THE
GRIFFIN
INSURANCE ASSOCIATION

ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 30 SEPTEMBER 2020

CONTENTS

STRATEGIC REPORT

The directors present their Strategic Report for the year ended 30 September 2020.

The Griffin Insurance Association Limited (Griffin or the Association) is a mutual insurance company which provides professional indemnity insurance to a select group of insurance intermediaries (the Members). The Association was founded in 1988 and currently has 61 Members.

The Association's strategic objectives were first established in response to the aspirations and concerns of its founding Members and are regularly reviewed to ensure that they remain relevant and valid. The most recent review of the Association's strategy and objectives took place during April 2020, following which the main strategic objectives of the Association were agreed as follows:

- Through the appropriate management of the Members' professional indemnity risk to provide the Members with control over an important aspect of their business;
- Secure the continuing availability and continuity of cover that meets the membership's requirements;
- Achieve stability in the cost of cover;
- Avoid the inherent conflict of interest in maintaining professional indemnity insurance in the same market in which the Members trade;
- Provide confidentiality in a sensitive area of business;
- Ensure that the relationship between the Members and the Griffin is based on a spirit of partnership and mutuality;
- Raise awareness of the Association as an alternative provider of professional indemnity cover to the commercial market, drawing attention to the particular benefits offered through membership, with a view to maximising opportunities for sustainable growth.

Financial review

The Association's financial statements for the year ended 30 September 2020 have been prepared in the midst of the coronavirus pandemic, with significant volatility in investment markets and wider economic uncertainties caused by the lockdowns that have been imposed by governments worldwide.

The Association once again started the year in an exceptionally strong financial position, with capital resources well in excess of the target set by the Board. The result for the year to 30 September 2020 shows a balance on the technical account before returns of call of £9.5m. The underwriting result for the past five years and the impact of returns of call is shown in the table below:

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Balance on the technical account before returns of call	9.5	6.5	3.4	17.6	13.8
Returns of call	(8.1)	(7.9)	(6.0)	(6.1)	(5.0)
Balance as reported in the Income and Expenditure Account	1.4	(1.4)	(2.6)	11.5	8.8
	%	%	%	%	%
Net combined ratio (before returns of call)*	50.8	68.9	100.2	(9.8)	23.2

*The net combined ratio (before returns of call) has been calculated as the sum of claims incurred net of reinsurance and net operating expenses divided by the sum of calls and premiums less reinsurance premiums as disclosed in the Association's Income and Expenditure Account on page 15.

The continuing strength of the Association allowed the Board at its meeting in June 2020 to approve a return of call of approximately £8.1m, the second successive year in which the return of call has been at this level. Returns of call amounting to £33.1m have now been made to the membership over the course of the last five financial years.

At the renewal on 1 October 2019 there was no general rate increase but as the Members declared higher commission income than projected, this resulted in an increase in the Advance Call. Furthermore, ten Members have joined the Association during the financial year while one Member terminated its membership following acquisition as further expanded on in the Market Conditions section. This resulted in calls being higher when compared with the previous year, up from £13.1m to £14.0m.

The return of call during the current financial year was made from two policy years, £1.6m from 2011/12 and £6.5m from 2012/13, and represented, respectively, 16.0% and 53.5% of the Advance Call of those policy years.

The reinsurance premiums paid by the Association were higher than the previous year at £2.2m. This increase reflected the growth in Advance Call, to which reinsurance premiums are proportionate. There was no change in the reinsurance premium rate at renewal.

The number of claims notified to the Association in the 2019/20 policy year was lower than in the previous year at 63, although the aggregate value of claims after 12 months was considerably higher at the same stage. Significant contingency reserves have also been retained within the policy year in order to absorb any future deterioration in claims.

STRATEGIC REPORT (continued)

Claims paid in the year were £3.3m compared with £4.3m in 2019 and the provision for outstanding claims reduced by £0.2m. The claims position in older policy years showed improvement, with a £9.6m release of surplus claims provisions from those years. Overall, the level of claims incurred in the financial year was £3.1m, down from £4.8m in the previous year.

Net operating expenses were a little higher than in the previous year at £2.9m. The balance on the technical account, which represents the underwriting result, was a surplus of £1.4m compared with a deficit of £1.4m in the previous year.

The actual investment return achieved for the year of, £1.3m, was below the long-term rate set by the Board, which resulted in a transfer from the investment reserve, after adjusting for tax, of £1.8m. More detailed commentary on the investment performance is set out in the Investment Strategy and Performance section below.

The Association's net deficit after tax for the financial year was £1.3m.

The value of the Association's investment portfolio decreased by £3.0m in the year, the result of the £1.3m growth in the invested assets referred to above, offset by a £4.3m transfer from the portfolio to fund cash flow. At 30 September 2020, the value of the portfolio stood at £123.0m. A detailed analysis of the investments held at the year end is shown in note 9 to the financial statements.

The free reserves of the Association at 30 September 2020 were £86.0m, which, as noted above, is higher than the Board's capital target and the Association therefore remains financially very strong.

Investment strategy and performance

The Association's investment strategy is the responsibility of the Board, assisted by its investment managers, Schroders. There has been no material change to the Association's investment strategy during the year, following the implementation of the fiduciary management model at the end of the previous financial year.

The Association's investment strategy is a long-term one, reflecting the long-tail nature of many of its liabilities and the nature of mutuality. The investment strategy is twofold:

- To hold a portfolio of government bonds and cash which matches, in terms of average duration and currency, the claims liabilities of the Association. This is known as the 'matching portfolio'; and
- To invest the assets in excess of the matching portfolio, in accordance with the 'prudent person principle', in such a way as to achieve the maximum return for a level of risk consistent with the Association's investment risk appetite. This is known as the 'growth portfolio'.

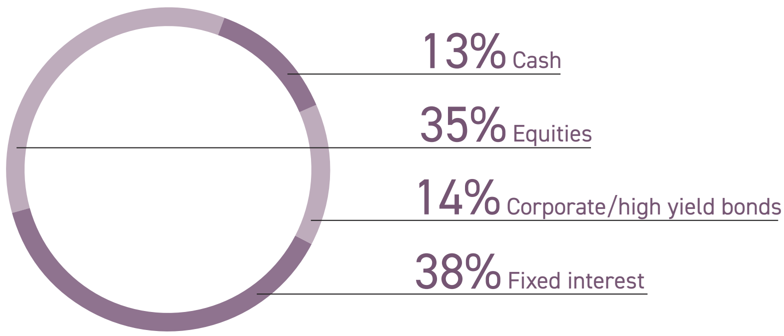
The Association's investment portfolio experienced significant volatility during the financial year with strong investment returns seen through to the middle of February 2020. However, markets then turned negative following the uncertainty relating to Coronavirus Disease 2019 (COVID-19) and the negative impact thereof on global economic growth. Investment markets retreated through to the end of March 2020 and have since remained volatile. The Association's investment portfolio has recovered from the low point seen at the end of March 2020, to generate a positive return by 30 September 2020.

In the year ended 30 September 2020, the overall return on investments was 1.4% before investment management expenses (1.0% net of investment management expenses), equivalent to £1.3m, compared with a long term rate of return of 3.1%. The best performing asset class was fixed interest investments, with a return of 1.0% before investment management expenses.

The return on investments is disclosed as follows:

	2020 £	2019 £
Investment income (note 6)	**(752,183)**	13,722,332
Unrealised gain/(loss) on investments	**2,215,799**	(8,313,190)
Investment management expenses	**(202,841)**	(517,409)
Total return on investments	**1,260,775**	4,891,733

Investment holdings at 30 September 2020



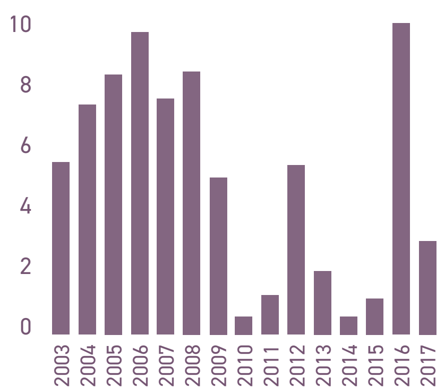
Claims

Over the last ten years, one notable trend has been the significant number of larger claim payments resulting from Members' involvement in reinsurance activity. A more recent trend is that insurers are increasingly claiming against coverholders for breach of binding authority terms, where substantial losses are incurred on polices bound by the coverholder. The Association has also seen an increasing number of professional indemnity notifications relating to Members who have erroneously paid monies to incorrect bank accounts, as a result of social engineering fraud. In this regard, the Association scored a recent success in obtaining a Court Order to freeze an overseas bank account, so that substantial misappropriated funds could be returned to the correct recipient.

COVID-19 is not expected to lead to substantial claims payments and there has been a low number of COVID-19 notifications to date. The Association continues to monitor this area closely.

Overall, the Association is still seeing a number of potentially large notifications. However, recent claims experience remains benign by comparison with previous years.

Net claims £m



Policy year
(Data in 2018 and 2019 policy years is insufficient to make accurate projections)

Risk management of Members

The Association's risk management programme continues to monitor levels of risk throughout the membership. The programme is based upon a structure of regular reviews, with the focus of each review being agreed with the Member in advance. This ensures that any particular areas of potential risk are considered during the review. After each review, a report is produced and a plan agreed with the Member at a summary meeting to address any issues identified. Members are supported in implementing any recommendations arising out of the review, with presentations and workshops to staff often forming part of the follow-up. The review programme has continued remotely during the COVID-19 pandemic, through a combination of video conferencing and remote access to Members' systems.

