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A brief Corporate History of HIH

(extracted from pages 51 – 64 of Volume I of the HIH Report)

What follows is a very brief account of the history of HIH and the changing nature of its business operations in the years leading up to its liquidation. Most of the developments discussed here are dealt with much more expansively in Volumes II and II of this report.

3.1 Origins

The origins of HIH can be traced back to 1968, when Ray Williams and Michael Payne incorporated MW Payne Liability Agencies Pty Ltd to underwrite insurance business in Australia as an agency for two Lloyd's of London syndicates. Williams and Payne were directors of the company and Williams was chief executive officer. The following year George Sturesteps joined as a claims manager, and in 1972 Terence Cassidy was employed in an accounting role.

The company's main business was the writing of workers compensation insurance in the Victorian market. This operation was successful, and in 1970 the company expanded into Tasmania (and subsequently into other states). In 1971 MW Payne Liability Agencies Pty Ltd was acquired by CE Heath plc, a public listed company based in the United Kingdom, and for the next 15 years the company was known as CE Heath Underwriting Agencies Pty Ltd. Williams continued as a director and chief executive and in 1980 was also appointed to the board of CE Heath plc.

Until the mid-1980s the company's sole business—workers compensation—continued to expand. In 1985 and 1986, however, legislative changes to workers compensation insurance in Victoria and South Australia significantly reduced business in those states. In response, the company decided to diversify its underwriting into other insurance classes, among them property, commercial, and professional liability. It also decided to expand offshore—first in Hong Kong, where its initial focus was reinsurance; then in California, where it concentrated on workers compensation.

By 1989 CE Heath Underwriting Agencies had become CE Heath International Holdings Limited, with Williams as principal executive.^[1] As part of a 1989 restructure, CE Heath acquired the Australian business from CE Heath plc. Under this restructure, 90 per cent of the shares in CE Heath were retained by CE Heath plc and the remaining 10 per cent by the Australian management, including Williams.

There were also board changes. Robert Stitt and Neville Head were appointed non-executive directors of CE Heath in January 1992, and Geoffrey Cohen, a former senior partner at Andersen, became chairman. In addition to Williams, the other directors immediately before January 1992 were Peter Presland, Ross Eade, Cassidy and Sturesteps. In February 1992 Eade resigned as a director but continued as an executive.

3.2 Float and growth

Following a due diligence process conducted by Andersen, the company was listed on the Australian Stock Exchange in June 1992. It became a public listed general insurer. About 45 per cent of the issued capital was held by the public, 44 per cent by the UK-based CE Heath plc, and 11 per cent by the local CE Heath directors. A total of 167 million shares were issued following the float, of which about 19.2 million were held by three directors—Williams, with 12.8 million, and Cassidy and Sturesteps, with just over 3 million each. There was no immediate change of directors, although Payne joined the board later in 1992.

Expansion into the United Kingdom was a priority of the newly floated company. Operations started in August 1993, under the direction of Payne, who had been formally appointed on 1 July that year as the chief executive of a newly established subsidiary, Heath International Holdings (UK) Limited.

Until 1995 CE Heath's core business was in so-called long-tail classes of insurance. In Australia the company focused on workers compensation, public liability and professional indemnity; in California the concentration was on workers compensation; and in the United Kingdom the focus was public liability and professional indemnity.

3.2.1 The CIC acquisition

After 1995 the company embarked on a period of rapid growth: Table 3.1 illustrates this well. The growth was achieved primarily through acquisitions, which in turn brought significant changes in the company's investment and business strategies. The first big acquisition was the CIC Insurance group—for \$154.2 million. The negotiations that led to the acquisition were initiated in 1993 by Colin Richardson of Hambros Corporate Finance, the Australian branch of Hambros Bank Ltd, which in turn held a substantial stake in CE Heath plc. Hambros had acted for CE Heath plc in the float of CE Heath, and over the years Richardson was involved in many of HIH's major transactions. The CIC negotiations initially foundered but were revived in 1994.

