GRIFFIN

The Griffin Insurance
Association Limited

# The Griffin Insurance Association Limited

# Solvency and Financial Condition Report

# As at 30 September 2019

# Contents

# Solvency and Financial Condition Report

## 1. Introduction and summary

This is the Solvency and Financial Condition Report (SFCR) for The Griffin Insurance Association Limited (Griffin or the Association), based on the financial position as at 30 September 2019.

### 1.1 Review of 2018/19

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 43 Members.

The Association's strategic objectives were first established in response to the 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 2019, 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.

**Finance and Underwriting**

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 2019 shows a balance on the technical account before returns of call of £6.5m. The underwriting result for the past five years before returns of call is shown in the table below:

| | 2019 £m | 2018 £m | 2017 £m | 2016 £m | 2015 £m |
|---|---|---|---|---|---|
| Balance on the technical account before return of call | 6.5 | 3.4 | 17.6 | 13.8 | 18.5 |
| Returns of call | (7.9) | (6.0) | (6.1) | (5.0) | (3.9) |
| **Balance as reported in the Income and Expenditure Account** | **(1.4)** | **(2.6)** | **11.5** | **8.8** | **14.6** |
| | % | % | % | % | % |
| **Combined ratio (before returns of call)** | **68.9** | **100.2** | **(9.8)** | **23.2** | **1.3** |

This positive background allowed the Board at its meeting in June 2019 to approve a return of call of approximately £8m, the highest return in the Association's history, £2m greater than the return made in 2018 and maintaining a sustained pattern of returns of call to the Association's Members.

The investments performed strongly in the year, with a net return of £4.9m. The Association ended the year with capital of £87.3m and it therefore remains in a robust financial position.

Calls were lower compared with the prior year, down from £13.4m to £13.1m. This was the result of generally lower rates offered to the membership at renewal and the fact that a number of Members declared lower commission income compared with 2017/18. The Association did welcome two new Members during the year which resulted in some additional premium. The return of call referred to above was made from two policy years, £1.15m from 2010/11 and £6.85m from 2011/12, and represented, respectively, 10.5% and 60.5% of the advance call from those years.

The reinsurance premiums paid by the Association were down slightly year-on-year at £2.1m. This reflected the lower advance call, to which reinsurance premiums were proportionate. There was no change in the premium rate at the reinsurance renewal.

The number of claims notified to the Association in the 2018/19 policy year was lower than the prior year at 62, although the aggregate value of claims after 12 months was at a similar level. Significant contingency reserves have been retained in the 2018/19 policy year in order to absorb any future deterioration.

Claims paid in the year were £4.3m, compared with £3.5m in 2018 and the provision for outstanding claims rose by £0.5m. The claims position in older policy years showed improvement, with a £5.8m release of surplus claims provisions from those years. Overall, the level of claims incurred in the financial year was £4.8m, down from £8.6m in the prior year. However, this movement does not represent a trend and illustrates the claims volatility to which the Association is exposed.

Net operating expenses were a little higher than in the prior year at £2.8m and, as shown in the table above, the balance on the technical account, which represents the underwriting result, was a deficit of £1.4m.

During the year, the Board's decision to switch its investment portfolio to Schroders, under a fiduciary investment management arrangement, was implemented. This resulted in the liquidation of the entire portfolio and the crystallisation of a significant investment gain of £11.0m (including £7.8m in respect of fair value gains recognised in earlier periods), offset by a movement in the year in unrealised losses of £8.3m. The net investment return for the year was £4.9m, well ahead of the longer-term return of £3.3m credited to the technical account, and this resulted in a transfer to the investment reserve of £1.6m.

The Association's net deficit after tax for the financial year was £0.3m.

The Association's investment portfolio increased by £2.3m in the year, the result of the £4.9m growth in the invested assets offset by a £2.6m transfer from the portfolio to fund cashflow. At 30 September 2019, the value of the portfolio stood at just over £126.0m. A detailed analysis of the investments held at the year end is shown in note 8 to the financial statements.

In accordance with a recommendation of the Future Strategy Group, the Board agreed to transfer £5m from the closed policy years to the General Reserve at 30 September 2019.

The free reserves of the Association at 30 September 2019 were £87.3m, which is above the Board's capital target and the Association therefore remains financially very strong.

**Investments**

During the year, the Board formed an Investment Strategy Group to consider whether the Association's funds were being invested in the most appropriate way and were achieving the optimal return, given the risk appetite of the Board in relation to return, volatility and capital requirement. Following the review, the Board agreed that a fiduciary management model should be adopted for the management of the Association's investment portfolio. The model enables the Board to set the overall asset strategy but gives the Association's investment managers flexibility to maximise return and minimise risk within agreed parameters. The strategic asset allocation was approved by the Board at its meeting in June 2019, and the transfer of the Association's investment portfolio to the new structure was completed towards the end of the financial year.

During the year to 30 September 2019, the overall return on investments was 3.9% compared with a long-term rate of return of 2.7%.

**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 existing 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.

## 2. Directors' responsibility statement

We acknowledge our responsibility for preparing the Association's Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a. throughout the financial year in question, the Association has complied in all material respects with the applicable requirements of the PRA Rules and the Solvency II Regulations; and

b. it is reasonable to believe that the Association has continued to so comply subsequently and will continue to so comply in future.

For and on behalf of the Board of The Griffin Insurance Association Limited

S J Peat
Director

A P Phillips
Director

19 December 2019

# 3. Business and performance

## 3.1 General information

### Name and legal form of the company

The Association is registered in England and Wales as a company limited by guarantee without share capital.

The Association is managed on a day-to-day basis by Tindall Riley & Co Limited (trading as Griffin Managers (TRC or the Managers)). TRC is a private company owned principally by its directors and other senior staff. The Association does not have any employees and is governed by a Board comprising a non-executive Chairman, up to 12 non-executive directors and two executive directors who are also directors of the Managers.

### Name and contact details of the authorities responsible for financial supervision of the Association

The Association is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Both the PRA and the FCA operate a risk-based approach to supervision, which places emphasis on the need for regulated firms to have in place robust risk management frameworks. The PRA is the lead supervisor for the purposes of Solvency II regulation.

Contact details for the PRA and the FCA can be found on their respective websites:

www.bankofengland.co.uk/pra

www.fca.org.uk

### Name and contact details of the Association's external auditor

The Association's external auditor is Mazars LLP, whose address is Tower Bridge House, St Katharine's Way, London, E1W 1DD.

### Legal structure

The Association is 100% owned by its Members.

## 3.2 Underwriting performance

The Association writes a single line of business: Professional indemnity (PI) risks. For the purposes of capital reporting, this is categorised as General Liability insurance. All business is written in the United Kingdom.

All underwriting is carried out from the Association's office in London. In the year to 30 September 2019, the Association produced an underwriting deficit of £1.4m. Further information on the underwriting deficit is provided on page 2 of the SFCR under the Finance and Underwriting section.

The following table shows a summary of the technical (underwriting) account for the year ended 30 September 2019 (based on UK GAAP).

| Sources of income and expenditure | £m 2018/19 | £m 2017/18 |
|---|---|---|
| Calls and premiums | 13.1 | 13.4 |
| Return calls | (7.9) | (6.0) |
| Reinsurance premiums | (2.1) | (2.2) |
| Investment income (LTIR* basis) | 2.9 | 3.5 |
| Net claims incurred | (4.8) | (8.6) |
| Net operating expenses | (2.8) | (2.7) |
| **Balance on the technical account** | **(1.4)** | **(2.6)** |

* Longer-term rate

**Reinsurance**

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

### 3.3 Investment performance

The Association has an investment strategy which complies with the requirements of the 'prudent person principle'.

The aim of the strategy is to match technical provisions in terms of currency and duration with cash and government bonds, and to invest funds in excess of technical provisions in assets that will produce a return for the Association without taking undue risk.

At 30 September 2019, the Association's investment portfolio comprised the following asset classes:

| Asset class | Amount (£m) | % of portfolio |
|---|---|---|
| Equities | 45.4 | 36% |
| Government bonds | 12.1 | 10% |
| Corporate bonds | 22.5 | 18% |
| Cash | 46.1 | 36% |
| | **126.1** | **100%** |

The Association's portfolio returned +3.9% in the 12 months to 30 September 2019 an increase on the 1.7% from 2018. Over the last three years, the portfolio has returned an average of +2.7%.

The following table sets out the investment return by asset class:

| Asset class | Total (£) 2018/19 | Total (£) 2017/18 |
|---|---|---|
| Equities | 1,605,414 | 935,560 |
| Government bonds | 1,570,532 | (25,545) |
| Corporate bonds | 1,242,779 | 599,830 |
| Cash | 990,425 | 1,069,132 |
| Investment management expenses* | (517,409) | (532,505) |
| | **4,891,741** | **2,046,472** |

* Investment management expenses are charged to the Association on an annual basis based on the total value of investments under management.

### 3.4 Overall business performance

In the year ended 30 September 2019, the Association produced a deficit after tax of £0.3m and balance sheet reserves decreased to £87.3m. Own funds for Solvency II purposes, measured on a best estimate basis, stood at £98.4m.

The overall solvency position of the Association at 30 September 2019 is set out in more detail in section 7 of this report.

# 4. System of governance

## 4.1 General information on the system of governance

### The Board

The Board of Directors of the Association is responsible for all strategic aspects of the business of the Association. In practice, it delegates some of its authority to sub-committees and groups, and delegates responsibility for the day-to-day management of the Association to the Managers. The Managers are responsible for ensuring that appropriate information, which is adequate to enable the Board to discharge its duties and to oversee the business effectively, is provided on a timely basis. There are nevertheless a number of matters that are reserved exclusively for the Board, set out below, which are reviewed and updated at least annually.

Decisions regarding the following matters are reserved for the Board:

- policy year and call recommendations;
- rule changes;
- reinsurance;
- membership;
- risk and compliance;
- release calls;
- report and financial statements;
- appointment of Auditor;
- remuneration of Auditor, Directors and Management Fee;
- D&O insurance;
- appointment and retirement of Directors; and
- approval of critical and important outsourcing arrangements and regulated roles that are specific to the Association.

The Board meets four times a year and comprises an independent non-executive chairman, up to twelve non-executive directors drawn from its broker Members, and two executive directors nominated by the Managers.

The Board's Terms of reference are reviewed and updated at least annually.

### The Committee

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, in February and July. All non-executive 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. The Committee does not carry out any regulated functions.

### Sub-Committees of the Board

There are five sub-committees of the Board: the Audit Group, the Remuneration Group, Nomination Sub-Committee, the Investment Strategy Group and the Future Strategy Group.

### Audit Group

The Audit Group comprises four non-executive directors of the Association (not being directors nominated by the Managers), one of whom is the Chairman of the Association 'ex officio'. 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, and from the Association's internal and external auditors and the Chief Actuary.

