



# **SOLVENCY AND FINANCIAL CONDITION REPORT**

Year Ended 30 June 2024

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## Directors responsibility statement

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

We are satisfied that:

- throughout the financial year in question, the Association has complied in all material respects with the applicable requirements of the PRA Rules and the Solvency II Regulations; and
- it is reasonable to believe that the Association has continued to so comply subsequently and will continue to so comply in future.

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

**B Oladimeji**  
Director

**H O Wells**  
Director

26 September 2024

## A. Summary

The structure of the Solvency and Financial Condition Report (SFCR) follows the public disclosure requirements of Articles 290 to 303 of the Commission Delegated Regulation (EU) 2015/35 (Solvency II regulations).

This is the SFCR for The Wren Insurance Association Limited (Wren or the Association) based on the financial position as at 30 June 2024.

The report sets out different aspects of the Association's solvency and financial condition, specifically its business and performance, system of governance, risk profile, valuation methods used for solvency purposes and its capital management practices. The Association's financial year runs to 30 June each year and it reports its results in Sterling.

The ultimate Administrative Body that has the responsibility for all of these matters is the Board of Directors of the Association, with the help of various governance and control functions that it has put in place to monitor and manage the business.

In accordance with the Prudential Regulation Authority (PRA) rulebook the Association has taken the benefit of the audit exemption of the SFCR. On 17 October 2018 the PRA published Policy Statement – PS25/18 Solvency II: External audit of the public disclosure requirement. This should be read in conjunction with the Supervisory Statement SS11/16 and the External Audit Part of the PRA rulebook.

The Association's approach to capital management and valuation for solvency purposes remains stable and this is demonstrated through its capital ratios summarised below. The capital requirements are calculated in accordance with the Solvency II standard formula which the Association has determined to be appropriate for its risk profile.

For Solvency Capital Requirement (SCR) purposes the total eligible own funds stood at £40.6m (2023 : £39.6m). Eligible own funds cover the SCR of £25.5m (2023 : £24.9m) with a capital adequacy ratio of 159.57% (2023 : 158.88%). The Minimum Capital Requirement (MCR) is £7.8m (2023 : £6.9m) leading to an MCR capital adequacy ratio of 518.77% (2023 : 578.0%).

## **B. Business and performance**

### **B.1. Business**

The Wren Insurance Association Limited is a mutual insurance company. The Association is registered in England and Wales as a company limited by guarantee without share capital. The Association was founded in 1987 and currently has 74 Members. Of the 74 current Members, one Member has run-off cover only. As a mutual insurance company the liability of its Members is limited to the calls and premiums set by its Directors.

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

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

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

[www.bankofengland.co.uk/pr](http://www.bankofengland.co.uk/pr)

[www.fca.org.uk](http://www.fca.org.uk)

The Association's external auditor is Mazars LLP, whose address is 30 Old Bailey, London, EC4M 7AU.

The Association is owned 100% by the Mutual Membership.

The Association provides professional indemnity insurance to a select group of architects (the Members). The Association currently underwrites all business in the United Kingdom and underwriting is carried out from the Managers' office in London.

### **B.2. Underwriting performance**

The Association continues to be impacted by the events of the Grenfell Tower disaster with cladding notifications remaining under scrutiny and review as new information is produced by claimants. This has implications on capital and solvency of the Association which is actively managed by the Managers. Turning to financial markets, the Association has benefited from a restructured investment portfolio which has seen investment returns improve while interest rates remain high.

The result for the year is a surplus of £0.9 million (2023: deficit of £11.3 million) which resulted in the Association's capital and reserves increasing from £28.6 million to £29.5 million. 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 2023, 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 one new Member 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 £22.0 million (2023: £20.3 million) largely due to higher fee income being declared by Members at renewal compared to the prior year.

Reinsurance costs were higher than the prior year at £12.5 million (2023: £3.3 million). The underlying reinsurance rates at renewal saw an increase compared to the prior year and there were reinstatement premiums paid on claims settled in 2017/18 and 2020/21 policy years following the settlement of large claims in excess of retention of £3.0 million. The Association entered into a loss portfolio transfer agreement at a cost of £8.4 million which accounts for the bulk of the increase from the prior year but provides the Association with added protections and an improved solvency capital ratio. The overall cost of this transaction is broadly cost neutral due to the additional reinsurance recoveries that would

be generated from this transaction and the net cost to the Association is £0.2 million through to 30 June 2025 net of brokerage.

The investment income credited to the policy year, which is based on the expected longer-term rate of return, was higher than the previous year at £4.1 million (2023: £2.6 million). This was primarily the result of an increase in the longer-term rate to 4.8% compared to 2.6% in the prior year.

Net claims incurred for the financial year were lower than the prior year – £5.9 million against £25.1 million. Gross claims paid, at £13.4 million, were higher than the prior year's figure of £3.9 million but this simply reflects the timing of settlement. Reinsurance recoveries were also higher at £6.2 million compared to £0.2 million 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 2023/24 policy year were higher in value than in 2022/23 but the number of notifications was down at 84 (2022/23: 130). The Association continues to see the development of notifications that involve cladding with some of those settling during the current financial year. The Association has continued to see 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.

Cladding notifications continue to develop as more information is provided on the substance of the claims and some of these still have 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 continued to see a number of updates. The Association has also been notified of two potentially large business as usual claims. This has driven a significant proportion of the deterioration during the current financial year. Gross outstanding claims at year end of £93.6 million have seen an increase in value compared to the prior year from £77.5 million. The reinsurers' share of outstanding claims increased to £31.4 million from £14.0 million reflecting the deterioration in gross outstanding claims and the benefit of the loss portfolio transfer agreement. The claims position in older policy years showed an improvement, with a £6.5 million decrease (2023: increase of £15.4 million), however, without the benefit of the loss portfolio transfer agreement this would have been a deterioration of £1.8 million which is still considerably better than the deterioration in the prior year.

Operating costs were higher in 2023/24 at £6.5 million (2022/23: £6.1 million), reflecting an inflationary increase to the management fee. The balance on the underwriting (technical) account was a surplus of £1.3 million (2023: deficit of £11.6 million).

The following table shows a summary of the technical (underwriting) account for the year ended 30 June 2024 (based on UK GAAP).

**Table 1: Recent underwriting performance**

Sources of income and expenditure	£m 2023/24	£m 2022/23
Calls and premiums	22.0	20.3
Return calls	0.0	0.0
Reinsurance premiums	(12.5)	(3.3)
Investment income (LTIR basis)	4.1	2.6
Net claims incurred	(5.9)	(25.1)
Net operating expenses	(6.5)	(6.1)
<b>Balance of the technical account</b>	<b>1.3</b>	<b>(11.6)</b>

The Association's market excess of loss reinsurance was renewed at 1 July 2024. 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.

The Association has entered into a Loss Portfolio Transfer with Swiss Re Europe S.A., UK Branch (the reinsurer), effective 28 May 2024, on an aggregate excess of loss basis covering certain insurance liabilities. The total reinsurance premium payable is £8,402,103 which includes a reinsurance margin of £180,000. The reinsurance margin was payable upon inception of the contract with the remaining £8,222,103 being retained by the Association on a funds withheld basis.

As at 30 June 2024 £8,095,902 was recoverable under the terms of the reinsurance agreement and was recognised as part of the reinsurers' share of outstanding technical provisions with £126,201 recognised as part of paid reinsurance recoveries for the year ended 30 June 2024. Under this agreement, £8,095,902 is withheld by the Association as part of the arrangement and is recognised as part of the reinsurance payable on loss portfolio line item in the statement of financial position at 30 June 2024.

### B.3. Investment performance

In accordance with the investment policy, the investment mandate is updated on a regular basis. The asset allocation established within the mandate is principally determined to ensure that future cash flows arising from liabilities (principally claims reserves) are matched by available assets of the correct currency and duration. Effective risk management is therefore the principal driver of investment allocation.

The Association's investment strategy is the responsibility of the Board, with an investment strategy group making recommendations, assisted by its investment advisors Lane Clark & Peacock LLP (LCP). During the year a review of the investment strategy was conducted. The long-term focus, reflecting the long-tail nature of many of the liabilities and the characteristics of mutuality remain central to the new strategy. The strategy was refined and simplified reflecting the higher interest rate environment and a Buy and Maintain strategy was adopted consisting of a mixture of government and corporate bond holdings which are held to maturity and with redemption proceeds reinvested in new bonds that will be held to maturity.

The investment market remains volatile reflecting the ongoing war in Ukraine and other conflicts around the world as well as the continuing high interest rate environment with inflation in the UK starting to ease to the Bank of England's benchmark. The investment market saw a number of challenging parts during the year but overall saw positive returns for the year.

