difficulties in assessing contingent, unquantified and/or future claims and the fact that no deadline for submitting claims could be imposed in a liquidation proof process by a claims submission deadline, and the requirement that a liquidator could not safely make a distribution until knowing the fixed assessment of provable claims for Direct Scheme Claims first, and only afterwards General Scheme Claims, there is likely to be significant delay if a liquidation distribution were utilised to bring the Company's business to a close. The Company has estimated that, if such claims were left to mature in the ordinary course, it would take approximately 25 years for all Direct Scheme Claims to be determined, meaning creditors would not receive their money during this period. In order to ensure that an equal and fair distribution can take place to Direct Scheme Creditors it is necessary that all Direct Scheme Claims are assessed and known. The proposed Direct Scheme, by utilisation of a deadline for submitting Direct Scheme Claims, would provide an alternative quicker, but fair, process for resolving Direct Scheme Claims, meaning creditors ought to be paid sooner than in the comparator scenario of an insolvency distribution. As a result, the Company wishes to crystallise its outstanding liabilities and intends to achieve this by implementing the Direct Scheme with its Direct Scheme Creditors.

17. The Direct Scheme has been proposed to offer Direct Scheme Creditors the most effective and economical method for having their claims against the Company agreed or otherwise determined and paid in the shortest practicable time, thereby maximising the potential returns to Direct Scheme Creditors, whilst at the same time achieving finality and certainty.
18. The Company has discussed the main proposals of the Direct Scheme with the creditors' committee established pursuant to the Company's Administration (the "**Committee**") and has taken account of the Committee's views along with those of its advisers, where possible.
19. Furthermore, near-final drafts of the Explanatory Statement (as defined below) and the Direct Scheme were provided to the Company's regulators, being the Prudential Regulation Authority ("**PRA**") and the Financial Conduct Authority ("**FCA**"). Neither the PRA nor the FCA have objected to the proposals contained in the Explanatory Statement and the Direct Scheme.

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

20. The Direct Scheme provides that:
  - (a) from the date on which the Direct Scheme becomes effective, Direct Scheme Creditors will be prohibited from taking legal action against the Company to determine or otherwise secure payment in respect of the Direct Scheme Claims, unless such action is taken in accordance with the terms of the Direct Scheme;
  - (b) Direct Scheme Creditors will be required to submit a claim form within 180 calendar days of the Direct Scheme becoming effective (the "**Direct Final Claims Time**"), notifying the Company of any Direct Scheme Claims. A Direct Scheme Creditor which fails to submit a claim form in respect of any Direct Scheme Claim within this timeframe shall not be entitled to receive any payment in respect of it;
  - (b) Direct Scheme Claims will be valued by the Company (as well as any amounts to be set-off against those Direct Scheme Claims) using the guidelines described in the Direct Scheme (the "**Estimation Guidelines**"). A copy of the Estimation Guidelines will be made available on the Websites once finalised;
  - (c) in the event that the Direct Scheme Creditor does not agree with the value placed on its Direct Scheme Claim by the Company it shall have the right to challenge the valuation;
  - (d) if the Company and the Scheme Creditor are not able to reach agreement as to the value of the relevant Direct Scheme Claim, the dispute shall be referred to an independent adjudicator appointed under the Direct Scheme (the "**Direct Scheme Adjudicator**") to determine the value. The determination of the Direct Scheme Adjudicator will be based on the Estimation Guidelines and will be final and binding on both the Company and the Direct Scheme Creditor;
  - (e) once the value of a Direct Scheme Claim has been agreed or determined in accordance with the Direct Scheme, the resulting value of the Direct Scheme

Claim, if any, will be the amount of the Scheme Creditor's claim (the "**Direct Ascertained Claim**");