**Remuneration Group**

The Remuneration Group comprises of the Chairman of the Association and at least one other non-executive director of the Association (not being directors nominated by the Managers). 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.

**Nomination Sub-Committee**

The Nomination Sub-Committee comprises the Chairman of the Association 'ex officio', two other non-executive directors of the Association and one of the directors nominated by the Managers. 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. The Nomination Sub-Committee meets at least annually.

**Investment Strategy Group**

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.

**Future Strategy Group**

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 every three years, or as considered necessary.

The Association's Board and sub-committee structure is supported by the effective distribution of responsibilities across holders of Senior Management Functions (SMFs) and other Certification Functions (CFs). The Association's integrated responsibility and corporate governance model is recorded in its Management Responsibility Map.

**Key Functions**

In accordance with the rules in the Conditions Governing Business part of the PRA Rulebook and the Solvency II Directive, the following business functions have been designated as Key Functions: Compliance, Risk Management, Internal Audit and Actuarial.

**Compliance function**

The Compliance function is responsible for:

- identifying, assessing, monitoring and reporting on the Association's regulatory risk exposures;
- assessing the possible impact of legislative change and conducting assurance activity to monitor the appropriateness of compliance procedures against market good practice; and
- assisting, supporting and advising the Association in fulfilling its responsibilities to manage compliance risks.

The Chief Risk Officer (CRO) is responsible for day-to-day monitoring of, and reporting to the Board on, all compliance related matters.

**Risk Management function**

The risk management function is responsible for:

- setting the overall risk management and strategic framework;

- identifying, managing, monitoring and reporting on current and emerging risks; and
- monitoring and assisting in the effective operation of the Association's risk-management framework and maintaining an accurate view of the Association's risk profile.

The CRO manages the day-to-day risk monitoring of, and reports to the Board on, all aspects of risk management.

**Internal Audit function**

The Association's internal audit function operates a risk-based internal audit cycle to provide assurance over the appropriateness, operation and effectiveness of the system of governance including the internal control system.

Internal Audit's remit covers review of the Association's processes and controls, how these are being adhered to and implemented by all business areas and the timing and frequency of management reporting. Corporate governance is also subject to an annual review by internal audit.

The Head of Internal Audit reports findings and recommendations, deadlines for and progress with completion and assigned action owners, to the Audit Group.

**Actuarial function**

The Association has an in-house actuarial team which carries out the day-to-day actuarial activity, including claims reserving and maintenance of the Association's internal models. The formal regulatory role of Chief Actuary Function under Article 48 of the Solvency II Directive – to report formally to the Board on technical provisions, reinsurance and underwriting policy - is carried out by Lane Clark & Peacock (LCP). The Chief Actuary is a partner of LCP.

**Segregation of responsibilities**

All the designated key functions are provided with the necessary authority, resource and independence that they require to effectively fulfil their roles. They each report to the Association's Board either directly or through designated Board sub-committees. Their reports are standing items on the Board and sub-committees' agenda.

**Material changes to the system of governance**

There were no material changes to the system of governance during the 12 months from 30 September 2018 to 30 September 2019.

**Remuneration policy and practices**

The Association has a Remuneration Policy which sets out the principles and procedures under which the Remuneration Group operates.

The Association's key functions and services, with the exception of those provided by the non-executive directors, are provided by the Managers or a third party appointed by the Managers (and approved by the Association's Board).

**Managers' Remuneration**

The Managers are paid a Management Fee by the Association under the terms of the Management Agreement between the two parties.

The Association's Remuneration Group agrees the fee in accordance with the provisions of the Management Agreement. The fee is paid on a quarterly basis and no element of it is variable by reference to the Association's financial performance.

**Remuneration of the Directors**

The Association's Chairman receives a fixed fee paid monthly in arrears. Other non-executive directors (except for the two Manager directors) receive an annual fee, with the non-executive directors who serve on any of the sub-committees receiving additional fees to reflect their additional responsibilities. These fees are paid in arrears at the end of each financial year. The level of remuneration is considered annually by the Remuneration Group, which makes recommendations to the Board.

The two Manager directors receive no remuneration directly from the Association but are remunerated by the Managers.

No remuneration paid by the Association to its non-executive directors is based on the performance of the Association.

**Material Transactions**

There were no material transactions during the financial year.

## 4.2 Fit and proper requirements

The Association has well established procedures in place to ensure that all Certification Function holders remain fit and proper to carry out their duties and to discharge their responsibilities. In particular these individuals must:

- meet the requirements of the Managers' 'fit and proper' test and ethics policy;
- be capable of meeting their Prescribed Responsibilities; and
- report anything that could affect their ongoing suitability.

When considering an individual's fitness and propriety the following factors are considered:

- their competence and capability;
- their integrity and reputation; and
- their financial soundness.

When assessing an individual's competence and capability to take on a Certification Function role, all relevant matters are considered prior to their appointment. These include a review and assessment of:

- the competencies and capabilities required to fulfil the intended role. This is assessed throughout the recruitment process, particularly through interviews and using a Skills Matrix;
- the experience of the candidate and any additional training required; and
- whether the candidate's reputation would suit the role for which they are being considered, bearing in mind the factors set out within the FCA Handbook section 2.1.3 on fitness and propriety.

Fitness and propriety checks are made before an individual is appointed to carry out a Certification Function and periodically thereafter. These include:

- with the consent of the candidate, the completion of civil and criminal record checks through the use of a third-party provider;
- checking the veracity of any professional or other qualifications that are relevant to the role being applied for;
- obtaining references from the candidate's former employers; and
- consideration of any disclosures made by candidates (full supporting documentation will also be requested).

In determining a candidate's financial soundness, the following factors will be taken into account:

- any judgment debt or award in the United Kingdom or elsewhere;
- whether this remains outstanding or was not satisfied within a reasonable period; and

- whether the individual has made any arrangements with creditors, filed for bankruptcy, had a bankruptcy petition served on them, been the subject of a bankruptcy restriction order or any other related matter.

Prior to consideration for appointment, all directors of the Association complete a self-assessment of their skills, experience and capabilities relative to the responsibilities assigned to them under the new role. The results, which are added to the Skills Matrix maintained for all Directors, are reviewed by the CRO, discussed as necessary with the individuals concerned and fed into individual training and further recruitment plans.

### 4.3 Risk management system

The Association's risk management system consists of its risk strategy, risk management policy, risk appetite statements, oversight and review processes necessary for effective risk and control assessment, monitoring and reporting.

The risk management strategy is aligned to the business strategy and sets out the risk management objectives, key principles and the assignment of risk management responsibilities across the Managers working on behalf of the Association. The overarching risk management policy implements the risk strategy by setting out the approach to categorising, managing and reporting current and future risks faced by the Association.

The risk management policy, associated procedures and process documentation provide demonstrable evidence that the Association's key risk areas are managed effectively in accordance with the requirements of Solvency II regulation, but principally to meet the needs of the Association.

The Association's key risk areas include:

- underwriting and reserving;
- asset-liability management;
- investment, derivatives and similar commitments;
- liquidity and concentration risk management;
- operational risk management;
- reinsurance and other risk mitigation techniques;
- counterparty (credit) risk;
- strategic risk;
- conduct risk; and
- reputational risk.

In managing its risk exposures, the Association seeks to balance the risks and opportunities associated with its business strategy and objectives. The review and assessment of key risks to the business strategy both before and after the application of controls is conducted by the respective risk and control owners each half year and recorded by the CRO in the Association's risk register.

Exposure to these risks is monitored against the Board-approved risk appetite; recorded as a set of qualitative statements and quantitative thresholds defining the type and level of risk that the Board is prepared to accept in order to deliver its business strategy.

The risk appetite, which underpins the Association's three-year projected business plans, is used to assess and report to the Board current, mid-term and emerging risks to the business on a quarterly basis.

To augment the Association's ongoing risk monitoring and reporting processes, the CRO conducts an annual review of its risk management system and more frequently if there are major changes in the risk profile of the business. Findings and recommendations arising from this review are also reported to the Board.

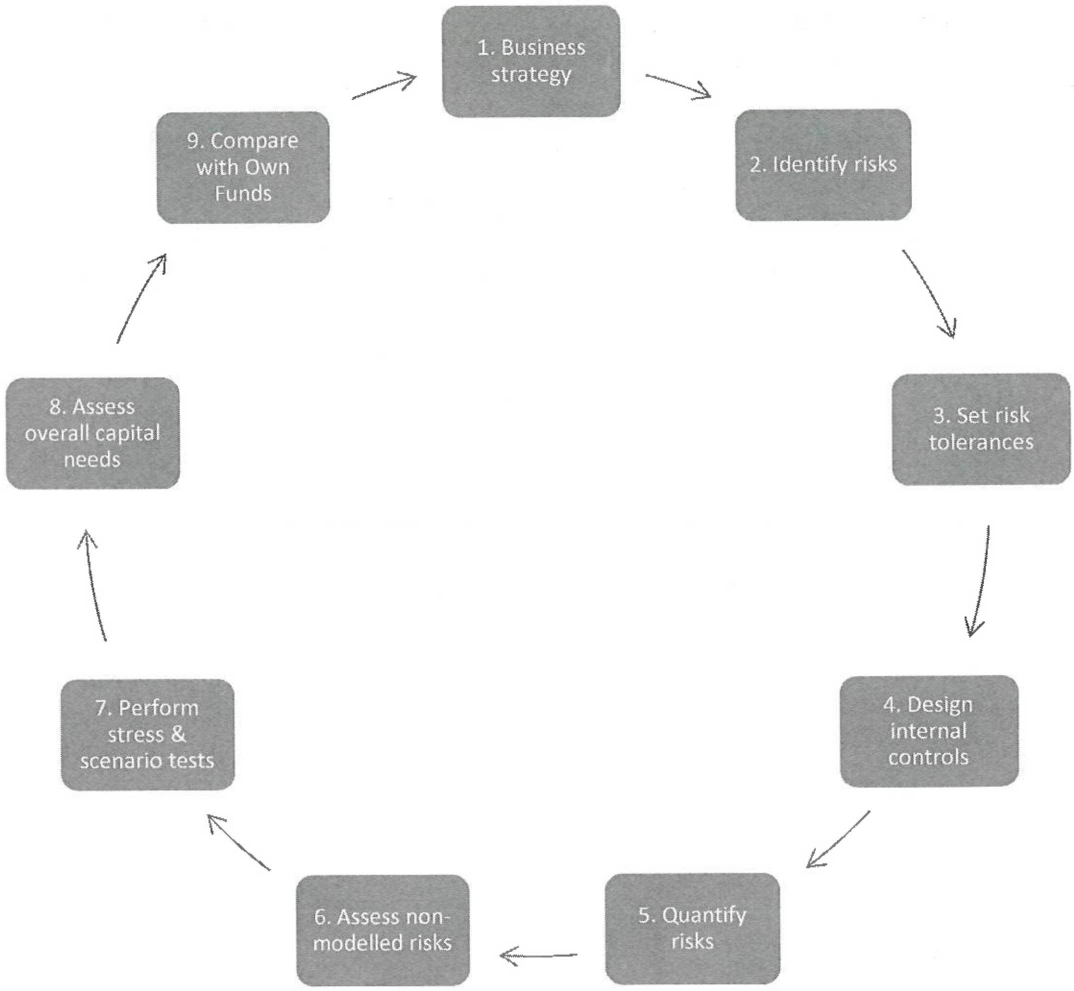
The Association's risk management system allows the Board and the senior management team to review and challenge credible risk information and make informed decisions about the risk profile of the business.

