THE WREN INSURANCE ASSOCIATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
Year ended 30 June 2019

2019

Wren

CONTENTS

2019

The Wren Insurance Association Limited ('Wren' or 'the Association') is a mutual insurance company which provides professional indemnity insurance to a select group of architectural practices. Founded in 1987, it currently has 65 Members.

The Association's strategic objectives were first established in response to the concerns of its founding Members, and are regularly reviewed to ensure that they remain relevant. At the most recent review in 2016, the main strategic objectives were agreed as follows:

- Deliver cost-effective insurance in the long-term;
- Provide Members with control over their professional indemnity insurance and promote the interests of the membership as a whole on insurance issues affecting architects;
- Maintain appropriate cover and assist Members to align their contractual liabilities with the cover provided;
- Maintain stability in the cost of cover and remain as independent of reinsurance as is reasonable;
- Improve standards in controlling and managing risk within Member practices;
- Meet the highest standards of governance, risk management and financial practice within the Association; and
- Contribute towards the development of new talent in the architectural industry.

A review of the Association's strategy is currently in progress and a report and recommendations of the Future Strategy Group will be presented to the Board during the final quarter of 2019.

Finance and underwriting

The Association's financial statements for the year ended 30 June 2019 represent a return to a more normal pattern of trading, with the previous three years having been somewhat distorted by the unwinding of the reinsurance arrangement with Citadel Reinsurance Company Limited (Citadel) and, in the case of the 2018 accounts, the settlement of the largest ever claim on the Association, with resultant reinsurance recoveries and reinstatement premiums. The overall result for the year was a surplus of £4.5 million, which resulted in the Association's capital increasing from £44.5 million to just short of £49.0 million. The Association therefore remains in a strong financial position with capital well within the economic capital corridor set by the Board.

At the renewal on 1 July 2018, there was no general rate increase and call rates and Members' fee income were relatively stable. However, Members benefitted from a 5% discount on their calls. There was more activity in terms of Member movements, with five new Members joining the Association during 2018/19. Overall, the total call income of the Association was marginally lower than the prior year at £9.9 million, with the impact of the advance call discount offsetting the growth in membership. With the Association remaining in a strong financial position, in March 2019 the Board was able to approve a return of call of £1.6 million from the 2010/11 policy year.

Underlying reinsurance costs were at a similar level to the prior year. However, last year's figure also included a one-off reinstatement premium of £1.2 million, which resulted from the large claim settlement referred to above. Hence the year on year total reinsurance costs fell from £2.8 million to £1.5 million.

The investment income credited to the policy year, which is based on the expected longer-term rate of return, was slightly higher than the previous year at £2.1 million. This was the result of an increase in the value of the investment portfolio; the long-term rate of return reduced to 2.80% compared to 3.05% in the prior year.

Net claims incurred for the financial year were lower than the prior year – £0.7 million against £3.2 million. Gross claims paid, at £2.2 million, were significantly lower than the prior year's figure of £13.8 million, but that figure was impacted by the settlement of the large claim in the 2018 financial year. There were no reinsurance recoveries in 2019, again a contrast with the £15.8 million received in the prior year, which included paid recoveries on the large claim settlement and the final receipt of commuted recoveries from Citadel.

Claims notified in the 2018/19 policy year were marginally lower in value than in 2017/18, but slightly higher in number, at 144. However, only three of these carried a reserve above £100,000. During 2018/19, the Association continued to receive a number of new notifications that involved cladding that have been made on a precautionary basis following the Grenfell Tower fire. It is too early to be able to estimate the extent to which these notifications will result in any liability on the Association. The gross provision for claims at 30 June 2019 fell by £1.6 million compared to the prior year to stand at £28.1 million.

Operating costs were a little higher than in 2018 at £4.6 million, reflecting an inflationary increase to the management fee. The balance on the underwriting (technical) account was a surplus of £3.7 million.

The actual investment return achieved for the year, at £3.4 million, was above the long-term rate, which resulted in a transfer to the investment reserve, after adjusting for tax, of £1.1 million. More detailed commentary on the investment performance is set out in the investment report below.

