THE WREN INSURANCE ASSOCIATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

Year ended 30 June 2023

2023

THE WREN INSURANCE ASSOCIATION

CONTENTS

2023

The Wren Insurance Association Limited ('Wren' or 'the Association') is a mutual insurance company which provides professional indemnity insurance to a select group of architectural practices. Founded in 1987, at the date of signing these financial statements it has 74 (2022 – 70) Members, of which one Member has run-off cover only (2022 – one).

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. At the most recent review in 2022, the main strategic objectives were agreed as follows:

- Deliver cost-effective insurance in the long-term;
- Provide Members with control over their professional indemnity insurance;
- Promote the interests of the Members on insurance issues affecting architects;
- Maintain appropriate cover and assist Members to align their contractual liabilities with the cover provided;
- Maintain rates to achieve long-term stability in the cost of cover and use reinsurance effectively to the benefit of the Members;
- Improve standards in controlling and reducing risk within Member practices;
- Meet the highest standards of governance, risk management and financial practice within the Association;
- Contribute towards the development of diverse new talent in the architectural profession;
- Promote diversity and inclusion on the Board; and
- Promote the integration of environmental, social and governance characteristics into the Managers' operations, meeting all applicable regulatory and statutory requirements.

FINANCE AND UNDERWRITING

The Association's financial statements for the year ended 30 June 2023 have been prepared in the midst of the continuing turmoil of the war in Ukraine, global supply issues and high inflation not seen for a generation. This has seen Central Banks across the world raising interest rates to levels last seen before the start of the financial crisis in 2008. The Association has seen the effect of this environment in increased costs, claims inflation and latterly increased investment returns.

During the 2021/22 financial year the Association saw claim notifications stabilise and some cases where reserve releases were made from prior policy years' reserves. The current year ending 30 June 2023 has been very different with cladding notifications in the prior policy years seeing significant deteriorations which required the Board to consider a number of options at its Board meeting in March 2023 and follow up meeting in April 2023. This necessitated the deployment of significant manpower to review and estimate where possible the outcome of the reported but previously unreserved cladding notifications. The Board also sanctioned the de-risking of the investment portfolio to reduce volatility.

The result for the year is a deficit of £11.3m (2022 – surplus of £0.8m) which resulted in the Association's capital and reserves decreasing from £39.9m to £28.6m. The Association continues to meet its regulatory capital requirements, with capital in excess of the Solvency Capital Requirement (SCR) set by the Prudential Regulation Authority (PRA).

At the renewal on 1 July 2022, there was an 'as expiry' renewal of the cladding cover provided, capped at an aggregate exposure for the Association. The Association saw further growth in membership during the policy year with four new Members joining the Association. At the end of the policy year the Association had 74 Members. Overall, total Call income of the Association was higher compared to the prior year, at £20.3m (2022 – £19.2m) largely due to higher fee income being declared by Members at renewal compared to the prior year and the four new Members joining the Association.

Reinsurance costs were lower than the prior year at £3.3m (2022 – £3.4m). The underlying reinsurance rates at renewal saw an increase compared to the prior year but the reduction in total cost is largely due to the reinstatement premium paid in the prior year in respect of the 2009/10 policy year following the settlement of a large claim.

The investment income credited to the policy year, which is based on the expected longer-term rate of return, was marginally higher than the previous year at £2.6m (2022 – £2.4m). This was the result of the larger projected portfolio when the budget was set, but the longer-term rate remained the same as the prior year at 2.6%.

Net claims incurred for the financial year were significantly higher than the prior year – £25.1m against £1.0m. Gross claims paid, at £3.8m, were lower than the prior year's figure of £15.8m but this simply reflects the timing of settlement. Reinsurance recoveries were also down at £0.2m compared to £5.5m in the prior year again reflecting timing of large claim settlements and recoveries made from reinsurers when settlement was agreed.

GAAP ultimate claims (consisting of paid, outstanding and IBNER) in the 2022/23 policy year were higher in value than in 2021/22 but the number of notifications were down at 130 (2022 – 135 with nine accepted after the end of the 2021/22 policy year). The Association continues to see the development of notifications that involve cladding with some of those settling during the current year. However, where last year appeared to show promising signs that the deterioration seen over the previous three years was stabilising the current year has seen significant deterioration across a number of cladding notifications where claimants have become more active in pursuing their claims with a view to remedial action being completed as soon as possible following the continued negative publicity and pressure to take action to rectify unsafe cladding.

There remain a number of these notifications that are precautionary in nature, but with the potential to develop into significant claims against the Association. The potential liability is continually assessed as there is often limited information available to confidently predict settlement outcomes when notifications are first made. Using a consistent reserving approach to that of prior years, these cladding related notifications have seen a number of updates in claimed values which has driven a significant proportion of the deterioration during the current financial year. Gross outstanding claims at year end of £77.5m have seen an increase in value compared to the prior year from £46.0m. The reinsurers' share of outstanding claims increased to £14.0m from £3.9m reflecting the deterioration in gross outstanding claims. The claims position in older policy years also showed a deterioration, with a £15.4m increase compared to an improvement of £7.4m in the prior financial year.

Operating costs were higher in 2022/23 at £6.1m (2021/22 – £5.8m), reflecting an inflationary increase to the management fee and one off legal and professional fees. The balance on the underwriting (technical) account was a deficit of £11.6m (2022 – surplus of £11.4m).

The actual investment return achieved for the year, was £2.2m compared to a deficit of £8.2m in the prior year. The actual return was broadly on par with the long-term rate, which resulted in a transfer to the investment reserve, after adjusting for tax, of £0.8m (2022 – transfer from the investment reserve of £10.6m). More commentary on the investment performance is set out in the investment strategy and performance section below.

The Association's net deficit after tax for the financial year was £11.3m (2022 – surplus of £0.8m).

The free reserves of the Association at 30 June 2023 in aggregate stood at £28.6m (2022 – £39.9m). The investment reserve increased to £6.1m (2022 – £5.2m), reflecting the transfer from the income and expenditure account. The income and expenditure account decreased by £11.3m, as a result of the underwriting deficit reflecting the deterioration in underlying notifications in the policy years 2021/22 and prior. The general reserve increased to £15.0m (2022 – £14.6m), and finally the reinsurance reserve is £0.5m (2022 – £0.4m) after allocation of funds against claim reserves.

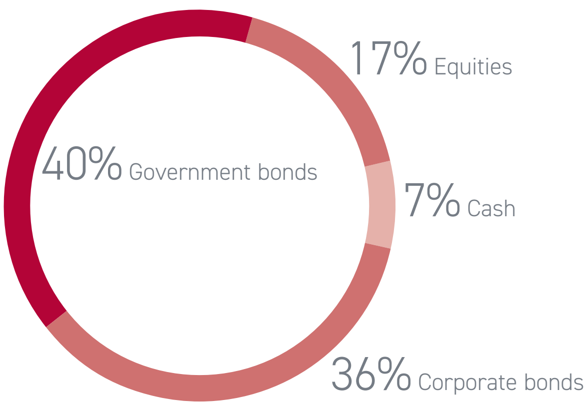
The Board agreed in April 2023 that there was no necessity for a general rate increase at 1 July 2023. At the 2023/24 renewal, all of the Association's expiring Members renewed their cover.

INVESTMENT STRATEGY AND PERFORMANCE

The Association's investment strategy is the responsibility of the Board, with an investment strategy group making recommendations, assisted by its investment manager, Mercer. During the year the investment portfolio was reviewed following the deteriorating claims position and the Board approved a revised strategy which de-risked from equities and introduced a new bond fund into the portfolio.

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

INVESTMENT HOLDINGS AT 30 JUNE 2023



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

The investment performance this year has experienced significant volatility. The net return from the Association's investment portfolio was broadly positive in all classes over the year and in line with market indices where available. However, the investment performance has suffered from the continued high inflation and increasing interest rate environment currently experienced in the United Kingdom and wider economies of the world.