An area of particular focus in the last year has been the structure of files and the quality of electronic filing, since the ability to follow an audit trail of the handling of a piece of business is essential to the successful defence of a professional indemnity claim. We have highlighted where issues are created by Members failing to have suitable protocols in place and/or sufficiently robust peer review procedures to ensure they are followed. This has been particularly important for those Members who have been carrying out an increased volume of business electronically during the COVID-19 pandemic. Peer review more generally has also been a focus; many issues identified in documentation on risk management reviews could have been picked up by a 'second pair of eyes' check. We continue to recommend the implementation of a robust checking system which would eradicate many of these errors. We have also continued to provide guidance on templates, and the standard disclosure and onerous provisions warnings which should be given to clients at key stages in the placement/underwriting process.

There are a variety of ways in which the Managers raise awareness of risk amongst the membership. External speakers are invited to present on topical issues at the quarterly Technical Forums. Recent subjects have included the impact of climate change issues on intermediaries and the insurance sector; navigating Financial Conduct Authority (FCA) investigations and enforcement proceedings; the future impact of artificial intelligence on insurance and the law; and COVID-19 issues for insurers and intermediaries. In addition, a suite of presentations and workshops is available to the membership and these are regularly tailored to reflect the particular training needs of individual Members. The Association has recently relaunched its website which gives Members access to a range of resources. This includes recently updated MGA and Broker Risk Management Guidelines and a number of regularly published bulletins, in particular a series of bulletins as the COVID-19 pandemic developed, giving practical guidance to Members on a range of issues. These resources are all produced in accordance with the Association's objective of developing risk awareness at all levels of the business.

Rules of the Association

The Managers and the Board continue to review the cover provided by the Association to ensure that it meets the needs of the Members and responds to developments in the market, while remaining as broad as is sustainable in the long-term. The Board discussed changes to the Rules at its meeting in June 2020 and approved a small number of minor housekeeping amendments, which came into effect for the policy year commencing 1 October 2020.

STRATEGIC REPORT (continued)

Market conditions

The COVID-19 pandemic has given rise to unprecedented uncertainty over the last 12 months. Thankfully, this has had a limited impact on the Association but has created challenges and opportunities in the following areas:

Investment returns

Market volatility has brought into focus the fact that 17% of the Association's income was projected to be earned from investment returns for the 2019/20 financial year, based on the allocation of the long-term rate of return; but that only 12% of Griffin's income is projected to be earned from investment returns for the 2020/21 financial year.

Membership

COVID-19 has affected the commercial insurance market in a number of ways. Firstly, insurers' investment income has been impacted negatively and this puts pressure on profitability. Secondly, multiple lines of business have seen an increase in claims arising from COVID-19 related losses. Thirdly, whilst most insurers and brokers have demonstrated an ability to work effectively from home, the entrepreneurial spirit of Lloyd's and the London market has been tempered and, with much uncertainty surrounding decision-making, insurers appear less comfortable underwriting new, different or high risk business. This has led to a hardening of the market in a number of classes of business including professional indemnity. Whenever there is a hardening of the market, we see an increased interest in membership of the Association. The last time this happened was after the World Trade Centre terrorist attack in 2001 when 13 new Members joined in a 14-month period. Over the course of this financial year, ten new Members have joined with a combined commission income of £57m. Some of these new Members are start-ups and their commission income is expected to grow; however, this growth in membership has been countered by the loss of one significant Member (due to acquisition) with commission income of £47m. The Managers continue to receive enquiries from potential Members. Robust due diligence is employed so that the membership remains within the Association's risk appetite and to ensure that new Members do not dilute the quality of the Association's risk profile as the size and diversity of the membership grows.

Reinsurance

The Association's market excess of loss reinsurance was renewed at 1 October 2019 with terms as expiry and one change in market participation. As noted in the membership section, over the course of the financial year reinsurers have seen a fall in investment income, large loss notifications and operational challenges, all resulting in a more risk averse approach. In particular, reinsurers have sought to protect their books from further COVID-19 losses by imposing blanket COVID-19 exclusions, or even broader Communicable Disease Exclusions, across many lines of business, including professional indemnity. This made for a challenging renewal at 1 October 2020, which was only completed after the commencement of the 2020/21 policy year.

Operations

The Managers asked all staff to work from home just before the country went into full lockdown in March 2020, but good service levels have been maintained and the Managers received no complaints about service during the year. Towards the end of the financial year, as Government-imposed restrictions were lifted, the Managers opened their premises on a voluntary, phased-return approach, with social distancing measures in place. Since then, attendance at the Managers' offices has followed Government guidance.

Impact of 'Brexit'

Following the announcement of the referendum result in June 2016, a number of options for continuing to provide cover for EU risks had been considered by the Board. The insurance company option was discounted as being prohibitively expensive relative to the Advance Call income levels of the business concerned; and the cell captive arrangement was also not pursued at that time because of cost projections. The Board therefore agreed that a fronting arrangement with an EU registered insurer offered the most cost-effective solution in the short to medium term and the Managers had entered into discussions with one of Griffin's reinsurers, who had agreed to provide fronting insurance. This reinsurer was subsequently purchased by another insurer and withdrew support for the fronting arrangement in November 2019.

The Managers therefore reviewed the Association's options again, with discussions held with a number of brokers and run-off agencies with a view to finding an alternative fronting partner. The Managers had also approached market contacts involved in cell captive management in Malta. Indications from alternative fronting partners suggested that fronting fees could be so high as to make the cell captive option increasingly viable from a financial point of view. At the Board meeting on 19 March 2020, the Board agreed to pursue the option of renting cell captive capacity to provide EU-regulated insurance to Griffin EU risks (two Members and a number of Associated Companies). A Feasibility Report was prepared by SRS Europe Limited (SRS), giving a detailed view of the viability of a cell arrangement with Atlas Insurance PCC (Atlas) in Malta. The Association's Board received a presentation from SRS on 25 June 2020 and agreed to proceed with an application to the Malta Financial Services Authority (MFSA) for a protected cell captive hosted by Atlas. A meeting was held with the MFSA to run through the draft application and the application was submitted just before the end of the financial year, with a view to receiving approval to write EU risks no later than 1 January 2021.

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. The Association is focussed on identification and management of potential risks. The key areas of risk to the Association are set out below:

- **Underwriting risk** – incorporating premium and reserving risk;
- **Market risk** – incorporating interest rate risk, equity risk, spread risk and currency risk;
- **Counterparty risk** – being the risk that a counterparty is unable to pay amounts in full when due;
- **Operational risk** – being the risk of failure of internal processes or controls.

The business risks and uncertainties are discussed further in note 10 to the financial statements.

Future development

Prudent financial management and the absence of pressure from any outside interests seeking a short-term return ensure that the Association has the financial security and sustainability that allow it to continue to deliver the support and protection sought by its Members. The Managers welcome discussion with potential Member firms but terms are not offered unless specific approval to do so is obtained from the Board.

Climate change

Whilst there may be an increase, in the years ahead, in weather/climate related claims covered by insurance/reinsurance policies, we do not, at this stage, believe that climate change itself will give rise to a material increase in negligence by insurance intermediaries. Accordingly, we do not believe that climate change will lead to a material increase in claims payments made by the Association.

Statement of Compliance with Section 172(1) of the Companies Act 2006

Section 172(1) of the Companies Act 2006 requires the directors to promote the success of the Association for the benefit of the Members and other key stakeholders. In doing so, the directors must have regard to six areas:

- The likely consequences of any decision taken in the long term;
- The interests of employees, which in the case of the Association relates to those employed by the Association's Managers;
- The need to foster business relationships with suppliers, customers and others;
- The impact of the operations of the Association on the community and the environment;
- The desire to maintain a reputation for high standards of business conduct; and
- The need to act fairly between the Members of the Association.

The Association's key stakeholders are the Members, who comprise the broking firms and intermediaries that have their professional indemnity insurance provided by the Association. The Association's corporate governance structure includes a Committee, with a representative from each Member firm, which allows wider engagement with the membership on the impact of the main decisions of the Board, including call setting, investment strategy and the Association's strategic direction.

At the Committee meeting in July 2020 the Managers provided insight into the key decisions that have been taken during the year, primarily in relation to the call setting for the policy year renewing on 1 October 2020. This included the decision to apply a rate increase of 6% to ensure that the Association's business model remains sustainable over the long term and that each policy year is projected to break even. This also included the approval by the Board to apply a return of call for renewing Members on 1 October 2020 amounting to approximately £8.1m as the Association's capital position remains in excess of its economic capital benchmark.

Further engagement with the membership takes place through the Technical Forums and the risk management of Members as described earlier in the Strategic Report.

The other principal stakeholders that have been identified by the Board are the Managers, Tindall Riley & Co. Limited, and their employees, who carry out all the day to day operational and management functions of the Association, and those others that provide services to the Association such as investment managers, professional advisers, the Association's reinsurers and its reinsurance broker (who is also a Member of the Association).

STRATEGIC REPORT (continued)

The Association has built strong relationships with all the above stakeholders over the years. It is perhaps particularly noteworthy that the average length of the current membership of the Association is 11 years.