The Association's investments increased by £8.2 million to £76.6 million, which reflects the £3.4 million of investment return generated plus a net transfer of £4.8 million into the portfolio, the bulk of which was the proceeds of reinsurance recoveries from 2017/18, received at the beginning of the year.

Finally, the free reserves of the Association at 30 June 2019 in aggregate stood at £48.9 million. The investment reserve grew to £12.4 million, reflecting the transfer from the income and expenditure account referred to above, the income and expenditure account grew by £142,000, to stand at £9.8 million, the general reserve remained at £13.2 million and the reinsurance reserve grew by £3.2 million to stand at £13.5 million. The Association's overall financial position therefore remains strong.

The Board also agreed in March 2019 that there was no necessity for a general rate increase at 1 July 2019. At the 2019 renewal, all of the Association's Members bar one renewed their cover.

Investment strategy and performance

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

During the year to 30 June 2019, the overall return on investments was 4.5% compared to a long-term rate of return of 2.8%. The best performing asset class was equities with a return of 8.27%.

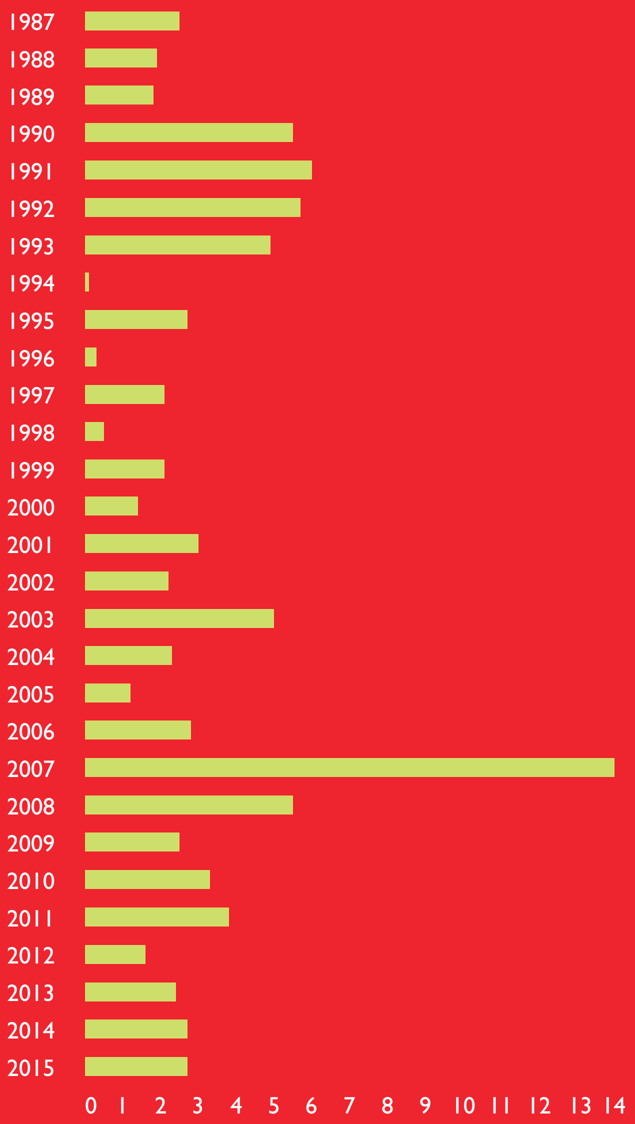
Claims

The number of matters notified to the Association during the 2018/19 policy year increased slightly compared to the previous year, returning to the level seen in the 2013/14 policy year. This increase largely reflects the number of precautionary cladding-related notifications that the Association continued to receive against the background of the ongoing post-Grenfell debate as to what cladding systems are acceptable and the scope of cover available to consultants continuing to shrink. It remains to be seen how many of these notifications will result in a liability to the Association, as poor workmanship appears to be the cause of many of the reported problems. For the time being, however, there is relatively little activity as prospective claimants await the outcome of the Grenfell Inquiry. If, however, these notifications were taken out of the equation, the number of matters notified would show a fall compared to prior years, despite the increase in Membership. This claims picture is also reflected in the payment figures, which were limited in number and amount.