In the year ended 30 June 2023, the overall investment return on investments was 2.7%, equivalent to a return of £2.2m, compared to a long-term rate of 2.6%. The best performing asset class was equities, with a return of 10.2% before investment management expenses.

The return on investments comprises:

	2023	2022
Investment income (note 6)	**3,057,680**	1,317,176
Unrealised loss on investments	**(804,533)**	(9,517,755)
Investment management expenses	**(10,571)**	(10,711)
Total return on investments	**2,242,576**	(8,211,290)

KEY PERFORMANCE INDICATORS

The key performance indicator used to manage the Association is the total capital available to meet regulatory and internal capital requirements. This indicator provides a comprehensive view of the financial position of the Association.

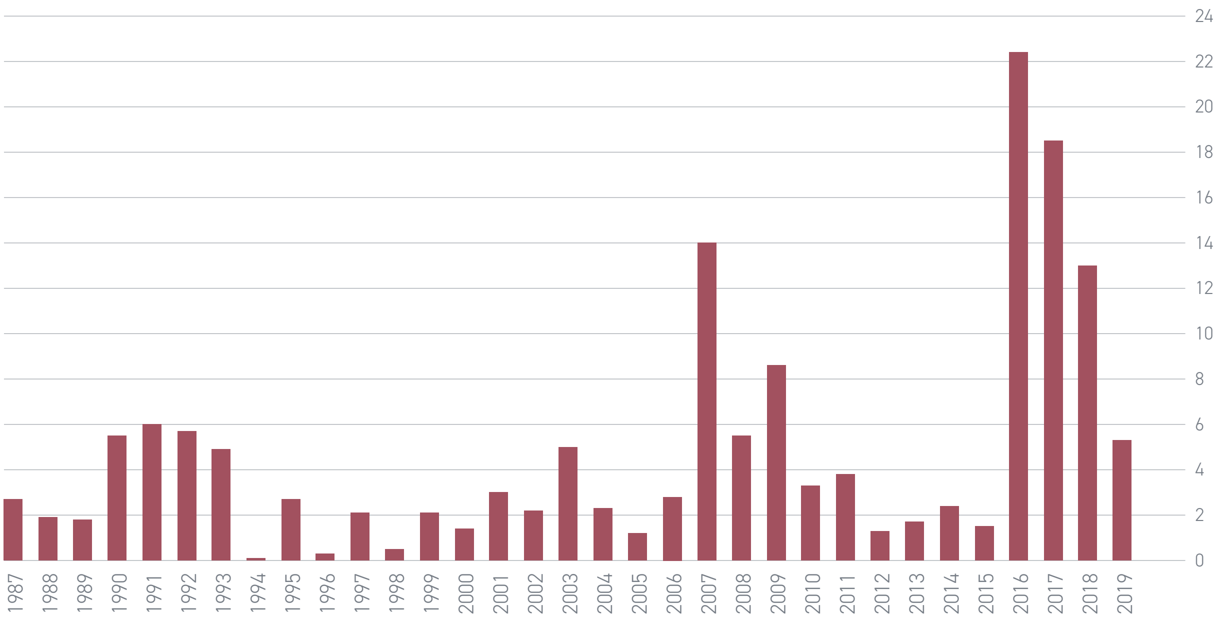
The total reserves of £28.6m (2022 – £39.9m) are sufficient to meet its regulatory requirements and provide the Association with the resources required to meet its strategic objectives as set out on page 1 of the Strategic Report.

CLAIMS

While the Association has continued to receive cladding and fire-related notifications arising out of the repercussions from the Grenfell Tower fire in June 2017, the incidence of these has continued to reduce, as has their apparent severity. Many of these notifications remain precautionary and at an early stage of development, but in the last year some of them have become more active. There are a number of possible reasons for such increased activity. It appears in part to have been encouraged by the first judgements in cases involving fire safety concerns with cladding being handed down by the Technology and Construction Court during 2022. These judgements have provided greater clarity as to the approach the Courts are likely to take in deciding such claims, which may have given some claimants greater confidence to proceed.

Another factor, as reported last year, is the Building Safety Act's amendments to the Defective Premises Act (DPA) with effect from 28 June 2022, extending the

CLAIMS BEFORE REINSURANCE RECOVERIES £M



Policy year (Data in 2020, 2021 and 2022 policy years is insufficient to make accurate projections) limitation period for claims under the DPA from 6 years to 30 years, with retrospective effect. The last year has seen some claims brought forward against Members under this new legislation although so far not in large numbers. The Association's exposure to new cladding and fire-related claims that may arise from the DPA would be subject to an overall aggregate limit of £5.5m.

The greatest driver of activity in relation to cladding claims appears to be the remediation contract which the Government has required housebuilders and other residential property developers to sign. That requires those developers to pledge to remediate dangerous cladding on their buildings over 11 metres in height constructed in the 30 years prior to 5 April 2022. These measures seem to have promoted more remedial works being undertaken and accordingly more activity in relation to the Association's cladding and fire-related notifications.

These claim developments have informed the Association's reserving, and provided additional data to assist in reducing the level of uncertainty around these types of claim. In the coming year, we expect this trend to continue, with more claims moving towards settlement and payments by the Association.

CONTRACT REVIEW

The number of appointments and other contractual documents reviewed by the Managers has remained high throughout the policy year. This is primarily due to the construction industry's output remaining strong, particularly its return to work following COVID-19 against a backdrop of shorter tender response times, more onerous terms and conditions, increasingly protracted/complex negotiations and generally tougher trading conditions. The focus of the contract review service continues to be on limiting Members' exposure through negotiating better terms and conditions, including more caps on liability and proportionate liability provisions in Members' appointments. Meanwhile, where possible, the Managers have continued to provide ongoing input, when requested, into the drafting of industry standard documents.

RISK MANAGEMENT OF MEMBERS

The 2020-23 programme of Wren risk management reviews of Member offices was completed in January 2023. To a significant extent, the programme coincided with the COVID-19 lockdowns and approximately 60% of the reviews were conducted remotely. A report summarising the Managers' risk management findings across the Membership was issued to the Members in April 2023, which indicated an improvement in performance compared to the previous programme. The 2023-25 programme commenced in June 2023. A series of presentations are offered to Members on request, and these have also been conducted both remotely and in person. Additional guidance to that included in the Wren Risk Management Guidelines is issued to Members to reflect the most recent developments in the construction industry, the latest Court decisions, new or pending legislation and Members' claims experience.

RULES OF THE ASSOCIATION

The Managers and the Board continue to review the cover provided by the Association to ensure that it meets the needs of the Members and responds to developments in the market, while remaining as broad as is sustainable in the long-term. One amendment was made to the Rules with effect from 1 July 2023. This was to more accurately reflect the grounds on which the Association could avoid a contract of insurance under the Insurance Act 2015.

PRINCIPAL BUSINESS RISKS AND UNCERTAINTIES

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

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

The business risks and uncertainties are discussed further in Note 10 to the Financial Statements.

MARKET CONDITIONS

Following the Grenfell Tower fire, the wider insurance sector has had a reduced appetite for covering liabilities relating to fire safety or cladding, with several Lloyd's and company market insurers seeking to impose exclusions and/or restrictions on the terms of cover provided to architects and other designers, consultants, contractors and sub-contractors. As reported last year, there are some insurers that are starting to cover fire safety risk for current rather than historic projects but the availability of this cover is still limited.

The Board agreed to continue to provide cover for Cladding claims (as defined) involving Residential buildings (as defined) from 1 July 2023 but to limit the cover provided by the Association on a per Member per policy year basis, capped for all cladding claims in the policy year, with some reinsurance protection secured.

The Managers and the Board continue to review the cover provided by the Association to ensure that it meets the needs of the Members and responds to developments in the market, while remaining as broad as is sustainable in the long-term.

In the light of the reaction of the commercial insurance market to the increased claims exposure arising from cladding notifications, there continues to be more enquiries from potential Members than we get in soft commercial market conditions but there has been a drop off in the number of enquiries in the last year. The Managers and the Board continue to maintain high standards before offering terms for membership and the due diligence carried out is robust.