In the year ended 30 June 2024, the overall investment return on investments was 5.5%, equivalent to a return of £4.9 million, compared to a long-term rate of 4.8%. The best performing asset class was equities, with a return of 11.2% before investment management expenses.

**Table 2: Investment portfolio by asset class**

Asset Class	2023/24		2022/23	
	Amount (£m)	% of portfolio	Amount (£m)	% of portfolio
Equities	0.0	0%	15.0	17%
Government bonds	26.7	34%	34.7	40%
Corporate bonds	51.3	66%	30.8	36%
Cash	0.0	0%	6.0	7%
	<b>78.0</b>	<b>100%</b>	<b>86.5</b>	<b>100%</b>



**Table 3: Investment return by asset class**

<b>Asset class</b>	<b>Total (£) 2023/24</b>	<b>Total (£) 2022/23</b>
Equities	1,779,937	2,118,754
Government bonds	1,655,704	(196,388)
Corporate bonds	841,070	162,610
Cash	804,550	97,382
Investment management expenses*	(70,884)	(10,571)
	<b>5,010,376</b>	<b>2,171,787</b>

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

#### **B.4. Performance from other activities**

As noted in B.1., the Association is not involved in any other activities.

#### **B.5. Any other information**

The Association considers that no other material information requires to be disclosed.

## **C. System of Governance**

### **C.1 General information on the system of governance**

#### **C.1.1. Overview**

##### **C.1.1.1. Board structure**

#### **The Board**

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

Decisions regarding the following matters are reserved for the Board:

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

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

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

#### **The Committee**

Each Member Firm is entitled to nominate one of its partners or directors to sit on the Association's Committee. Members of the Committee meet twice each year, in March and September. All non-executive directors of the Association are also members of the Committee. Firms represented on the Association's Board are entitled to nominate a second Committee Representative should they wish to do so. The Committee does not carry out any regulated functions.

#### **Sub-groups of the Board**

There are four sub-groups of the Board: the Audit Group, the Remuneration Group, Nominations Group and the Investment Strategy Group.

#### **Audit Group**

The Audit Group comprises four non-executive directors of the Association (not being directors nominated by the Managers), one of whom is the Chair of the Association 'ex officio'. The duties of the Audit Group are to review and advise the Board in relation to the report and financial statements, the SFCR to the PRA, internal and external audit, and the robustness of internal financial systems and

controls. The Audit Group meets at least three times a year and receives regular reports from the Managers, and from the Association's internal and external auditors.

### **Remuneration Group**

The Remuneration Group comprises four non-executive directors of the Association (not being directors nominated by the Managers), one of whom is the Chair of the Association 'ex officio'. The duties of the Remuneration Group are to review and advise the Board annually in relation to the fee paid to the Managers and remuneration paid to the non-executive directors. The Remuneration Group meets at least once a year.

### **Nominations Group**

The Nominations Group comprises the Chair of the Association 'ex officio', two other non-executive directors of the Association and one of the directors nominated by the Managers. 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 Group also monitors the overall performance and collective skills of the Board and its sub-groups. The Nominations Group meets at least twice a year.

### **Investment Strategy Group**

The Investment Strategy Group consists of the Chair of the Association 'ex officio' and three non-executive directors of the Association. The 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 considering whether to undertake 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.

Other sub-groups can be established to consider ad hoc items, for example, future strategy and emerging risks.

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

The Association's governance map and organisational chart provide a pictorial representation of the information described above (see **Appendix A**).

#### **C.1.1.2. Key functions**

### **The Managers**

The Association has no direct employees and as such the Board relies on the Managers for day-to-day management functions. In accordance with the rules in the Conditions Governing Business part of the PRA Rulebook and the Solvency II Directive, the following business functions have been designated as Key Functions: Compliance, Risk Management, Internal Audit and Actuarial. All of these functions are provided by the Managers.

#### *Compliance function*

The Compliance function is responsible for:

- identifying, assessing, monitoring and reporting on the Association's regulatory risk exposures;
- assessing the possible impact of legislative change and conducting assurance activity to monitor the appropriateness of compliance procedures against market good practice; and

- assisting, supporting and advising the Association in fulfilling its responsibilities to manage compliance risks.

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

#### *Risk Management function*

The risk management function is responsible for:

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

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

#### *Internal Audit function*

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

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

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

#### *Actuarial function*

The Managers have an in-house actuarial team which carries out the day-to-day actuarial activity, including the review of claims reserving and maintenance of the Association's internal models. The Chief Actuary reports to the Board and the Audit Group on technical provisions, reinsurance and underwriting policy, and also contributes to the risk management function.

#### *Segregation of responsibilities*

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

### **The Investment Managers**

Investment of the Association's funds is conducted by the Investment Managers in accordance with the Board's Investment Policy and is subject to internal compliance procedures.

### **C.1.2. Material changes to the system of governance**

There have been no material changes to the system of governance during the reporting period.

### **C.1.3. Remuneration**

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

The Association's key functions and services, with the exception of those provided by the non-executive directors, are provided by the Managers.

The Association's Remuneration Group agrees the management fee in accordance with the provisions of the Management Agreement. The fee is paid on a quarterly basis and no element of it is variable by reference to the Association's financial performance. Tindall Riley & Co Limited (trading as Wren Managers) received £6,620,000 (2023 - £5,992,000) in respect of general management fees and risk management services.

The Association's Chair receives a fixed fee paid monthly in arrears. Other non-executive directors (except for the two Manager directors) receive an annual fee, with the non-executive directors who serve on any of the sub-groups receiving additional fees to reflect their additional responsibilities. These fees are paid in arrears monthly or at the end of each financial year. The level of remuneration is considered annually by the Remuneration Group, which makes recommendations to the Board. The two Manager directors receive no remuneration directly from the Association but are remunerated by the Managers.

No remuneration paid by the Association to its non-executive directors is based on the performance of the Association. The non-executive directors of the Association received remuneration of £265,381 (2023 - £166,391) for services rendered to the Association during the year. There have been no material changes to the remuneration policy compared to the prior year.

#### C.1.4. Related party 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.

#### C.2. Fit and proper requirements

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

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

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

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

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

- the competencies and capabilities required to fulfil the intended role. This is assessed throughout the recruitment process, particularly through interviews and using a Skills Matrix;
- the experience of the candidate and any additional training required; and

- whether the candidate's reputation would suit the role for which they are being considered, bearing in mind the factors set out within the FCA Handbook section 2.1.3 on fitness and propriety.

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

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

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

- any judgment debt or award in the United Kingdom or elsewhere;
- whether this remains outstanding or was not satisfied within a reasonable period; and
- whether the individual has made any arrangements with creditors, filed for bankruptcy, had a bankruptcy petition served on them, been the subject of a bankruptcy restriction order or any other related matter.

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

Refer to **Appendix A** for a listing of the persons of the Association that are responsible for the key functions.

### **C.3. Risk management system**

The oversight of risk and the underlying corporate culture is fundamental to the future operations and success of the Association. It is an integral part of this approach that each individual is aware of the Association's aims and objectives and how they are achieved. The Board of the Association has a clear responsibility to understand the risk management activities of executive management.

It is a primary function of the Association Board and senior management to establish the Association's risk appetite and tolerances and to put in place the philosophy, structures, tools and methods to drive the risk management approach throughout the Association. It is vital in the discharge of its governance responsibilities that the Board understands inherent risks and the way these are measured, monitored, assessed and mitigated by management.

The Audit Group has delegated responsibilities from the Board to oversee the Internal Control Framework including the oversight of Internal Audit, External Audit, the Compliance Framework and Financial Reporting.

All individuals involved with business operations that allow the Association to manage risk, including control owners, are expected to be aware of the Association's approach to risk management. This is also the expectation of regulators and so those individuals that lead risk assessments or manage material controls or outsourced activities are considered by the Association to be certification functions (roles that could cause significant harm) and are consequently subject to enhanced due diligence by the Managers.

#### **Key Risks and Mitigants**

The key risks faced by the Association and the associated mitigants will be as follows:

## **Underwriting Risk**

Underwriting risk which arises from two sources – adverse claims development (reserve risk) and inappropriate underwriting (premium risk). Reserve risk is managed by the Association's policy of setting prudent reserves for individual claims (evidenced by the release of redundant reserves shown in the financial statements) and frequent reviews of estimates, including oversight of large claims by senior claims directors. Prudent incurred but not enough reported (IBNER) reserves are also maintained.

Premium risk is managed by having in place a clear underwriting philosophy, procedures and controls in relation to pricing, rigorous selection criteria for the admission of new Members and diversification of risks. Reinsurance is also used to mitigate underwriting risk. Reinsurance may also be used in respect of certain risks where additional protection is deemed appropriate.

