

## Solvent Schemes of Arrangement

There are times in business when an organisation wants to draw a line under a piece of business and remove the risks of future uncertainty for all stakeholders. A Solvent Scheme of Arrangement offers that finality.

# Other than a sale of a company, one of the most effective ways to shut down a book of business and release surplus capital is through a Solvent Scheme of Arrangement.



A solvent scheme can introduce a wholesale estimation of all present and future claims liabilities at a set date. It brings about a commutation with all policyholders and allows a final distribution to be made to creditors – this may allow for the future winding up of the company and the release of surplus capital.

An extremely flexible solution, schemes are always tailored to fit the circumstances of the individual portfolio. They can be applied to all the liabilities of a company or to a specific defined class and take into account the views of policyholders in order to help secure the necessary votes for approval. Liabilities arising out of compulsory classes of insurance (such as UK employers liability) and personal lines business cannot be schemed, although the reinsurance of these classes can be schemed.

Schemes of Arrangement are governed by the Companies Act 1985 and become legally binding on all creditors in the class being schemed if the necessary majority of creditors vote in favour and the High Court also approves the scheme.

Understanding clients, building partnerships

## Why choose a Scheme of Arrangement?

The advantages of a Scheme of Arrangement include:

- It offers certainty by bringing an end to a long tail run-off and the potential claims deterioration that may result
- Following the crystallisation and settlement of liabilities, it will also allow a company to release any surplus capital
- Although in the short-term, it usually means higher run-off costs, these will be cut-off much sooner than would normally be the case under a natural run-off. In the long-term, there will usually be savings in run-off costs and a release of the run-off provision.

## How it works

There are four, often overlapping, stages to a scheme. Depending on the circumstances of the portfolio being schemed, these stages may take from two years upward to complete.

## Feasibility study

We start by assessing whether the portfolio can be schemed and whether it includes any classes that cannot be schemed. We identify groups of policyholders who would be influential in determining whether a Scheme of Arrangement was accepted by the creditors through the voting mechanism. We will assess the range of potential financial outcomes of the scheme process. We will also advise on the range of other professional advisers required to develop and operate the scheme process.

## Preparation and Promotion

At this stage we prepare data on policyholders who may have a claim in the estate and set up the systems that will be used in the scheme process. As well as identifying net creditors and net debtors, we will propose a strategy to realise the reinsurance asset and prepare for the pre scheme announcement. At the same time, we will contact key creditors to consult with them and obtain support for the scheme process. We will also identify and seek to commute with policyholders who are non-supportive of the scheme. Finally we arrange preparation of the scheme legal documentation.

## Approval

At the approval stage, we issue scheme documents and voting forms, hold the vote and apply to the court for sanction of the scheme. If the scheme is sanctioned we register the Order of the Court with the Registrar of Companies. For the scheme to be approved, the majority of creditors (50% in number and 75% by value of those voting) must vote for the scheme.

## Implementation

Implementation involves issuing claim forms to potential creditors and reviewing, reconciling, negotiating and agreeing on claims submissions. Where mutual consent cannot be agreed, we refer claims to the scheme actuary or either the independent scheme adjudicator or the independent actuarial adjudicator, whichever is appropriate, for a binding decision. Following crystallisation of all inwards business, we calculate the remaining reinsurance and suggest whether it is best to collect or sell the residual book. We then issue payment to net creditors, terminate the scheme and, where possible, arrange the release of surplus capital.

## Fees

Our fee structure varies according to the needs of our clients. Generally we operate on a competitive hourly rate, with initial budgets based on the scope of each project. Alternatively, we can work on a mutually agreed basis.

## Our team

PRO has a comprehensive team of (re)insurance professionals who deal with the various elements of a Scheme of Arrangement on a day to day basis. Over half of our people work on behalf of clients whose run-off is being dealt with through a Scheme of Arrangement.

We manage the administration of a number of insolvent schemes and have been involved in developing the use of solvent schemes to bring closure to solvent portfolios. We also provide advice to clients who are considering a solvent scheme, using our knowledge of previous schemes to help them with the feasibility study process.

We have had considerable success commuting reinsurance assets on behalf of clients, often as a precursor to entering the scheme process. In the last three years, we have successfully concluded over 500 commutations involving over 100,000 contracts, collecting more than \$600m in reinsurance assets.

We have developed systems for clients to manage the scheme process in areas such as maintaining accurate creditor records, calculating scheme values, circulating scheme information and submission of scheme claims by creditors.

### **Complementary services**

#### **Claims management**

PRO's team has the experience and the skills to proactively manage your liabilities and reputation.

#### **(Re)insurance recovery**

Asset recovery is all about realising debt – PRO through its expertise and international network can effectively recover your debt and improve your cash position.

#### **Commutation**

By helping you to understand the risks you face and maximising the rewards, PRO helps to provide certainty and allows you to focus on finality.

#### **Run-off solutions modelling**

PRO can analyse your liabilities to provide you with a clearer understanding of the range of available options to accelerate run-off finality.

#### **Debt purchase**

PRO with its ability to acquire your debt removes the uncertainty of credit risk and leaves you free to focus on the ongoing business.