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.

WREN SCHOLARSHIPS

The RIBA Wren Insurance Association Scholarships were initially set up by the Association in 2012. The scholarships support the Association's strategic objective of contributing towards the development of new talent in the architectural profession by providing financial assistance to a select number of outstanding Part 2 students who have the potential to make a significant contribution in the field of architecture. Scholarship winners are given the opportunity of being individually mentored by Members of the Association.

Five scholarships of £6,000 each were awarded in September 2022. The next awards will be made in September 2023, and the amount awarded will increase to £7,500 per scholarship.

CLIMATE CHANGE

The Board has ultimate oversight of climate-related risks and opportunities to the Association. These inevitably arise from the work done by the Members insured by the Association and the operational activities of the Managers, to whom day to day operations are outsourced. The Managers assess and manage the latter risks.

In December 2022 the Board agreed its Strategic Objectives for the next three years to include a new Objective: Promote the integration of environmental, social and governance characteristics into the Managers' operations, meeting all applicable regulatory and statutory requirements.

The climate-related risks related to the activities of the insured Members are identified by the Emerging Risks Group, whose consideration feeds into the formation of the Association's Own Risk and Solvency Assessment (ORSA) Stress and Scenario Tests (SSTs). The ORSA considers the Association's strategy and its resilience in relations to these SSTs.

The Emerging Risks Group considers how Members are under a duty to exercise reasonable skill and care in their design and this inevitably involves consideration of design requirements relating to heating and ventilation, weatherproofing and other environmental issues affected by climate change. Members have the opportunity to discuss climate-related risk issues at their Technical Forum meetings and with the risk managers during their periodic reviews.

With regards to financial planning, the underwriters and actuaries monitor the potential impact on claims cost arising from climate change when setting claim projections in the Policy Year and Call recommendations setting process. The Association's investments are managed under a fiduciary management model and ESG and climate-related risks and opportunities are assessed by and reported to the Board by the investment managers.

There is still some work to do in identifying metrics against which the Association's climate-related risks and opportunities are assessed and these are more likely to be quantifiable in connection with the operational activities of the Managers. To this end various steps have already been taken in terms of recycling and energy use and the Managers are working with the building managers of their London premises, from where the Association is managed, to set targets and to assess performance against those targets.

STATEMENT OF COMPLIANCE WITH SECTION 172(1) OF THE COMPANIES ACT 2006

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

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

The Association's key stakeholders are the Members, who comprise the architectural practices that have their professional indemnity insurance provided by the Association. The Association's corporate governance structure includes a Committee, which has a representative from each Member practice, and which allows wider engagement with the membership on the impacts of the main decisions of the Board. The Committee does not have authority to make decisions, but provides an opportunity for Members to ask questions and exchange views with the Managers and the Board on matters relating to the running of the Association and on matters of general commercial interest.

At the Committee meeting in April 2023 the Managers provided a briefing on the key decisions that had been taken during the year, primarily in relation to the Call setting for the policy year renewing on 1 July 2023. This included the decision to apply an 'as expiry' renewal.

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

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

The Association has built strong relationships with these stakeholders over the years. In particular, the average length of the current membership of the Association is 17.5 years.

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

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

The Board of the Association assess the impact of its operations on the communities in which it operates and on the wider environment. It includes an assessment of the likely effects of political and climate change as part of the ORSA process. As a mutual insurance business, the fair treatment by the Association of its Members is a fundamental principle. It has in place a Standards of Business Conduct policy which sets out the regulatory conduct rules and covers additional areas such as the whistleblowing policy, how the Association manages conflicts of interest, its remuneration policy and its anti-bribery and corruption policy. The Association also has a Financial Crime policy.

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

The financial statements were authorised for issue by the Board on 27 September 2023.

C P Bennie Chair
27 September 2023

2023

The directors have pleasure in presenting their report together with the audited financial statements for the year to 30 June 2023.

The principal activity of the Association is the insurance of the professional indemnity risks of architects and other building design professionals. The strategic report on the preceding pages provides a summary of the principal matters affecting the Association's business during the year.

The names of the directors are shown on page 32. At the Annual General Meeting on 22 March 2023, James Greaves, Jonathan Hall and Nicholas Thompson retired by rotation and were reappointed. John Rich also retired by rotation at the Annual General Meeting but did not stand for reappointment, having reached the end of his maximum permitted term as a director. The Members agreed to appoint Michael Cottam to the Board to fill the vacancy arising from John Rich's retirement. Samantha Peat retired from the Board with effect from 1 April 2023, and the Members agreed to appoint Bola Oladimeji to succeed her as Chief Executive Officer.

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

- Regulatory Capital Requirements and Technical Provisions
- Investment Performance and Strategy
- Strategy and Emerging Risks
- Membership, including consideration of potential new Members
- Claims and Claims Payments
- Risk Management of Members
- Contract Review
- Risk and Compliance
- Corporate Governance
- Appointment and Retirement of Directors and Senior Managers
- Report and Financial Statements
- Managers' and Directors' Remuneration
- Call Rates
- Reinsurance Arrangements
- Rules of the Association
- Sponsorship of Architectural Students

DIRECTORS' INDEMNITY INSURANCE

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

FINANCIAL INSTRUMENTS

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

FUTURE DEVELOPMENTS

Likely future developments affecting the Association are discussed in the Strategic Report.

AUDIT

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

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

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

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

The directors confirm that, to the best of their knowledge, the Strategic Report on pages 1 to 6 includes a fair review of the development and performance of the business and the position of the Association, together with a description of the principal risks and uncertainties that it faces.

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

ENERGY AND CARBON REPORTING

Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Reporting) Regulations 2018 (the Regulation) require the Association to report publicly on its UK energy use and carbon emissions if the Association meets two or more of the following criteria:

1) Turnover (or gross income) of £36.0m or more;
2) Statement of financial position assets of £18.0m or more;
3) 250 employees or more

As the Association does not meet two out of the three criteria listed above it is exempt from the reporting criteria and therefore no disclosures have been made.

SUBSEQUENT EVENTS

There are no subsequent events which require adjustment or disclosure in the financial statements.
By order of the Board.

S N Parramore Secretary
27 September 2023

AUDIT GROUP REPORT

The key role of the Audit Group is to protect Members' interests in relation to the Association's financial reporting and internal controls. I am pleased to present the Audit Group's Report on how the Group fulfilled that role in the year to 30 June 2023.

The Group draws on the pool of senior finance personnel within Member firms and comprises the following non-executive directors of the Association:

Anthony Poole, BSc (Hons), BA (Hons), Dip Arch ARB RIBA (Member since March 2018) (Deputy Chair)
Nicholas Thompson, BSc (Hons), MBA, ACMA (Member since March 2021)
Emily Rae, BA (Hons) FCA, (Member since March 2023)
Michael Cottam, BA (Hons), ACA (Member since June 2023),
Heather Wells, BSc (Hons), ACMA (Member since June 2013) (Chair)

The Chair of the Association is also a member of the Audit Group, ex officio.

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

FINANCIAL REPORTING

In relation to financial reporting, the Audit Group advises the Board on the Association's annual Report and Financial Statements and the Association's Solvency and Financial Condition Report (SFCR) to the PRA. In reaching its recommendations, the Group:

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

The Audit Group is satisfied that the external auditor remains independent. During the course of 2022/23 Mazars LLP did not receive any fees from the Association in respect of non-audit work.

The valuation of the Association's technical provisions is always an area of particular focus for both the Audit Group and the external auditor. Mazars LLP concluded that the technical provisions at 30 June 2023 were fairly stated and consistent with the evidence obtained.

The Audit Group is pleased to report that the 2023 external audit proceeded smoothly and that no matters of concern were raised.

The Audit Group is also charged to make recommendations to the Board concerning the appointment or reappointment of the external auditors. Following a tender process in 2019/2020,

Mazars LLP was appointed as auditor at the AGM in March 2020 and this is their fourth audit. The Audit Group has recommended to the Board that Mazars LLP be reappointed for 2024.