## **Market Risk**

Market risk refers to the risk of losses on the Association's investment portfolio arising from fluctuations in the market value of the underlying investments. There is a clear investment strategy which is subject to regular review. The principal objectives are to match investments with the claims liabilities in terms of duration, to hold a diversified portfolio of investment types with high quality fixed interest government securities and hold appropriate levels of corporate bonds and equities and, within that overall context, to maximise the return generated at an agreed level of risk.

## **Credit Risk**

Credit risk arises from the possibility of default by one or more counter-parties which may include, reinsurers, deposit takers and Members. This risk is managed by undertaking appropriate due diligence on prospective counterparties. This may include carrying out financial checks on prospective Members, reviewing credit ratings for reinsurers and monitoring these over time, restricting exposure to individual deposit takers and operating a robust credit control regime.

## **Operational Risk**

Operational risk covers the risks arising from the failure of internal processes, people or systems or from external events. A comprehensive Procedures Manual covers every material aspect of management of the Association.

## **Risk Management Framework**

The risk management framework helps the Board deliver the Association's strategic objectives; it is managed by the Risk function and overseen by the Association's Board.

The Risk function is responsible for:

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

The Association's risk management policy sets out how the risk management framework supports the principles and characteristics of the Association when managing its strategic objectives, risk appetite and capital needs along with the necessary supporting culture. The policy also sets out how operational elements are devolved to the Managers while oversight is retained by the Directors.

The Association exists to benefit its Members which requires maintenance of financial strength to ensure that claims can be met in extreme circumstances and that unbudgeted Calls are avoided. The Association needs to be measured when taking, managing and monitoring risks that pose a threat to its longevity, strategic objectives and capital position.

It is important that the Association's risk management framework considers:

- the wider risks to its Members business model as well as the more traditional risk management considerations expected from insurers under Solvency II;
- a proportionate approach to risk management that is reflective of the nature, scale and complexity of the Association's operations, especially considering the monoline nature of its business; and
- transparency and accountability between the Association and the Managers.

The policy sets out a number of standards that help the Association achieve these targeted outcomes:

- **Identify** - Maintain a risk register of all significant risks to the Association aligned with one of the available risk categories and the "material" / "important" controls that are used to manage these risks. Ensure completeness of the risk universe and the controls environment, regularly back testing against results and reviewing risk incidents. The main management tool used by the Association to assist in assessing the systems and controls is a comprehensive risk register.
- **Assess** - Assess the impact of all risks in the Risk Register at the 1-in-10 and 1-in-200 confidence level using a score of 1 - 5. Assess the effectiveness of the controls supporting risks (through self-attestation).
- **Monitor** - Measure the current risk exposure against the Board's risk appetite as set out in the Risk Appetite Statements and as devolved into Risk Limits, Key Control and Key Risk Indicators.
- **Respond** - Where there are instances of risk taking outside the Board's expectations (outside risk appetite), ensure Board approved remediation actions are executed in a timely manner.
- **Report** - Report exceptions to the Board where the risk profile is outside the Board's Risk appetite or material controls are not operating in line with expectation. The reporting should also consider risk incidents, emerging risks and updates on remediation actions. At least annually, prepare an Own Risk and Solvency Assessment (ORSA) report, summarising the results of all risk management activities (ORSA process).
- **Risk Incidents** - Capture all risk incidents (unexpected events that cause, or nearly cause, a financial or reputational impact due to a failed control or unforeseen exposure) and update the processes and control environment in order to avoid repetition.
- **Emerging risks** - Be forward looking in risk identification and consider risks that may emerge for the Association due to internal or external change.

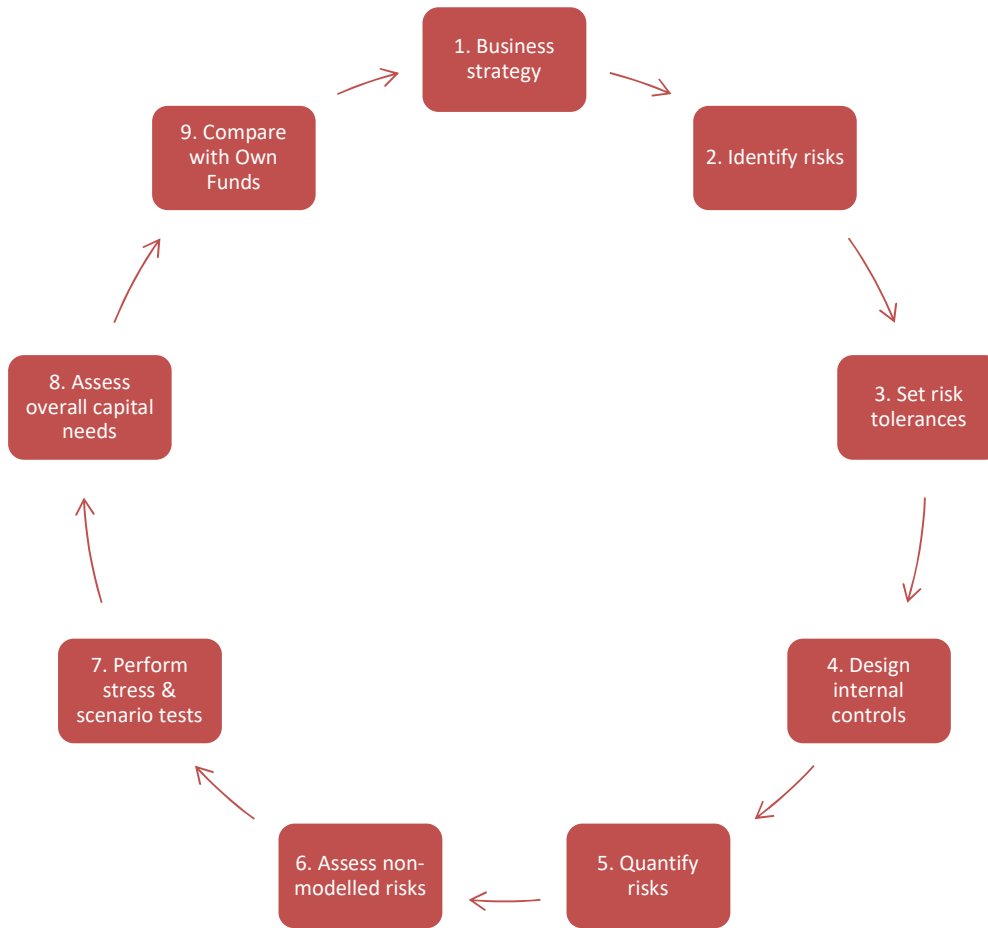
#### C.4. Own Risk and Solvency Assessment (ORSA)

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

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



**Chart 1: Summary of ORSA process**



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

The 2024 ORSA includes an assessment of both the economic and regulatory capital position of the business projected to 30 June 2024 and for the next three years by reference to the Economic Capital Benchmark (ECB), SCR and MCR.

The ECB defines the amount of capital that must be held to implement the business strategy for the next three years to cover the risk of losses from all potential sources. The risk appetite (or ECB requirement) is set at the 99.5th level of confidence.

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

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

The Association has used the Solvency II Standard Formula to calculate its SCR and MCR. The annual ORSA report is reviewed by the Board to ensure that it is accurate and provides the necessary

information for capital allocation and strategic planning purposes. Once the Board is satisfied, it approves the report which is then submitted to the PRA.

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

## C.5. Internal control system

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

Activities include:

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

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

The Association is required to establish and implement the compliance activities necessary to demonstrate that it meets its regulatory expectations. These activities should be proportionate to the nature, scale, risk and complexity of the business. There are seven key areas in which the Compliance Function operates:

- The compliance system must make use of the "three lines of defence" model where the:
  - 1st Line: Business roles that are primarily responsible for achieving defined regulatory outcomes;
  - 2nd Line: The Risk and Compliance function, providing an independent view on the performance against risk and compliance activities. There could be times when the Risk and Compliance team will lead on regulatory obligations and will act as a "1st line" role, but this should be minimised;
  - 3rd Line: The Internal Audit function, providing independent assurance to a Non-Executive Director via the Audit Group.
- Identify all necessary controls for the business to demonstrate compliance with the regulatory responsibilities of the Managers and the Association in a proportionate manner, in line with the nature, scale and complexity of the business.
- Establish processes to regularly review and update the areas in scope of the compliance manual and the business controls, as necessary, to reflect any changes in the regulatory

requirements, statutory requirements or changes in the nature, scale or complexity of the business activities.

- Create awareness of the business controls expected to be operated by various business teams, particularly following a change in the controls listed.
- Integrate controls within the Risk Registers for the Managers and the Association as appropriate.
- Perform on-going compliance monitoring and report findings to the senior management and the Board via the Compliance Dashboard.
- Escalate exceptions to the relevant Group, Managers' Board or the Association's Board.