One of the Board's seven risk appetite statements relates to the long-term sustainability of the Association's business. All key decisions of the Board, such as those set out above, have regard to this principle such that 'short-termism' is avoided in favour of the long-term view. The Board also sets economic capital targets at very high levels of confidence with the aim of achieving long-term financial stability.

The relationship between the Association and the Managers, which dates back over 30 years, is symbiotic, in that the success of one is inextricably linked to the success of the other. Decisions taken by the Board that directly impact the Managers, such as the amount of the management fee, take full account of this relationship, having regard to service levels and accountability.

The Association has for many years aligned the way that it does business with the Regulators' conduct rules, such as 'treating customers fairly'. As a mutual insurance business, the fair treatment by the Association of its Members is a fundamental principle. The Association's Ethics policy sets out these regulatory conduct rules and covers additional areas such as its whistleblowing policy, how the Association manages conflicts of interest, its remuneration policy, its Association's modern slavery statement and its anti-bribery and corruption policy. In addition, the Association also has a Financial Crime policy.

The Association's reputation is fundamental to its ability to carry out its business and it seeks to protect this reputation by sticking firmly to the principles established by the Board of fairness and sound business conduct.

Mark Warren
Chairman
17 December 2020

STATUTORY DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 30 September 2020.

The principal activity of the Association is the insurance of the professional indemnity risks of a select group of insurance intermediaries. The Strategic Report on the preceding pages provides a summary of the principal matters affecting the Association's business during the year.

The names of the directors are shown on page 32. Simon Scriven retired from the Board on 19 December 2019. At the Annual General Meeting on 9 July 2020, Andrew Cross, Duncan McKechnie and Chetan Shah retired by rotation and were reappointed. The Members also agreed to reappoint Rhona Lewry (May), who had been appointed by the directors earlier in the year to fill the vacancy arising from Simon Scriven's retirement.

The Board met four times during the year under review, in October, December, March and June. The list below details the more important matters considered at those meetings, many of which are discussed in the Strategic Report:

- Future Strategy
- Membership and Opportunities for Growth
- Investment Performance and Strategy
- Report and Financial Statements
- Call Rates
- Reinsurance Arrangements
- Claims and Claims Trends
- Risk Management of Members
- Risk and Compliance
- Corporate Governance
- Appointment and Retirement of Directors and Senior Managers
- Regulatory Capital Requirements and Technical Provisions
- Rules of the Association
- Managers' and Directors' Remuneration
- Brexit Contingency Plan

Financial instruments

Information on the use of financial instruments by the Association and its management of financial risk is disclosed in note 10 to the financial statements. The Association's exposure to cash flow risk is addressed under the headings of Credit risk, Liquidity risk and Market risk.

Future developments

Likely future developments of the Association are set out in the Strategic Report.

Directors' indemnity insurance

The Association purchases directors' and officers' liability insurance in respect of all the Association's directors.

Audit

The directors have delegated day to day responsibility for the maintenance of the Association's accounting records and the preparation of the financial statements to the Managers. They have confirmed that they have provided the auditor with all relevant audit information of which they are aware.

The Audit Group has considered the financial statements with the Managers, met privately with the auditor, and reported to the Board.

So far as each person who is a director at the time of this report is aware, there is no relevant audit information of which the Association's auditor is unaware. The directors confirm that they have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Association's auditor is aware of that information.

Mazars LLP has expressed its willingness to be reappointed as auditor of the Association and, subject to no objections being received, will be deemed to be reappointed in accordance with Section 487 of the Companies Act 2006.

The directors confirm that, to the best of their knowledge, the Strategic Report on pages 1 to 6 includes a fair review of the development and performance of the business and the position of the Association, together with a description of the principal risks and uncertainties that it faces. The Association has considerable financial resources and the directors believe that it is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Subsequent events

Subsequent events have been considered and are more fully disclosed in note 12 to the financial statements.

By order of the Board

Susan Parramore
Secretary
17 December 2020

AUDIT GROUP REPORT

The Audit Group has a particular role in ensuring that Members' interests are protected in relation to the Association's financial reporting and internal control; in this it acts independently of the Managers but is nevertheless appropriately and ably supported by them. I am pleased to present the Audit Group's Report on how the Group fulfilled that role in relation to the year ended 30 September 2020.

There were no changes to the composition of the Audit Group during 2019/2020. The Group draws on the pool of senior financial personnel within Member firms and comprises the following non-executive directors of the Association:

Duncan McKechnie, BA FCA (member since 05/10/2017)
Anthony Phillips, BA ACA (member since 26/11/2013) (Chair)
Chetan Shah BSc ACA (member since 05/10/2017)

The Audit Group meets at least three times each year and receives regular reports from the Managers during the course of the year.

Financial reporting

In relation to financial reporting, the Audit Group advises the Board on the Association's annual Report and Financial Statements and the Association's Solvency and Financial Condition Report to the Prudential Regulation Authority. In reaching its recommendations, the Group:

- considers the independence of the Association's external auditors, Mazars LLP, and identifies any actual or perceived threats to their independence and/or conflicts of interest they may have within the regulatory or professional requirements governing them as auditors of the annual Report and Financial Statements;
- liaises closely with the Association's external auditors in the planning and conduct of the audit of the annual Report and Financial Statements;
- receives reports from the auditors, particularly in relation to their findings on key audit matters concerning the annual Report and Financial Statements;
- in conjunction with reports received from the Chief Actuary, scrutinises the methodology adopted in setting the Association's closing technical provisions and the quantum thereof as stated in the Association's annual Report and Financial Statements and the Association's Solvency and Financial Condition Report;
- considers the external audit report and the contents of the auditors' management letter in connection with the annual Report and Financial Statements; and
- meets with the auditors independently of the Managers to discuss any matters of concern.

The Audit Group is satisfied that the external auditors remain independent; fees received from the Association by Mazars LLP in respect of non-audit work remain *de minimis*.

The valuation of the Association's technical provisions is always an area of particular focus for both the Audit Group and the external auditors; Mazars LLP concluded that the provisions were adequately stated and consistently prudent.

The external audit proceeded smoothly and no matters of concern were raised by the auditors.

The Audit Group is also charged to make recommendations to the Board concerning the appointment or reappointment of the external auditors. The Association last put the external audit out to tender in 2016; the audit was awarded to Grant Thornton but on its resignation in 2018 subsequently awarded to Mazars LLP in 2018. This is therefore Mazars' third audit but Sam Porritt's fourth as audit partner (Sam having been audit partner while at Grant Thornton in 2016). The Audit Group recommended to the Board that Mazars LLP be reappointed for 2021.

Internal audit

During the course of 2019/2020 the procedure for the consideration of the Association's internal audit reports was amended to recognise that while the work of internal audit is ongoing throughout the year, the Audit Group typically meets only three times a year; and two of those meetings surround the preparation and external audit of the annual Report and Financial Statements towards the end of the calendar year. Internal audit now submits its reports to the Chair of the Audit Group throughout the year. These are discussed independently of the Managers before being circulated to the other members of the Audit Group for review and comment; in this way the heavy lifting is done away from the constraints of meeting preparation and leads to better discussion at the Audit Group meetings, when the Association's internal auditor formally presents his reports. Areas covered in 2019/2020 were internal audit's ongoing reviews of the Association's IT & Data Security and Data Governance Framework; and new audit work in the fields of Regulatory Compliance, Underwriting, Actuarial, Claims Handling, the Association's Risk Management Framework and Business Continuity Planning. The internal auditor's findings were discussed in each case and recommendations monitored to ensure satisfactory completion and sign-off.

At its October 2020 meeting, the Audit Group approved the internal auditor's *Internal Audit Plan for 2020/2021 and Risk Assessment*. It also approved the internal auditor's request that an external quality assessment of the Association's internal audit function be carried out.

The Audit Group found the internal audit function to be effective and appropriate to the Association's business.

Compliance monitoring
At the Association's Board meeting in June 2020 it was agreed that the Audit Group should assume the additional function of maintaining oversight responsibility for compliance with data quality standards on behalf of the Board. Much of the Audit Group's work in evaluating the adequacy of the Association's technical provisions and the Association's solvency is predicated on the quality of the data available to it; responsibility for oversight of data quality standards therefore sits well with the Audit Group's other roles.

Governance
At its September 2020 meeting the Audit Group reviewed its performance over the preceding year with the assistance of the Managers and concluded that it had met its terms of reference. However, the Group agreed that its performance and the associated review should be better evidenced and it was agreed that, working with the Managers, a set of criteria be formulated against which the Group could be seen to measure its performance; this, coupled with an in depth review every three years as part of the Board Effectiveness Review should put this area of governance on a firmer footing. The Audit Group also updated its terms of reference drawing on guidance published by the Chartered Governance Institute and aligning them more closely with the Guidance on Audit Committees published by the FRC; these terms of reference were approved by the Board at its meeting in October 2020. The Audit Group remains mindful that the Association is a mutual with no external shareholders and that the Group's principal role is to support the Board and through the Board serve the Association and its Members.

Anthony Phillips
Chair of the Audit Group
17 December 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Statutory Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 *'The Financial Reporting Standard applicable in the UK and Republic of Ireland'* and FRS 103 *'Insurance Contracts'*. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT

To the Members of the Griffin Insurance Association Limited

Opinion

We have audited the financial statements of The Griffin Insurance Association Limited ('the Association') for the year ended 30 September 2020 which comprise the Income and Expenditure Account, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Association's affairs as at 30 September 2020 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT

To the Members of the Griffin Insurance Association Limited

We summarise below the key audit matter in forming our audit opinion above, together with an overview of the principal audit procedures performed to address this matter and, where relevant, key observations arising from those procedures. This matter, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Valuation of technical provisions

The gross technical provisions at 30 September 2020 were £34,168,316 (2019: £34,368,753).