## 4.4 Conducting the Own Risk and Solvency Assessment (ORSA)

The ORSA is carried out in accordance with the Association's ORSA Policy (the Policy). The Policy sets out required standards and guidance for conducting the ORSA process and reporting to ensure all relevant regulatory and business requirements are continuously met. The purpose of the Policy is to assist the Board in implementing consistent processes to demonstrate the link between business strategy, risk appetite, risk profile and solvency needs. The Policy is reviewed and approved annually by the Board.

The ORSA process, which incorporates the risk monitoring and reporting activities performed by the Association's Key Control Functions, operates continuously throughout the year as part of day-to-day business operations. Outcomes of the process and conclusions drawn are recorded in an annual report presented to and signed off by the Board. Key steps within the ORSA process are set out in Chart 1 below

**Chart 1: Summary of ORSA process**




From a strategic perspective, the annual ORSA report provides the Board with a comprehensive assessment of the capital required to meet the Association's strategic objectives over the next three years, based on its projected business plan and the risk profile this generates. From an operational point of view, ORSA processes and results are used to inform and support the Board when making key decisions, for example on calls on Members, Returns of call, pricing, reinsurance purchase and investment strategy.

The 2018 ORSA includes an assessment of both the economic and regulatory capital position of the business for the next three years as at 30 September 2018 by reference to the Economic Capital Benchmark (ECB), Solvency Capital Requirement (SCR) and Minimum Capital Requirements (MCR).

The ECB defines the amount of capital that must be held to implement the business strategy for the next three years to cover the risk of losses from all potential sources that exceed risk appetite up to the 99.5th level of confidence.

The SCR defines the amount of capital that the Association must hold to satisfy regulatory requirements. The benchmark set for the SCR is also at the 99.5th level of confidence, but measured over a one-year period.

The MCR, which represents the absolute minimum level of capital that the Association must hold to avoid regulatory action, is also measured over a one-year period but reflects the 85th level of confidence.

The Association has used the Solvency II Standard Formula to calculate its SCR and MCR.

The annual ORSA report is reviewed by the Board to ensure that it is accurate and provides the necessary information for capital allocation and strategic planning purposes. Once the Board is satisfied, it approves the report which is then submitted to the PRA.

The ORSA report is produced annually, which is consistent with the stable nature of the Association's capital needs over time. The ORSA may be undertaken more frequently if specific triggers occur which are set out in the Policy. However, none of these events has occurred since the last ORSA was prepared.

### 4.5 Internal control system

The Association's internal control system refers to a combination of activities carried out to eliminate or reduce the likelihood of risks materialising that are beyond the level of risk appetite considered within business plans and strategy.

Activities include:

- control management undertaken by the business, including half-yearly control attestations provided to the CRO as part of the risk register update. Each identified control owner attests to the performance and effectiveness of their control environment over the previous six months. The CRO reports the results and any associated recommendations every six months to the meetings of Griffin Managers and to the Board at the corresponding meeting;
- annual review and re-assessment of the Association's key risks by relevant risk owners, independently challenged by the CRO and reported to Griffin Managers half-yearly and to the Board;
- annual stress and scenario testing (including reverses stress tests) of the assumptions within the business plan to determine the financial, reputational, operational and capital impact of extreme adverse events. An agreed set of tests relevant to the Association's business plan and strategy are run by relevant members of the Finance and Actuarial Functions, reported to the CRO and included within the annual ORSA report;
- annual independent validation of capital calculations, including underlying assumptions and associated projections both within the Actuarial team and by the Chief Actuary;
- annual review and assessment of the effectiveness of the Association's risk management framework by the CRO;
- regulatory guidance, 'horizon scanning', recording and quarterly reporting of operational losses (actual, potential and near misses) and compliance breaches to the Board;
- half-yearly compliance monitoring and reporting to Griffin Managers and the Board; and
- independent assurance reviews conducted by Internal Audit.

Where control deficiencies exist, remedial actions, the person responsible for taking them and the timeframe within which the control deficiency will be addressed, are recorded and monitored by the CRO.

### 4.6 Implementation of the Compliance Function

The Compliance Function is implemented by the Managers to support appropriate risk taking by the Association and proactively manage regulatory risk.

There are seven key areas in which the Compliance Function operates:

1. Advisory
   - active engagement with the business to identify and advise on regulatory matters, whether internally or externally generated, to mitigate regulatory risk including financial crime risk and support business objectives; and
   - proactive involvement in new strategic initiatives to provide guidance on regulatory matters.

2. Horizon scanning
   - interpreting and communicating new or revised regulations;
   - assessing and reporting the potential impact of these changes and proposing amendments to processes to meet requirements;
   - identifying and evaluating compliance risk to the Association's strategic plans and business transactions; and
   - regularly reviewing sources of emerging risk, maintaining a record within the emerging risk log, noting any potential impact and action planned or taken to avoid or mitigate the risk of loss.

3. Incident management
   - coordinating the management and recording of any regulatory breaches and financial crime incidents, liaising between all relevant stakeholders to bring matters to a satisfactory conclusion;
   - advising on remedial action for the business to take to reduce the impact and avoid re-occurrence; and
   - undertaking incident root cause analysis as required.

4. Regulatory relationship management
   - acting as the primary contact point between the Association, its regulators (in the UK and in other territories as necessary) and other relevant authorities such as law enforcement agencies, to facilitate and assist with the management of those relationships; and
   - acting as a portal for routine communication and contact between the Association and its regulators, managing responses to information requests outside standard regulatory reporting.

5. Compliance training
   - providing direction, education and formal training on compliance and regulatory matters; and
   - monitoring staff completion of mandated compliance and financial crime training.

6. Reporting
   - reporting on Regulatory and Financial Crime matters to the Board and other relevant stakeholders; and
   - providing input to and co-managing, with Finance, external regulatory reports.

7. Oversight and assurance
   - assessing and monitoring compliance across the business using agreed indicators and reporting the results to the Board;

- conducting investigations and process reviews where regulatory controls are found to be weak or not consistently applied; or in response to demands by the regulator or at the request of management; and
- overseeing projects to implement operational changes within the business in order to comply with new or revised regulations.

### 4.7 Implementation and independence of the Internal Audit Function

Internal Audit, provided by the Managers on behalf of the Association, provides independent assurance, advice and insight to the Board, designed to add value to the business and improve its operational effectiveness. It helps the Association to accomplish its objectives by bringing a systematic, disciplined approach to the evaluation of the effectiveness of its governance, risk management and control processes.

The Internal Audit Function is governed by written Terms of Reference, setting out the function's role, mandate, independence and authority to act. The Head of Internal Audit is responsible for preparing:

- an internal audit universe based on the risks within the Association's risk register;
- a five-year strategic internal audit plan using a risk based approach for the timing and frequency of intended reviews; and
- an annual internal audit programme taking into consideration previous audit findings or those arising from compliance monitoring activities; the occurrence and cause of material unexpected losses, regulatory breaches or incidents involving financial crime as well as in response to feedback from regulators and management.

The internal audit universe and the annual internal audit programme are presented at each meeting of the Audit Group.

The Head of Internal Audit and holder of the associated regulatory role for the Association under the Senior Insurance Managers Regime, reports all findings and recommendations arising from the review work performed to the Audit Group at each meeting and has regular discussions with the chairman of the Audit Group between meetings. Included within the Head of Internal Audit's reports is an update on the implementation by assigned individuals of previous recommendations. Material issues not addressed within agreed timescales are escalated to the Board.

The Internal Audit Function has no direct operational responsibility or authority over any of the activities audited and is not permitted to implement internal controls, develop operational procedures, prepare records or engage in any other activity that may impair its judgement. The Head of Internal Audit is obligated to report to the Audit Group any interference and related implications in determining the scope of internal audit reviews, performing work and communicating results.

### 4.8 Implementation of the Actuarial Function

The Association's Actuarial Function is made up of an internal actuarial team employed by the Managers, supported by a Chief Actuary provided by LCP under the terms of an outsourcing agreement between LCP and the Association.

The Actuarial Function's organisation is designed to provide the Association with the necessary 'Approved Person' role and flexible actuarial support, whilst enabling the Association's Managers to maintain operational control of the work performed.

The internal actuarial team reports to the Association's CFO. The Actuarial Function has responsibilities for the calculation of the Association's reserves and Solvency II technical provisions, its capital modelling, risk pricing and for providing analytical support to underwriters.

In accordance with Article 48 of the Solvency II Directive, the Chief Actuary has four main duties:

- to assess the appropriateness and adequacy of the Association's Solvency II technical provisions;

- to provide an opinion on the underwriting policy;
- to provide an opinion on the adequacy of reinsurance arrangements; and
- to contribute to the Association's risk management.

Given the structure of the Association's Actuarial Function, some of its duties are the responsibility of the CFO. These include:

- responsibility for, and oversight of, the outsourced actuarial function and notifying the PRA of any subsequent material developments with respect to the function;
- coordinating and managing the calculation of the UK GAAP and Solvency II technical provisions; and
- acting as line manager for the internal actuarial team.

### 4.9 Outsourcing policies

Outsourcing is the use of a third party (either an affiliated entity within the same group or an external entity) to perform activities on a continuing basis that would normally be undertaken by the Association. The third party to whom an activity is outsourced is a 'service provider'.

The Association's approach to outsourcing is governed by the principles and standards set out in its Outsourcing Policy. This Policy acts as a guide to the Managers for assessing the materiality of risks associated with outsourcing any given activity or service and the steps that must therefore be taken to mitigate and manage this risk effectively.

The Policy establishes two fundamental principles:

- that the decision to outsource activities assessed as Critical (C) or Important (I) to the Association will be reserved for the Board; and
- the control framework through which outsourcing benefits and risks are assessed, controlled and monitored will be sufficiently robust to ensure that Association's outsourcing arrangements will give advantage in practice.

Outsourcing is categorised as C or I if it would jeopardise adherence to the regulators' Threshold Conditions, which are required for the Association to maintain its UK regulatory authorisation.
The assessment of materiality determines at the outset whether the nature of the outsourced arrangement will make it C or I, after which the same stages for approval will be followed, although proportionate to the nature and materiality of the activities to be outsourced.