Table 3.1 HIH Insurance: reported contributions to total assets, 1994 to 2000 (A\$ million)

Geographic area	Year to December					18 months	Year to
	1994[2]	1995[3]	1996[4]	1997[5]	to June 1999[6]	June 2000[7]	
Australia	1 016.5	2 340.8	2 647.7	2 861.4	6 034.8[8]	6 008.3	
United Kingdom	62.8	111.3	132.4	377.9	625.0	949.0	
United States	17.7	39.1	106.3	502.6	733.9	762.5	
New Zealand	68.3	125.1	135.0	153.7	205.6	310.3	
Asia	35.7	49.0	95.0	78.0	92.2	246.8	
Argentina	..	..	10.5	13.1	33.9	50.2	
Total	1 201.0	2 665.3	3 126.9	3 986.7	7 725.4[9]	8 327.1	

.. Not applicable.

CIC and CE Heath carried out due diligence on each other. In May 1995 Ernst & Young and Blake Dawson Waldron looked at CE Heath, and Hambros, Andersen, Minter Ellison and David Slee (an actuary associated with CE Heath) looked at CIC. The subsequent report on CIC was signed off by Dominic Fodera, an Andersen partner. The Insurance and Superannuation Commission approved the purchase the same month. Despite concerns voiced in the reports on both parties, the acquisition was completed in June 1995.

The move was attractive to CE Heath: it would lift the company's earnings and establish it as a major force in the Australian insurance industry; it also would provide it with a platform for future growth in Europe. Table 3.2 shows HIH's reported revenue growth from 1994 to 2000.

Table 3.2 HIH Insurance: reported contributions to consolidated revenue, 1994 to 2000 (A\$ million)

Geographic area	Year to December				18 months	Year to
	1994[10]	1995[11]	1996[12]	1997[13]	to June 1999[14]	June 2000[15]
Australia	633.9	1 015.8	1 501.3	1 676.3	3 197.3[16]	2 441.1
United Kingdom	30.1	90.4	113.5	266.2	664.2	1 016.9
United States	79.8	83.7	114.4	244.9	736.4	488.8
New Zealand	25.9	51.7	68.1	88.0	187.7	286.0
Asia	12.3	27.3	46.8	59.9	150.3	197.8
Argentina	..	..	4.2	7.8	42.0	45.7
Total	782.0	1 268.9	1 848.3	2 343.1	4 977.9[17]	4 476.3

.. Not applicable.

The acquisition changed the size, nature and ownership of the CE Heath business. There were three parts to the transaction:

- First, CIC Holdings sold CIC Insurance Limited to CE Heath. CIC Holdings, which subsequently changed its name to Winterthur Holdings Australia Limited, was a majority-owned subsidiary of a Swiss insurer, Winterthur Swiss Insurance Company.
- Second, the acquisition of CIC Insurance was funded by CE Heath issuing shares to Winterthur Australia.
- Third, the parent company of CE Heath, CE Heath plc, sold its entire shareholding in CE Heath to Winterthur Australia.

A short time later Williams sold a portion of his own shareholding. With the additional shares obtained from Williams (3 per cent of the capital), Winterthur Australia became entitled to 51 per cent of the shares in CE Heath.

3.2.2 Winterthur's arrival

The effect of these transactions was that by 13 July 1995 Winterthur became the majority shareholder of CE Heath. Despite this, Winterthur agreed not to take control of the board, although it did retain the option. It chose instead to nominate only three members to join the existing seven directors. The three were Erwin Heri, Willi Schurpf and Randolph Wein.

Throughout this period CE Heath was audited by Andersen, as it had been since 1973. In June 1995 Fodera, until then the auditor of CE Heath, was appointed group finance director of the company. In May 1997 he became a director. There were other board changes, too, as a result of Winterthur's arrival. In July 1995 Presland resigned, and in August Charles Abbott and Alexander Gorrie, previously directors of CIC, were appointed as alternate directors (and non-executive directors in their own right in 1997).

In May 1996 the company changed its name to HIH Winterthur International Holdings Limited. It was to become the second largest general insurance underwriter in the Australian market.

The company moved to strengthen its position in the Australian market in May 1997 by acquiring the general insurance operations of Colonial Mutual General Insurance Company Limited in Australia and New Zealand. The objective was to allow HIH Winterthur to position itself as the market leader in the provision of general insurance through banks and other financial institutions. As a result of the purchase, HIH Winterthur and Colonial Mutual entered an agreement whereby all Colonial Mutual's insurance products would be underwritten by HIH Winterthur. Second, HIH Winterthur acquired Colonial Mutual General Insurance Company (NZ) Limited, giving it exclusive distribution of general insurance products in New Zealand and a springboard for further business there.