The valuation of technical provisions is a key area of judgement and management estimation.

The Association underwrites professional indemnity insurance on a 'claims made' basis and recognises technical provisions made up of case reserves and a provision for 'Incurred But Not Enough Reported' ('IBNER').

The provision for IBNER is the most subjective and is based on the estimate of the ultimate cost to settle all claims including the related costs of handling the claims. Smaller claims are usually settled within a couple of years of notification but larger, more complex claims often take much longer. The long-tail claims settlement pattern and volatile nature of the Association's claims experience makes it more difficult to predict, with accuracy, the estimated total claims costs.

Given the level of subjectivity and judgement there is a risk that inappropriate reserve projections are made and we therefore identified the valuation of technical provisions as a significant risk and a key audit matter.

How our audit addressed the key audit matter and our observations

We reviewed the year-end claims reserving position of the Association and, in conjunction with specialist members of our actuarial team, we performed the following audit procedures:

- We gained an understanding of the reserving process used by the actuaries of the Association and of the related controls;

- We reviewed the reserving paper produced by the Association's internal actuarial team as at 30 September 2020;

- We performed an independent reserve projection comparing our independent reserve projection to that derived by the actuaries of the Association;

- We reviewed the data reconciliation performed by the actuaries of the Association to determine if the data used for reserving was complete and accurate;

- We checked the integrity of the data used by the Association's actuaries by agreeing it to the accounting records and considered whether the data used for reserving was complete and accurate;

- We considered the appropriateness of the actuarial methodologies and assumptions applied; and

- We compared the actual gross incurred position at 30 September 2020 with that last seen at 30 September 2019 and considered the reasons for the differences.

Our observations:

Overall, based on the audit work performed, the recorded technical provisions are fairly stated and consistent with the evidence obtained.

INDEPENDENT AUDITORS' REPORT

To the Members of the Griffin Insurance Association Limited

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality

Our overall materiality was £1,720,000.

How we determined it

2% of the Association's capital and reserves.

Rationale for benchmark applied

In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded that capital and reserves was the most relevant benchmark as it best represents the financial stability and solvency of the Association.

Performance materiality

Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.

Performance materiality of £1,290,000 was applied in the audit, which is 75% of overall materiality.

Reporting threshold

We agreed with The Audit Group that we would report to them misstatements identified during our audit above 3% of overall materiality, which is £52,000 based on overall materiality, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit, including the extent to which the audit was considered capable of detecting irregularities, including fraud

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Association, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements.

In identifying and assessing risks of material misstatement in respect to irregularities, including non-compliance with laws and regulations, our procedures included but were not limited to:

- at the planning stage, we gained an understanding of the legal and regulatory framework applicable to the Association, the industry in which it operates and considered the risk of acts by the Association which were contrary to the applicable laws and regulations;
- we discussed with the directors the policies and procedures in place regarding compliance with laws and regulations;
- we discussed amongst the engagement team the identified laws and regulations, and remained alert to any indications of non-compliance; and
- during the audit, we focused on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the managers of the Association, from inspection of the Association's regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the Prudential Regulation Authority. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006.

Our procedures in relation to fraud included but were not limited to:

- inquiries of management on whether they have knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risk related to fraud;
- discussion amongst the engagement team regarding risk of fraud, such as opportunities for fraudulent manipulation of the financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to technical provisions as discussed above, and significant one-off or unusual transactions; and
- addressing the risk of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

INDEPENDENT AUDITORS' REPORT

To the Members of the Griffin Insurance Association Limited

As a result of our procedures, we did not identify any key audit matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under 'Key audit matters' within this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Statutory Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Statutory Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Statutory Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Association, or returns adequate for our audit have not been received from branches not visited by us; or
- the Association's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at; **www.frc.org.uk/auditorsresponsibilities** This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by ordinary resolution at the Association's Annual General Meeting on 5 July 2018 to audit the financial statements for the year ended 30 September 2018 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 2018, 2019 and 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Association and we remain independent of the Association in conducting our audit.

Our audit opinion is consistent with the Audit Completion Report we presented to The Audit Group.

Use of the audit report

This report is made solely to the Association's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body for our audit work, for this report, or for the opinions we have formed.

Sam Porritt
Senior Statutory Auditor
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London E1W 1DD

17 December 2020

INCOME AND EXPENDITURE ACCOUNT
for the year ended 30 September 2020

Technical Account – General Business	Note		2020 £		2019 £
Earned premiums, net of reinsurance					
Calls and premiums	3	13,996,176		13,071,706	
Return calls	3	(8,061,225)		(7,902,406)	
			5,934,951		5,169,300
Reinsurance premiums		(2,194,487)			(2,069,626)
			3,740,464		3,099,674
Allocated investment return transferred from the non-technical account			3,646,457		3,073,291
			7,386,921		6,172,965
Claims paid					
Gross amount		(3,301,589)		(4,299,211)	
Reinsurers' share		139		–	
	4	(3,301,450)		(4,299,211)	
Change in the provision for claims					
Gross amount		200,437		(510,291)	
Reinsurers' share		–		–	
	4	200,437		(510,291)	
Claims incurred net of reinsurance			(3,101,013)		(4,809,502)
Net operating expenses	5		(2,896,978)		(2,768,215)
Balance on the technical account			1,388,930		(1,404,752)

Non-technical account	Note	2020 £	2019 £
Balance on the technical account		1,388,930	(1,404,752)
Investment income	6	(752,183)	13,722,332
Investment expenses		(202,841)	(517,409)
Unrealised gain/(loss) on investments		2,215,799	(8,313,190)
Allocated investment return transferred to the general business technical account	7	(3,646,457)	(3,073,291)
Net (deficit)/surplus before taxation		(996,752)	413,690
Taxation	8	(295,661)	(678,469)
Net deficit and total comprehensive income after taxation		(1,292,413)	(264,779)

There are no other items of comprehensive income. Therefore, no Statement of Other Comprehensive Income has been prepared. All amounts are derived from continuing operations.

The notes on pages 19 to 31 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 September 2020

Assets	Note	2020 £	2019 £
Financial investments	9	**122,990,366**	126,005,759
Reinsurers' share of technical provisions			
Claims outstanding	4	**–**	–
Debtors			
Direct insurance operations – Members		**40,122**	–
Reinsurance operations		**–**	13,869
Cash at bank		**6,058,941**	4,460,823
Accrued income		**–**	21,951
		129,089,429	130,502,402
Equity and Liabilities			
Capital and reserves			
Investment reserve		**17,230,971**	19,057,192
General reserve		**25,000,000**	25,000,000
Reinsurance and Technical reserve		**10,000,000**	10,000,000
Income and Expenditure Account		**33,786,194**	33,252,386
		86,017,165	87,309,578
Technical provisions			
Gross outstanding claims	4	**34,168,316**	34,368,753
Creditors			
Direct insurance operations – Members		**8,131,557**	7,996,794
Reinsurance operations		**53,637**	–
Taxation		**295,661**	459,704
Accruals		**423,093**	367,573
		43,072,264	43,192,824
		129,089,429	130,502,402

Approved by the Board on 17 December 2020

M R W Warren Director
Samantha Peat Director

The notes on pages 19 to 31 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2020

	Investment reserve £	General reserve £	Reinsurance and technical reserve £	Income and expenditure £	Total £
At 30 September 2018	**17,490,962**	**20,000,000**	**10,000,000**	**40,083,395**	**87,574,357**
Deficit for the financial year	–	–	–	(264,779)	(264,779)
Transfer to investment reserve	1,566,230	–	–	(1,566,230)	–
Transfer to general reserve	–	5,000,000	–	(5,000,000)	–
At 30 September 2019	**19,057,192**	**25,000,000**	**10,000,000**	**33,252,386**	**87,309,578**
Deficit for the financial year	–	–	–	(1,292,413)	(1,292,413)
Transfer from investment reserve	(1,826,221)	–	–	1,826,221	–
At 30 September 2020	**17,230,971**	**25,000,000**	**10,000,000**	**33,786,194**	**86,017,165**

The Association is incorporated as a company limited by guarantee and does not therefore have share capital.

The Investment Reserve comprises the cumulative net transfers from the Income and Expenditure Account equivalent to the net unallocated return on the Association's investment portfolio.

The General Reserve has been established in accordance with Rule 26 of the Association to provide for any unforeseen contingencies, claims, expenses, losses or other outgoings of the Association. Transfers to this reserve are considered upon closure of each policy year. To date the 1987/88 to 2011/12 policy years have been closed.

The Reinsurance and Technical Reserve was created by the transfer of £10m from the Association's Income and Expenditure Account. The transfer was made from current surpluses in open years, apportioned between those years according to their level of surplus. The reserve is aimed primarily at providing the Association with the means to preserve stability in the cost of insurance to Members in the event that the costs of reinsurance increase; it will allow the Association to respond to any such increase in a number of ways, including increasing its retention, participating as a co-reinsurer, or contributing to the cost. However, should the Association consider it appropriate, the reserve may also be used for other purposes.