The starting point is to compare the potential benefits with the foreseeable risks, to see whether there is sufficient value in the proposition to go through a tender process. The scoring used in this viability check to assess whether the benefits outweigh the risk, is set out as an appendix to the Outsourcing Policy.

Once the viability check is passed, the business sponsor will arrange for specific due diligence on a number of providers before presenting a value proposition and preferred service provider to either Griffin Managers' Board or, for C and I arrangements, the Board of the Association, for consideration and approval. The necessary due diligence, minimum contractual terms and approval process to be followed are set out in various appendices to the Outsourcing Policy and designed to ensure that:

- adequate review and assessment has been carried out on the impact of the outsourcing on the Association's risk profile and contingency plans in the event of service failure by the selected provider;
- the selected service provider has the ability, capability and legal authority to meet the Association's business requirements and is free of any conflicts of interest relevant to the outsourcing;
- the service provider is financially sound, professionally competent, appropriately experienced and has adequate insurance cover to meet its contractual obligations;

- contracts between the service provider and the Association setting out the duties and responsibilities of both parties are signed-off by appropriately authorised signatories and comply with all relevant legal and regulatory requirements;
- control mechanisms established by the Managers for monitoring the performance and quality of services provided by a third party are commensurate with the nature and materiality of the risk to which they expose the Association; and
- the outsourcing does not impair the Association's systems of governance or increase the level of operational risk.

The Association's C and I outsourcing arrangements relate to:

- the appointment of its Managers;
- the role of Chief Actuary provided by LCP; and
- the management of its investments by Schroders.

### 4.10 Assessment of the adequacy of the systems of governance

The Board considers that the System of Governance is appropriate for the nature, scale and complexity of the inherent risks facing the Association.

## 5. Risk profile

The Association is focused on the identification and management of exposure to risk through its core activity as a provider of insurance services. The key areas of risk faced by the Association can be classified as follows:

- Underwriting risk – incorporating premium and reserving risk;
- Market risk – incorporating equity risk, interest rate risk, spread risk and currency rate risk;
- Counterparty default risk – being the risk that a counterparty is unable to pay amounts in full when due;
- Liquidity risk - being the risk that cash may not be available to pay obligations as they fall due;
- Operational risk – being the risk of failure of internal processes or controls; and
- Strategic risk – being the risk that strategy is poorly set, executed or is unresponsive to external developments.

The Association manages these risks through the half-yearly Risk Register update, which uses metrics to monitor risk outcomes and control effectiveness and receives attestation on less significant controls from Risk Owners. Risk outcomes are compared with the results of the Association's SCR, outcomes of stress and scenario testing, self-reported Risk Incidents and Internal Audit findings to ensure that a rounded consideration of the Association's risk profile is provided to Griffin Managers and to the Board.

The assumptions underlying the Solvency II Standard Formula SCR are considered to be a good fit with the Association's risk profile.

The Association's standard formula SCR risk profile as at 30 September 2019 is as follows:

| Key areas | Percentage of SCR |
|---|---|
| Underwriting risk | 30% |
| Market risk | 62% |
| Credit risk | 7% |
| Operational risk | 1% |

### 5.1 Underwriting risk

The Association provides Members with cover for PI risks. The Association sets a projected level of Call based on a target confidence level, such that the call and investment income will be sufficient to meet net claims incurred over the full development of the policy year. The development of claims is monitored on a quarterly basis by Griffin Managers and the Board of the Association.

**Reinsurance**

The establishment of the Association's reinsurance programme is driven by the Board's objective of managing risk to an acceptable level and to optimise the Association's capital position. The programme comprises excess of loss reinsurance cover from reputable reinsurers in the London Market covering various reinsurance layers between £5.0m and £30.0m.

**Management of claims cost – Loss Prevention**

The Association's strategy is to help its Members to prevent and avoid the occurrence of incidents while ensuring the efficient handling and management of claims when they do occur. To facilitate this strategy, the Association has established programmes to ensure high levels of claims management and to reduce claims risk. This includes an extensive loss prevention programme comprising a regular cycle of visits and reviews, where potential risk areas are identified, particularly those arising from new areas of practice, and measures are recommended for their control.

### Reserving process

The Association establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions are established through the application of actuarial techniques and assumptions and the key methods used by the Association in estimating liabilities are the Chain ladder, Bornhuetter-Ferguson and stochastic bootstrap modelling methods. The results are presented to the Managers' Reserving Committee, which meets quarterly in order to review and challenge the setting of reserves. They are reviewed annually by the Audit Group. In order to minimise the risk of understating these provisions, the assumptions made and actuarial techniques employed are reviewed in detail by senior management and reserves are set to meet target confidence levels for each policy year.

The Association considers that the liability for insurance claims recognised in the statement of financial position and the Solvency II balance sheet is prudent, understanding that actual experience will differ from the expected outcome.

### Sensitivity testing of Underwriting risk

The Association carries out sensitivity testing on its claims reserves. The results of sensitivity testing are set out below, showing the impact on surplus/(deficit) before tax, gross and net of reinsurance. For each sensitivity, the impact of a change in a single factor is shown, with other assumptions unchanged. 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 return calls.

Increase in loss ratio by 5 percentage points:

| | £ |
|---|---|
| Gross | 653,585 |
| Net of reinsurance | 653,585 |

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

## 5.2 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 both the value of assets and liabilities.

The investment strategy, which is reviewed periodically, 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 risk at a 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 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 Sterling, 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 table below shows the effects of a 5% increase or decrease in foreign exchange rates on surplus/(deficit) before tax and equity:

| | 2018/19 | | 2017/18 | |
|---|---|---|---|---|
| | **USD** | **Euro** | **USD** | **Euro** |
| **Foreign currency bond holdings:** | | | | |
| Effect of 5% increase in foreign exchange rates | 310,529 | 294,716 | 1,134,465 | 126,406 |
| Effect of 5% decrease in foreign exchange rates | (310,529) | (294,716) | (1,134,465) | (126,406) |
| **Foreign currency cash holdings:** | | | | |
| Effect of 5% increase in foreign exchange rates | 288,254 | - | 254,224 | 244,538 |
| Effect of 5% decrease in foreign exchange rates | (288,254) | - | (254,224) | (244,538) |

**Interest rate risk management**

Interest rate risk is the risk that the fair value of future cashflows 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 Association uses a number of sensitivity management tools to understand volatility of surpluses/deficits. The table below shows the effects of a 0.5% increase or decrease in interest on earnings from debt securities:

| | £ |
|---|---|
| 0.5% increase in interest rates | 40,156 |
| 0.5% decrease in interest rates | (40,156) |

**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 36% (2018 - 31%) of the investment portfolio. The value of the equity holding at the year end amounted to £45.4m (2018 - £38.6m)

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

| | £ |
|---|---|
| 5% increase in equity price | 2,268,218 |
| 5% decrease in equity price | (2,268,218) |
| 5% increase in corporate bond price | 1,123,239 |
| 5% decrease in corporate bond price | (1,123,239) |
| 5% increase in fixed interest price | 605,245 |
| 5% decrease in fixed interest price | (605,245) |

The tables above demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. It should be noted that these sensitivities are non-linear, and larger or smaller impacts should not be extrapolated or interpolated from these results. Management actions could include selling investments, changing investment portfolio allocation and taking other protective action. In addition, the financial position of the Association may vary at the time that any actual market movement occurs.

## 5.3 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 under reinsurance contracts;
- amounts due from Members; and
- 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 Ltd, 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 placed with Lloyd's and company market 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 overdue.

### Counterparty risk with respect to cash and investments

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 at 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.

| | **2018/19**<br>**£** | **2017/18**<br>**£** |
|---|---|---|
| Debt securities | 34,569,673 | 61,889,825 |
| Reinsurers share of technical provisions | - | - |
| Reinsurance debtors | 13,869 | 11,751 |
| Taxation | - | 53,074 |
| Member and other debtors | - | 38,108 |
| Deposits with credit institutions | 46,071,729 | 23,219,525 |
| Cash at bank | 4,482,774 | 4,105,799 |
| **Total financial assets bearing credit risk** | **85,138,045** | **89,318,082** |

An analysis of this exposure by credit rating is shown below.

| | 2018/19<br>£ | 2017/18<br>£ |
|---|---|---|
| AAA | - | 21,929,536 |
| AA | 4,482,774 | 16,244,720 |
| A | 13,869 | 33,357,524 |
| BBB+ and below | - | 17,748,194 |
| No rating | 80,641,402 | 38,108 |
| **Total financial assets bearing risk** | **85,138,045** | **89,318,082** |

## 5.4 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:

| At 30 September 2019 | Short-term assets<br>£ | Within 1 year<br>£ | 1-2 years<br>£ | 2-5 years<br>£ | Over 5 years<br>£ | Total<br>£ |
|---|---|---|---|---|---|---|
| Quoted shares and variable field securities | 45,364,357 | - | - | - | - | 45,364,355 |
| Debt securities and other fixed income securities | 34,569,673 | - | - | - | - | 34,569,673 |
| Deposits with credit institutions | 46,071,729 | - | - | - | - | 46,071,730 |
| Direct insurance operations - Members | - | - | - | - | - | - |
| Cash at bank | 4,460,823 | - | - | - | - | 4,460,823 |
| Accrued Interest | 21,951 | - | - | - | - | 21,951 |
| Other debtors and prepayments | 13,869 | - | - | - | - | 13,869 |
| **Total assets** | **130,502,402** | - | - | - | - | **130,502,401** |

The following is an analysis of the estimated timings of net cashflows by financial liability. The timing of cashflows is based on current estimates and historic trends. The actual timings of cashflows may be different from those disclosed below, however the value of total assets are well above that of total liabilities and this would therefore not materially impact the Association.

| At 30 September 2019 | Short-term liabilities £ | Within 1 year £ | 1-2 years £ | 2-5 years £ | Over 5 years £ | Total £ |
|---|---|---|---|---|---|---|
| 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 |
| Taxation | - | - | - | - | - | - |
| 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** |

**Expected profit in future premiums**

The total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2) of the Solvency II Delegated Regulation was £0 at 30 September 2019 (2018: £0). This is due to the Association receiving all premiums for each policy within the financial year that it is written for. Hence no premiums are expected to be received in the future with respect to existing insurance contracts as specified in the Solvency II Delegated Acts.

## 5.5 Operational risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. Operational risk is tolerated, but minimised by the Managers on behalf of the Association through the application of key mitigating controls. The Association documents all key procedures and controls in a procedures manual, which is embedded into the organisation, updated on a continuous basis and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through the internal audit function which is directed and reviewed by the Managers and the Audit Group. A staff handbook contains all key policies that have been documented. The assessment of key operational risks and associated controls is recorded in the Association's Risk Register which is updated and reported to the Board on a quarterly basis.