INTERNAL AUDIT

At each of its meetings in 2022/23, the Audit Group received reports from the Association's internal auditor. The internal auditor's findings were discussed at each meeting. In addition, the Chair met with the internal auditor a number of times during the year, independently of the Managers, to ensure that the internal auditor had the opportunity to raise any matters of concern; no such matters were raised.

At its meeting in June 2023, the Audit Group approved the Association's internal audit plan for 2023/24 and reviewed and approved the Terms of Reference for the internal audit function.

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

COMPLIANCE MONITORING

The Audit Group received reports from the Association's Chief Risk Officer at each of its meetings in 2022/23 and approved the Association's Compliance Monitoring Plan at its meeting in March 2023.

GOVERNANCE

At its meeting in March 2023 the Audit Group reviewed its Terms of Reference and performance over the preceding year. The Group concluded that it continued to operate effectively and in accordance with its terms of reference, and this view was supported by the feedback received from members of the Board as part of the Association's annual director appraisal process.

H O Wells Chair of the Audit Group
27 September 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

2023

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE **WREN** INSURANCE ASSOCIATION LIMITED

OPINION

We have audited the financial statements of The Wren Insurance Association Limited ('the Association') for the year ended 30 June 2023 which comprise the Income and Expenditure Account, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Association's affairs as at 30 June 2023 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the directors' assessment of the Association's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Association's ability to continue as a going concern;
- Obtaining and reviewing a copy of the Association's Own Risk and Solvency Assessment report ('ORSA');
- Evaluating the cash flow forecast for the Association extending 12 months from the date of approval of the financial statements;
- Evaluating the appropriateness of the directors' key assumptions in their cash flow forecasts;
- Testing the accuracy and functionality of the model used to prepare the directors' forecasts;
- Evaluating the key assumptions used and judgements applied by the directors in forming their conclusions on going concern;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Association's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

KEY AUDIT MATTERS

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

We summarise below the key audit matter in forming our opinion above, together with an overview of the principal audit procedures performed to address it and our key observations arising from those procedures.

This matter, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

KEY AUDIT MATTER

Valuation of Technical Provisions, specifically the valuation of the provision for Incurred But Not Enough Reported ('IBNER')

Technical provisions – £77,541,519 (2022 – £45,983,026)

Refer to Note 2 *'Accounting policies – Claims Outstanding' and 'Critical Accounting Judgements and Estimation Uncertainty' and Note 4 'Technical Provisions'.*

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

Professional indemnity insurance is inherently more uncertain than other classes of business and, for the Association, these are more complex claims given the longer tail and due to the architects being jointly and severally liable for losses. The long-tail claims settlement pattern and volatile nature of the Association's claims experience makes it more difficult to predict, with accuracy, the estimated total claims costs.

The Association underwrites professional indemnity insurance on a 'claims made' basis and recognises technical provisions primarily made up of case reserves and IBNER.

The provision for IBNER is the most subjective and is based on the estimate of the ultimate cost to settle all claims.

The provision for IBNER includes NAB (not enough information to apply a meaningful figured reserve but with potential to be big) claims. The valuation of the provision for NAB claims uses input from claims handlers and forms the most subjective element of reserves.

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

HOW OUR SCOPE ADDRESSED THIS MATTER

With the involvement of our actuarial team, we performed the following audit procedures:

- We reviewed the Reserving Paper produced by the Association's internal actuarial team as at 30 June 2023 to gain an understanding of the reserving processes and the approaches applied by the actuaries of the Association and, applying our industry knowledge and experience, compared these with recognised actuarial practices. This assessment included reviewing the loadings made to allow for inflation and the changes to the Defective Premises Act affecting the cladding claims;
- We checked the integrity of the data used by the actuaries by reviewing the data reconciliation and validation performed, and agreeing the data to the accounting records to confirm that the data used for reserving was complete and accurate;
- We compared the actual gross incurred and paid claims positions and ultimates at 30 June 2023 for non-cladding claims with the expectations set last year. We challenged the explanations given for the variances and considered whether they had been appropriately reflected in the ultimate selections;
- We performed diagnostic checks in order to understand the developments in the paid and incurred data;
- We performed an independent reserve projection for non-cladding claims by comparing our independent reserve projection to that derived by the actuaries of the Association;
- For the cladding claims, we considered the appropriateness of the actuarial methodologies and assumptions applied;
- We evaluated the methodology for the reserving of NAB claims (both cladding NABs and non-cladding NABs) and checked that the Association applied the methodology to these claims appropriately; and
- We evaluated the appropriateness of the margin applied to the actuarial best estimate, the approach taken and benchmarked the margin against margins held by other general insurers.

Our observations: Based on these audit procedures, we found that the valuation of the technical provisions, specifically the valuation of the provision for IBNER, to be reasonable.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE **WREN** INSURANCE ASSOCIATION LIMITED

OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

OVERALL MATERIALITY

£537,490 (2022 – £797,000)

HOW WE DETERMINED IT

1.9% of the Association's capital and reserves (2122 – 2%).

RATIONALE FOR BENCHMARK APPLIED

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

PERFORMANCE MATERIALITY

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

We set performance materiality at £403,118 (2022 – £598,000). This represents 75% (2022 – 75%) of overall materiality.

REPORTING THRESHOLD

We agreed with The Audit Group that we would report to it misstatements identified during our audit above £16,125 (3% of overall materiality) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

OTHER INFORMATION

The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon.

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

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

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Association and its industry, we considered that non- compliance with the following laws and regulations might have a material effect on the financial statements: the regulatory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Association and the industry in which it operates, and considering the risk of acts by the Association which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, as to whether the Association is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with regulatory authorities including the PRA and the FCA;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE **WREN** INSURANCE ASSOCIATION LIMITED

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as UK tax legislation and the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to the valuation of technical provisions (specifically IBNER) and significant one-off or unusual transactions.

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

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing; and
- Critically assessing accounting estimates impacting amount included in the financial statements for evidence of management bias.

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

The risks of material misstatement that had the greatest effect on our audit are discussed in the 'Key audit matters' section of this report.

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

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of The Audit Group, we were appointed by the Board of Directors on 16 December 2019 to audit the financial statements for the year ending 30 June 2020 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 30 June 2020 to 30 June 2023.

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

Our audit opinion is consistent with our additional report to The Audit Group.

USE OF THE AUDIT REPORT

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

Sam Porritt (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London EC4M 7AU

27 September 2023

2023

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2023

Technical account – general business	Note		2023 £		2022 £
Earned premiums, net of reinsurance					
Calls and premiums	3	**20,281,506**		19,182,500	
Return calls		**–**		–	
			20,281,506		19,182,500
Reinsurance premiums			**(3,263,452)**		(3,399,491)
			17,018,054		15,783,009
Allocated investment return transferred from the non-technical account			**2,593,761**		2,355,507
			19,611,815		18,138,516
Claims paid					
Gross amount		**(3,837,628)**		(15,799,511)	
Reinsurers' share		**189,449**		5,542,137	
		(3,648,179)		(10,257,374)	
Change in the provision for claims					
Gross amount		**(31,558,493)**		10,505,373	
Reinsurers' share		**10,088,712**		(1,238,000)	
		(21,469,781)		9,267,373	
Claims incurred net of reinsurance			**(25,117,960)**		(990,001)
Net operating expenses			**(6,091,486)**		(5,755,512)
Balance on the technical account			**(11,597,631)**		11,393,003

Non-technical account	Note	2023 £	2022 £
Balance on the technical account		**(11,597,631)**	11,393,003
Investment income	6	**3,057,680**	1,317,176
Investment management expenses		**(10,571)**	(10,711)
Unrealised loss on investments		**(804,533)**	(9,517,755)
Allocated investment return transferred to the general business technical account	7	**(2,593,761)**	(2,355,507)
Net (deficit)/surplus before taxation		**(11,948,816)**	826,206
Taxation	8	**689,341**	10,776
Net (deficit)/surplus and total comprehensive income after taxation		**(11,259,475)**	836,982

There are no recognised gains and losses other than those included in the Income and Expenditure Account. Therefore no statement of other comprehensive income has been prepared. All amounts are derived from continuing operations.