The notes on pages 19 to 31 form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 September 2020

	2020 £	2019 £
Cash flows from operating activities		
Net (deficit)/surplus before taxation	**(996,752)**	413,690
Adjustments for:		
Change in provisions for claims	**(200,437)**	510,291
(Increase)/decrease in insurance and other debtors	**(26,253)**	35,990
Increase in insurance and other creditors	**183,994**	1,983,178
Investment income (net of expenses)	**955,024**	(13,204,923)
Unrealised (gain)/loss on investments	**(2,215,799)**	8,313,190
Net cash generated from operating activities	**(2,300,223)**	(1,948,584)
Cash flows from investing activities		
Purchase of equity shares	**(2,194,854)**	(61,596,750)
Purchase of fixed interest investments	**(37,821,058)**	(42,087,357)
Sale of equity shares	**4,710,667**	55,453,112
Sale of fixed interest investments	**9,830,208**	71,423,111
Net change to deposits with credit institutions	**30,238,709**	(22,737,469)
Dividends received	**495**	1,132,794
Fixed income interest received	**21,951**	798,083
Income from bank and other cash	**10,673**	666,307
Investment management expenses paid	**(142,915)**	(641,366)
Exchange loss on revaluation of investments	**(299,568)**	–
Income taxes paid	**(459,704)**	(165,691)
Net cash from investing activities	**3,894,604**	2,244,774
Net increase in cash at bank	**1,594,381**	296,190
Cash at bank at the beginning of the financial year	**4,460,823**	3,955,250
Effect of foreign exchange rate changes	**3,737**	209,383
Cash at bank at the end of the financial year	**6,058,941**	4,460,823

The notes on pages 19 to 31 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30 September 2020

1 General information

The Griffin Insurance Association Limited is a company incorporated in England and Wales authorised by the Prudential Regulation Authority (PRA) and FCA to carry out non-life insurance business. The address of the registered office is given on page 32. The nature of the Association's operations and its principal activities are set out in the Strategic Report on pages 1 to 6.

These financial statements represent the results of the Association and the Association is not part of a Group.

2 Accounting policies

Basis of Accounting

These financial statements have been prepared under the historical cost convention as modified to include investments at market value, in compliance with Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) under the Companies Act 2006 and in accordance with applicable accounting standards in the UK including Financial Reporting Standard 102, *'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'* (FRS 102). In accordance with Financial Reporting Standard 103, *'Insurance Contracts'* (FRS 103), the Association has applied existing accounting policies for insurance contracts. The Regulations require the use of the term 'Profit and Loss Account' as a heading. The Statutory 'Profit and Loss Account' is replaced by an 'Income and Expenditure Account' in these financial statements, consistent with the mutual status of the Association.

Going Concern

The impact of COVID-19 has been disclosed in the Strategic Report under the Market Conditions heading on page 4 which has had a limited impact on the Association. The directors therefore have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Statement of Compliance

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including FRS 102 and FRS 103, and the Companies Act 2006.

Policy year accounting

The Association's business is accounted for on an annual basis. For the purposes of reporting to mutual Members, all transactions, including calls, reinsurance premiums payable, claims and reinsurance recoveries are allocated to the policy year to which they relate. In the case of claims and reinsurance recoveries, the appropriate year is decided by the date on which the notification (of either a claim or a circumstance) is made to the Association. Other income and expenditure is allocated to the current policy year except investment returns which are allocated to policy years on the same basis as they are credited to the Technical Account – General Business.

Members remain liable for their rateable proportions of any excess of claims and expenses over income for any open policy year and may, at the discretion of the directors, have returned to them any balance not retained and applied for the purposes of the Association. Underwriting years are closed only when the directors are satisfied that the information on claims payable is sufficiently reliable to enable the outcome of that year to be determined with reasonable accuracy.

The Income and Expenditure Account presents the aggregate of changes during the financial year on all policy years, both open and closed.

Calls and premiums

Calls and premiums are credited to the Income and Expenditure Account as and when charged to Members. Since all insurance policies are coterminous with the Association's financial year, there are no unearned premiums at the year-end date.

Returns of call are accounted for when approved by the directors, but credited to the Members' account on renewal as at 1 October. Returns of call are returns where a policy year is in surplus and of sufficient maturity. Returns of call are calculated in proportion to the calls and premium that Members originally paid in the policy year from which the return has been made and is paid based on that proportion.

Outward reinsurance premiums are accounted for in the same period as calls and premiums for the related insurance.

Claims and reinsurance recoveries

Claims incurred include all claims and claims settlement expense payments made during the year and the movement in the provision for outstanding claims.

Reinsurance recoveries and reinstatement premiums are accrued to match the relevant claim amounts that have been charged to the Income and Expenditure Account.

NOTES TO THE FINANCIAL STATEMENTS
30 September 2020

2 Accounting policies (continued)

Rates of exchange
In preparing the financial statements, transactions in currencies other than the Association's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the date of the transaction. All assets and liabilities denominated in currencies other than Sterling are monetary items and translated into Sterling at the rates of exchange ruling at the Statement of Financial Position date. Exchange differences are recognised in the Income and Expenditure Account in the period in which they arise when they relate to items for which gains and losses are recognised in equity. The functional and presentational currencies are both Sterling.

Investment income
Investment income includes interest and dividends receivable for the year. Dividend income is recognised when the right to receive payment is established.

Net gains or losses on the disposal of investments (representing the difference between net proceeds and purchase cost) are credited or charged to the Income and Expenditure Account as and when realised. Unrealised gains and losses represent the difference between the fair value of investments at the Statement of Financial Position date and their purchase price or previous valuation, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. Unrealised gains and losses are recognised in the Income and Expenditure Account.

The transfer to/from the investment reserve represents the difference (net of tax) between the actual investment income for the year and the investment return allocated to the Technical Account – General Business.

Allocation of investment return
An allocation is made from the non-technical account to the Technical Account – General Business in respect of the longer-term investment return on the total investment portfolio, since these investments relate wholly to the technical provisions and Members' funds held for mutually insured risks.

Claims outstanding
The Association underwrites professional liability risks on a 'claims made' basis. The provision for claims outstanding in the financial statements comprises the directors' estimate of the ultimate outcome of all reported claims based on current information, plus their forecast of the ultimate cost of claims incurred but not enough reserved (IBNER). The provision also includes an allowance for future claims handling costs.

The Association reserves individual claims notified on a 'worst likely outcome' basis. Estimates for the cost of claims are made by legally experienced claims handlers who base their estimates on the information available about the individual claim and experience of similar cases. Where it is not yet possible to make an assessment of the likely outcome of a claim, a statistically derived reserve is applied based on the development of similar notifications in earlier policy years.

The IBNER provision for claims within the Association's retention is determined by the directors based on standard actuarial projection techniques supported by stochastic modelling. The model uses historical information on claims development, adjusted for inflation and other variables, to project the ultimate cost of claims. The principal assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims in more recent years. The confidence levels selected for setting IBNER reserves reflect the Association's risk tolerance.

The provision for outstanding claims is based on information available at the Statement of Financial Position date. The majority of claims are settled only after extensive investigation and negotiation, which can take a number of years to complete. Accordingly, the ultimate cost of such claims cannot be known with certainty at the Statement of Financial Position date. Subsequent information and events may result in the ultimate liability being greater or less than the amount provided. Any differences between provisions and subsequent settlements are dealt with in the Technical Account – General Business in later years. The provision for outstanding claims is not discounted.

At each reporting date the Association performs a liability adequacy test on its insurance liabilities to ensure that the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense to the Income and Expenditure Account by recognising an additional liability for claims provisions.

The ultimate liability arising from claims made under insurance contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amount that the Association will ultimately pay for such claims. Estimates are made of the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNER is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes that past trends can be used to project future developments.

2 Accounting policies (continued)

Investments

The Association has chosen to apply the recognition and measurement provision of IAS39 and the disclosure requirements of FRS 102.

The Association reports its investments as financial assets at fair value, gains and losses are taken to the Income and Expenditure Account, which reflects the management of the portfolio on a fair value basis. Fair values of investments traded in active markets are measured at bid price.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are investments with original maturity of three months or less from the date of acquisition.

Acquisition costs

Acquisition costs represent underwriting management costs, costs associated with renewal of existing Members, negotiation with potential Members, the processing of documentation and the renewal of the Association's reinsurance programme. As calls and premiums are fully earned in the year, acquisition costs are debited to the Income and Expenditure account.

Creditors

Creditors relating to direct insurance operations are measured at the transaction amount.

Critical accounting judgements and estimation uncertainty

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. Further disclosure can be found in note 10.1.

3 Net calls and premiums

	2020 £	2019 £
Advance calls and premiums	**13,996,176**	13,071,706
Returns of call – 2012/13	**(6,453,959)**	–
Returns of call – 2011/12	**(1,603,887)**	(6,765,206)
Returns of call – 2010/11	**(3,379)**	(1,137,200)
	(8,061,225)	(7,902,406)

4 Technical provisions

Net claims movement	2020 £	2019 £
Net provision at beginning of year	**34,368,753**	33,858,462
Current year provision	**11,046,000**	8,830,000
Claims paid in year	**(3,301,450)**	(4,299,211)
Movement in prior years' claims provisions	**(9,586,268)**	(5,786,887)
Claims expenses	**1,641,281**	1,766,389
	34,168,316	34,368,753

Movement in prior years' claims provisions

Included within the net change in provision for claims is a credit of £9,586,268 (2019 – £5,786,887) relating to prior years made up as follows:

Net provision at beginning of year	**34,368,753**	33,858,462
Net payments during the year in respect of these provisions	**(1,598,370)**	(2,183,562)
Net provision carried forward in respect of claims provided for at the end of the previous year	**(23,184,155)**	(25,888,013)
	9,586,268	5,786,887

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Claims development tables

The development of insurance liabilities provides a measure of the Association's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Association's estimate of total claims outstanding for each policy year has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the Statement of Financial Position.