Operational risk is also measured through a set of risk scenarios – those scenarios used in the Association's ECB as at 30 September 2019 relate to the following operational aspects of the strategy and business model:

- reliance on third parties;
- compliance failure;
- loss of key staff;
- underwriting;
- reinsurance;
- claims;
- business interruption;
- inaccurate management information; and
- internal or external fraud.

Operational risks relating to 'people' are controlled by the Managers through succession planning; staff training; having adequate Professional Indemnity insurance; validation of references; background checks and the segregation of duties.

Systems are controlled through data back up; Disaster Recovery design and regular testing of the Association's Business Continuity Plan.

All key control processes are documented in the Association's various operational policies and procedure manuals. Compliance is tested and monitored by the Association's Compliance, Risk

Management and Internal Audit functions and reported to the Board by the CRO and Head of Internal Audit respectively.

### 5.6 Strategic Risk

Strategic risk can arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.

Strategic risk is accepted where sufficient value might accrue to the Association.

Strategy is a matter reserved to the Board but in the Risk Register is used to track the sustainability of the Association / the Managers to ensure that a reliance is not built up for a significant Member as this can skew strategic options.

# 6. Valuation of assets and liabilities for solvency purposes

## 6.1 Assets

The following table sets out the value of the Association's assets at 30 September 2019.

| | Assets per GAAP £m | Assets per Solvency II £m | Variance £m |
|---|---|---|---|
| Financial investments | 126.0 | 126.0 | 0.0 |
| Reinsurance recoverable | 0.0 | (2.3) | 2.3 |
| Other assets | 4.5 | 4.5 | - |
| **Total Assets** | **130.5** | **128.2** | **2.3** |

In general, the valuation method of assets is aligned with the statutory accounts and so the basis of preparation aligns with the accounting policies outlined in the Association's annual Report and Financial Statements in note 1. Exceptions to these methods are outlined in the relevant sections below.

**Investments**

The Association's investments are valued for Solvency II purposes on the same basis as the annual financial statements, which follow UK GAAP. All of the Association's investments are traded on mainstream exchanges.

**Reinsurers' share of technical provisions**

In the Solvency II balance sheet, the reinsurers' share of technical provisions is valued as part of net technical provisions. These are the only differences in valuation between GAAP and Solvency II.

**Other assets**

The differences in the valuation between UK GAAP and Solvency II relates to the recognition of accrued interest which has been recognised for Solvency II purposes under Investments and for UK GAAP purposes under 'other assets'. All other assets are valued for Solvency II purposes on the same basis as the GAAP financial statements.

There were no changes to any of the recognition criteria or valuation methods during the year.

## 6.2 Technical provisions – Solvency II basis

At 30 September 2019, the Association held gross technical provisions (including risk margin), valued for Solvency II purposes, of £20.9m.

The assessment of these technical provisions is based on commonly accepted actuarial techniques applied in a consistent manner. Whilst professional judgement has been exercised in all instances, projections of future ultimate losses and loss expenses are inherently uncertain due to the random nature of claim occurrences. The accuracy of the results is dependent upon the accuracy of the underlying data and additional information supplied to the actuarial teams.

The following table shows the analysis of these provisions between best estimate and risk margin at 30 September 2019:

| | Gross £m | RI £m | Net £m |
|---|---|---|---|
| Balance per UK GAAP | 34.37 | - | 34.37 |
| Prudence Margin (GAAP to BE) | (16.85) | - | (16.85) |
| Bound but not incepted ("BBNI") business | (3.86) | (2.34) | (1.52) |
| Non-investment expenses | 1.43 | - | 1.43 |
| RI credit default | - | - | - |
| ENID | 2.12 | - | 2.12 |
| Investment expenses | 0.37 | - | 0.37 |
| Discounting | (0.46) | 0.01 | (0.47) |
| **Balance per Solvency II before risk margin adjustment** | **17.12** | **(2.33)** | **19.45** |
| Risk Margin | 3.82 | - | 3.82 |
| **Balance per SII** | **20.94** | **(2.33)** | **23.27** |
| | | | |
| **Variance between SII and GAAP** | **13.43** | **2.33** | **11.10** |

Since the Solvency II technical provisions figure is a best estimate, the UK GAAP technical provisions are adjusted for the following items:

- all margins for prudence are removed
- a provision is made for events not in data (ENID) to represent a true average of future outcomes
- technical provisions are stated both gross and net of reinsurance
- BBNI
- an additional Solvency II risk margin which is intended to represent a notional market value adjustment.

The Association values technical provisions (TPs) using the methodology prescribed by the Solvency II Directive and the regulations made under the Directive.

**Solvency II Technical Provisions methodology**

Technical provisions (TPs) for Solvency II purposes are made up of a best estimate of claims, premiums and expense cashflows, which are then discounted. Finally, a risk margin is added. The best estimate cashflows are the amounts expected to be paid/received in the future without any margin of prudence. Each element of the TPs is described in more detail below.

**Homogeneous risk groups**

The Association uses one homogeneous risk group for TPs as it writes only professional indemnity cover for brokers.

**Gross claims cashflows and reinsurance recoveries**

Gross claims are projected to ultimate cost using standard actuarial techniques including Bornhuetter-Ferguson and chain ladder with some judgement overlaid. This judgement is important because the low volume of claims causes the data to be volatile. The key assumptions made include the initial expected loss ratio for each policy year, the credibility assigned to this loss ratio and the projected incurred development pattern.

These methods are considered appropriate given that the data includes years which are fully run off, the business written has been stable and there have been no material changes in the way claims are handled.

At the valuation date, 30 September 2019, the Association had no unearned business except for BBNI. This is because all coverage is annual, renews prior to year end and incepts on the first day of the policy year. For the purposes of Solvency II any business that is bound to be written before the beginning of the Association's financial year (i.e. from 1 October 2019) is included in the calculation of TPs. However this concept is not applicable under UK GAAP where only business that has incepted is included in the TPs at the valuation date. BBNI includes all cash in-flows as well as outflows and in the Association's case this includes advance call, acquisition and administration expenses, reinsurance premiums, projected gross claims and corresponding reinsurance recoveries. The BBNI cashflow inputs of premiums and associated expenses are obtained from the call projections; and the ultimate gross claims and reinsurance recoveries are outputs from the Association's premium risk model. This is a stochastic model which projects future gross claims by applying a statistical distribution (based on historical claims experience) to the exposure. The gross claims are then subjected to the reinsurance programme to obtain the expected reinsurance recoveries.

A percentage loading is added to both earned and BBNI business to allow for ENID, which allows for severe events to which the Association could be exposed but which are absent from the historical data. The ENID percentage loading has been calculated using the Lloyd's Approximation Method 1, which is a simple and pragmatic calculation based on the assumption that the underlying data is a good fit with the log-normal distribution. The model uses the estimated coefficient of variation from the underlying data and an estimated return period to calculate the percentage loading.

Projected cashflows are estimated by applying payment patterns to the estimates of the ultimate gross claims and recoveries. The assumed payment patterns are derived using chain ladder methodology on historical gross paid claims triangles.

**Premiums**

There are no further premium cashflows expected relating to prior years.

Each of the Association's policy years is coterminous with its corresponding financial year. The consequence is that a full year's worth of business is recognised as BBNI business. A provision on the Solvency II balance sheet, known as the premium provision, is thus made for future premiums, claims and expenses that relate to BBNI business. Gross and reinsurance premiums for the BBNI business are taken from the business plan.

**Expenses**

*Acquisition and administrative expenses*

There are no acquisition or administrative expenses relating to unearned business.

For BBNI business, acquisition costs and internal administrative costs are calculated as a percentage of the total operating costs from the business plan for the forthcoming policy year. The operating costs from the business plan are set assuming a percentage increase in operating costs from 2019/20 plus some specific additional costs. The external administrative costs are consistent with the business plan.

*Claims handling expenses*

Allocated claims handling expenses are assumed to be included in the best estimate claims reserves and, therefore, no explicit allowance is made.

Unallocated claims handling expenses payable in future years are split between expenses paid in the 2019/20 policy year and expenses paid in subsequent years. The expenses paid in 2019/20 are calculated as an assumed percentage of the total operating costs for that year; the expenses paid beyond 2019/20 are the same as those included in the GAAP reserves. The unallocated claims handling expenses are allocated between claims and premium provisions in proportion to claims payments.

*Investment management expenses*

The investment management expenses are calculated as an assumed percentage of the sum of the projected and discounted TPs (excluding investment expenses) at each future valuation date. The assumed percentage is calculated as the annual investment management expenses divided by funds under management.

**Discounting**

Claims, premium and expense cashflows have been discounted using the weighted average yield curve based on the GBP, USD and EUR EIOPA yield curves and an assumed mix of cashflows in GBP, USD and EUR as at 30 September 2019.

**Risk Margin**

The method used to calculate the risk margin is to:

- calculate the SCR for the Association using the standard formula;
- project the future SCRs using different run off patterns for different elements of the SCR as follows:
    - Non-life premium risk and operational risk are combined and run off in proportion to the square root of the percentage of future gross claims cashflows.
    - Counterparty default risk is run off in proportion to the square root of the percentage of future reinsurance recovery cashflows.
- discount and sum the projected SCRs and multiply by the cost of capital.

**Uncertainty associated with the value of technical provisions**

The estimate of the Solvency II technical provisions is considered to be an assessment of future obligations. However, it remains an approximation. Factors affecting the level of uncertainty are both internal and external and the nature of these factors is such that they are difficult to quantify in both likelihood and magnitude. The issues that affect the certainty of the technical provisions include:

- The projection of numerous cashflows, including future premiums, claim payments and reinsurance recoveries on these payments. None of these will develop exactly as projected and deviations from these projections are normal and to be expected.
- The assumptions used to calculate the Premium Provision are based on the expectation of an 'average year'. Actual underwriting performance for that business may vary significantly from the assumed position at the outset.
- The yield curves used to discount future cashflows can vary from one year to the next which introduces additional balance sheet volatility that does not exist on a UK GAAP balance sheet.
- There is greater uncertainty associated with more recent policy years as these are still in an early stage of development.
- For certain elements of the technical provisions, for example ENID, very little data exists on which to base the assumptions and hence a high degree of judgement is required, which could lead to increased uncertainty in the estimates.

**Data adjustments and recommendations**

The Association uses various sources of data for the calculation of the Solvency II technical provisions and the Standard Formula. The majority of the data used is taken from the internal claims handling system, CLUB. A data governance framework has been put in place to ensure that the data being used is complete, accurate and appropriate. In addition to the data governance framework, a validation routine is performed throughout the technical provisions calculation which includes reconciliation tests to ensure the data is consistent and reconcilable to data used for other purposes around the business for example, the Association's year-end financial statements.