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

Assets	Note	2023 £	2022 £
Financial investments	9	**86,510,696**	74,257,690
Reinsurers' share of technical provisions			
Claims outstanding	4	**14,005,712**	3,917,000
Debtors			
Direct insurance operations – Members		**216,375**	72,050
Reinsurance operations		**26,992**	440,322
Prepayment		**37,500**	–
Taxation		**788,432**	–
Cash and cash equivalents		**6,078,225**	8,458,270
		107,663,932	87,145,332
Liabilities and reserves			
Capital and reserves			
Investment reserve		**6,116,451**	5,246,585
General reserve		**15,000,000**	14,562,500
Reinsurance reserve		**500,000**	400,000
Income and expenditure account		**6,991,484**	19,658,325
		28,607,935	39,867,410
Technical provisions			
Gross outstanding claims	4	**77,541,519**	45,983,026
Creditors			
Direct insurance operations – Members		**131,886**	28,466
Reinsurance operations		**607,775**	561,244
Other creditors		**774,817**	705,186
		79,055,997	47,277,922
		107,663,932	87,145,332

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

Approved by the Board on 27 September 2023

C P Bennie Director
H O Wells Director

B Oladimeji Wren Managers

Companies House No. 2054592

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2023

	Investment reserve £	General reserve £	Reinsurance reserve £	Income and expenditure £	Total £
At 30 June 2021	**15,809,041**	**14,125,000**	**–**	**9,096,387**	**39,030,428**
Surplus for the financial year	–	–	–	836,982	836,982
Transfer from investment reserve	(10,562,456)	–	–	10,562,456	–
Transfer to reinsurance reserve	–	–	400,000	(400,000)	–
Transfer to general reserve	–	437,500	–	(437,500)	–
At 30 June 2022	**5,246,585**	**14,562,500**	**400,000**	**19,658,325**	**39,867,410**
Deficit for the financial year	–	–	–	(11,259,475)	(11,259,475)
Transfer to investment reserve	869,866	–	–	(869,866)	–
Transfer to reinsurance reserve	–	–	100,000	(100,000)	–
Transfer to general reserve	–	437,500	–	(437,500)	–
At 30 June 2023	**6,116,451**	**15,000,000**	**500,000**	**6,991,484**	**28,607,935**

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

The investment reserve comprises the cumulative net transfers from the income and expenditure account equivalent to the net unallocated return on the Association's investment portfolio.

The general reserve has been established in accordance with Rule 32 of the Association to provide for any unforeseen contingencies, claims, expenses, losses or other outgoings of the Association. Transfers to this reserve are considered upon closure of each policy year. To date the 1987/88 to 2008/09 policy years have been closed.

The reinsurance reserve has been established in accordance with Rule 32 of the Association to meet the cost of any individual claim in excess of a specified attachment point up to the reinsurance attachment point of £3.0m and claims in aggregate above a specified attachment point, which are both set annually. The funds held in the reserve are available to meet claims in any open policy year where claims either exceed the agreed excess of loss trigger point or the aggregate trigger point, however, the transfers to the reinsurance reserve from 2020/21 onwards are only available to cover claims in those policy years and are not available to cover claims in the 2019/20 policy year and back.

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2023

Cash flows from operating activities	Note	2023 £	2022 £
Net (deficit)/surplus before taxation		**(11,948,816)**	826,206
Adjustments for:			
Net change in provisions for claims		**21,469,781**	(9,267,373)
Decrease/(increase) in insurance and other debtors		**231,505**	(417,144)
Increase/(decrease) in insurance and other creditors		**219,582**	(380,360)
Investment income (net of expenses)		**(3,047,109)**	(1,306,465)
Unrealised loss on investments	9	**804,533**	9,517,755
Cash from operations		**7,729,476**	(1,027,381)
Income taxes refunded/(paid)		**99,091**	(982,569)
Net cash generated from/(utilised by) operating activities		**7,630,385**	(2,009,950)
Cash flows from investing activities			
Purchase of equity shares	9	**(1,730,843)**	(47,687)
Purchase of fixed interest investments	9	**(20,721,183)**	(5,947,772)
Sale of equity shares	9	**15,217,535**	3,932,221
Sale of fixed interest investments	9	**3,112,898**	3,069,495
Net change to deposits with credit institutions	9	**(5,949,054)**	1,917,232
Income from bank and other cash		**70,788**	76,476
Investment management expenses		**(10,571)**	(10,711)
Net cash from investing activities		**(10,010,430)**	2,989,254
Net (decrease)/increase in cash and cash equivalents		**(2,380,045)**	979,304
Cash and cash equivalents at the beginning of the financial year		**8,458,270**	7,478,966
Cash and cash equivalents at the end of the financial year		**6,078,225**	8,458,270

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

1 GENERAL INFORMATION

The Wren Insurance Association is a company incorporated in England and Wales authorised by the PRA and the Financial Conduct Authority (FCA) to carry out non-life insurance business. The address of the registered office is Regis House, 45 King William Street, London, EC4R 9AN. The nature of the Association's operations and its principal activities are set out in the Strategic Report on pages 1 to 6 of this publication.

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

2 ACCOUNTING POLICIES

Basis of accounting

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

Going concern

The directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future which includes the renewing 2023/24 policy year and the business planning horizon included in the ORSA that was conducted in March 2023 covering a further two years to 30 June 2026. This provided the directors with comfort that the Association will continue to meet its strategic objectives and all capital requirements over the planning horizon. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Statement of compliance

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

Policy year accounting

The Association's business is accounted for on an annual basis. For the purposes of reporting to mutual Members, all transactions, including calls, reinsurance premiums payable, claims and reinsurance recoveries are allocated to the policy year to which they relate. In the case of claims and reinsurance recoveries, the appropriate year is determined by the date on which the claim or the incident giving rise to the potential claim is notified to the Association. Other income and expenditure is allocated to the current policy year except investment returns which are allocated to policy years on the same basis as they are credited to the technical account – general business.

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

The income and expenditure account presents the aggregate of changes during the financial year on all policy years, both open and closed.

Calls and premiums

Calls and premiums are credited to the income and expenditure account as and when charged to Members. Return calls are accounted for when approved by the directors, but credited to the Member's account on renewal as at 1st July and relates to the return of a policy year surplus to Members who were on risk during the relevant policy year. Since all insurance policies are coterminous with the Association's financial year, there are no unearned premiums at the year end date.

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

Claims and reinsurance recoveries

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

Reinsurance recoveries and reinstatement premiums are accrued to match the relevant claim amounts that have been charged to the income and expenditure account.

2 ACCOUNTING POLICIES (CONTINUED)

Investment income

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

Net gains or losses on the disposal of investments (representing the difference between net proceeds and purchase cost) are credited or charged to the income and expenditure account as and when realised. Unrealised gains and losses represent the difference between the fair value of investments at the statement of financial position date and their purchase price or previous valuation. Unrealised gains and losses are recognised in the income and expenditure account.

The transfer to the investment reserve represents the difference (net of tax) between the actual investment income for the year and the investment return allocated to the technical account – general business.

Allocation of investment return

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

Claims outstanding

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

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

The IBNER provision for claims within the Association's retention is determined by the Managers based on actuarial projection techniques using historical information on claims development, adjusted for inflation and other variables, to project the ultimate cost of claims.

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

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

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amount that the Association will ultimately pay for such claims. Estimates are made of the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNER is generally subject to a greater degree of uncertainty than that for reported claims. Additional analysis has been carried out in regards to the uncertainty around cladding claims.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are investments with original maturity of three months or less from the date of acquisition. Functional and Presentational currency is both in sterling as the majority of all transactions entered into by the Association are denominated in sterling.