At this point there was an important development affecting the company's ownership. In August 1997 HIH Winterthur's principal shareholder, Winterthur, announced a proposed merger with Credit Suisse. The board of HIH Winterthur expressed concern that the merger might adversely affect its relationship with Winterthur—in particular, in terms of board control, the regulatory consequences in Australia, and the group's capacity to continue to expand overseas. Nevertheless, the merger of Winterthur and Credit Suisse was finalised early in 1998, creating a major global company. Following a review of all the enlarged Credit Suisse Winterthur group's operations—and in view of Winterthur's concerns about the management and direction of HIH—it was decided that the merged entity would focus on being a global financial services provider.

3.2.3 Winterthur's exit

As a result of this changed focus, in January 1998 discussions occurred between Winterthur and HIH Winterthur concerning the possible sale of the Swiss company's 51 per cent shareholding. The Swiss company made its position public in July, when it announced that it proposed to sell all its shareholding in HIH Winterthur by way of a public offering. In the event, the offer—at a final price of \$2.58—was fully subscribed and the sale was completed by August 1998. In October HIH Winterthur changed its name to HIH Insurance Ltd.

During 1998 there were further board changes at HIH. With Winterthur's sell-down, Schurpf and Heri resigned in April and October respectively, although Wein continued as a director. In December Justin Gardener, a former managing partner of Andersen, joined the board. Gardener had been the audit partner on CE Heath from 1973 to 1989 and the concurring partner on the audits in 1990 to 1994 and again in 1996 and 1997.

The disposal of Winterthur's holding by way of a public offering profoundly changed HIH's shareholder base. In December 1997 there were 323 277 221 HIH shares on issue, held by 5265 shareholders, 3750 of whom held less than 5000 shares. In comparison, by October 2000 there were 471 849 820 shares on issue, held by 29 973 shareholders, with around 18 000, or 60 per cent, holding fewer than 5000 shares.

Another change was also evident following the Winterthur sale. This was the relatively small and declining institutional shareholder base. In March 1998 HIH's top 20 shareholders held about 83 per cent of all issued shares; by September 1999 the figure had fallen to 53 per cent and by October 2000 it was just 38 per cent.

3.3 The FAI acquisition

As far back as 1995 HIH had viewed FAI Insurance as a possible acquisition, in keeping with its ambition to secure a major share of the Australian general insurance market. Some analysis of FAI and discussion about a takeover took place through Hambros, but in early 1998 these activities lapsed. The reasons were twofold—the difficulty in conducting any satisfactory due diligence of FAI; and a reluctance to sell on the part of interests associated with Rodney Adler, the company's major shareholder.

In September 1998, however, the Adler interests changed their mind: a willing buyer was now joined by a willing seller. The negotiations were brief. On 22 September 1998 the board of what was still (for a few more weeks) HIH Winterthur resolved to launch a takeover bid for FAI. The next day Adler offered approximately 15 per cent of FAI's capital (owned by a family company) for sale through the stock exchange at 75 cents per share. In the month preceding 23 September FAI shares had traded in the range of 42 to 53 cents. HIH acquired the 15 per cent stake at 75 cents and later that day announced a takeover bid for all the remaining issued capital of FAI.

The takeover offer—of one HIH share for every three FAI shares or one HIH share plus \$2.25 cash for every six FAI shares—was not subject to any formal due diligence investigations into FAI. There was no such process. The takeover progressed and by early 1999, for a total consideration of about \$300 million, FAI had become a wholly owned subsidiary of HIH. In April 1999 Adler was appointed to the HIH board and was also engaged as a consultant.

3.4 Overseas operations

As noted, from the mid-1980s CE Heath gradually expanded its underwriting classes and began to move into overseas markets. It first entered the Asian region in 1986, acquiring a small Hong Kong reinsurer, and the following year it began operations in New Zealand. From the mid-1990s relatively small operations—initially in workers compensation but later in more general lines—were either expanded or acquired in Hong Kong, Hawaii, Argentina, China, Thailand, Malaysia and the Philippines. The United States and the United Kingdom, however, were the main focus of overseas interest.