No other adjustments have been applied to the technical provisions such as the matching adjustment or volatility adjustments. Neither have any transitional arrangements been applied, for example on the risk free interest rate term structures. There were no data deficiencies for which an adjustment was necessary.

**Changes since the last reporting period**

There have been no other changes in the TPs methodology since the previous period.

### 6.3 Other liabilities

The following table sets out the value of the Association's other liabilities at 30 September 2019.

| | Liabilities per GAAP £m | Liabilities per Solvency II £m | Variance £m |
|---|---|---|---|
| Member creditors | 8.0 | 8.0 | - |
| Other creditors | 0.8 | 0.8 | - |
| Reinsurance creditors | - | - | - |
| **Total liabilities** | **8.8** | **8.8** | **-** |

The Association's other liabilities are recognised and valued for Solvency II purposes on the same basis as the annual financial statements, which are based on UK GAAP and there are no differences between the two.

**Alternative methods of valuation**

The Association does not use any alternative valuation methods.

## 7. Capital management

### 7.1 Own funds

The Association's Business Plan and ORSA process measure the Association's current and projected capital and solvency position over a three-year time horizon. The core capital management objective over this time horizon is for the Association to maintain Tier 1 basic own funds at a level which provides a capital buffer in excess of the higher of its SCR and its ORSA derived solvency needs.

The Association has a simple capital structure, with balance sheet reserves comprising a single item: Tier 1 capital derived from past underwriting and investment surpluses. There were no restrictions on the availability of the Association's own funds to support the SCR and MCR.

At 30 September 2019, the Association held the following own funds, on a Solvency II basis.

| | 2018/19<br>£m | 2017/18<br>£m | Movement<br>£m |
|---|---|---|---|
| Income and expenditure account | 33.2 | 40.1 | (6.9) |
| Investment reserve | 19.1 | 17.5 | 1.6 |
| General reserve | 25.0 | 20.0 | 5.0 |
| Reinsurance reserve | 10.0 | 10.0 | - |
| **Total resources** | **87.3** | **87.6** | **(0.3)** |
| Solvency II adjustment | 11.1 | 11.3 | (0.2) |
| **Total adjusted resources** | **98.4** | **98.9** | **(0.5)** |

The Association's objective is to maintain its total capital resources (own funds) in line with its risk appetite statement over the insurance cycle. The Association forecasts its capital over a three-year planning horizon as part of its ORSA process.

**Analysis of significant changes during the period**

The following table shows the movement in own funds between 30 September 2018 and 30 September 2019:

| | £m |
|---|---|
| Own funds at 30 September 2018 | 98.9 |
| Decrease in net technical provisions | (0.7) |
| Increase in investments | 2.1 |
| Decrease in other assets | 0.4 |
| Decrease in other liabilities | (2.3) |
| **Own funds at 30 September 2019** | **98.4** |

The following table shows the reconciliation between UK GAAP net asset value and Solvency II net asset value at 30 September 2019

| | £m |
|---|---|
| Excess of assets over liabilities – UK GAAP | 87.3 |
| Asset valuation difference | (2.3) |
| Gross technical provisions valuation difference | 13.8 |
| Liability valuation difference | (0.4) |
| **Excess of assets over liabilities – Solvency II** | **98.4** |

### 7.2 Solvency Capital Requirement (SCR)

The following table shows an analysis of the Association's SCR split by risk modules and comparison to the previous year end.

| | SCR | | |
|---|---|---|---|
| **Heads of risk** | **2018/19 £m** | **2017/18 £m** | **Movement £m** |
| Underwriting risk | 10.2 | 10.1 | 0.1 |
| Market risk | 21.3 | 18.3 | 3.0 |
| Counterparty default risk | 2.3 | 1.2 | 1.1 |
| Operational risk | 0.5 | 0.5 | - |
| **Aggregate SCR** | **34.3** | **30.1** | **4.2** |
| Correlation credit | (7.0) | (6.1) | (0.9) |
| **Aggregate SCR net of correlations** | **27.3** | **24.0** | **3.3** |

The Association has not used any simplified calculations nor the duration-based equity risk sub-module as set out in Article 304 of Directive 2009/138/EC in the calculation of the SCR. The Association has not used undertaking-specific parameters in any of the risk modules described below.

The main changes in the SCR since 30 September 2019 reflect the following factors.

**Underwriting risk**

The SCR underwriting risk capital requirement calculation is made upof three elements, premium risk, reserve risk and catastrophe (CAT) risk. Premium risk is based on the higher of either the expected value of net premiums over the next 12 months or the value of net premiums earned over the last 12 months, whilst reserve risk is based on the valuation of net technical (claims) provisions. CAT risk is based on a prescribed scenario-based approach of one claim from a Member resulting in one full claim on the Association.

Premium risk has increased as a result of net premiums to be written in the next 12 months compared with the previous 12 months, whilst reserve risk has increased since last year as a result of an increase in the net best estimate claims provisions. CAT risk remains the same as last year as the Association's limit of cover and reinsurance structure has remained the same and therefore the net impact to the Association of one full claim also remains the same.

The reserve risk remained largely unchanged since last year, hence the premium risk is the main driver of the increase in overall underwriting risk since last year.

Overall, SCR underwriting risk capital has increased by £0.1m, which represents a 1% increase since last year.

**Market risk**

Market risk is driven by a combination of market risk drivers - interest rate risk, equity risk, currency risk, spread risk and concentration risk. The overall increase in market risk has been driven predominantly by a significant increase in currency risk and spread risk compared with last year. This increase has been necessitated by the Griffin Board's review and subsequent change in the investment strategy from direct holdings to assets being invested within funds.

Currency risk has increased by £3.9m since last year. This is a result of an increase in investment holdings held within USD denominated funds together with other new denominations following the change in investment strategy. This has resulted in USD assets and liabilities being less closely matched and no matching between the assets denominated in new currencies as the claims liabilities currencies remained largely unchanged. This has led to a higher capital charge in respect of currency risk. During January 2020 the allocations will be reviewed and adjusted based on updated liability exposures.

Spread risk has also increased significantly by £3.0m as a result of an increase in the value of the assets exposed to spread risk (mainly corporate bonds) compared with last year.

The large increases of the currency and spread risk have been offset by a £2.8m decrease in the equity risk . The decrease in equity risk is due to a combination of two factors:

1. The value of the Association's equity holdings on a 'look through' basis has decreased by around £6.1m since last year due to the change in strategy.
2. The symmetric adjustment published by EIOPA as at 30 September 2019 is lower than the symmetric adjustment at the same time last year. The symmetric adjustment mechanism assumes equity prices have a mean reverting behaviour. Therefore in times of rising equity markets the symmetric adjustment mechanism will increase the capital charge and in times of falling equity indices the symmetric adjustment mechanism will reduce the capital charge.

Interest rate risk has decreased by £0.3m whereas the change in investment strategy has resulted in a new concentration risk charge of £0.3m.

There is no concentration risk charge as the amount invested in any particular counterparty does not exceed the Solvency II concentration risk threshold.

The correlation credit between the elements of market risk described above has increased by £1.2m from £8.3m last year to £9.5m this year.

Overall, the SCR market risk capital requirement has increased by £3.0m which represents a 16% increase since last year.

**Counterparty default risk**

The counterparty default risk capital requirement has increased since last year. This is as a result of a increase in the value of cash-related investments held by the Association and the counterparties holding these investments.

As at 30 September 2019, the increased cash-related assets were held by counterparties with a relatively lower credit rating compared with last year, hence driving a higher counterparty default risk charge.

The assumption of not allowing for reinsurance recoveries for the forthcoming year has been maintained hence there is no counterparty exposure to reinsurers within the counterparty default risk calculation.

Debtors on the Solvency II balance sheet are slightly higher but relatively immaterial overall and therefore not a key driver of the change in the counterparty default risk capital requirement.

Overall, the SCR counterparty default risk capital requirement has increased by £1.1m which represents an 85% increase since last year.

**Operational risk**

There has been a marginal increase in the operational risk charge since last year. Under the Standard Formula, operational risk is calculated as the maximum of a proportion of either the gross technical provisions (excluding risk margin) or gross earned premium (the greater of the amounts in the last 12 or 24 months), subject to a minimum of 30% of the calculated basic SCR. The gross technical provisions are the higher of the two and it is therefore the decrease in gross technical provisions that has driven a decrease in operational risk.

Overall, the SCR operational risk capital requirement has increased by £14,647 which represents a 3% increase since last year.

**Overall movement**

Overall, the SCR has increased by £3.3m year on year, from £24.0m to £27.3m.

## 7.3 Minimum Capital Requirement (MCR)

The MCR calculation is based on the net value of technical provisions and the expected level of retained premiums over the next 12 months. The result of the calculation is then subject to a floor and a cap, of 25% and 45% of the SCR respectively. As at 30 September 2019, the MCR continues to be set at the minimum level, i.e. equal to 25% of the SCR. The MCR as at 30 September 2019 was £6.8m, an increase of £0.8m from last year.

## 7.4 The Association's overall capital position

The following table shows the Association's capital position in relation to the SCR and the MCR at 30 September 2019.

| | **SCR £m** | **MCR £m** |
|---|---|---|
| Capital requirement | 27.3 | 6.8 |
| Own funds available | 98.4 | 98.4 |
| **Headroom** | **71.1** | **91.6** |
| Solvency ratio | 3.6 | 14.4 |

By reference to the SCR and MCR, the Solvency II own funds substantially exceed the capital requirements. By these measures, the Association remains in a satisfactory capital position and the Board will therefore have considerable flexibility in some of the key decisions to be made over the next 12 months.

The Association has fully complied with the SCR and MCR requirements during the period under review. The calculation of the SCR and MCR is subject to supervisory assessment and may change following the review of the SCR and MCR calculation by the Regulator. Furthermore, the PRA has made use of an option not to require entities in its jurisdiction to disclose capital add-on (if any) during a transitional period ending 31 December 2020. No such capital add-ons have been notified to the Association.