2 ACCOUNTING POLICIES (CONTINUED)

Investments

The Association has chosen to apply the recognition and measurement provision of IAS 39 as set out in FRS 102 and the disclosure requirements of FRS 102 in respect of financial investments.

The Association classifies its investments as financial assets at fair value through profit or loss. As a result, gains and losses are taken to the income and expenditure account, which reflects management of the portfolio on a fair value basis. Fair value of investments traded in active markets is measured at bid price.

Acquisition costs

Acquisition costs represent underwriting management costs, renewal of existing Members, negotiation with potential Members and the processing of documentation. As premiums are fully earned in the year, acquisition costs are not deferred.

Critical accounting judgements and estimation uncertainty

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Significant estimates include:

The ultimate liability arising from claims made under insurance contracts. The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amount that the Association will ultimately pay for such claims. Estimates are made of the expected ultimate cost of claims at the end of the reporting period and these could be significantly different in future accounting periods once those claims are settled. The estimate of IBNER is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon actuarial analyses of historical experience which assumes that past trends can be used to project future developments. Significant levels of reserves relate to cladding notifications for which there is limited historic development and as such greater uncertainty exists for these liabilities and their estimated ultimate cost. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The ultimate liability is highly sensitive to large claims which are separately addressed using input from the claims handlers. Further disclosure can be found in note 4 and 10.1.

3 CALLS AND PREMIUMS

	2023 £	2022 £
Advance calls and premiums	**20,281,506**	19,182,500

All business is written in the UK.

4 TECHNICAL PROVISIONS

Net claims movement

	2023 £	2022 £
Net provision at beginning of year	**42,066,026**	51,333,399
Net current year provision	**9,239,500**	7,953,000
Net claims paid in year	**(3,648,179)**	(10,257,374)
Net movement in prior years' claims provisions	**15,356,684**	(7,367,642)
Claims handling expenses	**521,776**	404,643
Net provision at end of year	**63,535,807**	42,066,026

Net movement in prior years' claims provisions

Included within the net change in provision for claims of £21,469,781 (2022 – £9,267,373) is a charge of £15,356,684 (2022 – credit of £7,367,642) relating to prior years. The balance is made up as follows:

	2023 £	2022 £
Net provision at beginning of year	**42,066,026**	51,333,399
Net payments during the year in respect of these provisions	**(3,063,684)**	(9,830,767)
Net provision carried forward in respect of claims provided for at the end of the previous year	**(54,359,026)**	(34,134,990)
Movement in prior years' claims provision	**(15,356,684)**	7,367,642

Development claim tables

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

Insurance claims – gross

Estimate of ultimate claims cost attributable to the policy year.

	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
End of reporting year	4,280,000	4,662,000	5,227,000	5,199,000	7,529,000	6,672,049	4,719,081	7,216,000	7,953,000	9,239,500
One year later	4,280,000	4,662,000	3,542,400	7,309,200	7,461,140	7,517,057	6,819,081	3,266,000	9,950,344	
Two years later	4,280,000	7,003,300	2,697,400	4,239,125	18,405,867	12,586,059	5,969,081	5,316,000		
Three years later	3,220,600	7,033,300	3,202,203	2,645,876	26,941,867	12,141,459	14,319,081			
Four years later	2,016,600	3,162,407	3,043,520	1,695,876	26,028,467	20,958,836				
Five years later	3,001,567	2,839,122	2,543,520	2,145,876	29,774,055					
Six years later	3,056,378	2,589,122	2,693,520	2,100,876						
Seven years later	3,206,378	2,239,122	2,918,520							
Eight years later	3,206,378	2,214,122								
Nine years later	3,081,378									
Current estimate of ultimate claims	3,081,378	2,214,122	2,918,520	2,100,876	29,774,055	20,958,836	14,319,081	5,316,000	9,950,344	9,239,500
Cumulative payments to date	2,835,341	1,853,373	1,612,808	1,817,521	7,776,001	5,927,092	1,881,992	281,058	139,387	62,719
Liability recognised at the end of the year	246,037	360,749	1,305,712	283,355	21,998,054	15,031,744	12,437,089	5,034,942	9,810,957	9,176,781
Total liability relating to the last ten policy years										75,685,419
Other claims liabilities										1,856,100
Total reserve included in the statement of financial position										**77,541,519**

Insurance claims – net

Estimate of ultimate claims cost attributable to the policy year.

	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
End of reporting year	4,280,000	4,662,000	100,000	1,460,141	7,529,000	6,672,049	4,719,081	7,216,000	7,953,000	9,239,500
One year later	4,280,000	4,662,000	100,000	3,566,390	7,461,140	7,367,058	6,819,081	3,266,000	7,953,000	
Two years later	4,280,000	4,700,000	(175,000)	496,315	18,405,867	10,867,059	5,969,081	5,266,000		
Three years later	3,220,600	4,059,000	329,803	(1,096,934)	23,505,867	12,117,059	12,969,081			
Four years later	2,016,600	188,107	171,120	(2,046,934)	22,305,867	17,117,059				
Five years later	3,001,567	(135,178)	(328,880)	(1,596,934)	23,005,867					
Six years later	3,056,378	(385,178)	(178,880)	(1,626,934)						
Seven years later	3,206,378	(735,178)	46,120							
Eight years later	3,206,378	(760,178)								
Nine years later	3,081,378									
Current estimate of ultimate claims	3,081,378	(760,178)	46,120	(1,626,934)	23,005,867	17,117,059	12,969,081	5,266,000	7,953,000	9,239,500
Cumulative payments to date	2,835,341	(1,120,927)	(1,259,592)	(1,925,289)	7,776,001	5,927,092	1,881,992	281,058	139,387	62,719
Liability recognised at the end of the year	246,037	360,749	1,305,712	298,355	15,229,866	11,189,967	11,087,089	4,984,942	7,813,613	9,176,781
Total liability relating to the last ten policy years										61,693,111
Other claims liabilities										1,842,696
Total reserve included in the statement of financial position										**63,535,807**

The negative figure for the estimate of ultimate costs attributable to 2014/15 and 2016/17 is due to the overall gain made from a commuted reinsurance contract.

5 NET OPERATING EXPENSES	2023 £	2022 £
Acquisition costs	**639,245**	838,575
Administrative expenses	**5,452,241**	4,916,937
	6,091,486	5,755,512

Included in administrative expenses are:

i) Risk management fees of £742,000 (2022 – £670,416) payable to the Managers in respect of the conduct of the Association's risk management programme.

ii) Directors' remuneration of £166,391 (2022 – £159,984).

iii) Auditor's remuneration of £76,000 (2022 – £53,500).

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

6 INVESTMENT INCOME	2023 £	2022 £
Exchange gain/(loss)	**46**	(35)
Bank and other interest	**70,742**	76,511
Gain on the realisation of investments	**2,986,892**	1,240,700
Investment income	**3,057,680**	1,317,176

7 ALLOCATED INVESTMENT RETURN	2023 £	2022 £
Allocated investment return	**2,593,761**	2,355,507

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

	2023	2022
Bonds	**1.46%**	1.45%
Corporate bonds	**1.75%**	1.75%
Equities	**5.50%**	5.50%

A transfer of £869,866 has been made to the investment reserve equivalent to the deficit of actual return against the longer-term return for the year (net of tax) during the current year and a tax refund from the prior year. During the prior year a transfer of £10,562,456 was made from the investment reserve equivalent to the deficit of the actual return against the longer-term return for the year (net of tax) during that year.

Ten-year comparison of allocated return with actual returns	2023 £	2022 £
Net investment income since 1 July 2013 (2012)	**15,019,715**	15,969,993
Allocated return since 1 July 2013 (2012)	**21,428,333**	20,518,078
Deficit of actual return above allocated return	**(6,408,618)**	(4,548,085)

8 TAXATION

By virtue of its mutual status the Association is not liable to tax on its insurance operations. It is liable to tax on its income and net gains from investments.