3.4.1 US operations

CE Heath entered the US market in 1987 by acquiring the California-based Falcon Insurance Company. This company had ceased to underwrite in the United States but had a Californian workers compensation licence and other state licences through which CE Heath began operating. Renamed CE Heath Compensation and Liability Insurance Company, or Heath Cal, it subsequently added marine underwriting to its business.

By the early 1990s Heath Cal was reporting rapid growth and expansion. But concern about legislative changes in California persuaded the board to sell Heath Cal in 1994 for \$118.6 million. This contributed to CE Heath booking a profit of \$24.5 million in the year to 31 December 1994, while still retaining some of its marine business on the West Coast.

The sale of Heath Cal did not end the group's aspirations in the US market. In 1997 HIH Winterthur (formerly CE Heath) re-entered the market by repurchasing Heath Cal, itself now known as CareAmerica Compensation and Liability Insurance Company. The price was \$79.3 million, a substantial discount on the 1994 sale price. Even so, the acquisition had been opposed by Winterthur, HIH Winterthur's majority shareholder.

After the acquisition CareAmerica was renamed HIH America and the new entity moved to expand its operations and products in the United States. Ultimately, the re-entry into the US market proved costly: by November 2000 all remaining business there had been put into run-off.

3.4.2 UK operations

The UK experience was to prove even more unprofitable than the US one. When HIH (UK) Limited first entered the market in 1993 it did not have the necessary licences to write business in the United Kingdom. Instead, business was done in the name of HIH Casualty and General Insurance Ltd, which was registered as a foreign company in the United Kingdom and was authorised to write insurance and reinsurance there as a branch operation of the Australian company. HIH C&G held its interests in the United Kingdom through its wholly owned subsidiary, HIH European Holding Company Limited. HIH European owned the service company, HIH (UK), which provided the premises and employees used to conduct the business of the UK branch of HIH C&G. All business written before April 1994 required approval from the Australian office.

From the start of the UK operations both Williams and Sturesteps were directors of both HIH European and HIH (UK); Payne was chairman of HIH European and executive director of HIH (UK). Although the principal entity through which business was written in the United Kingdom between 1994 and 1999 was the UK branch of HIH C&G, control of the UK business was exercised through a mixture of board meetings of HIH European and HIH (UK). Senior executives of the Australian company regularly attended.

In April 1994 a full licence was granted to HIH (UK) and from then on there was no need to seek approval from the Australian underwriting management. From about November 1994 the activities of the UK branch were expanded to include underwriting a broad mix of global insurance—such as reinsurance business, marine, property, travel and personal accident, professional indemnity, catastrophe, contingency, film finance and political risk.

Emerging problems

The UK operations were successful at first, but problems had emerged by mid-1996 and persisted throughout 1997. In July 1996, soon after Winterthur's arrival, the Winterthur internal auditors expressed concern about the manner in which the London office was conducting its business. In particular, the auditors identified problems in provisioning data, the lack of a consistent underwriting approach and coherent business philosophy in relation to inwards reinsurance, and the insufficiency and poor quality of the financial information. In August Winterthur expressed further concerns about reinsurance being placed with companies that did not satisfy Swiss prudential requirements.

Notwithstanding these concerns, Williams proposed further expansion of the UK business through the acquisition of the locally licensed River Thames Insurance Company Limited. At least one of the aims was to strengthen HIH (UK) by drawing on River Thames's business network and expertise. Winterthur opposed the deal and it did not proceed, although some key personnel were taken on from River Thames.

Bad news kept coming. In October 1996 Payne wrote to Williams and Fodera, alerting them to a PricewaterhouseCoopers review of the UK inwards treaty book. The PWC report was critical of the underwriting by HIH (UK), of Payne's style of management, and of the lack of adequate controls. It warned that unless the account could be properly controlled it would have to be closed down or placed into run-off. Another audit report reviewing the inwards treaty reinsurance portfolio identified the company's Charman underwriting portfolio on the Lloyd's market as a problem area where business had expanded without the appropriate infrastructure and management controls.