The key elements of the compliance system are:

- Identifying internal (following projects) and external change (horizon scanning) to the status quo.
- Assessing the updates required from time to time to compliance activities
- Monitoring the effectiveness of the compliance activities as part of the compliance dashboard
- Responding to exceptions in a timely manner through appropriate management action.

## **C.6. Internal Audit function**

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

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

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

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

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

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

The internal audit function is independent from the organisational activities audited and free to exercise its assignments without impairment and on its own initiative in all areas. The internal audit function reports directly to the Chair of Audit Group.

## **C.7. Actuarial Function**

The Association's Actuarial Function is made up of an internal actuarial team headed by a Chief Actuary employed by the Managers.

The Chief Actuary reports to the Managers' CFO. The Actuarial Function has responsibilities for the calculation of the Association's reserves and Solvency II technical provisions, its capital modelling and for providing analytical support to underwriters.

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

- to assess the appropriateness and adequacy of the Association's Solvency II technical provisions;
- to provide an opinion on the underwriting policy;
- to provide an opinion on the adequacy of reinsurance arrangements; and
- to contribute to the Association's risk management.

## C.8. Outsourcing

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

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

The Policy establishes two fundamental principles:

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

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

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

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

- adequate review and assessment has been carried out on the impact of the outsourcing on the Association's risk profile and contingency plans in the event of service failure by the selected provider;
- the selected service provider has the ability, capability and legal authority to meet the Association's business requirements and is free of any conflicts of interest relevant to the outsourcing;
- the service provider is financially sound, professionally competent, appropriately experienced and has adequate insurance cover to meet its contractual obligations;
- contracts between the service provider and the Association setting out the duties and responsibilities of both parties are signed-off by appropriately authorised signatories and comply with all relevant legal and regulatory requirements;
- control mechanisms established by the Managers for monitoring the performance and quality of services provided by a third party are commensurate with the nature and materiality of the risk to which they expose the Association; and

- the outsourcing does not impair the Association's systems of governance or increase the level of operational risk.

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

- the appointment of its Managers; and
- the management of its investments by the investment manager, Mercer.

The Board bears ultimate responsibility for outsourced functions, services, or activities and related governance.

### **C.9. Adequacy of system of governance**

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

### **C.10. Any other information**

The Association considers no other information material to be disclosed.

## D. Risk profile

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

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

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

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

**Table 4: Split of SCR by risk category**

<b>Key areas</b>	<b>2024 % of SCR</b>	<b>2023 % of SCR</b>
Underwriting risk	77.1%	70.6%
Market risk	9.2%	21.3%
Credit risk	6.1%	2.6%
Operational risk	7.6%	5.6%

### D.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.

The Association has entered into a Loss Portfolio Transfer with Swiss Re Europe S.A., UK Branch (the reinsurer), effective 28 May 2024, on an aggregate excess of loss basis covering certain insurance liabilities. The total reinsurance premium payable is £8,402,103 which includes a reinsurance margin of £180,000. The reinsurance margin was payable upon inception of the contract with the remaining £8,222,103 being retained by the Association on a funds withheld basis.

As at 30 June 2024 £8,095,902 was recoverable under the terms of the reinsurance agreement and was recognised as part of the reinsurers' share of outstanding technical provisions with £126,201 recognised as part of paid reinsurance recoveries for the year ended 30 June 2024. Under this agreement, £8,095,902 is withheld by the Association as part of the arrangement and is recognised as part of the reinsurance payable on loss portfolio line item in the statement of financial position at 30 June 2024.

### Management of claims cost – Member risk management

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

### Reserving process

The Association establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions are established through the application of standard actuarial techniques (including the chain ladder and Bornhuetter-Ferguson methods) and non-standard assumptions for cladding notifications. The results are presented to the Managers' Reserving Committee, which meets at least twice a year to review and challenge the setting of reserves. They are reviewed annually by the Audit Group. In order to minimise the risk of understating these provisions, the assumptions made and actuarial techniques employed are reviewed in detail by senior management.

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

### Sensitivity testing of underwriting risk

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.

**Table 5: Impact of an increase in loss ratio by 5 and 30 percentage points**

	2024 £	2023 £
Gross	1,098,793	1,014,075
Net	886,864	850,903

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

	2024 £	2023 £
Gross	6,592,755	6,084,452
Net	5,321,186	5,105,416

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

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. This has been calculated ignoring the impact of the loss portfolio transaction that has been entered into.

## D.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.

### The prudent person principle

Under the Association's investment policy, all of its investments are invested and managed in accordance with the 'prudent person principle', meaning the duties of the Investment Managers are discharged with the care, skill, prudence and diligence that a prudent person acting in a like capacity would use in the conduct of an enterprise of like character and aims. More specifically the portfolio:

- is invested in assets and instruments whose risk can properly be identified, measured, monitored, managed, controlled and reported;
- ensures the security, quality and liquidity of the portfolio as a whole;
- is appropriate to the nature, currency and duration of the Association's insurance liabilities;
- includes derivative instruments only where they contribute to a reduction of risks or efficient portfolio management and; only a prudent level of unlisted investments and assets;
- is diversified to avoid excessive reliance on any asset, issuer or group, or geographical area.

The funds are invested by the Investment Managers in accordance with parameters set by an Investment Mandate. The Investment Mandate provides a framework to the Investment Managers for the management and stewardship of the investment assets in conformity with the business and investment objectives and sets the parameters within which the Association's assets may be invested. It is considered and approved by the Board on an annual basis and ad hoc as required and is subject to the Association's Investment Policy. The Investment Managers report to the Board at each meeting.

### Interest rate risk

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:

**Table 6: Impact of an increase or decrease in interest rates**

	2024 £	2023 £
3.0% increase in interest rates	2,338,629	2,195,171
3.0% decrease in interest rates	(2,338,629)	(2,195,171)

### Equity price sensitivity analysis

The Association is exposed to price risk through its holding of equities. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end the holding in equities was 0% (2023 – 17%) of the investment portfolio. The value of the equity holding at the year end amounted to £nil (2023 – £15.0m).

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

**Table 7: Impact of 5% change in investment market values from a 5% increase or decrease in underlying prices**

	2024 £	2023 £
5% increase in equity price	-	751,470
5% decrease in equity price	-	(751,470)
5% increase in corporate bond price	2,564,977	1,537,936
5% decrease in corporate bond price	(2,564,977)	(1,537,936)
5% increase in fixed interest price	1,333,362	1,733,806
5% decrease in fixed interest price	(1,333,362)	(1,733,806)

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.

### D.3. Credit risk

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

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

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

### Amounts recoverable on reinsurance contracts

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

The excess of loss reinsurance programme is placed through 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. The Loss Portfolio Transfer reinsurance is placed with a AA- rated reinsurer. The credit ratings of reinsurers 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 directly held government and corporate bonds managed by Schroders.

The ratings of the bonds are monitored by the Association's Investment Strategy Group, with assistance from Schroders in accordance with the investment mandate. The Investment Strategy Group also ensures that Schroders 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 £501,586 (2023: £243,367).

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

**Table 8: Credit risk exposure by asset category**

	2024 £	2023 £
Corporate bond investments	51,299,536	30,758,723
Fixed interest investments	26,667,235	34,676,130
Equity investments	-	15,029,407
Reinsurers share of technical provisions – claims outstanding	23,305,019	14,005,712
Reinsurers share of technical provisions – loss portfolio reinsurance asset	8,095,902	-
Member and other debtors	501,586	243,367
Deposits with credit institutions	-	6,046,436
Cash at bank	6,303,106	6,078,225
Unsettled investment transaction	16,747,437	-
Accrued income	983,549	-
<b>Total financial assets bearing risk</b>	<b>133,903,370</b>	<b>106,838,000</b>

**Table 9: Credit risk exposure by rating band**

	2024 £	2023 £
AAA	16,459,872	-
AA	52,510,287	7,820,885
A	50,211,200	12,263,053
BBB+ and below	14,220,426	-
No rating	501,586	86,754,062
<b>Total financial assets bearing risk</b>	<b>133,903,370</b>	<b>106,838,000</b>

Majority of the unrated amounts in the prior year relate to investments that were held with the previous investment manager, Mercer, that were unrated.