- (f) as soon as possible following the deadline for submitting completed claim forms in respect of Direct Scheme Claims, the Company shall determine whether all Direct Ascertained Claims can be paid in full. If the Company determines that such claims can be paid in full, it shall make payment in full in respect of all Direct Ascertained Claims as soon as reasonably practicable. In the event that the Company determines that all Direct Ascertained Claims cannot be paid in full, it shall determine what percentage of the Direct Ascertained Claims (the "**Direct Payment Percentage**") can be paid taking into account the amounts required to meet all Excluded Liabilities (as defined below), all other liabilities of the Company ranking in priority to the Direct Scheme Creditors and the need to ensure that the same percentage is paid in respect of all Direct Ascertained Claims. Once a Direct Payment Percentage has been set, the Company shall pay the Direct Payment Percentage in respect of each Direct Ascertained Claim as soon as reasonably practicable to do so;
- (g) Direct Scheme Creditors will be paid their Direct Ascertained Claims in either United States Dollars ("**USD**") or British Pounds ("**GBP**"), USD and GBP each being a "**Relevant Currency**" and together, the "**Relevant Currencies**". Where a Scheme Creditor has a Direct Ascertained Claim in both Relevant Currencies, their entire Direct Ascertained Claim will be paid in the Relevant Currency in which it has its largest Direct Ascertained Claim (using the rate of exchange applicable as at the 27 June 2019, being the date that the Administration commenced). Subject to the foregoing, where a Direct Scheme Creditor has a Direct Ascertained Claim in a currency other than a Relevant Currency, such Direct Ascertained Claims shall be paid in USD; and
- (h) Direct Scheme Creditors will retain such rights as they currently have in respect of any security, including but not limited to any deposit or reserve of funds or assets established by the Company; guarantee provided by a third party; letter of credit; or any other funds held or otherwise retained by or on behalf of a Direct Scheme Creditor.

### **Liabilities excluded from the Direct Scheme**

- 21. The Direct Scheme does not apply to claims arising otherwise than under a direct insurance contract. Therefore, the Direct Scheme does not apply to claims that will be the subject of the General Scheme. Neither scheme will affect the following liabilities (the "**Excluded Liabilities**"):
  - (a) preferential claims, being, in summary, those claims against the Company that have preferential status under section 386 of the Insolvency Act 1986. These claims, which included outstanding salary and accrued holiday for ex-employees of the Company, were fully repaid prior to the date of this letter;
  - (b) pre-scheme expenses, being, in summary, the expenses reasonably incurred by the Company in connection with the promotion and preparation of each of the Direct Scheme and General Scheme (each a "**Scheme**" and together, the "**Schemes**");

- (c) Scheme costs, being, in summary, the costs incurred by the Company in the course of implementing the Schemes and complying with the provisions of the Insolvency Act, including the remuneration and expenses of the office holders appointed in the Schemes; and
- (d) Administration costs, being, in summary the costs incurred on behalf of the Company by the Joint Administrators as administration expenses or determined as administration expenses by the Court, including the remuneration and expenses of the Joint Administrators.

### **The Direct Scheme process**

- 22. The Company will make an application to the Business and Property Courts of England and Wales (the "**Court**") for an order granting permission to it to convene the meeting of the Direct Scheme Creditors to vote upon the proposed Direct Scheme (the "**Direct Scheme Meeting**"). At the hearing to consider that application (the "**First Court Hearing**"), the Court will be invited to consider the constitution of classes of Direct Scheme Creditors and therefore the number of meetings of Direct Scheme Creditors that should be held to vote on the Scheme. The application is expected to be heard on 16 December 2020 and further details about how to attend the First Court Hearing will be made available on the Websites closer to that date. An application to the Court for an order granting permission to it to convene the meeting of the General Scheme Creditors to vote on the proposed General Scheme is expected to occur on the same day.
- 23. If the Court gives the Company permission to convene the Direct Scheme Meeting, the Company will send you information about how to access a copy of the Direct Scheme and the explanatory statement in respect of the Direct Scheme required by Part 26 (the "**Explanatory Statement**"). Direct Scheme Creditors will be requested to complete and submit a voting and proxy form in accordance with the procedures described in the Explanatory Statement.
- 24. If the required majorities of the Direct Scheme Creditors vote in favour of the Direct Scheme at the Direct Scheme Meeting, the Company will ask the Court to "sanction" (or approve) the Direct Scheme at a second Court hearing. In deciding whether to sanction the Direct Scheme, the Court will consider, amongst other things, whether it is fair to Direct Scheme Creditors as a whole. If the required majorities of the General Scheme Creditors vote in favour of the General Scheme, the Company will ask the Court to approve the General Scheme on the same day.
- 25. If the Direct Scheme is sanctioned by the Court, the Company will file a copy of the order sanctioning the Direct Scheme with the English Registrar of Companies, at which time the Direct Scheme will become effective. The process for creditors to make claims will be explained in the greater detail in the Direct Scheme and Explanatory Statement.

### **The proposed voting classes at the Direct Scheme Meeting**

- 26. In order for the Direct Scheme to be implemented, it must be approved by a majority in number, representing not less than 75% in value, of those creditors who vote at the meetings.

