

Lemma: a tale of murder, conflicts and more: the latest chapter

Frank Maher

Lemma Europe Insurance Co. Ltd (Lemma) was an insurer with a short but colourful history. The latest update can be found in the liquidator's seventh progress report dated 23 August 2016.

Unusually for a European insurance company, its headquarters were in a small office above a restaurant in Gibraltar (pictured right).

Lemma's former director, Sergey Chernyshov, was murdered last year (but only at the second attempt). The Gibraltar Financial Services Commission (GFSC) had previously given him notice to cease to be director and controller shareholder of the company for failing to comply with assurances given by him to the GFSC in relation to the injection of additional capital to secure the financial strength of the Company and also that reinsurance claims due to be paid by Lemma Public Joint Stock Insurance Company, Ukraine ("Lemma Ukraine") of which he was President, to the Company would be paid, and for a conflict of interests in protecting and advancing the interests of Lemma Ukraine at the expense of Lemma Europe to which he owed a fiduciary responsibility as a director of the Company. The notice was withdrawn under a settlement agreement barring him from controlled functions in GFSC-regulated companies for three years.



On 24 January 2013, Lemma was put into liquidation. Mike Ashton, senior executive in the Gibraltar government's finance department was reported in Insurance Insight as saying that the regulation of Gibraltar's insurance sector was "strong and robust", words which may sound slightly hollow with the recent collapse of Enterprise Insurance Company Ltd.

The liquidator's latest report says that claims and estimated reserves amount to approximately £34m, of which £17.3m relates to solicitors professional indemnity insurance. This is fairly staggering, as the premiums paid by solicitors in England & Wales for primary insurance were £2,700,000 in 2009 and £6,232,752 in 2010. According to the Solicitors Regulation Authority, it provided cover to 590 firms prior to the 2011/12 indemnity period. In the 2011/12 indemnity period it insured only one firm. On the last day of that period Lemma was the subject of an insolvency event.

Some firms were able to claim on the (UK) Financial Services Compensation Scheme, then subject to a 90% limit. Others were not so lucky, as they exceeded the eligibility limits for a claim, though I did find a solution for one firm which resulted in successful claim, and I know of another firm which had some success too, on different grounds.

The liquidator's latest report notes that Lemma Ukraine, the associated company in which Sergey Chernyshov was involved, has disputed that it is liable on reinsurance contracts to cover claims relating to the solicitors professional indemnity policies written in 2009-2010 and 2010-2011 and has failed to pay other claims. In May 2014, Lemma Ukraine withdrew from AM Best rating, after its financial strength rating had been downgraded to C+ (Marginal) from C++ (Marginal) and issuer credit rating reduced to "b-" from "b+".

Overall, this is a sad and sorry saga which has caused much pain for many. However, it is probably fair to say that there are firms still practising now, who obtained insurance from Lemma when they were unable to do so anywhere else, and they would have been forced to close due to the compulsory requirements for carrying insurance. But that is not a recommendation for buying low grade insurance, if it can even be called that.

The liquidator's seventh report is here <http://goo.gl/2LNQC3>.