Contract review

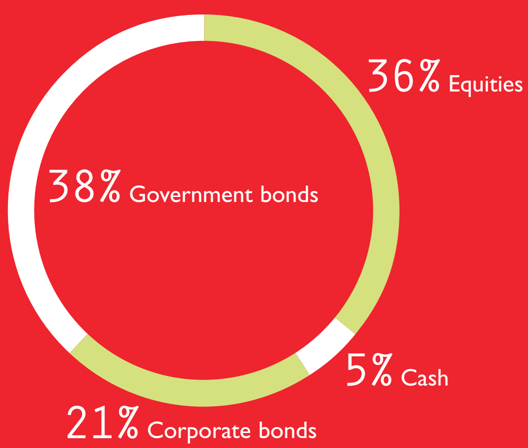
The Wren contract review service remained busy, with the number of appointments and other contractual documents seen by the Managers continuing to grow as the Membership increased. The main area of focus remained how best to protect Members and the Association from the increasing restrictions on cover being imposed on certain consultants' and sub-consultants post-Grenfell, and the consequential attempts by those consultants and sub-consultants to cap their liability. Without appropriate protection, should a claim arise Members are at risk of paying a disproportionate share of any losses. In addition, the Managers have continued to negotiate standard appointments with developers, contractors and consultants, as well as providing ongoing input into the drafting of industry standard appointments.

Claims before reinsurance recoveries £m



(Data in 2016, 2017 and 2018 policy years is insufficient to make accurate projections)

Investment holdings at 30 June 2019



Risk management

The most recent programme of Wren risk management reviews of Member offices in the UK and overseas commenced in October 2018 and is scheduled to conclude in the first quarter of 2020. During this programme, the Managers have been using a film dramatisation of a fictional 'problem project' in risk awareness workshops. Updates and additions to the Wren Risk Management Guidelines continue to be published on the Wren website to reflect the most recent developments in the construction industry, the latest Court decisions, new or pending legislation and Members' claims experience.

Rules of the Association

The Managers and the Board continue to review the cover provided by the Association to ensure that it meets the needs of the Members and responds to developments in the market, while remaining as broad as is sustainable in the long-term. Other than the revisions of the cyber exclusion referred to below, no changes have been made to the scope of cover and no additional restrictions have been introduced on the cover provided to Members under the Rules for the 2019/20 policy year.

Principal business risks and uncertainties

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

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

The business risks and uncertainties are discussed further in Note 9 to the Financial Statements.

Market conditions

Following the Grenfell fire, the wider insurance sector has a reduced appetite for covering liabilities relating to fire or cladding, with several Lloyd's and company market insurers seeking to impose exclusions and/or restrictions on the terms of cover provided to architects and other designers, consultants, contractors and sub-contractors. The continuation of cover for these liabilities is one of the key risks facing the Association and has been the subject of considerable discussion by the Board, including being assessed through the scenario testing carried out as part of the Association's Own Risk and Solvency Assessment.

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

The impact of 'Brexit'

The Association currently holds authorised permissions with a number of European Economic Area (EEA) territories, which allow it to provide insurance to a small number of subsidiaries of UK Member practices located within the EEA. The Board has considered the potential impact on the Association of the United Kingdom's departure from the European Union, particularly the risk of the Association losing its ability to conduct business within the EEA, and has developed a contingency plan to enable it to continue to provide cover to the EEA subsidiaries of its UK Members.

A number of changes were made to the Rules for the 2018/2019 policy year to enable the Association to reinsure a fronting arrangement provided by an EU registered insurer, in anticipation of the Association potentially losing its passporting rights in March 2019. Some additional amendments have been made with effect from 1 July 2019, to provide clarification to the changes adopted the previous year.

The Rule changes made in response to Brexit will also assist the Association in providing cover to Members working in jurisdictions where there is a requirement to purchase cover from an insurer domiciled in the country of the project.