#### D.4. Liquidity risk

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

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

**Table 10: Maturity bands by asset category**

At 30 June 2024	Short term assets £	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
Debt securities and other fixed income securities	5,197,651	8,459,611	8,189,567	32,189,028	23,930,913	77,966,770
Reinsurers' share of outstanding claims	-	-	266,461	8,574,869	14,463,689	23,305,019
Reinsurers share of technical provisions – loss portfolio reinsurance asset	-	-	92,566	2,978,813	5,024,523	8,095,902
Direct insurance operations - Members	222,059	-	-	-	-	222,059
Reinsurance operations	279,527	-	-	-	-	279,527
Taxation	-	-	-	-	-	-
Cash at bank	6,303,106	-	-	-	-	6,303,106
Accrued Interest	983,549	-	-	-	-	983,549
Unsettled investment transaction	16,747,437	-	-	-	-	16,747,437
Other debtors and prepayments	48,400	-	-	-	-	48,400
<b>Total assets</b>	<b>29,781,730</b>	<b>8,459,611</b>	<b>8,548,594</b>	<b>43,742,711</b>	<b>43,419,125</b>	<b>133,951,770</b>

<b>At 30 June 2023</b>	<b>Short term assets £</b>	<b>Within 1 year £</b>	<b>1-2 years £</b>	<b>2-5 years £</b>	<b>Over 5 years £</b>	<b>Total £</b>
Quoted shares and variable field 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 at bank	6,078,225	-	-	-	-	6,078,225
Other debtors and prepayments	37,500	-	-	-	-	37,500
<b>Total assets</b>	<b>93,658,220</b>	<b>-</b>	<b>157,586</b>	<b>5,128,052</b>	<b>8,720,074</b>	<b>107,663,932</b>

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:

**Table 11: Maturity bands by liability category**

<b>At 30 June 2024</b>	<b>Short term liabilities £</b>	<b>Within 1 year £</b>	<b>1-2 years £</b>	<b>2-5 years £</b>	<b>Over 5 years £</b>	<b>Total £</b>
Gross outstanding claims	-	1,070,495	5,182,920	38,175,249	49,198,241	93,626,905
Direct insurance operations - Members	-	258,954	-	-	-	258,954
Reinsurance operations	808,561	-	-	-	-	808,561
Reinsurance payable on loss portfolio transfer	-	-	92,566	2,978,813	5,024,523	8,095,902
Taxation	-	749,846	-	-	-	749,846
Other Creditors	871,707	-	-	-	-	871,707
<b>Total liabilities</b>	<b>1,680,268</b>	<b>2,079,295</b>	<b>5,275,486</b>	<b>41,154,062</b>	<b>54,222,764</b>	<b>104,411,875</b>

<b>At 30 June 2023</b>	<b>Short term liabilities £</b>	<b>Within 1 year £</b>	<b>1-2 years £</b>	<b>2-5 years £</b>	<b>Over 5 years £</b>	<b>Total £</b>
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
Taxation	-	-	-	-	-	0
Other Creditors	774,817	-	-	-	-	774,817
<b>Total liabilities</b>	<b>1,382,593</b>	<b>1,004,351</b>	<b>4,268,254</b>	<b>31,524,452</b>	<b>40,876,348</b>	<b>79,055,997</b>

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.

### **Expected profit in future premiums**

The Association calculates the value of expected profit in future premiums by comparing the present value of expected future cash inflows with the present value of expected future cash outflows in respect of the same business. These cashflows are evaluated in accordance with the technical provisions calculation basis requirements set out in the Solvency II Directive and Commission Delegated Regulation. As at 30 June 2024, the Association's expected profit in future premium is £4.0m (2022 - £3.3m).

## **D.5. 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.

Operational risk is also measured through a set of risk scenarios – those scenarios used in the Association's most recent ECB calculation relate to the following operational aspects of the strategy and business model:

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

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

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

All key control processes are documented in the Association's various operational policies and procedure manuals. Compliance is tested and monitored by the Association's Compliance, Risk Management and Internal Audit functions and reported to the Board by the CRO and Internal Audit respectively.

## **D.6. Other material risks**

The Association has not identified any other material risks that it considers necessary for disclosure.

## **D.7. Any other information**

The Association considers no other information material to be disclosed.

## E. Valuation for solvency purposes

This section provides information on the valuation of assets, technical provisions and other liabilities within the Association's SII balance sheet at 30 June 2024.

In accordance with SII valuation regulations the Association has valued its assets and liabilities at fair value. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The Association applies the methodology and valuation hierarchy in accordance with Article 75 of the Level 1 Directive (or where specifically provided for by Delegated Acts):

- As the default valuation method the Company values assets and liabilities using quoted market prices in active markets for the same assets or liabilities;
- Where the use of quoted market prices in active markets for the same assets or liabilities is not possible, assets and liabilities are valued using quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences;
- Where these criteria are not met, alternative valuation methods are used.

### E.1. Valuation of assets

The following table sets out the value of the Association's assets at 30 June 2024 and 2023.

**Table 12: Valuation difference between assets held on a GAAP basis and SII basis**

	2024			2023		
	Assets per GAAP £m	Assets per Solvency II £m	Variance £m	Assets per GAAP £m	Assets per Solvency II £m	Variance £m
Financial investments	78.0	79.0	-	86.5	86.5	-
Reinsurance recoverable	31.4	17.2	14.2	14.0	8.9	5.1
Other assets	23.8	23.6	-	7.2	7.1	-
<b>Total Assets</b>	<b>133.2</b>	<b>119.7</b>	<b>14.2</b>	<b>107.7</b>	<b>102.6</b>	<b>5.1</b>

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

#### Investments

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

#### Reinsurers' share of technical provisions

The difference between the GAAP and Solvency II values for reinsurers' share of technical provisions reflects the difference in methodology used to calculate the underlying technical provisions under the two bases. This is set out in more detail in the Technical Provisions section below.

#### Other assets

The differences in the valuation between UK GAAP and Solvency II could arise from the recognition of accrued interest, if applicable, which could be recognised for Solvency II purposes under Investments

and for UK GAAP purposes under 'other assets'. All other assets are valued for Solvency II purposes on the same basis as the GAAP financial statements.

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

## E.2. Technical provisions

At 30 June 2024, the Association held gross technical provisions (including risk margin), valued for Solvency II purposes, of £76.4m. This is an increase on the 30 June 2023 figure due to a number of deteriorations of existing notifications during the last 12 months.

The technical provisions are evaluated by the Actuarial Function and whilst professional judgement has been exercised in all instances, projections of future ultimate losses and loss expenses are inherently uncertain due to the random nature of claim occurrences. The accuracy of the results is dependent upon the accuracy of the underlying data and additional information supplied to the actuarial team.

The following table shows the analysis of these provisions between best estimate and risk margin at 30 June 2024 and 2023:

**Table 13: Valuation difference between technical provisions held on a GAAP basis and SII basis**

	2024			2023		
	Gross £m	RI £m	Net £m	Gross £m	RI £m	Net £m
Balance per UK GAAP	93.6	31.4	62.2	77.5	14.0	63.5
Prudence Margin (GAAP to BE)	(5.9)	(0.0)	(5.9)	(6.0)	(0.0)	(6.0)
Allowing for LPT transaction	-	(8.1)	8.1			
Bound but not incepted ("BBNI") business	(7.5)	(3.5)	(4.0)	(6.1)	(2.8)	(3.3)
RI credit default	-	(0.1)	0.1	-	(0.1)	-
ENID	4.5	1.2	3.4	3.5	0.7	2.8
Investment expenses	0.4	-	0.4	-	-	-
Discounting	(14.3)	(3.7)	(10.7)	(15.0)	(2.8)	(12.2)
<b>Balance per Solvency II before risk margin adjustment</b>	<b>70.9</b>	<b>17.2</b>	<b>53.7</b>	<b>53.9</b>	<b>8.9</b>	<b>45.0</b>
Risk Margin	5.6	-	5.6	7.5	-	7.5
<b>Balance per SII</b>	<b>76.4</b>	<b>17.2</b>	<b>59.3</b>	<b>61.5</b>	<b>8.9</b>	<b>52.5</b>
<b>Variance between SII and GAAP</b>	<b>17.2</b>	<b>14.2</b>	<b>3.0</b>	<b>16.1</b>	<b>5.1</b>	<b>11.0</b>

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

- all margins for prudence are removed
- a provision is made for events not in data (ENID) to represent a true average of future outcomes
- Bound But Not Incepted (BBNI)
- a Solvency II risk margin which is intended to represent a notional market value adjustment

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

### Solvency II Technical Provisions methodology

Technical provisions (TPs) for Solvency II purposes are made up of a best estimate of claims, premiums and expense cashflows, which are then discounted. Finally, a risk margin is added. The best estimate

cashflows are the amounts expected to be paid/received in the future without any margin of prudence. Each element of the TPs is described in more detail below.

### **Homogeneous risk groups**

The Association uses two homogeneous risk groups for TPs with the first being Business as Usual (BAU) notifications and the second being Cladding notifications.

### **Gross claims cashflows and reinsurance recoveries**

Gross claims are projected to ultimate cost using a mixture of standard actuarial techniques, e.g. chain ladder and Bornhuetter-Ferguson, and non-standard techniques, particularly for cladding claims. In both cases actuarial judgement is applied; this judgement is important because the low volume of claims causes the data to be volatile.