Analysis of charge in period	2023 £	2022 £
UK Corporation tax	**459,718**	–
Over-provision in previous years	**(1,149,059)**	(10,776)
Total UK tax credit	**(689,341)**	(10,776)

Factors affecting tax charge for period

The tax assessed for the period is different from the standard rate of corporation tax in the UK of 19% until the 31 March 2023 and 25% from the 1st April 2023 (2022 – 19%) mainly due to the impact of non-taxable mutual insurance operations (balance on the technical account) gross of the allocated investment return. The differences are explained below:

	2023 £	2022 £
Net (deficit)/surplus before tax	**(11,948,816)**	826,206
Surplus on ordinary activities multiplied by corporation tax in the UK	**(2,449,507)**	156,979
Effects of:		
Non-taxable mutual insurance operations	**2,909,225**	(156,979)
Over provision in previous years	**(1,149,059)**	(10,766)
Total UK tax credit	**(689,341)**	(10,766)

The Association has unutilised tax losses of £nil (2022 – £6.0m) that are available to offset against future taxable profits, for which no deferred tax asset has been recognised. The availability of unutilised tax losses for offsetting against future taxable profits of the Association is dependent on future investment income and chargeable gains, and subject to the relevant provisions of the Income Tax Act and agreement of the tax authorities.

9 INVESTMENTS

Investments comprise of funds investing in fixed interest investments, corporate bonds, equities and deposits with credit institutions. All fixed interest investments and equities are listed.

	Deposits with credit institutions £	Corporate bond investments £	Fixed interest investments £	Equity investments £	Total £
Purchase of investments	14,314,681	5,083,959	15,637,224	1,730,843	36,766,707
Sale of investments	(8,365,628)	(153,745)	(2,959,152)	(15,217,535)	(26,696,060)
Realised gains/(losses)	52,439	726	(157,385)	3,091,112	2,986,892
Net portfolio investment	6,001,492	4,930,940	12,520,687	(10,395,580)	13,057,539
Unrealised gains/losses	44,944	161,884	(39,003)	(972,358)	(804,533)
Change in value of portfolio	6,046,436	5,092,824	12,481,684	(11,367,938)	12,253,006
Market value at 1 July 2022	–	25,665,899	22,194,446	26,397,345	74,257,690
Market value at 30 June 2023	**6,046,436**	**30,758,723**	**34,676,130**	**15,029,407**	**86,510,696**
Cost at 1 July 2022	–	27,188,572	22,530,682	23,825,139	73,544,393
Cost at 30 June 2023	6,001,492	32,119,512	35,051,369	13,429,559	86,601,932

10 RISK MANAGEMENT FRAMEWORK

The Association is governed by a Board comprising a non-executive Chair, 12 non-executive directors and two executive directors, who are also directors of the Managers. There are four sub- groups of the Board: the Audit Group, the Remuneration Group, the Nominations Group and the Investment Strategy Group.

The duties of the **Audit Group** are to review and advise the Board in relation to the report and financial statements; the SFCR to the PRA; internal and external audit; the robustness of internal financial systems and controls; and to maintain oversight responsibility for compliance with data quality standards. The Audit Group meets at least three times a year and receives regular reports from the Managers, including the Chief Risk Officer and Chief Actuary, and from the Association's internal and external auditors.

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

The **Nominations Group** 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 Chair of the Association. The Nominations Group also monitors the overall performance and collective skills of the Board and its sub-groups.

The **Investment Strategy Group** meets at least once a year, and monitors the ongoing performance of the Association's investments and its overall strategic asset allocation. It is also responsible for undertaking a periodic review of the Association's wider investment strategy, taking into account the Association's economic capital benchmark, technical provisions, risk appetite and target return, and for monitoring the performance of the Association's investment managers.

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

Each Member firm is entitled to nominate one of its partners or directors to sit on the Association's Committee. All Member directors of the Association are also members of the Committee and Member Practices represented on the Board are entitled to nominate a second Committee Representative, should they wish to do so. The Committee meets at least twice each year to receive reports on major decisions made by the Board. The Committee does not have authority to make decisions, but provides an opportunity for Members to ask questions and exchange views with the Managers and the Board on matters relating to the running of the Association and on matters of general commercial interest.

The Association is managed on a day-to-day basis by the Managers which is a private company owned by its directors and staff.

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

The Association is focussed on identification and management of potential risks. The key areas of risks to the Association are set out below:

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

The Association assesses a wider set of risks, including Reputational and Strategic Risk, as well as the maintenance of risk capital in excess of the regulatory minimum, through its ORSA process.

The Association has an Emerging Risks Group, which meets annually to discuss emerging risks to the Association and the risk scenarios to be considered as part of the ORSA process.

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

The Association manages the risks relating to the operations of the Association through the Risk Register, which analyses exposures by degree and magnitude of risk. There have been no changes in the methods or assumptions used to calculate these risks. The Association uses a 5% movement (3.0% interest rates) as a reasonable benchmark to measure the impact of market risk.

10 RISK MANAGEMENT FRAMEWORK (CONTINUED)

10.1 Underwriting risk

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

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

There are detailed procedures, documented in the Wren Procedures Manual, for the selection of new Members, which reinforce the risk tolerances in terms of the types of architectural practices that the Association wishes to attract, and their size, type and nature of business undertaken. This maintains the appropriate mix and keeps the balance right. There are also procedures for renewing Members.

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

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

Reinsurance

The excess of loss programme reduces the impact of individual large losses on the Association. The Association retains the first £3m of every claim (except in the case of a cladding claim) above which the market reinsurance arrangements respond up to the £20m maximum limit of cover. In respect of losses arising from cladding claims, the Association retains the first £2m in the aggregate per Member per policy year and gives cover up to £5.0m in the aggregate per Member per policy year with reinsurance and a maximum aggregate limit of cover provided by the Association and reinsurers.

Claim reserves

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

The adequacy of reserves is monitored by senior management quarterly and by the directors of Wren Managers, the Audit Group and the Board of the Association at each year end, when a formal report is prepared by the Chief Actuary, setting out the best estimate reserves for each policy year and the expected prudence margin.

Sensitivity

The Association carries out sensitivity testing on its claim reserves. The results of sensitivity testing are set out below, showing the impact on surplus/deficit before tax, gross and net of reinsurance, and capital and reserves. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

Increase in loss ratio by 5 percentage points	2023 £	2022 £
Gross	**1,014,075**	959,125
Net	**850,903**	789,150

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

Increase in loss ratio by 30 percentage points	2023 £	2022 £
Gross	**6,084,452**	5,754,750
Net	**5,105,416**	4,734,903

A 30 percent decrease in loss ratios would have an equal and opposite effect.

As identified in the critical judgments and estimation uncertainty section of the accounting policies significant uncertainty on the ultimate costs of cladding notifications remain. Which could have a significant impact on the cost of claims and the impact on any given financial year's surplus or deficit. The above analysis identifies that with each incremental percentage deterioration in the loss ratio that the underlying surplus or deficit would improve or deteriorate depending on the underlying claims movement during any given financial year.

10 RISK MANAGEMENT FRAMEWORK (CONTINUED)

10.2 Market risk

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

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

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

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest 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 3.0% increase or decrease in interest on earnings from debt securities:

	2023 £	2022 £
3.0% (2022 – 0.5%) increase in interest rates	**2,195,171**	24,860
3.0% (2022 – 0.5%) decrease in interest rates	**(2,195,171)**	(24,860)

Investment 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 17% (2022 – 35%) of the investment portfolio. The value of the equity holding at the year end amounted to £15.0m (2022 – £26.4m).

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

	2023 £	2022 £
5% increase in equity price	**751,470**	1,319,867
5% decrease in equity price	**(751,470)**	(1,319,867)
5% increase in corporate bond price	**1,537,936**	1,283,295
5% decrease in corporate bond price	**(1,537,936)**	(1,283,295)
5% increase in fixed interest price	**1,733,806**	1,109,722
5% decrease in fixed interest price	**(1,733,806)**	(1,109,722)

The table 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.