Insurance claims – gross

Estimate of ultimate cost attributable to the policy year.

Reporting year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2106/17	2017/18	2018/19	2019/20
	£	£	£	£	£	£	£	£	£	£
End of reporting year	9,860,000	10,325,000	16,000,000	14,280,000	13,790,000	11,595,000	10,100,000	9,540,711	8,830,000	11,046,000
One year later	9,960,986	6,808,649	14,691,639	5,374,669	7,428,000	6,647,000	14,945,975	8,376,090	8,830,000	
Two years later	7,125,078	3,832,834	13,125,752	4,107,000	4,087,000	3,786,999	14,073,407	3,126,090		
Three years later	3,867,196	2,639,286	7,915,000	2,400,000	1,142,167	1,707,733	10,323,407			
Four years later	2,383,590	2,777,000	6,358,000	2,350,114	585,568	1,207,733				
Five years later	2,541,000	1,354,000	6,124,201	2,145,904	585,568					
Six years later	1,249,000	1,326,491	5,733,423	2,145,904						
Seven years later	708,995	1,313,522	5,633,423							
Eight years later	608,306	1,313,522								
Nine years later	608,306									
Current estimate of ultimate claims	608,306	1,313,522	5,633,423	2,145,904	585,568	1,207,733	10,323,407	3,126,090	8,830,000	11,046,000
Cumulative payments to date	608,306	906,653	5,564,879	926,699	321,523	419,788	3,853,634	685,344	748,969	61,799
Liability recognised at the end of the year	–	406,869	68,544	1,219,205	264,0455	787,945	6,469,773	2,440,746	8,081,031	10,984,201
Total liability relating to the last ten policy years										30,722,359
Prior year movements and claim handling costs										3,445,957
Total reserve included in the Statement of Financial Position										**34,168,316**

Insurance claims – net

Estimate of ultimate cost attributable to the policy year.

Reporting year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£	£	£	£	£	£	£	£	£	£
End of reporting year	9,860,000	10,325,000	16,000,000	14,280,000	13,790,000	11,595,000	10,100,000	9,540,711	8,830,000	11,046,000
One year later	9,960,986	6,808,649	14,691,639	5,374,669	7,428,000	6,647,000	14,945,975	8,376,090	8,830,000	
Two years later	7,125,078	3,832,834	13,125,752	4,107,000	4,087,000	3,786,999	14,073,407	3,126,090		
Three years later	3,867,196	2,639,286	7,915,000	2,400,000	1,142,167	1,707,733	10,323,407			
Four years later	2,383,590	2,777,000	6,358,000	2,350,114	585,568	1,207,733				
Five years later	2,541,000	1,354,000	6,124,201	2,145,904	585,568					
Six years later	1,249,000	1,326,491	5,733,423	2,145,904						
Seven years later	708,995	1,313,522	5,633,423							
Eight years later	608,306	1,313,522								
Nine years later	608,306									
Current estimate of ultimate claims	608,306	1,313,522	5,633,423	2,145,904	585,568	1,207,733	10,323,407	3,126,090	8,830,000	11,046,000
Cumulative payments to date	608,306	906,653	5,564,879	926,699	321,523	419,788	3,853,634	685,344	748,969	61,799
Liability recognised at the end of the year	–	406,869	68,544	1,219,205	264,045	787,945	6,469,773	2,440,746	8,081,031	10,984,201
Total liability relating to the last ten policy years										30,722,359
Prior year movements and claim handling costs										3,445,957
Total reserve included in the Statement of Financial Position										**34,168,316**

5 Operating expenses	2020 £	2019 £
Acquisition costs	**709,824**	713,590
Administrative expenses	**2,187,154**	2,054,625
	2,896,978	2,768,215

Included in administrative expenses are:
i) Risk management fees of £1,070,000 (2019 – £1,060,000) payable to the Managers in respect of the conduct of the Association's risk management programme.
ii) Directors' remuneration of £95,850 (2019 – £90,477).
iii) Auditor's remuneration of £43,500 is payable for the audit of the Association (2019 – £42,000). Additional fees of £1,000 (2019 – £1,000) are payable for audit-related assurance services.
iv) Reinsurance commissions of £200,000 (2019 – £200,000) payable for the placement of the reinsurance programme.

The Association has no employees. Management services are provided by Tindall Riley & Co Limited (trading as Griffin Managers) see note 11.

6 Investment income	2020 £	2019 £
Income from fixed interest investments	**–**	797,710
Dividends receivable from equities	**495**	1,004,569
Bank and other interest	**10,673**	666,307
(Loss)/gain on the realisation of investments	**(467,520)**	11,044,363
Exchange (loss)/gain	**(295,831)**	209,383
Investment income	**(752,183)**	13,722,332

The Association's investment income profile has changed from the previous year where income was earned from holding invested assets directly. Following the change in investment strategy at the end of the previous financial year, the Association is now invested in funds managed by Schroders. The Association will therefore earn a minimal amount of investment income from direct holdings while the majority of investment income will be earned from the change in the underlying net asset value of the funds that the Association is invested in.

7 Allocated investment return	2020 £	2019 £
Allocated investment return	**3,646,457**	3,073,291

Investment income is allocated to the Technical Account – General Business on the basis of longer-term rates of investment return. The longer-term return is based on historical real rates of return and current inflation expectations adjusted for consensus economic and investment forecasts. The return is calculated by applying these rates to the investible assets held during the period on a monthly basis. The following average rates have been used:

	2020 UK£	2019 UK£	2020 US$	2019 US$	2020 Euro	2019 Euro
Government bonds	**1.4%**	1.4%	**–**	–	**1.4%**	1.4%
Corporate bonds	**2.3%**	4.4%	**2.3%**	2.3%	**–**	–
Equities	**6.0%**	6.4%	**–**	–	**–**	–
Cash	**1.4%**	1.4%	**1.4%**	1.4%	**1.4%**	1.4%

A transfer of £1,826,221 has been made from the investment reserve equivalent to the deficit of actual return against the longer-term return for the year (net of tax) during the current year (2019 – transfer to the investment reserve £1,566,230).

Comparison of longer-term return with actual returns over 10 years	2020 £	2019 £
Actual net investment return	**35,638,216**	41,073,794
Longer-term rate of return	**32,658,749**	31,987,881
Surplus of actual return above allocated return	**2,979,467**	9,085,913

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8 Taxation

By virtue of its mutual status the Association is not liable to tax on its insurance operations. It is liable to tax on its income and net gains from investments. The charge in the Income and Expenditure Account represents:

Analysis of charge in period	2020 £	2019 £
Total tax charge	**295,661**	678,469

Factors affecting tax charge for period

The tax assessed for the period is different from the standard rate of corporation tax in the UK 19% (2019 – 19%). The differences are explained below:

	2020 £	2019 £
Net (deficit)/surplus before tax	**(996,752)**	413,690
(Deficit)/surplus on ordinary activities multiplied by standard rate of corporation tax in the UK	**(189,383)**	78,601
Effects of:		
Non-taxable mutual insurance operations	**428,930**	804,678
UK dividends not taxable	**(94)**	(204,810)
Exchange loss not taxable	**56,208**	–
Total tax charge – see above	**295,661**	678,469

9 Investments

Investments comprise fixed interest investments (UK & EU government securities), UK and US corporate bonds, equities and other investments, and deposits with credit institutions. They are carried through to the Income and Expenditure Account using the fair value methodology.

	Deposits with credit institutions £	Corporate bond investments £	Fixed interest investments £	Equity and other investments £	Total £
Purchase of investments	2,637	–	37,821,058	2,194,854	40,018,549
Sale of investments	(30,241,346)	(5,244,323)	(4,585,885)	(4,710,667)	(44,782,221)
Realised gain/(loss)	107,013	207,627	103,182	(885,342)	(467,520)
Net portfolio investment	(30,131,696)	(5,036,696)	33,338,355	(3,401,155)	(5,231,192)
Unrealised (loss)/gain	(104,094)	(326,221)	1,138,976	1,507,138	2,215,799
Change in value of portfolio	(30,235,790)	(5,362,917)	34,477,331	(1,894,017)	(3,015,393)
Market value at 30 September 2019	46,071,730	22,464,773	12,104,899	45,364,357	126,005,759
Market value at 30 September 2020	15,835,940	17,101,856	46,582,230	43,470,340	122,990,366
Cost at 30 September 2019	45,953,144	22,399,999	11,959,729	46,238,839	126,551,711
Cost at 30 September 2019	15,821,448	17,363,303	45,298,084	42,837,684	121,320,519

10 Risk Management Framework

The Association is governed by a Board comprising a non-executive Chairman, nine non-executive directors and two executive directors, who are also directors of the Managers. There are five sub-committees of the Board, the Audit Group, the Remuneration Group, the Nomination Sub-Committee, the Investment Strategy Group and the Future Strategy Group.