For Cladding claims, the reserving process involves gaining estimates from the Claims' Handlers on the probability of potentially larger claims 'crystallising' and estimates of the likely severity of claims that do settle. More standard actuarial approaches would not be appropriate due to the nascent maturity of the cladding notifications, e.g. many have not yet been fully quantified and relatively little has been paid to date.

At the valuation date, 30 June 2024, the Association had no unearned business except for BBNI. This is because nearly all coverage is annual, renews prior to year end and incepts on the first day of the policy year. For the purposes of Solvency II any business that is bound (i.e. written) before the beginning of the Association's financial year (i.e. from 1 July 2024) is included in the calculation of TPs. However, this concept is not applicable under UK GAAP where only business that has incepted is included in the TPs at the valuation date. BBNI includes all cash in-flows as well as outflows and in the Association's case this includes advance call, acquisition and administration expenses, reinsurance premiums, projected gross claims and corresponding reinsurance recoveries. The BBNI cashflow inputs of premiums and associated expenses are obtained from the call projections; and the BAU ultimate gross claims and reinsurance recoveries are outputs from the Association's premium risk model. This is a stochastic model which projects future gross claims by applying a statistical distribution (based on historical claims experience) to the exposure. The gross claims are then subjected to the reinsurance programme to obtain the expected reinsurance recoveries.

A percentage loading is added to both earned and BBNI business to allow for ENID, which allows for severe events to which the Association could be exposed but which are absent from the historical data.

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

### **Premiums**

There are no further premium cashflows expected relating to prior years as each of the Association's policy years is coterminous with its corresponding financial year. The consequence is that a full year's worth of Premium is recognised due to it being BBNI business and Gross and reinsurance premiums are taken from the business plan.

### **Expenses**

#### *Acquisition and administrative expenses*

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

For BBNI business, acquisition costs and internal administrative costs are calculated as a percentage of the total operating costs from the business plan for the forthcoming policy year. The operating costs from the business plan were set assuming a percentage increase in operating costs from 2023/24 plus some specific additional costs. The external administrative costs are consistent with the business plan.



### *Claims handling expenses*

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

Unallocated claims handling expenses (i.e. salaries) payable in future years are split between expenses paid in the 2024/25 policy year and expenses paid in subsequent years. The expenses paid in 2024/25 are calculated as an assumed percentage of the total operating costs for that year; the expenses paid beyond 2024/25 are assumed to be those specifically reserved for in the GAAP reserves as part of Future Claims Handling Costs.

### *Investment management expenses*

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

### **Discounting**

Claims, premium and expense cashflows have been discounted using the GBP yield curve as at 30 June 2024 provided by the PRA.

### **Risk Margin**

The method used to calculate the risk margin is to:

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

The approach taken has not changed much since last year, however, the cost of capital assumption has changed from 6% to 4% following the implementation of Solvency UK regulations.

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

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

The issues that affect the certainty of the technical provisions include:

- The considerable uncertainty surrounding the actual cost of the historic cladding notifications.
- The assumptions used to calculate the Premium Provision are based on the expectation of an 'average year'. Actual underwriting performance for that business may vary significantly from the assumed position at the outset.
- There is greater uncertainty associated with more recent policy years as these are still in an early stage of development.
- The yield curves used to discount future cashflows can vary from one year to the next which introduces additional balance sheet volatility that does not exist on a UK GAAP balance sheet.

### **Data adjustments and recommendations**

The Association uses various sources of data for the calculation of the Solvency II TPs and the Standard Formula. The majority of the data used is taken from the internal claims handling system, CLUB. A data governance framework is being embedded in the business to help ensure that the data being used is complete, accurate and appropriate. In addition to the data governance framework, validation tests

are performed throughout the technical provisions calculation which includes reconciliation tests to ensure the data is consistent and reconcilable to data used for other purposes around the business, for example, the Association's year-end financial statements.

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

### Changes since the last reporting period

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

### E.3. Other liabilities

The following table sets out the value of the Association's other liabilities at 30 June 2024 and 2023.

**Table 14: Valuation difference between other liabilities held on a GAAP basis and SII basis**

	2024			2023		
	Liabilities per GAAP £m	Liabilities per Solvency II £m	Variance £m	Liabilities per GAAP £m	Liabilities per Solvency II £m	Variance £m
Member creditors	0.3	0.3	-	0.1	0.1	-
Other creditors	1.6	1.6	-	0.8	0.8	-
Reinsurance creditors	0.8	8.9	(8.1)	0.6	0.6	-
<b>Total liabilities</b>	<b>2.7</b>	<b>10.8</b>	<b>(8.1)</b>	<b>1.5</b>	<b>1.5</b>	<b>-</b>

The Association's other liabilities are recognised and valued for Solvency II purposes on the same basis as the annual financial statements, which are based on UK GAAP. The key valuation difference is the reclassification of the loss portfolio transaction as presented in table 13 above.

### E.4. Alternative methods of valuation

The Association does not use any alternative valuation methods.

### E.5. Any other information

The Association considers no other information material to be disclosed.

## F. Capital management

### F.1. Own funds

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

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

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

At 30 June 2024 and 2023, the Association held the following own funds, on a Solvency II basis.

**Table 15: Breakdown of total reconciliation reserve for SII**

	30 June 2024	30 June 2023	Movement
	£m	£m	£m
Income and expenditure account	6.7	7.0	(0.3)
Investment reserve	6.8	6.1	0.7
Reinsurance reserve	0.6	0.5	0.1
General reserve	15.4	15.0	0.4
Total resources	29.5	28.6	0.9
Solvency II adjustment	11.1	11.0	0.1
<b>Total own funds</b>	<b>40.6</b>	<b>39.6</b>	<b>1.0</b>

As a mutual insurer with no share capital the capital structure consists of only one type of own fund. This consists of the reconciliation reserve. The reconciliation reserve equals the total excess of assets over liabilities. This item is available to fully absorb losses both on a going concern basis and in the case of winding up. The item also satisfies the criteria in Delegated Regulation (EU) 2015/35 and therefore is included in Tier 1. There are no items that are foreseen to reduce the reconciliation reserve.

**Table 16: Analysis of total SII own funds by tier**

	2023/24	2022/23
	£m	£m
Tier 1	40.6	39.6
Tier 2	-	-
Tier 3	-	-
<b>Eligible own funds</b>	<b>40.6</b>	<b>39.6</b>

## Analysis of significant changes during the period

The following table shows the reconciliation between UK GAAP total resources and Solvency II reconciliation reserve at 30 June 2024.

**Table 17: Reconciliation of total resources per UK GAAP to reconciliation reserve per SII**

	£m
Excess of assets over liabilities – UK GAAP	29.5
Asset valuation difference	(14.2)
Gross technical provisions valuation difference	17.2
Other liabilities valuation difference	8.1
<b>Total own funds – Solvency II</b>	<b>40.6</b>

Differences between capital and reserves in the UK GAAP financial statements and the excess of assets over liabilities as calculated for SII purposes mainly stem from the revaluation of technical provisions. Liabilities arising from insurance contracts also need to be recognised at market consistent values. The value of technical provisions under SII is equal to the sum of the best estimate of the liabilities and the risk margin. To calculate the best estimate of the liabilities a deterministic approach is taken, whereas the risk margin represents the capital costs of the non-hedgeable risks included in the best estimate.

The following table shows the movement in own funds between 30 June 2023 and 30 June 2024:

**Table 18: Movement in reconciliation reserve**

	£m
Own funds at 30 June 2023	39.6
Increase in net technical provisions	(6.7)
Increase in investments	(7.6)
Decrease in other assets	16.5
Increase in other liabilities	(1.2)
<b>Own funds at 30 June 2024</b>	<b>40.6</b>

## F.2. Solvency Capital Requirement and Minimum Capital Requirement

### F.2.1. Solvency capital requirement

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

**Table 19: Analysis of SCR**

Heads of risk	SCR		
	30 June 2024	30 June 2023	Movement
	£m	£m	£m
Underwriting risk	21.6	20.6	1.1
Market risk	2.6	6.2	(3.6)
Counterparty default risk	1.7	0.8	1.0
Operational risk	2.1	1.6	0.5
<b>Aggregate SCR</b>	<b>28.0</b>	<b>29.1</b>	<b>(1.1)</b>
Correlation credit	(2.6)	(4.2)	1.6
<b>Aggregate SCR net of correlations</b>	<b>25.4</b>	<b>24.9</b>	<b>0.5</b>

The Association has not used any simplified calculations as set out in Article 304 of Directive 2009/138/EC in the calculation of the SCR. The Association has not used undertaking-specific parameters in any of the risk modules described below.

The main changes in the SCR since 30 June 2024 reflect the following factors.