27. Where scheme creditors have rights which are so different as to make it impossible for them to consult together with a view to their common interest, the law requires them to be split into separate classes and to vote at a separate meeting for each class.
28. The Company has considered the rights of the Direct Scheme Creditors in respect of their Direct Scheme Claims, and the way in which those rights will be affected under the proposed Direct Scheme and concluded that there should be one class for the purpose of voting on the Direct Scheme comprising all Direct Scheme Creditors.
29. The Company has reached this conclusion because, in the event that the Direct Scheme is not implemented, the Direct Scheme Creditors share the same ranking with respect to their Direct Scheme Claims against the Company. Furthermore, the Company does not consider it necessary to divide the Direct Scheme Creditors into further classes based on whether they have agreed claims, notified outstanding claims and incurred by not reported claims because, in the alternative to the Direct Scheme, all such claims will be subject to a valuation and distribution mechanism procedure.

### **Next steps**

30. If permission to convene the Direct Scheme Meeting is granted by the Court at the First Court Hearing, known Direct Scheme Creditors, known brokers and other interested parties identified by the Company will be sent a letter summarising the key Direct Scheme terms and explaining how to access a document containing, amongst other things:
  - (a) the Explanatory Statement;
  - (b) the terms of the Direct Scheme; and
  - (c) a notice confirming the date, time and place of the Direct Scheme Meeting.

The letter will also include a voting and proxy form (including guidance notes).

31. To disseminate information about the Direct Scheme and to facilitate its implementation, Direct Scheme Creditors may download documents relating to the Direct Scheme from the Websites once they become available.
32. If your name, address or contact details have been incorrectly or incompletely stated, or if you would like correspondence about the Direct Scheme to be addressed to someone else in your organisation, please let us know by using the contact details below.

### **Questions and contact**

33. If you have any concerns regarding the proposed constitution of classes of Direct Scheme Creditors, you are requested to contact the Joint Administrators as soon as possible and, in any event, at least seven days prior to the date of the First Court Hearing. You also have the right to attend the First Court Hearing for the purpose of making representations and, if requested, we will be pleased to provide you with further information on arrangements for this. Please note that if the Direct Scheme is approved at the Direct Scheme Meeting, it will be possible for Direct Scheme Creditors to raise objections regarding the constitution of classes at the Court hearing to sanction the

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Direct Scheme. However, in this event, the Court would require Direct Scheme Creditors to demonstrate why the objections were not raised at an earlier stage.

34. If you have any questions in relation to this letter or the Direct Scheme, please contact the Joint Administrators at:

Stronghold Insurance Company Limited (In Administration)  
c/o PricewaterhouseCoopers LLP  
7 More London Riverside,  
London, SE1 2RT England  
Contact: John Baker  
Email: uk\_stronghold@pwc.com

35. Direct Scheme Creditors are encouraged to make contact with the Company using [agregory@strongholdinsco.co.uk](mailto:agregory@strongholdinsco.co.uk) or +44 (0)7801 968033 if they require further information regarding their insurance policies/contracts in relation to the Company, or if they wish to discuss their claims for voting purposes prior to the Direct Scheme Meeting.
36. This Practice Statement Letter is being emailed and posted to all known Direct Scheme Creditors to inform them of the proposed classes for the Direct Scheme. Any further notifications required or considered desirable for the purposes of the Direct Scheme, its timetable or other matters arising will be posted on the Websites (see paragraph 13 above), so creditors are requested to keep themselves updated by reference to the Websites in so far as possible.

Yours faithfully



**Dan Schwarzmann**

**Joint Administrator acting as agent for and on behalf of Stronghold Insurance Company Limited (In Administration) without personal liability**

*Dan Yoram Schwarzmann and Douglas Nigel Rackham have been appointed as Joint Administrators of Stronghold Insurance Company Limited to manage its affairs, business and property as agents and without personal liability. Dan Yoram Schwarzmann and Douglas Nigel Rackham are all licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.*

*Stronghold Insurance Company Limited is authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority, reference number 202552.*

*The Joint Administrators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.*

*The Joint Administrators may act as controllers of personal data as defined by UK data protection law depending upon the specific processing activities undertaken. PricewaterhouseCoopers LLP may act as a processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators'. Further details are available in the privacy statement on the [PwC.co.uk](http://PwC.co.uk) website or by contacting the Joint Administrators.*

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