# Appendices

## SFCR templates

# The Griffin Insurance Association Limited

## Solvency and Financial Condition Report

## Disclosures

30 September

2019

(Monetary amounts in GBP thousands)

## General information

| | |
|---|---|
| Undertaking name | The Griffin Insurance Association Limited |
| Undertaking identification code | 213800HUO1N8T1R5KG21 |
| Type of code of undertaking | LEI |
| Type of undertaking | Non-life undertakings |
| Country of authorisation | GB |
| Language of reporting | en |
| Reporting reference date | 30 September 2019 |
| Currency used for reporting | GBP |
| Accounting standards | Local GAAP |
| Method of Calculation of the SCR | Standard formula |
| Matching adjustment | No use of matching adjustment |
| Volatility adjustment | No use of volatility adjustment |
| Transitional measure on the risk-free interest rate | No use of transitional measure on the risk-free interest rate |
| Transitional measure on technical provisions | No use of transitional measure on technical provisions |

## List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

**S.02.01.02**

## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Assets** | C0010 |
| R0030 | Intangible assets | |
| R0040 | Deferred tax assets | |
| R0050 | Pension benefit surplus | |
| R0060 | Property, plant & equipment held for own use | 0 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 126,006 |
| R0080 | *Property (other than for own use)* | 0 |
| R0090 | *Holdings in related undertakings, including participations* | 0 |
| R0100 | *Equities* | 0 |
| R0110 | *Equities - listed* | |
| R0120 | *Equities - unlisted* | |
| R0130 | *Bonds* | 0 |
| R0140 | *Government Bonds* | 0 |
| R0150 | *Corporate Bonds* | 0 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 0 |
| R0180 | *Collective Investments Undertakings* | 125,991 |
| R0190 | *Derivatives* | |
| R0200 | *Deposits other than cash equivalents* | 14 |
| R0210 | *Other investments* | 0 |
| R0220 | Assets held for index-linked and unit-linked contracts | |
| R0230 | Loans and mortgages | 0 |
| R0240 | *Loans on policies* | 0 |
| R0250 | *Loans and mortgages to individuals* | |
| R0260 | *Other loans and mortgages* | |
| R0270 | Reinsurance recoverables from: | -2,335 |
| R0280 | *Non-life and health similar to non-life* | -2,335 |
| R0290 | *Non-life excluding health* | -2,335 |
| R0300 | *Health similar to non-life* | 0 |
| R0310 | *Life and health similar to life, excluding index-linked and unit-linked* | 0 |
| R0320 | *Health similar to life* | |
| R0330 | *Life excluding health and index-linked and unit-linked* | |
| R0340 | *Life index-linked and unit-linked* | |
| R0350 | Deposits to cedants | 0 |
| R0360 | Insurance and intermediaries receivables | 0 |
| R0370 | Reinsurance receivables | 14 |
| R0380 | Receivables (trade, not insurance) | 0 |
| R0390 | Own shares (held directly) | |
| R0400 | Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0 |
| R0410 | Cash and cash equivalents | 4,461 |
| R0420 | Any other assets, not elsewhere shown | |
| R0500 | **Total assets** | 128,146 |

**S.02.01.02**

## Balance sheet

| | | Solvency II value |
|---|---|---|
| | **Liabilities** | C0010 |
| R0510 | Technical provisions - non-life | 20,940 |
| R0520 | *Technical provisions - non-life (excluding health)* | 20,940 |
| R0530 | *TP calculated as a whole* | 0 |
| R0540 | *Best Estimate* | 17,123 |
| R0550 | *Risk margin* | 3,816 |
| R0560 | *Technical provisions - health (similar to non-life)* | 0 |
| R0570 | *TP calculated as a whole* | 0 |
| R0580 | *Best Estimate* | 0 |
| R0590 | *Risk margin* | 0 |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 0 |
| R0610 | *Technical provisions - health (similar to life)* | 0 |
| R0620 | *TP calculated as a whole* | |
| R0630 | *Best Estimate* | |
| R0640 | *Risk margin* | |
| R0650 | *Technical provisions - life (excluding health and index-linked and unit-linked)* | 0 |
| R0660 | *TP calculated as a whole* | |
| R0670 | *Best Estimate* | |
| R0680 | *Risk margin* | |
| R0690 | Technical provisions - index-linked and unit-linked | 0 |
| R0700 | *TP calculated as a whole* | |
| R0710 | *Best Estimate* | |
| R0720 | *Risk margin* | |
| R0740 | Contingent liabilities | |
| R0750 | Provisions other than technical provisions | |
| R0760 | Pension benefit obligations | |
| R0770 | Deposits from reinsurers | |
| R0780 | Deferred tax liabilities | |
| R0790 | Derivatives | |
| R0800 | Debts owed to credit institutions | |
| R0810 | Financial liabilities other than debts owed to credit institutions | |
| R0820 | Insurance & intermediaries payables | 7,997 |
| R0830 | Reinsurance payables | 0 |
| R0840 | Payables (trade, not insurance) | 827 |
| R0850 | Subordinated liabilities | 0 |
| R0860 | *Subordinated liabilities not in BOF* | |
| R0870 | *Subordinated liabilities in BOF* | 0 |
| R0880 | Any other liabilities, not elsewhere shown | |
| R0900 | **Total liabilities** | 29,764 |
| | | |
| R1000 | **Excess of assets over liabilities** | 98,382 |

S.05.01.02

**Premiums, claims and expenses by line of business**

**Non-life**

| | | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | | | | | | | | | | Line of business for: accepted non-proportional reinsurance | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Misc. financial loss | Health | Casualty | Marine, aviation and transport | Property | |
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0200 |
| | **Premiums written** | | | | | | | | | | | | | | | | | |
| R0110 | Gross - Direct Business | | | | | | | | 5,169 | | | | | | | | | 5,169 |
| R0120 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0130 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0140 | Reinsurers' share | | | | | | | | 2,070 | | | | | | | | | 2,070 |
| R0200 | Net | | | | | | | | 3,100 | | | | | | | | | 3,100 |
| | **Premiums earned** | | | | | | | | | | | | | | | | | |
| R0210 | Gross - Direct Business | | | | | | | | 5,169 | | | | | | | | | 5,169 |
| R0220 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0230 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0240 | Reinsurers' share | | | | | | | | 2,070 | | | | | | | | | 2,070 |
| R0300 | Net | | | | | | | | 3,100 | | | | | | | | | 3,100 |
| | **Claims incurred** | | | | | | | | | | | | | | | | | |
| R0310 | Gross - Direct Business | | | | | | | | 3,043 | | | | | | | | | 3,043 |
| R0320 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0330 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0340 | Reinsurers' share | | | | | | | | 0 | | | | | | | | | 0 |
| R0400 | Net | | | | | | | | 3,043 | | | | | | | | | 3,043 |
| | **Changes in other technical provisions** | | | | | | | | | | | | | | | | | |
| R0410 | Gross - Direct Business | | | | | | | | | | | | | | | | | 0 |
| R0420 | Gross - Proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0430 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0440 | Reinsurers' share | | | | | | | | | | | | | | | | | 0 |
| R0500 | Net | | | | | | | | 0 | | | | | | | | | 0 |
| R0550 | **Expenses incurred** | | | | | | | | 5,052 | | | | | | | | | 5,052 |
| R1200 | **Other expenses** | | | | | | | | | | | | | | | | | |
| R1300 | **Total expenses** | | | | | | | | | | | | | | | | | 5,052 |

S.05.02.01

## Premiums, claims and expenses by country

### Non-life

| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 |
|---|---|---|---|---|---|---|---|---|
| | | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | Top 5 countries (by amount of gross premiums written) - non-life obligations | | Total Top 5 and home country |
| R0010 | | | | | | | | |
| | | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 |
| | **Premiums written** | | | | | | | |
| R0110 | Gross - Direct Business | 5,169 | | | | | | 5,169 |
| R0120 | Gross - Proportional reinsurance accepted | | | | | | | 0 |
| R0130 | Gross - Non-proportional reinsurance accepted | | | | | | | 0 |
| R0140 | Reinsurers' share | 2,070 | | | | | | 2,070 |
| R0200 | Net | 3,100 | | | | | | 3,100 |
| | **Premiums earned** | | | | | | | |
| R0210 | Gross - Direct Business | 5,169 | | | | | | 5,169 |
| R0220 | Gross - Proportional reinsurance accepted | | | | | | | 0 |
| R0230 | Gross - Non-proportional reinsurance accepted | | | | | | | 0 |
| R0240 | Reinsurers' share | 2,070 | | | | | | 2,070 |
| R0300 | Net | 3,100 | | | | | | 3,100 |
| | **Claims incurred** | | | | | | | |
| R0310 | Gross - Direct Business | 3,043 | | | | | | 3,043 |
| R0320 | Gross - Proportional reinsurance accepted | | | | | | | 0 |
| R0330 | Gross - Non-proportional reinsurance accepted | | | | | | | 0 |
| R0340 | Reinsurers' share | | | | | | | 0 |
| R0400 | Net | 3,043 | | | | | | 3,043 |
| | **Changes in other technical provisions** | | | | | | | |
| R0410 | Gross - Direct Business | | | | | | | 0 |
| R0420 | Gross - Proportional reinsurance accepted | | | | | | | 0 |
| R0430 | Gross - Non-proportional reinsurance accepted | | | | | | | 0 |
| R0440 | Reinsurers' share | | | | | | | 0 |
| R0500 | Net | 0 | | | | | | 0 |
| R0550 | **Expenses incurred** | 5,052 | | | | | | 5,052 |
| R1200 | **Other expenses** | | | | | | | |
| R1300 | **Total expenses** | | | | | | | 5,052 |

**S.17.01.02**
## Non-Life Technical Provisions

| | | Direct business and accepted proportional reinsurance | | | | | | | | | | | | Accepted non-proportional reinsurance | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance | Total Non-Life obligation |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0170 | C0180 |
| R0010 | **Technical provisions calculated as a whole** | | | | | | | | 0 | | | | | | | | | 0 |
| R0050 | Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | | | | | | | | | | | | | | | | | 0 |
| | **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | | |
| | **Best estimate** | | | | | | | | | | | | | | | | | |
| | **Premium provisions** | | | | | | | | | | | | | | | | | |
| R0060 | Gross | | | | | | | | -2,035 | | | | | | | | | -2,035 |
| R0140 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | | | | | -2,335 | | | | | | | | | -2,335 |
| R0150 | **Net Best Estimate of Premium Provisions** | | | | | | | | 300 | | | | | | | | | 300 |
| | **Claims provisions** | | | | | | | | | | | | | | | | | |
| R0160 | Gross | | | | | | | | 19,158 | | | | | | | | | 19,158 |
| R0240 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | | | | | | | | | | | | | | 0 |
| R0250 | **Net Best Estimate of Claims Provisions** | | | | | | | | 19,158 | | | | | | | | | 19,158 |
| R0260 | **Total best estimate - gross** | | | | | | | | 17,123 | | | | | | | | | 17,123 |
| R0270 | **Total best estimate - net** | | | | | | | | 19,458 | | | | | | | | | 19,458 |
| R0280 | **Risk margin** | | | | | | | | 3,816 | | | | | | | | | 3,816 |
| | **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | | |
| R0290 | Technical Provisions calculated as a whole | | | | | | | | | | | | | | | | | 0 |
| R0300 | Best estimate | | | | | | | | | | | | | | | | | 0 |
| R0310 | Risk margin | | | | | | | | | | | | | | | | | 0 |
| R0320 | **Technical provisions - total** | | | | | | | | 20,940 | | | | | | | | | 20,940 |
| R0330 | **Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total** | | | | | | | | -2,335 | | | | | | | | | -2,335 |
| R0340 | **Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total** | | | | | | | | 23,274 | | | | | | | | | 23,274 |