The duties of **the Audit Group** are to review and advise the Board in relation to the report and financial statements, the Solvency and Financial Condition Report to the Prudential Regulation Authority, internal and external audit, and the robustness of internal financial systems and controls. The Audit Group meets at least three times a year and receives regular reports from the Managers, including the Chief Risk Officer and Chief Actuary, and from the Association's internal and external auditors.

The Remuneration Group meets annually to review proposals put forward in relation to the fee paid to the Managers and the remuneration paid to non-executive directors, and to agree the recommendations to be put to the Board for approval.

The Nomination Sub-Committee is responsible for reviewing and making recommendations to the Board in relation to suitable candidates for appointment or re-appointment as directors of the Association, candidates for appointment to regulatory roles and the appointment and re-appointment of the Chairman of the Association. The Sub-Committee also monitors the overall performance and collective skills of the Board and its sub-committees.

10 Risk Management Framework (continued)

The Investment Strategy Group meets at least once a year to review the Association's overall strategic asset allocation, the performance of the Association's investments against an agreed benchmark, and the performance and remuneration of Association's fiduciary investment managers.

The Future Strategy Group meets annually to review the Association's strategic objectives and to monitor the implementation of the wider strategy agreed by the Board. The wider strategy of the Association is reviewed by the Group annually, or as considered necessary.

The Association complies with the requirements of the Senior Managers and Certification regime (SMCR) and maintains a Management Responsibility Map which sets out the governance structure of the Association and identifies senior management functions, the notified non-executive directors and other significant roles that carry additional responsibility, called Certification Functions. It also shows reporting lines and the allocation of prescribed responsibilities. Changes to the Management Responsibilities Map are reviewed and approved by the Board.

Each Member firm is entitled to nominate one of its partners or directors to sit on the Association's Committee. Members of the Committee meet twice each year. The first meeting is held in February. The second, to which Representative Members are also invited, is held in conjunction with the Association's Annual General Meeting in July. Directors of the Association are also Members of the Committee. Firms represented on the Association's Board are entitled to nominate a second Committee Representative, should they wish to do so. At each meeting, reports are given on major decisions made by the Board. The Committee does not have authority to make decisions, but provides an opportunity for Members to ask questions and exchange views with the Managers and the Board on matters relating to the running of the Association and on matters of general commercial interest.

The Association is managed on a day-to-day basis by Tindall Riley & Co Limited, trading as Griffin Managers (the Managers). Tindall Riley & Co Limited is a private company owned principally by its directors and senior staff.

The Association has in place a robust risk management framework that is the responsibility of the Board. The Risk Register sets out in detail the risks faced by the Association and the internal controls that mitigate those risks. It is reviewed and updated in April and October to reflect any changes to the risk profile and any identified Risk Incidents (adverse events outside expectation) or Emerging Risks (changes in the internal or external environment that change the nature of the Association's risk profile).

The key areas of risk to the Association are set out below:

- **Underwriting risk** – incorporating premium and reserving risk;
- **Market risk** – incorporating interest rate risk, equity risk, spread risk and currency risk;
- **Counterparty risk** – being the risk that a counterparty is unable to pay amounts in full when due; and
- **Operational risk** – being the risk of failure of internal processes or controls.

The Association assesses a wider set of risks, including Reputational and Strategic Risk, as well as risk capital in excess of regulatory minimum, through the Own Risk and Solvency Assessment (ORSA) process.

The Board monitors the development and operation of the risk management framework through the establishment of Risk Appetite Statements that set the amount of risk exposure that is acceptable and the expectation of key control performance. These are given further clarity through policies and procedures, including controls, which are then independently assessed and tested by the Risk, Compliance and Internal Audit functions.

The Association manages the risks relating to the operation of the Association through the Risk Register, which analyses exposures by degree and magnitude of risk. There have been no changes in the methods or assumptions used to calculate these risks.

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10 Risk Management Framework (continued)

10.1 Underwriting risk

The Association adopts a conservative approach to underwriting, characterised by selectivity of membership and prudent rating, allied to commercial awareness.

The terms of cover provided by the Association for professional indemnity risks are fixed by the Rules and therefore individual underwriters have no discretion to vary terms or to breach maximum limits of cover.

There are detailed procedures, documented in the Griffin Procedures Manual, for the selection of new Members, which reinforce the risk tolerances in terms of the types of intermediaries the Association wishes to attract, and their size, type and the nature of business undertaken. This maintains an appropriate mix and balance of Members. There are also procedures for renewing Members. While the Association is always open to approaches from intermediaries, the active marketing of the Association consists of a targeted approach to certain firms identified as potential Members. These firms are identified from the Managers' and/or the Members' knowledge of the insurance industry together with personal introductions by existing Members and/or other contacts.

Monitoring of compliance with the risk tolerances within underwriting is undertaken by the Senior Underwriting Director, the Chairman of Griffin Managers, the directors of Griffin Managers and the Board of the Association, supported by analysis from the Chief Actuary and the wider actuarial function.

Due to the nature of the Association's business, insurance risk is wholly concentrated on professional indemnity risks. The business is all written in the UK but the Association has exposure to claims liabilities worldwide and in currencies other than Sterling.

Reinsurance

The reinsurance programme reduces the impact of individual large losses on the Association. The Association retains the first £5m per Member (the Association's retention), above which the market reinsurance arrangements respond up to the £30m maximum limit of cover on any one claim. These risk tolerances are set by the Board.

Claims reserves

The Association's risk appetite in respect of claims reserves is low, characterised by prudent estimation of individual claims (on a 'worst likely outcome basis') and IBNER reserves set at an appropriate level of confidence above the best estimate.

While there are no formal targets for confidence levels, the usual pattern is for the most recent years to be reserved at a higher level, while more developed years may be reserved at lower levels. These reserving percentiles are monitored each quarter and in particular at each year end and where existing reserves fall short of the level acceptable to the Board, additional IBNER provisions are made.

Prudence is monitored over time by measuring the aggregate surplus of actual technical provisions against the average – this figure should be more or less constant over time. Prudence is also monitored by analysing the release of redundancy from technical provisions in respect of claims from prior years. Any significant variation in the figure year on year is investigated. The adequacy of reserves is monitored by senior management quarterly and by the directors of Griffin Managers, the Audit Group and the Board of the Association at each year end, when a formal report is prepared by the Chief Actuary, setting out the reserves for each policy year, the percentage of confidence for each policy year, the percentage of confidence on an overall basis and an explanation as to how these have moved since the last formal review.

Sensitivity

The Association carries out sensitivity testing on its claim reserves. The results of sensitivity testing are set out below, showing the impact on the surplus/(deficit) before tax, gross and net of reinsurance, and equity. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred and that there are no reinsurance recoveries, and has been calculated excluding the impact of returns of call.

Impact on (deficit)/surplus before tax and equity Increase in loss ratio by 5%	2020 £	2019 £
Gross	**699,809**	673,585
Net	**699,809**	673,585

A 5% decrease in loss ratios would have an equal and opposite effect.

10 Risk Management Framework (continued)

10.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and equity price changes. Market risk arises due to fluctuations in the value of both assets and liabilities.

The investment strategy, which is reviewed periodically by the Investment Strategy Group, is set by the Board with the assistance of external investment consultants. The strategy reflects the risk appetite of the Association and is designed to maximise return whilst holding a risk level deemed acceptable. The policy allows the investment managers to invest a proportion of the portfolio in assets which carry a greater risk but potentially higher return, such as equities, with the majority being held in investments such as government bonds, corporate bonds and cash.

The asset allocation of the investment portfolio is monitored by the Managers. Where an asset class exceeds its permitted range, the investment managers will be instructed to carry out a rebalancing exercise, in order to restore the allocation to the correct position.

The Association is exposed to currency risk in respect of liabilities under insurance denominated in currencies other than Sterling. The most significant currencies to which the Association is exposed are Euro and US dollars. In order to manage this risk, the Association holds a proportion of its investments in each currency at a level to match expected future claim payments in those currencies.

The Association uses a 5% movement (0.5% interest rates) as a reasonable benchmark to measure the impact of market risk.

The table below shows the effects of a 5% increase or decrease in foreign exchange rates on the (deficit)/surplus before tax and equity:

	2020 US$	2020 Euro	2019 US$	2019 Euro
Foreign currency bond holdings:				
Effect of 5% increase in foreign exchange rates	**181,457**	**326,635**	310,529	294,716
Effect of 5% decrease in foreign exchange rates	**(181,457)**	**(326,635)**	(310,529)	(294,716)
Foreign currency cash holdings:				
Effect of 5% increase in foreign exchange rates	**141,740**	**–**	288,254	–
Effect of 5% decrease in foreign exchange rates	**(141,740)**	**–**	(288,254)	–

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. Interest rate risk arises primarily from the nature and term of investments held and is managed through the buying and selling of appropriate fixed interest securities of different durations.

The table below shows the effects of a 0.5% increase or decrease in interest on earning from debt securities and the anticipated change in investment market values from a 5% increase or decrease in price:

	2020 £	2019 £
0.5% increase in interest rates	**39,241**	40,156
0.5% decrease in interest rates	**(39,241)**	(40,156)
5% increase in corporate bond price	**855,093**	1,123,239
5% decrease in corporate bond price	**(855,093)**	(1,123,239)
5% increase in fixed interest price	**2,329,111**	604,245
5% decrease in fixed interest price	**(2,329,111)**	(604,245)

Equity price sensitivity analysis

The Association is exposed to price risk through its holding of equities. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end the holding in equities was 35% (2019 – 36%) of the investment portfolio.