10 RISK MANAGEMENT FRAMEWORK (CONTINUED)

10.3 Counterparty risks

10.3.1 Credit risk

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

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

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

Amounts recoverable on reinsurance contracts

The Association is exposed to credit risk from a counterparty failing to comply with its obligations under a contract of reinsurance.

The excess of loss reinsurance programme is placed through Gallagher Re, 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. This is monitored by the Board.

Amounts due from Members

Amounts due from Members represents premium 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 cancel cover and outstanding claims to Members that fail to settle amounts payable. The Association's policy is that Members should have paid all debited calls within 30 days. Amounts written off as bad debt have been minimal over recent years.

Counterparty risk with respect to cash and investments

The majority of the Association's investments are invested in funds managed by Mercer and are not rated by external ratings agencies. The policy allows for investment in funds with equities, fixed interest securities, corporate bonds and cash.

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

The remaining financial assets with no rating relate to Member and other debtors amounting to £243,367 (2022 – £512,372).

The following tables provide information regarding credit risk exposure for financial assets with external credit ratings.

	2023 £	2022 £
Corporate bond investments	**30,758,723**	25,665,899
Fixed interest investments	**34,676,130**	22,194,446
Equity investments	**15,029,407**	26,397,345
Reinsurers share of technical provisions	**14,005,712**	3,917,000
Member and other debtors	**243,367**	512,372
Deposits with credit institutions	**6,046,436**	–
Cash and cash equivalents	**6,078,225**	8,458,270
Total financial assets bearing risk	**106,838,000**	87,145,332

An analysis of this exposure by credit rating is shown below		
AAA	**–**	–
AA	**7,820,884**	–
A	**12,263,053**	12,375,271
BBB+ and below	**–**	–
No rating	**86,754,063**	74,770,061
Total financial assets bearing risk	**106,838,000**	87,145,332

The unrated exposures relates principally to five funds that are invested with Mercer.

10 RISK MANAGEMENT FRAMEWORK (CONTINUED)

10.3.2 Liquidity risk

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

The following table provides a maturity analysis of the Association's financial assets representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost:

At 30 June 2023	Short term assets £	1–2 years £	2–5 years £	Over 5 years £	Total £
Quoted shares and variable yield securities	15,029,407	–	–	–	15,029,407
Debt securities and other fixed income securities	65,434,853	–	–	–	65,434,853
Deposits with credit institutions	6,046,436	–	–	–	6,046,436
Reinsurers' share of outstanding claims	–	157,586	5,128,052	8,720,074	14,005,712
Direct insurance operations – Members	26,992	–	–	–	26,992
Reinsurance operations	216,375	–	–	–	216,375
Taxation	788,432	–	–	–	788,432
Cash and cash equivalents	6,078,225	–	–	–	6,078,225
Other debtors and prepayments	37,500	–	–	–	37,500
Total assets	**93,658,220**	**157,586**	**5,128,052**	**8,720,074**	**107,663,932**
At 30 June 2022					
Quoted shares and variable yield securities	26,397,345	–	–	–	26,397,345
Debt securities and other fixed income securities	47,860,345	–	–	–	47,860,345
Deposits with credit institutions	–	47,572	1,554,734	2,314,694	3,917,000
Reinsurers' share of outstanding claims	440,322	–	–	–	440,322
Direct insurance operations – Members	72,050	–	–	–	72,050
Cash and cash equivalents	8,458,270	–	–	–	8,458,270
Total assets	**83,228,332**	**47,572**	**1,554,734**	**2,314,694**	**87,145,332**

Short term assets are those assets that are due to mature, are receivable or can be liquidated/sold within a period of six months from any specified date. Furthermore, the maturity period of the investments in funds are defined as the settlement date once a trade out of the fund is initiated.

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

At 30 June 2023	Short term assets £	Within 1 year £	1–2 years £	2–5 years £	Over 5 years £	Total £
Gross outstanding claims	–	872,465	4,268,254	31,524,452	40,876,348	77,541,519
Direct insurance operations – Members	–	131,886	–	–	–	131,886
Reinsurance operations	607,775	–	–	–	–	607,775
Other creditors	774,817	–	–	–	–	774,817
Total liabilities	**1,382,592**	**1,004,351**	**4,268,254**	**31,524,452**	**40,876,348**	**79,055,997**
At 30 June 2022						
Gross outstanding claims	–	558,472	2,753,016	20,247,798	22,423,740	45,983,026
Direct insurance operations – Members	–	28,466	–	–	–	28,466
Reinsurance operations	561,244	–	–	–	–	561,244
Other creditors	705,186	–	–	–	–	705,186
Total liabilities	**1,266,430**	**586,938**	**2,753,016**	**20,247,798**	**22,423,740**	**47,277,922**

The total assets of the Association, excluding any reinsurers share of outstanding claims is highly liquid and generally available to settle any potential liability that falls due on the Association within a trading range of less than 5 days.

10 RISK MANAGEMENT FRAMEWORK (CONTINUED)

10.4 Operational risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Association documents all key processes and controls in a procedures manual. This manual is embedded into the organisation, updated on a continuous basis 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 employment policies that have also been documented.

10.5 Limitation of the sensitivity analyses

The sensitivity analyses in section 10.1, 10.2 and 10.3 above shows the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above.

10.6 Capital risk management

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

The Association is subject to the Solvency II regime. The Association is required to meet a SCR which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Association calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a reasonable fit for the Association's risk profile.

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

Throughout the period the Association complied with the regulators' capital requirements. At 30 June 2023 the Association's Solvency II own funds exceeded the SCR with a solvency ratio of 1.6. In accordance with the PRA rulebook, the Association has taken benefit of the audit exemption of the SCR and SFCR and therefore the current year SCR and SFCR are unaudited.

10.7 Fair value hierarchy

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

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

10 RISK MANAGEMENT FRAMEWORK (CONTINUED)

10.7 Fair value hierarchy (continued)

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

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

	Deposits with credit institutions		Corporate bonds		Fixed interest		Equity investments	
Group	**2023 £**	**2022 £**	**2023 £**	**2022 £**	**2023 £**	**2022 £**	**2023 £**	**2022 £**
Level 1	**6,046,436**	–	**30,758,723**	25,665,899	**34,676,130**	22,194,446	**–**	13,128,006
Level 2	**–**	–	**–**	–	**–**	–	**15,029,407**	13,269,340
Level 3	**–**	–	**–**	–	**–**	–	**–**	–
	6,046,436	–	**30,758,723**	25,665,899	**34,676,130**	22,194,446	**15,029,407**	26,397,346

11 RELATED PARTIES TRANSACTIONS

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

The Association, which is limited by guarantee, has no share capital and is controlled by the Members, who are also its insureds. All Members enter into insurance contracts negotiated with the Association's managers on arm's length terms. These transactions are therefore with related parties and are the only transactions between the Association and its Members.

The aggregate of transactions with Members is disclosed in the financial statements and, in the opinion of the directors, there are no individual transactions, or connected transactions, the disclosure of which is necessary for an understanding of the financial statements.

The Managers manage the Association and received £5,992,000 (2022 – £5,661,000) in respect of management fees and risk management services.

12 SUBSEQUENT EVENTS

There are no subsequent events which require adjustment or disclosure in the financial statements.

COMPANY INFORMATION

THE **WREN** INSURANCE ASSOCIATION LIMITED, LIMITED BY GUARANTEE

BOARD OF DIRECTORS

C P Bennie (Chair)
C D Castle
M Cottam
J A Greaves
J J Hall
D Hills
D C Lawrence
B Oladimeji
A Poole
E F Rae
I M Rudolph
N M Smith
J N E Thompson
G Tidmarsh
H O Wells

REGISTERED OFFICE

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London EC4R 9AN

Companies House Number 2054592

MANAGERS

Tindall Riley & Co Limited
Trading as:
Wren Managers
Regis House
45 King William Street
London EC4R 9AN

AUDITORS

Mazars LLP
30 Old Bailey
London EC4M 7AU

2023

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2023