

Insurance Act 1973

Part III, Division 3A

Summary of Scheme for transfer of the Australian insurance business of Progressive Direct Insurance Company to The Hollard Insurance Company Pty Ltd

1. Background

Progressive Direct Insurance Company ABN 28 140 389 528 (**PDIC**) and The Hollard Insurance Company Pty Ltd ABN 78 090 584 473 (**Hollard**) are each authorised to carry on insurance business in Australia. PDIC is a registered foreign company under the *Corporations Act 2001* (Cth), owned by its ultimate US parent, The Progressive Corporation, incorporated in Ohio, USA.

PDIC is seeking to transfer its rights and obligations under all contracts of motor vehicle insurance that it has issued, renewed, underwritten or assumed as insurer in Australia (motor vehicle being its only insurance business in Australia) to Hollard. It wishes to do so to facilitate its orderly exit from the Australian market and to enable it to apply to APRA to have its authorisation to carry on insurance business in Australia under the *Insurance Act 1973* (**Insurance Act**) revoked.

The transfer is to be undertaken by means of a scheme to be confirmed by the Federal Court of Australia under Part III, Division 3A of the Insurance Act and is governed by the terms of the Transfer Agreement. The Transfer Agreement refers to an Implementation Deed. The Implementation Deed is a document that sets out various associated transactions between PDIC, Hollard and other relevant parties for the purpose of giving effect to the Scheme. A simplified overview of those transactions is set out in the table below:

Transaction	Overview
Reinsurance Treaty	With effect from 31 March 2017, PDIC reinsured with Hollard all unearned liabilities under PDIC's Australian motor vehicle policies.
Incorporation of PDIA	Progressive Direct Insurance Agency (PDIA) was incorporated (by Hollard and AI Insurance Holdings Pty Limited) in order to act as a general insurance agency in Australia for PDIC prior to

	the Scheme transfer and Hollard after the Scheme transfer.
Progressive Agency Agreement	PDIC appointed PDIA as its agent and authorised representative in Australia to issue, renew and administer motor vehicle policies issued by PDIC in Australia prior to the Scheme transfer.
Business Assets Sale Agreement	PDIC transferred to PDIA miscellaneous business assets necessary to facilitate its role as a general insurance agency for PDIC's Australian motor vehicle policies.
Transitional Services Agreement	PDIC agreed to provide transitional services to PDIA in order to assist PDIA to carry out its function as PDIC's agent for PDIC's Australian motor vehicle policies.
License Agreement	PDIC agreed to license to PDIA and Hollard certain brands and intellectual property associated with PDIC's Australian motor vehicle policies for use in Australia for a limited period to allow transition from the PDIC trade marks and intellectual property to PDIA and Hollard trade marks and intellectual property.
Hollard Agency Agreement	Hollard has agreed to appoint PDIA as its agent and authorised representative (to take effect on the date of the Scheme transfer) in order to issue, renew and administer Hollard's Australian motor vehicle policies after the Scheme transfer.
Transfer Agreement	PDIC and Hollard have entered into an agreement under which PDIC agrees to sell, and Hollard agrees to purchase, PDIC's Australian insurance business.
Scheme Document	If the Scheme is confirmed by the Federal Court of Australia, this document will govern the transfer of PDIC's Australian insurance business to Hollard.

2. Court application

PDIC and Hollard will make an application to the Federal Court of Australia in Sydney on **3 November 2017 at 9:30am**, or on such later date or time as the Court appoints, for confirmation of the Scheme.

Policyholders affected by the Scheme may attend the Court hearing and request to be heard by the Court on the application for confirmation of the Scheme. Any person who wishes to appear before the Court is requested to advise Ms Lucy Terracall or Ms Michelle Hocking of Clayton Utz, Lawyers, 333 Collins Street, Melbourne (Ph: (03) 9286 6000); email: mhocking@claytonutz.com, at least seven (7) days prior to the hearing date specified above.

If you do not object to the Scheme, you do not have to do anything.

3. Details of the Scheme

The following is a summary of the Scheme:

- (a) all of the rights, liabilities and obligations of PDIC under policies issued or

underwritten by PDIC in the conduct of its Australian insurance business (**PDIC Policies**) will be transferred to and assumed by Hollard and become rights, liabilities and obligations of Hollard. PDIC will be released and discharged from these liabilities and obligations with Hollard substituted in PDIC's place;

- (b) in consideration of the assumption of PDIC's liabilities and obligations by Hollard, PDIC will pay to Hollard an estimated \$500,000 (to be confirmed by the parties or independent actuaries) representing the value of PDIC's liabilities assumed by Hollard;
- (c) if the Scheme is confirmed by the Court, the transfer will take effect on 12 am on 4 November 2017, Australian Eastern Standard Time. ; and
- (d) all costs and expenses incurred in connection with the transfer, including the cost and expenses associated with preparing and filing the actuarial report will be borne by PDIC and Hollard in equal share and at no cost to the policyholders of either PDIC or Hollard.