The value of the equity holding at the year-end amounted to £43.5m (2019 – £45.4m).

The table below shows the anticipated change in investment market values from a 5% increase or decrease in price:

	2020 £	2019 £
5% increase in equity price	**2,173,517**	2,268,218
5% decrease in equity price	**(2,173,517)**	(2,268,218)

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10 Risk Management Framework (continued)
10.3 Counterparty risks

10.3.1 Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Association.

The key areas where the Association is exposed to credit risk are:

- Amounts recoverable from reinsurance contracts
- Amounts due from Members
- Counterparty risk with respect to cash and investments

Amounts recoverable on reinsurance contracts
The Association is exposed to credit risk from a counterparty failing to comply with its obligations under a contract of reinsurance. The excess of loss reinsurance programme is placed through BMS Group Limited, a Lloyd's broker. The Association has set selection criteria whereby each reinsurer is required to hold a credit rating of at least 'A-' at the time the contract is made. The reinsurance is also placed with Lloyd's underwriters (A rated). This is monitored by the Board.

Amounts due from Members
Amounts due from Members represents calls owing to the Association in respect of insurance business written. The Association manages the risk of Member default through a screening process to ensure the quality of new entrants to the Association and the ability to suspend cover and outstanding claims recoveries to Members that fail to settle amounts payable. The Association's policy is that Members should have paid all outstanding calls within 30 days. Amounts written off as bad debts have been minimal over recent years. The Association has no debtor balances that are past due.

Counterparty risk with respect to cash and investments
Following a change in investment manager during the current financial year, the majority of the Association's investments are invested in funds managed by Schroders and are not rated by external rating agencies. The policy allows for investment in equities, fixed interest securities, corporate bonds and cash.

The average ratings of the funds are monitored by the Association's Investment Strategy Group, with assistance from Schroders. The fund credit ratings allocated by Schroders and the underlying credit ratings of the investments held within the funds are reviewed by the Group to ensure that materially all investments are at least rated as investment grade. The Group also ensures that Schroders monitors the underlying investments to limit the risk of default.

The following tables provide information regarding credit risk exposure for financial assets with external credit ratings (S&P or equivalent).

	2020 £	2019 £
Corporate bond investments	17,101,856	22,464,773
Fixed interest investments	46,582,230	12,104,899
Equity and other investments	43,470,340	45,364,357
Reinsurance debtors	–	13,869
Member and other debtors	40,122	–
Deposits with credit institutions	15,835,940	46,071,730
Accrued interest	–	21,951
Cash at bank	6,058,941	4,460,823
Total financial assets bearing credit risk	**129,089,429**	**130,502,402**

An analysis of this exposure by credit rating is shown below		
AAA	–	–
AA	–	4,482,774
A	6,058,941	13,869
BBB+ and below	–	–
No rating	123,030,488	126,005,759
Total financial assets bearing risk	**129,089,429**	**130,502,402**

10 Risk Management Framework (continued)

10.3.2 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Association has adopted an investment policy which requires the maintenance of significant holdings in cash funds and short-term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand. Short-term cash needs are monitored to ensure the most efficient investment of cash balances.

The following table provides a maturity analysis of the Association's financial assets representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost (there is no maturity date for equities):

As at 30 September 2020	Short term assets £	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
Equities and other investments	43,470,340	–	–	–	–	43,470,340
Debt securities and other fixed income securities	63,684,086	–	–	–	–	63,684,086
Deposits with credit institutions	15,835,940	–	–	–	–	15,835,940
Direct insurance operations – Members	40,122	–	–	–	–	40,122
Cash at bank	6,058,941	–	–	–	–	6,058,941
Total assets	**129,089,429**	**–**	**–**	**–**	**–**	**129,089,429**
As at 30 September 2019						
Equities and other investments	45,364,357	–	–	–	–	45,364,357
Debt securities and other fixed income securities	34,569,673	–	–	–	–	34,569,673
Deposits with credit institutions	46,071,729	–	–	–	–	46,071,729
Other debtors	13,869	–	–	–	–	13,869
Cash at bank	4,460,823	–	–	–	–	4,460,823
Accrued Interest	21,951	–	–	–	–	21,951
Total assets	**130,502,402**	**–**	**–**	**–**	**–**	**130,502,402**

The following is an analysis of the estimated timings of net cash flows by financial liability. The timing of cash flows is based on current estimates and historic trends. The actual timing of cash flows may be materially different from those disclosed below:

As at 30 September 2020						
Gross outstanding claims	–	3,382,790	3,805,040	18,895,366	8,085,120	34,168,316
Direct insurance operations – Members	8,131,557	–	–	–	–	8,131,557
Reinsurance operations	53,637	–	–	–	–	53,637
Other creditors	718,754	–	–	–	–	718,754
Total liabilities	**8,903,948**	**3,382,790**	**3,805,040**	**18,895,366**	**8,085,120**	**43,072,264**
As at 30 September 2019						
Gross outstanding claims	–	4,024,319	4,497,885	18,564,169	7,282,380	34,368,753
Direct insurance operations – Members	7,996,794	–	–	–	–	7,996,794
Other creditors	827,277	–	–	–	–	827,277
Total liabilities	**8,824,071**	**4,024,319**	**4,497,885**	**18,564,169**	**7,282,380**	**43,192,824**

10.4 Operational risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Association documents all key processes and controls in a procedures manual. This manual is embedded into the organisation, updated on a continuous basis by senior staff and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through quality control checks and the internal audit function, which is directed and reviewed by Tindall Riley & Co Limited and the Audit Group. A staff handbook contains all key policies that have also been documented.

NOTES TO THE FINANCIAL STATEMENTS

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10 Risk Management Framework (continued)

10.5 Limitation of the sensitivity analyses

The sensitivity analyses in the section above show the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above.

10.6 Capital risk management

The Association maintains an efficient capital structure, consistent with the Association's risk profile. The Association's capital is represented by net assets. The Association's objective is to maintain sufficient capital to ensure it is able to continue as a going concern and meet regulatory requirements.

The Solvency II regime has been effective from 1 January 2016. The Association is subject to these regulations. The Association is required to meet a Solvency Capital Requirement (SCR) which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Association calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Association's risk profile.

The Association is regulated by the PRA and FCA. The Board's policy is to develop and maintain a strong and flexible capital base in order to meet the capital requirements of the PRA. The SCR is monitored and updated annually, although if anything significant (such as a large claim or investment movement) occurs in the year, it is updated immediately. Other capital measures used by the Board include an Economic Capital Benchmark, which is also monitored against actual capital resources.

In order to monitor capital requirements, the Board reviews the capital position on a quarterly basis and the Managers review performance monthly.

Throughout the period the Association complied with the regulators' capital requirements. At 30 September 2020 the Association's Solvency II own funds exceeded the SCR with a solvency ratio of 3.8. In accordance with the PRA rulebook, the Association has taken benefit of the audit exemption of the SCR and SFCR and therefore the current year SCR and SFCR are unaudited.

10.7 Fair value hierarchy

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Association applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases the Managers estimate unobservable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independently of the risk taker. These inputs and outputs are reviewed and approved by the Managers. The Association has minimal exposure to financial assets or liabilities which are valued at other than quoted prices in an active market.

The classification criteria and their application to the Association can be summarised as follows:

- The unadjusted quoted price in an active market for identical assets or liabilities that the Association can access at the measurement date (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly (Level 2)
- Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability (Level 3)

	Deposits with credit institutions		Corporate bonds		Fixed interest		Equity and other investments	
	2020	2019	2020	2019	2020	2019	2020	2019
Group	£	£	£	£	£	£	£	£
Level 1	**15,835,940**	46,071,730	**17,101,856**	22,464,773	**46,582,230**	12,104,899	**43,470,338**	45,364,357
Level 2	**–**	–	**–**	–	**–**	–	**–**	–
Level 3	**–**	–	**–**	–	**–**	–	**–**	–
	15,835,940	46,071,730	**17,101,856**	22,464,773	**46,582,230**	12,104,899	**43,470,338**	45,364,357

11 Related parties transactions

The Board, comprising up to 12 representatives of the membership of the Association and two Manager nominees, is appointed to oversee the management of the Association on behalf of the Members. However, because of the mutual nature of the Association, all Members, being both insurer and insured, are in effect related parties.

The aggregate of transactions with Members is disclosed in the financial statements and these are the only transactions between the Association and the Members.

The Association's reinsurance programme is placed by a Member of the Association and the Member earned reinsurance commission of £200,000 (2019 – £200,000) for placing the programme.

Tindall Riley & Co Limited (trading as Griffin Managers) manages the Association and received £3,915,000 (2019 – £3,960,000) in respect of management fees and risk management services.

12 Subsequent events

There are no subsequent events which require adjustment or disclosure in the financial statements. The financial statements were authorised for issue by the Board on 17 December 2020.

DIRECTORS AND COMPANY INFORMATION

The Griffin Insurance Association Limited, Limited by Guarantee

Board of Directors
Mark Warren (Chairman)
Hugh Armytage
William Bloomer
Andrew Cross
Maryse Hazell
Gary Masters
Rhona Lewry
Duncan McKechnie
Samantha Peat
Anthony Phillips
Chetan Shah
Adam Stafford

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Companies House
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Managers
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Trading as:
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London EC4R 9AN

Auditors
Mazars LLP
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