In May 1997 the UK Department of Trade and Industry stepped in and asked for a detailed risk profile of the UK branch operations. An internal HIH (UK) report identified problems with the marine operations and significant losses arising out of the Charman line of business. In October of that year problems in the level of reserving in the UK operations were identified by PWC in a report highlighting significant differences between the recommended and actual carried reserve levels. Then, in November, an internal audit review concluded that the accounting operations and financial integrity of the UK branch were in an unacceptable state. The review identified several problems—in particular, flaws in accounting procedures and significant losses arising from Charman.

In November 1997 Payne suffered a stroke; it was not until March 1998 that he returned to work, and then it was in a non-executive capacity. In July 1998 he resigned as chief executive of HIH (UK) and was replaced by Harvey Simons. Payne became non-executive chairman. Although problems were evident in the UK operations, the Australian directors continued to focus on further expansion.

The Cotesworth acquisition

Throughout 1997 operations in the United Kingdom were extended to include underwriting of the film finance business—a move later regretted. Another, much bigger, project was a decision to acquire the Cotesworth Group Limited, which, through a subsidiary, was the managing agent of four active Lloyd's syndicates, three of which wrote marine insurance. The acquisition was completed in December 1998. Under the deal HIH (as it had become) provided the collateral for one of the Cotesworth companies to borrow money to invest in one of the Lloyd's syndicates. This was in line with one of the aims of the acquisition—namely, to create HIH's own corporate syndicate within the Lloyd's market in the United Kingdom.

This would enable the company eventually to write international insurance and reinsurance business through the Lloyd's licences.

Poor results continued, however. The contribution of the UK operation to the deterioration of HIH's reserves as at 31 December 1998 was assessed as approximately \$300 million. The following year serious concerns surfaced in relation to substantial under-reserving in both HIH (UK) and Cotesworth.

In January 1999, as a result of its acquisition of FAI, HIH became further exposed to losses in the UK market through earlier operations there by three FAI subsidiaries. The losses could not be sustained and in September 1999 HIH (UK) was put into run-off. Some casualty, political risk and trade credit business continued for a further year, but most new business thereafter was written through Cotesworth.

3.5 The final days

The ambitious growth strategy adopted by HIH had a serious impact on the company's financial position (see Table 3.3). The 1998–99 annual report showed a substantial increase in the value of reported total assets and liabilities, but it also noted that these increases had occurred in a commercial environment characterised by weak premium rate returns, volatile investments, and a series of significant losses in overseas businesses. HIH reported an end-of-financial-year loss for the first time in its history.

Table 3.3 HIH Insurance: reported contributions to operating profit before income tax (A\$ million)

Geographic area	Year to December				18 months	Year to
	1994[18]	1995[19]	1996[20]	1997[21]	to June 1999[22]	June 2000[23]
Australia	11.5	57.6	77.3	67.9	78.4	152.5
United Kingdom	1.5	7.5	7.2	7.2	(21.7)	(48.7)
United States	7.9	(2.6)	(5.9)	9.4	(20.5)	(45.4)
New Zealand	(0.7)	9.0	8.8	9.5	17.4	7.2
Asia	(1.4)	1.6	4.8	(2.4)	(5.4)	(11.9)
Argentina	..	..	(1.1)	(1.1)	3.8	2.2
Total	18.8	73.1	91.1	90.5	52.0	55.9

.. Not applicable.

During 2000 HIH reported a significant deterioration in its profitability and capital base. The share price suffered accordingly. Market difficulties in both the United Kingdom and the United States, as well as the losses resulting from the acquisition of FAI, were seen as contributing factors. The group's financial deterioration had by now become the subject of public scrutiny, through both the media and stockbrokers' reports. There were several negative reports relating to the company's management—in particular, the management style of Williams—as well as HIH's business and investment practices.

In late 1999 and early 2000 the Australian Prudential Regulation Authority (which had succeeded the Insurance and Superannuation Commission as the industry regulator from 1 July 1998) released drafts of proposed new prudential regulations. It was apparent to HIH management that, with its existing capital structure, it would not be easy for the licensed insurers to meet these new requirements. In response, HIH curtailed its growth strategy and announced a series of transactions with established insurers. These were designed to provide substantial cash injections and consequent increases in cash reserves. As it turned out, this did not happen.