#### Underwriting risk

The SCR underwriting risk capital requirement calculation is made up of three elements, premium risk, reserve risk and catastrophe (CAT) risk. Premium risk is based on the higher of either the expected value of net premiums over the next 12 months or the value of net premiums earned over the last 12 months, whilst reserve risk is based on the valuation of net technical (claims) provisions. CAT risk is based on a scenario-based approach of one claim from a Member resulting in one full claim on the Association of £20m.

Reserve risk has increased due to an increase of approximately in £2.1m net technical (claims provisions). This is predominately due to a deterioration of existing BAU notifications in the last 12 months, as well as the addition of the new 2023/24 new policy year which has experienced a high level of expected claims both in respect of cladding notifications and BAU.

Premium risk has also increased due to the increase in expected premiums for the forthcoming policy year. Catastrophe risk is unchanged.

Overall, SCR underwriting risk capital has increased by £1.1m, which represents a 5% increase since last year.

#### Market risk

Market risk reflects a combination of areas - interest rate risk, equity risk, currency risk, spread risk and concentration risk. Market Risk has decreased by £3.6m from £6.2m last year to £2.6m this year (a 59% decrease). This is predominately due to further de-risking of the investments held by the Association. This time last year the Association moved out of equity holdings. Since then, the Association has changed investment manager and further reduced its exposure to market risk by simplifying the assets held i.e. all assets are now held in GBP except a very small amount of immaterial cash, this has reduced the Currency Risk charge from £1.2m last year to £0 this year. There has also been a decrease in Spread Risk and Interest Rate risk due to the lower yield curves in the current economic environment and an overall decrease in the value of assets held.

The other market risk elements have not materially changed.

### Counterparty default risk

The counterparty default risk capital requirement has increased substantially from £0.8m to £1.7m, a 128% increase. This is driven by a significant increase in R exposure, plus a sum of £16.0m has been divested from the investment portfolio and is currently held with a custodian..

### Operational risk

There has been an increase in the operational risk charge since last year and this has been driven by the higher claims reserves.

### Overall SCR movement

Overall, the SCR has increased by £0.5m year on year, from £24.9m to £25.4m, a 2% increase. The drivers being the increase in reserve risk which has been offset by the reduction in market risk.

### F.2.2. Minimum capital requirement

The MCR calculation is based on the net value of technical provisions and the premiums written during the last 12 months. The result of the calculation is then subject to a floor and a cap, of 25% and 45% of the SCR respectively. As at 30 June 2024 the MCR is £7.8m a 14% increase from last year which is driven by the increase in reserves. The MCR is now above the floor of 25% of the SCR.

### F.2.3 Overall capital position

The following table shows the Association's capital position in relation to the SCR and the MCR at 30 June 2024.

**Table 20: Overall capital position**

	<b>SCR</b> <b>£m</b>	<b>MCR</b> <b>£m</b>
Capital requirement	25.4	7.8
Own funds available	40.6	40.6
<b>Headroom</b>	<b>15.2</b>	<b>32.8</b>
Solvency ratio	159.57%	518.77%

By reference to the SCR and MCR, the Solvency II own funds exceed the capital requirements.

### F.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Association does not use this sub-module.

### F.4. Difference between standard formula and any internal model used

No internal or partial internal model has been used in the calculation of the SCR.

## **F.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement**

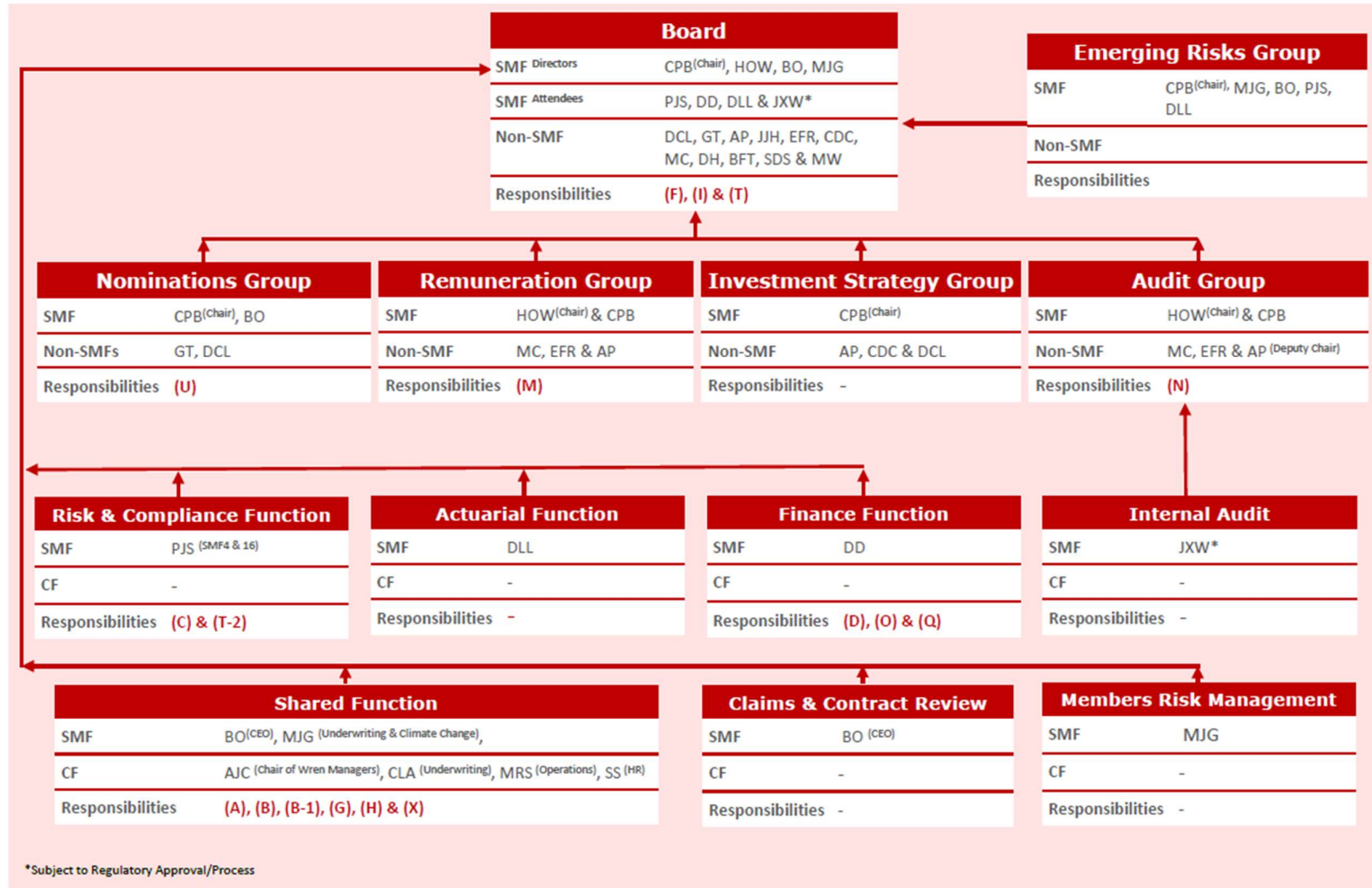
The Association has fully complied with the SCR and MCR requirements during the period under review. The calculation of the SCR and MCR is subject to supervisory assessment and may change following the review of the SCR and MCR calculation by the Regulator.

## **F.6. Any other information**

There is no other information to report regarding the Association's capital management.

# Appendix A: Governance map and organisational chart

Initials	Name
<b>Senior Manager Function. (SMF)</b>	
CPB	Chris Bennie
HOW	Heather Wells
BO	Bola Oladimeji
MJG	Matthew Grover
<b>Certification Function (CF)</b>	
DLL	Dave Lamb
JXW	Jennifer Wirght*
PJS	Phillippa Smith
DD	Deneys Dyter
<b>Notified NEDs (non-SMF)</b>	
AP	Tony Poole
BFT	Belen Francos-Taylor
CDC	Chris Castle
DH	David Hills
DCL	David Lawrence
EFR	Emily Rae
GT	Gary Tidmarsh
JJH	Jonathan Hall
MC	Mike Cottam
MW	Marigold Webster
SDS	Sean Sulley





## **Appendix B: Solvency II quantitative reporting templates**

# The Wren Insurance

## Solvency and Financial Condition Report

### Disclosures

30 June

**2024**

(Monetary amounts in GBP thousands)

## General information

Undertaking name	The Wren Insurance Association Limited
Undertaking identification code	549300URZYG3Y44LBS68
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	30 June 2024
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

## List of reported templates

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

S.02.01.02

Balance sheet

		Solvency II value
		C0010
<b>Assets</b>		
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	78,950
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	78,950
R0140	<i>Government Bonds</i>	34,485
R0150	<i>Corporate Bonds</i>	44,465
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	0
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	17,190
R0280	<i>Non-life and health similar to non-life</i>	17,190
R0290	<i>Non-life excluding health</i>	17,190
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	280
R0370	Reinsurance receivables	222
R0380	Receivables (trade, not insurance)	16,796
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	6,303
R0420	Any other assets, not elsewhere shown	
R0500	<b>Total assets</b>	<b>119,741</b>