**S.19.01.21**

## Non-Life insurance claims

### Total Non-life business

Z0020 Accident year / underwriting year: Underwriting Year

**Gross Claims Paid (non-cumulative)**
(absolute amount)

| | Year | C0010<br>0 | C0020<br>1 | C0030<br>2 | C0040<br>3 | C0050<br>4 | C0060<br>5 | C0070<br>6 | C0080<br>7 | C0090<br>8 | C0100<br>9 | C0110<br>10 & + | C0170<br>In Current year | C0180<br>Sum of years (cumulative) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R0100 | Prior | | | | | | | | | | | 191 | 191 | 191 |
| R0160 | 2010 | 138 | 952 | 570 | 299 | 2,346 | 257 | 514 | 66 | 2 | 1 | | 1 | 5,145 |
| R0170 | 2011 | 101 | 166 | 174 | 136 | 23 | 4 | 6 | 0 | 0 | | | 0 | 608 |
| R0180 | 2012 | 43 | 551 | 264 | 46 | 0 | 0 | 3 | 0 | | | | 0 | 907 |
| R0190 | 2013 | 3,600 | 1,214 | 419 | 15 | 317 | 0 | 0 | | | | | 0 | 5,565 |
| R0200 | 2014 | 39 | 233 | 110 | 48 | 111 | 724 | | | | | | 724 | 1,265 |
| R0210 | 2015 | 24 | 67 | 228 | 3 | 0 | | | | | | | 0 | 322 |
| R0220 | 2016 | 6 | 256 | 94 | 61 | | | | | | | | 61 | 417 |
| R0230 | 2017 | 429 | 1,297 | 1,716 | | | | | | | | | 1,716 | 3,442 |
| R0240 | 2018 | 74 | 32 | | | | | | | | | | 32 | 106 |
| R0250 | 2019 | 349 | | | | | | | | | | | 349 | 349 |
| R0260 | | | | | | | | | | | | Total | 3,074 | 18,317 |

**Gross Undiscounted Best Estimate Claims Provisions**
(absolute amount)

| | Year | C0200<br>0 | C0210<br>1 | C0220<br>2 | C0230<br>3 | C0240<br>4 | C0250<br>5 | C0260<br>6 | C0270<br>7 | C0280<br>8 | C0290<br>9 | C0300<br>10 & + | C0360<br>Year end (discounted data) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| R0100 | Prior | | | | | | | | | | | 80 | 80 |
| R0160 | 2010 | 0 | 0 | 0 | 0 | 0 | 0 | 3,372 | 75 | 67 | 63 | | 63 |
| R0170 | 2011 | 0 | 0 | 0 | 0 | 0 | 7,988 | 502 | 95 | 0 | | | 0 |
| R0180 | 2012 | 0 | 0 | 0 | 0 | 9,255 | 420 | 498 | 498 | | | | 491 |
| R0190 | 2013 | 0 | 0 | 0 | 6,831 | 89 | 83 | 41 | | | | | 40 |
| R0200 | 2014 | 0 | 0 | 6,293 | 1,891 | 1,940 | 1,587 | | | | | | 1,556 |
| R0210 | 2015 | 0 | 4,688 | 1,286 | 250 | 89 | | | | | | | 87 |
| R0220 | 2016 | 12,292 | 4,636 | 1,682 | 731 | | | | | | | | 722 |
| R0230 | 2017 | 9,214 | 9,287 | 7,530 | | | | | | | | | 7,426 |
| R0240 | 2018 | 5,555 | 4,101 | | | | | | | | | | 4,041 |
| R0250 | 2019 | 4,736 | | | | | | | | | | | 4,653 |
| R0260 | | | | | | | | | | | | Total | 19,158 |

**S.23.01.01**

## Own Funds

| | | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35** | C0010 | C0020 | C0030 | C0040 | C0050 |
| R0010 | Ordinary share capital (gross of own shares) | 0 | 0 | | 0 | |
| R0030 | Share premium account related to ordinary share capital | 0 | 0 | | 0 | |
| R0040 | Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings | 0 | 0 | | 0 | |
| R0050 | Subordinated mutual member accounts | 0 | | 0 | 0 | 0 |
| R0070 | Surplus funds | 0 | 0 | | | |
| R0090 | Preference shares | 0 | | 0 | 0 | 0 |
| R0110 | Share premium account related to preference shares | 0 | | 0 | 0 | 0 |
| R0130 | Reconciliation reserve | 98,382 | 98,382 | | | |
| R0140 | Subordinated liabilities | 0 | | 0 | 0 | 0 |
| R0160 | An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| R0180 | Other own fund items approved by the supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| R0220 | **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | 0 | | | | |
| R0230 | **Deductions for participations in financial and credit institutions** | 0 | | | | |
| R0290 | **Total basic own funds after deductions** | 98,382 | 98,382 | 0 | 0 | 0 |
| | **Ancillary own funds** | | | | | |
| R0300 | Unpaid and uncalled ordinary share capital callable on demand | 0 | | | | |
| R0310 | Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | 0 | | | | |
| R0320 | Unpaid and uncalled preference shares callable on demand | 0 | | | | |
| R0330 | A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0 | | | | |
| R0340 | Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0350 | Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0360 | Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0370 | Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0390 | Other ancillary own funds | 0 | | | | |
| R0400 | **Total ancillary own funds** | 0 | | | 0 | 0 |
| | **Available and eligible own funds** | | | | | |
| R0500 | Total available own funds to meet the SCR | 98,382 | 98,382 | 0 | 0 | 0 |
| R0510 | Total available own funds to meet the MCR | 98,382 | 98,382 | 0 | 0 | |
| R0540 | Total eligible own funds to meet the SCR | 98,382 | 98,382 | 0 | 0 | 0 |
| R0550 | Total eligible own funds to meet the MCR | 98,382 | 98,382 | 0 | 0 | |
| R0580 | **SCR** | 27,335 | | | | |
| R0600 | **MCR** | 6,834 | | | | |
| R0620 | **Ratio of Eligible own funds to SCR** | 359.91% | | | | |
| R0640 | **Ratio of Eligible own funds to MCR** | 1439.63% | | | | |

| | **Reconciliation reserve** | C0060 |
|---|---|---|
| R0700 | Excess of assets over liabilities | 98,382 |
| R0710 | Own shares (held directly and indirectly) | 0 |
| R0720 | Foreseeable dividends, distributions and charges | |
| R0730 | Other basic own fund items | 0 |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 |
| R0760 | **Reconciliation reserve** | 98,382 |
| | **Expected profits** | |
| R0770 | Expected profits included in future premiums (EPIFP) - Life business | |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business | |
| R0790 | **Total Expected profits included in future premiums (EPIFP)** | 0 |

S.25.01.21

## Solvency Capital Requirement - for undertakings on Standard Formula

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| R0010 | Market risk | 21,333 | | |
| R0020 | Counterparty default risk | 2,292 | | |
| R0030 | Life underwriting risk | 0 | | |
| R0040 | Health underwriting risk | 0 | | |
| R0050 | Non-life underwriting risk | 10,151 | | |
| R0060 | Diversification | -6,955 | | |
| R0070 | Intangible asset risk | 0 | | |
| R0100 | **Basic Solvency Capital Requirement** | 26,822 | | |

| | | |
|---|---|---|
| | **Calculation of Solvency Capital Requirement** | C0100 |
| R0130 | Operational risk | 514 |
| R0140 | Loss-absorbing capacity of technical provisions | 0 |
| R0150 | Loss-absorbing capacity of deferred taxes | 0 |
| R0160 | Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0 |
| R0200 | **Solvency Capital Requirement excluding capital add-on** | 27,335 |
| R0210 | Capital add-ons already set | 0 |
| R0220 | **Solvency capital requirement** | 27,335 |
| | **Other information on SCR** | |
| R0400 | Capital requirement for duration-based equity risk sub-module | 0 |
| R0410 | Total amount of Notional Solvency Capital Requirements for remaining part | 0 |
| R0420 | Total amount of Notional Solvency Capital Requirements for ring fenced funds | 0 |
| R0430 | Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | 0 |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304 | 0 |

**USP Key**

**For life underwriting risk:**
1 - Increase in the amount of annuity benefits
9 - None

**For health underwriting risk:**
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

**For non-life underwriting risk:**
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

S.28.01.01

## Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

**Linear formula component for non-life insurance and reinsurance obligations**

| | | C0010 |
|---|---|---|
| R0010 | $MCR_{NL}$ Result | 2,410 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|---|---|
| | | C0020 | C0030 |
| R0020 | Medical expense insurance and proportional reinsurance | 0 | |
| R0030 | Income protection insurance and proportional reinsurance | 0 | |
| R0040 | Workers' compensation insurance and proportional reinsurance | 0 | |
| R0050 | Motor vehicle liability insurance and proportional reinsurance | 0 | |
| R0060 | Other motor insurance and proportional reinsurance | 0 | |
| R0070 | Marine, aviation and transport insurance and proportional reinsurance | 0 | |
| R0080 | Fire and other damage to property insurance and proportional reinsurance | 0 | |
| R0090 | General liability insurance and proportional reinsurance | 19,458 | 3,100 |
| R0100 | Credit and suretyship insurance and proportional reinsurance | 0 | |
| R0110 | Legal expenses insurance and proportional reinsurance | 0 | |
| R0120 | Assistance and proportional reinsurance | 0 | |
| R0130 | Miscellaneous financial loss insurance and proportional reinsurance | 0 | |
| R0140 | Non-proportional health reinsurance | 0 | |
| R0150 | Non-proportional casualty reinsurance | 0 | |
| R0160 | Non-proportional marine, aviation and transport reinsurance | 0 | |
| R0170 | Non-proportional property reinsurance | 0 | |

**Linear formula component for life insurance and reinsurance obligations**

| | | C0040 |
|---|---|---|
| R0200 | $MCR_L$ Result | 0 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
|---|---|---|---|
| | | C0050 | C0060 |
| R0210 | Obligations with profit participation - guaranteed benefits | | |
| R0220 | Obligations with profit participation - future discretionary benefits | | |
| R0230 | Index-linked and unit-linked insurance obligations | | |
| R0240 | Other life (re)insurance and health (re)insurance obligations | | |
| R0250 | Total capital at risk for all life (re)insurance obligations | | |

**Overall MCR calculation**

| | | C0070 |
|---|---|---|
| R0300 | Linear MCR | 2,410 |
| R0310 | SCR | 27,335 |
| R0320 | MCR cap | 12,301 |
| R0330 | MCR floor | 6,834 |
| R0340 | Combined MCR | 6,834 |
| R0350 | Absolute floor of the MCR | 3,288 |
| R0400 | **Minimum Capital Requirement** | 6,834 |