3.5.1 The Allianz joint venture

The first of the Allianz transactions was announced on 13 September 2000. HIH entered a joint-venture arrangement with Allianz Australia Insurance Limited, to come into effect on 1 January 2001. Under the joint venture HIH was to transfer a substantial part of its business—primarily its personal lines and compulsory third party insurance products—to an unincorporated joint venture for a payment of \$200 million. Allianz would hold a 51 per cent interest, HIH the rest. There were put and call options.

The announcement was accompanied by the disclosure that HIH's preliminary final result for the year to 30 June 2000 was a \$42.1 million operating profit after tax but before abnormal items. The market was not impressed. HIH's Standard & Poor's credit rating of A- was placed on 'Credit Watch: negative', and over the next few days HIH's share price fell from 99 cents to 53 cents. It never recovered.

The second defensive manoeuvre occurred in November 2000, after Standard & Poor's downgraded the rating of most HIH entities. HIH entered into a managing general agency agreement with Gerling Australia Insurance Company to benefit from that company's strong credit standing. It had been envisaged this agreement would progress to a joint venture, but negotiations lapsed.

Rather than shore up HIH's position, the market generally reacted with scepticism. It judged the transactions to be temporary relief that would ultimately deprive HIH of its profitable lines of business. Throughout this period there was also growing public and market disquiet about two other matters. One was the constitution of the board, which was seen to have too many executive members; the other was Williams's performance.

Both Head and Gorrie had resigned from the board in late 1999. On 12 September 2000 Sturesteps and Payne also resigned, although Sturesteps continued as an employee. A month later, Cassidy and Fodera resigned as directors but they too continued as employees—Fodera being chief operating officer. On the same day Williams stood aside as chief executive and announced that he, too, would resign as a director when the position of chief executive was filled. As it happened, he continued to play a role in HIH until January 2001.

But the board changes did not stem the concern. In late October 2000 Westpac, HIH's principal banker, called on the company to appoint Ernst & Young to review its financial position. Ernst & Young's draft report, presented to HIH a month later, said that the financial position of the company was 'delicately poised'.^[24]

Williams resigned from the board on 15 December 2000, following Wein's appointment that day as the new chief executive.

3.5.2 The QBE joint venture

From mid-January 2001 speculation about HIH's financial position gathered pace—more so after 9 February, when the company announced that its interim result to 31 December 2000 was likely to be a loss. This prompted Standard & Poor's to further downgrade five of HIH's core operating entities.

Trading in HIH shares was temporarily suspended on 22 February. Adler resigned from the board on 26 February and on the same day ASIC started a formal investigation after being told the company's interim result was an after-adjustment loss of \$378 million. HIH shares were again suspended from trading on 1 March 2001, by which time they had fallen to as low as 17.5 cents. On the same day APRA issued notices requiring HIH to 'show cause' why inspectors should not be appointed under the *Insurance Act 1973*. HIH was given until 15 March to respond.

HIH entered a joint venture with QBE Insurance Ltd—whereby QBE in effect obtained 60 per cent of all HIH's corporate insurance—on 6 March 2001. QBE also gained management control of the new joint venture. On the following day HIH exercised its put option in relation to its 49 per cent interest in the earlier joint venture with Allianz. This effectively sold off its interest in all its former lines of retail business in the Allianz joint venture.

On 6 March 2001 HIH formally appointed KMPG to undertake a review of its financial position. In the light of the results of that review the HIH board resolved on 15 March 2001 to appoint a provisional liquidator. Later that day the Supreme Court of New South Wales made the requisite orders. Similar measures were taken during the following weeks to cover HIH's remaining overseas entities.

On 27 August 2001 a further court order placed HIH and 17 companies in the group in official liquidation and appointed KPMG partners Anthony McGrath and Alexander Macintosh as joint liquidators.

3.6 Share performance in the last years

As far as shareholders were concerned, HIH's share price had peaked at \$3.70 in July 1997. It then fell steadily over the ensuing 12 months, to \$2.80. There were further falls to around \$2.20 immediately following Winterthur's sale of its 51 per cent shareholding at \$2.58 per share in August 1998. Thereafter, with the exception of three brief occasions, the share price continued to fall until the company's collapse. The three exceptions involved the following:

- the completion of the FAI takeover in February 1999, when the share price rose from \$2.14 to \$2.30
- the sale of Oceanic Coal in July 1999, when the share price rose from \$1.67 to \$2.05
- the reported sale of the St Moritz Hotel in New York in November 2000, when the share price rose from \$0.31 to \$0.42.