4. Effect of the Scheme

Except for Hollard being substituted for PDIC as insurer, the transfer will not result in any change to policy benefits or policy terms and conditions under the PDIC Policies.

All rights, benefits, obligations and liabilities of holders of the PDIC Policies will be the same as if those policies had been issued or underwritten by Hollard instead of PDIC. Claims under such policies will be made upon Hollard, instead of PDIC after the transfer.

Hollard will become entitled to all rights of PDIC to make claims against the following parties:

- (i) any person who has provided goods or services to PDIC (or its agent); and
- (ii) any person who has provided goods or services to a claimant under a policy issued by PDIC in Australia,

in either case where the goods or services were defective and either PDIC or Hollard suffers or incurs increased insurance loss in connection with the defect.

5. Actuarial report

The Scheme is based on an actuarial report prepared by Mr Tim Andrew of Finity Consulting Pty Ltd dated 8 June 2017 and supplementary letter dated 15 September 2017.

In his actuarial report, Mr Andrews has expressed the following opinion as to the effect of the Scheme on the interests of the policyholders:

"My opinion is that the interests of policyholders of PDIC Aus and Hollard will not be adversely affected in a material way as a consequence of the Insurance Scheme.

...there is no reason to believe that policyholder and claimant expectations in relation to claims handling would be materially affected by the scheme.

I have not identified any material additional risks that the Hollard policyholders would be exposed to as a result of the scheme.

Overall I am satisfied that any changes to the risk profile of PDIC Aus policyholders' insurer are offset by the benefits."

In his supplementary letter, Mr Andrews expressed the following opinion as to the effect of the Scheme on the interests of the policyholders:

"There is no change to the impact of the Insurance Scheme on Hollard policyholders, noting that there was no capital being transferred from PDIC US to Hollard in any case...

In short, I regard the risk to policyholders of PDIC Aus as a result of the Insurance Scheme to be short-lived. In the context of the short period, the capital buffer is sufficient, albeit lower than it previously was. Furthermore I am comfortable that further capital will be injected by the parent, if needed".

6. Inspection of scheme documents

Copies of the Scheme Document, Transfer Agreement and the Actuarial Report together with the supplementary letter, upon which the Scheme is based, will be open for public inspection and may be obtained free of charge by any policyholder of PDIC between the hours of 9am and 5pm every day (except weekends and public holidays) for a period of at least 15 days from 3 October 2017 at the following locations:

New South Wales

Clayton Utz, Level 15,
1 Bligh Street, Sydney,
NSW, 2000

Western Australia

Clayton Utz, Level 27 QV.1
Building, 250 St Georges
Terrace, Perth, WA, 6000

Australian Capital Territory

Clayton Utz, Level 10
New Acton Nishi, 2 Phillip

Victoria

Clayton Utz, Level 18,
333 Collins Street,
Melbourne, VIC, 3000

South Australia

Finity Consulting, Level
30, Westpac House, 91
King William Street,
Adelaide, SA, 5000

Northern Territory

Clayton Utz, 17-19
Lindsay Street, Darwin,
NT, 0800

Queensland

Clayton Utz, Level 28,
Riparian Plaza, 71 Eagle
Street, Brisbane, QLD,
4000

Tasmania

AON, Level 2, 100 Melville
Street, Hobart,
Tasmania, 7000

Law Street, Canberra, ACT
2601

A copy of the Scheme Document, Transfer Agreement and the Actuarial Report together with the supplementary letter, will also be available for inspection at the following website:

www.progressivehollardscheme.com

Further enquiries can be made by calling Lucy Terracall or Michelle Hocking of Clayton Utz on (03) 9286 6000 during business hours or by email to mhocking@claytonutz.com.

We recommend that policyholders obtain and review the Scheme Document, Transfer Agreement and the Actuarial Report , which contain a discussion of the impact of the Scheme on policyholders in order to gain a better understanding of how the Scheme will affect their rights and obligations under the policies to be transferred from PDIC to Hollard.

The Scheme Document, Transfer Agreement and the Actuarial Report together with the supplementary letter (and other various transaction documents) have been provided by PDIC and Hollard to the Australian Prudential Regulation Authority (**APRA**) and the Federal Court of Australia. However, neither APRA nor the Court has approved or verified the content of these documents nor formed any view on whether the Scheme (or any transaction contemplated by the Scheme) should be approved by any person (including APRA or the Court).

**THIS SUMMARY HAS BEEN PREPARED BY
PROGRESSIVE DIRECT INSURANCE COMPANY AND THE HOLLARD
INSURANCE COMPANY PTY LTD**