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Liabilities</b>		
R0510	Technical provisions - non-life	76,441
R0520	<i>Technical provisions - non-life (excluding health)</i>	76,441
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	70,863
R0550	<i>Risk margin</i>	5,578
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	259
R0830	Reinsurance payables	809
R0840	Payables (trade, not insurance)	1,622
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	
R0900	<b>Total liabilities</b>	79,130
R1000	<b>Excess of assets over liabilities</b>	40,611



## S.05.02.01

## Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
<b>R0010</b>							
	<b>Premiums written</b>						
R0110	Gross - Direct Business	21,976					21,976
R0120	Gross - Proportional reinsurance accepted						0
R0130	Gross - Non-proportional reinsurance accepted						0
R0140	Reinsurers' share	12,461					12,461
R0200	Net	9,515					9,515
	<b>Premiums earned</b>						
R0210	Gross - Direct Business	21,976					21,976
R0220	Gross - Proportional reinsurance accepted						0
R0230	Gross - Non-proportional reinsurance accepted						0
R0240	Reinsurers' share	12,461					12,461
R0300	Net	9,515					9,515
	<b>Claims incurred</b>						
R0310	Gross - Direct Business	28,610					28,610
R0320	Gross - Proportional reinsurance accepted						0
R0330	Gross - Non-proportional reinsurance accepted						0
R0340	Reinsurers' share	23,570					23,570
R0400	Net	5,040					5,040
	<b>Changes in other technical provisions</b>						
R0410	Gross - Direct Business						0
R0420	Gross - Proportional reinsurance accepted						0
R0430	Gross - Non-proportional reinsurance accepted						0
R0440	Reinsurers' share						0
R0500	Net	0					0
R0550	<b>Expenses incurred</b>	7,396					7,396
R1200	<b>Other expenses</b>						
R1300	<b>Total expenses</b>						7,396





S.19.01.21

**Non-Life insurance claims**

**Total Non-life business**

Z0020

Accident year / underwriting year

Gross Claims Paid (non-cumulative)														
(absolute amount)														
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180	
	Development year										In Current year	Sum of years (cumulative)		
	0	1	2	3	4	5	6	7	8	9	10 & +			
R0100	Prior										2	2	2	
R0160	-9	3	42	27	22	1,193	41	5	17	0	7	7	1,357	
R0170	-8	12	15	55	144	730	143	0	0	0	0	0	1,100	
R0180	-7	0	52	239	40	61	808	11	30			30	1,242	
R0190	-6	136	130	257	2,014	3,506	1,095	7,300				7,300	14,438	
R0200	-5	7	141	2,600	4,463	85	220					220	7,516	
R0210	-4	19	136	200	1,528	535						535	2,417	
R0220	-3	12	19	250	3,436							3,436	3,717	
R0230	-2	22	117	874								874	1,013	
R0240	-1	63	69									69	132	
R0250	0	52										52	52	
R0260												<b>Total</b>	12,525	32,987

Gross Undiscounted Best Estimate Claims Provisions													
(absolute amount)													
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
	Development year										Year end (discounted data)		
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior										98	94	94
R0160	-9	0	0	0	892	582	763	318	300	134		127	127
R0170	-8	0	0	1,788	1,224	1,051	1,145	1,314	1,228			1,120	1,120
R0180	-7	0	0	1,612	1,273	723	196	250	335			295	295
R0190	-6	0	7,797	18,524	26,074	23,485	22,598	22,949				20,168	20,168
R0200	-5	7,693	8,682	10,979	9,390	15,406	18,369					15,756	15,756
R0210	-4	6,048	6,288	6,429	13,218	11,727						10,140	10,140
R0220	-3	4,456	2,536	4,667	13,768							11,758	11,758
R0230	-2	5,653	9,612	9,999								8,576	8,576
R0240	-1	6,779	2,948									2,492	2,492
R0250	0	10,418										8,568	8,568
R0260												<b>Total</b>	79,094

S.23.01.01

**Own Funds**

**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35**

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above

**R0220 Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**

**R0230 Deductions for participations in financial and credit institutions**

**R0290 Total basic own funds after deductions**

**Ancillary own funds**

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	<b>Total ancillary own funds</b>

**Available and eligible own funds**

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

**R0580 SCR**

**R0600 MCR**

**R0620 Ratio of Eligible own funds to SCR**

**R0640 Ratio of Eligible own funds to MCR**

**Reconciliation reserve**

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	<b>Reconciliation reserve</b>

**Expected profits**

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	<b>Total Expected profits included in future premiums (EPIFP)</b>

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
0	0		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
40,611	40,611			
0		0	0	0
0				0
0				0
0				0
0				0
0				0
0				0
0			0	0
40,611	40,611	0	0	0
40,611	40,611	0	0	
40,611	40,611	0	0	0
40,611	40,611	0	0	
25,450				
7,828				
159.57%				
518.77%				
C0060				
40,611				
0				
0				
0				
40,611				
3,977				
3,977				

## S.25.01.21

## Solvency Capital Requirement - for undertakings on Standard Formula

R0010	Market risk
R0020	Counterparty default risk
R0030	Life underwriting risk
R0040	Health underwriting risk
R0050	Non-life underwriting risk
R0060	Diversification
R0070	Intangible asset risk
R0100	<b>Basic Solvency Capital Requirement</b>
<b>Calculation of Solvency Capital Requirement</b>	
R0130	Operational risk
R0140	Loss-absorbing capacity of technical provisions
R0150	Loss-absorbing capacity of deferred taxes
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
R0200	<b>Solvency Capital Requirement excluding capital add-on</b>
R0210	Capital add-ons already set
R0220	<b>Solvency capital requirement</b>
<b>Other information on SCR</b>	
R0400	Capital requirement for duration-based equity risk sub-module
R0410	Total amount of Notional Solvency Capital Requirements for remaining part
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
R0440	Diversification effects due to RFF nSCR aggregation for article 304
<b>Approach to tax rate</b>	
R0590	Approach based on average tax rate
<b>Calculation of loss absorbing capacity of deferred taxes</b>	
R0640	LAC DT
R0650	LAC DT justified by reversion of deferred tax liabilities
R0660	LAC DT justified by reference to probable future taxable economic profit
R0670	LAC DT justified by carry back, current year
R0680	LAC DT justified by carry back, future years
R0690	Maximum LAC DT

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
2,567		
1,723		
0		
0		
21,616		
-2,582		
0		
23,324		
C0100		
2,126		
0		
0		
0		
25,450		
0		
25,450		
0		
0		
0		
0		
0		
C0109		
Not applicable		
LAC DT		
C0130		
0		
0		
0		
0		
0		
0		

## USP Key

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

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

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

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations

R0010 MCR<sub>NL</sub> Result

C0010

7,828
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Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
C0020	C0030

- R0020 Medical expense insurance and proportional reinsurance
- R0030 Income protection insurance and proportional reinsurance
- R0040 Workers' compensation insurance and proportional reinsurance
- R0050 Motor vehicle liability insurance and proportional reinsurance
- R0060 Other motor insurance and proportional reinsurance
- R0070 Marine, aviation and transport insurance and proportional reinsurance
- R0080 Fire and other damage to property insurance and proportional reinsurance
- R0090 General liability insurance and proportional reinsurance
- R0100 Credit and suretyship insurance and proportional reinsurance
- R0110 Legal expenses insurance and proportional reinsurance
- R0120 Assistance and proportional reinsurance
- R0130 Miscellaneous financial loss insurance and proportional reinsurance
- R0140 Non-proportional health reinsurance
- R0150 Non-proportional casualty reinsurance
- R0160 Non-proportional marine, aviation and transport reinsurance
- R0170 Non-proportional property reinsurance

0	
0	
0	
0	
0	
0	
0	
0	
53,673	17,557
0	
0	
0	
0	
0	
0	
0	
0	

Linear formula component for life insurance and reinsurance obligations

R0200 MCR<sub>L</sub> Result

C0040

0
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Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
C0050	C0060

- R0210 Obligations with profit participation - guaranteed benefits
- R0220 Obligations with profit participation - future discretionary benefits
- R0230 Index-linked and unit-linked insurance obligations
- R0240 Other life (re)insurance and health (re)insurance obligations
- R0250 Total capital at risk for all life (re)insurance obligations


Overall MCR calculation

- R0300 Linear MCR
- R0310 SCR
- R0320 MCR cap
- R0330 MCR floor
- R0340 Combined MCR
- R0350 Absolute floor of the MCR
- R0400 Minimum Capital Requirement

C0070

7,828
25,450
11,452
6,362
7,828
2,359
7,828