HIH continued to pay dividends through the last years of its operation—13 cents (fully franked) in 1996, 15 cents (franked to 75 per cent) in 1997, 16 cents (franked to 50 per cent) in 1998, 12 cents (fully franked) in 1999, and 6 cents (fully franked) in 2000.

Taking account of both dividends and share price movements, HIH shareholders lost, on a compounding basis, around 20 per cent of their investment in each of 1997–98 and 1998–99. In 1999–2000 they lost a further 40 per cent. They completely lost their investment when HIH collapsed.

3.7 The response to the collapse

HIH's provisional liquidation had widespread and calamitous consequences for policyholders—in addition to the loss and hurt suffered by shareholders, other creditors and employees. The effects spread quickly through the community. By the end of March 2001 the provisional liquidators made it clear there would be long delays for HIH policyholders seeking to have claims honoured. Even then, it was unlikely they would be paid in full. The liquidators' most recent estimate of the net asset deficiencies of the HIH group, as at 15 March 2001, is a shortfall of between \$3.6 billion and \$5.3 billion.

Commonwealth, state and territory governments immediately came under pressure to provide assistance, and within weeks this was forthcoming. The states and territories undertook to meet most outstanding HIH builders warranty and compulsory third party claims. Best estimates at 30 September 2002 were that total payouts for these lines could ultimately amount to about \$1.444 billion, based on the following break-up: New South Wales, \$902.6 million; Queensland, \$453.4 million; Victoria, \$78.2 million; Western Australia, \$6.4 million; South Australia, \$2.2 million; the Australian Capital Territory, \$0.7 million; and Tasmania, \$0.4 million.

On 17 May 2001 the Commonwealth announced its own scheme to help cases of 'genuine hardship'. The centrepiece was the formation of a non-profit, insurance industry-run company, HIH Claims Support Pty Ltd, to distribute the \$640 million allocated by the Commonwealth to meet claims other than for workers compensation and builders warranty. The company began operating on 1 July 2001. As at the end of February 2003, the scheme had received more than 11 400 applications and had made payments on behalf of some 5850 eligible claimants, for a total of approximately \$195 million. Most claims arising from household, property, commercial and motor vehicle policies have been paid. The majority of outstanding claims are from long-tail policies, including public liability and professional indemnity.

All figures quoted in this chapter will probably be revised from time to time as the liquidation continues and as further actuarial reviews are carried out on behalf of the liquidators. HIH Claims Support's distribution services were offered to the state and territories for their aid packages. Four days after unveiling its assistance package, the Commonwealth announced that this royal commission would be established to inquire into the reasons for and the circumstances surrounding the HIH collapse.

[1] Although the acronym HIH can be traced back to this name, the company did not formally change its name to include the acronym until May 1996.

[2] [CIV.001.614](#) at 681.

[3] [CIV.001.614](#) at 681.

[4] [CIV.001.690](#) at 755.

[5] [CIV.001.764](#) at 829.

[6] [CIV.001.838](#) at 913.

[7] [CIV.001.926](#) at 968.

[8] This is recorded as \$A6360.5 million in the 2000 annual report: [CIV.001.926](#) at 968.

[9] This is recorded as \$A8051.1 million in the 2000 annual report: [CIV.001.926](#) at 968.

[10] [CIV.001.614](#) at 681.

[11] [CIV.001.614](#) at 681.

[12] [CIV.001.690](#) at 755.

[13] [CIV.001.764](#) at 829.

[14] [CIV.001.838](#) at 913.

[15] CIV.001.926 at 968.

[16] This is recorded as A\$2908.0 million in the 2000 annual report: CIV.001.926 at 968.

[17] This is recorded as A\$4688.6 million in the 2000 annual report: CIV.001.926 at 968.

[18] CIV.001.614 at 681.

[19] CIV.001.614 at 681.

[20] CIV.001.690 at 755.

[21] CIV.001.764 at 829.

[22] CIV.001.838 at 913.

[23] CIV.001.926 at 968.

[24] CORE.016.001.