The Brexit discussions are being closely monitored and the potential impact on the Association and its Members will be considered further once the post Brexit environment becomes clearer.

Cyber risks

The Board has previously considered the cover provided by the Association for cyber risks and agreed that it was not appropriate for the Association to broaden the cover to include first party cyber risks. The wording of the cyber exclusion in the Rules has been updated with effect from 1 July 2019 to clarify the Association's position and reduce the extent of any 'silent' cyber cover arising under the Rules.

Future development

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

Wren scholarships

The RIBA Wren Insurance Association Scholarship was initially set up by the Association in 2012. The scholarship supports the Association's strategic objective of contributing towards the development of new talent in the architectural profession by providing financial assistance to a select number of outstanding Part 2 students who have the potential to make a significant contribution in the field of architecture.

Five scholarships of £6,000 each were awarded in the summer of 2019 to Dor Schindler (Architectural Association), Shawn Adams (Royal College of Art), Declan Wagstaff (Edinburgh University), Rosa Whiteley (Royal College of Art) and Laura Keay (Bartlett School of Architecture, University College London).

Scholarship winners are given the opportunity of being individually mentored by Members of the Association and are invited to meet each other and representatives from the membership at the Members' Forum, which takes place in March each year.

A D Stanford
Chairman
26 September 2019

The directors have pleasure in presenting their report together with the audited financial statements for the year to 30 June 2019.

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

The names of the directors are shown on page 2. At the annual general meeting on 27 March 2019, Messrs Greaves, Hall, Pickard and Poole retired by rotation and were reappointed.

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

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

Directors' indemnity insurance

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

Financial instruments

Information on the use of financial instruments by the Association and its management of financial risk is addressed in Note 9 to the financial statements. The Association's exposure to cash flow risk is addressed under the headings of Market risk, Credit risk and Liquidity risk in that note.

Future developments

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

Audit

The Managers are responsible for the preparation of the financial statements and have confirmed they have provided all relevant audit information of which they are aware. The Audit Group has considered the financial statements with the Managers, met privately with the auditors, and reported to the Board.

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

On 1 February 2019, Moore Stephens LLP merged its business with BDO LLP. As a result, Moore Stephens LLP resigned as auditor and the directors appointed BDO LLP as auditor in their place. Resolutions proposing the reappointment of BDO LLP as auditor of the Association and authorising directors to fix their remuneration for the year to 30 June 2019 were passed by Members at the Annual General Meeting on 27 March 2019.

The Audit Group will be carrying out a tender process for the appointment of the Association's auditor for the year to 30 June 2020, the results of which will be considered by the Board at its meeting in December 2019.

The directors confirm that, to the best of their knowledge, the Strategic Report on pages 1 to 4 includes a fair review of the development and performance of the business and the position of the Association, together with a description of the principal risks and uncertainties that it faces.

By order of the Board
S N Parramore
Secretary
26 September 2019

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

To the Members of the Wren Insurance Association Limited

Opinion

We have audited the financial statements of The Wren Insurance Association Limited ('the Association') for the year ended 30 June 2019 which comprise the Income and Expenditure Account, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 30 June 2019 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key Audit Matters

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

Key Audit Matter

Valuation of technical provisions (Note 3)	How our audit addressed the key audit matter
Due to the nature of the claims incurred by the Association, being professional liability claims by Architects, claims are recorded on a 'Made' basis and therefore there are no pure Incurred But Not Reported (IBNR) claims and there is provision for Incurred But Not Enough Reported (IBNER) in respect of notified claims. The Association's internal actuaries are responsible for producing these calculations and applying an appropriate modelling technique. The claims are typically long-tail in nature and therefore there is significant uncertainty in the amounts recorded for claims over a number of years. The gross technical provisions in the current year is £28.1m (2018: £29.7m). This is made up of individual case estimates and IBNER. Case estimates are reliant on the expertise of claims handlers and their experience of assessing claims. IBNER modelling is reliant on relevant claims being input correctly into actuarial models and the application of appropriate actuarial techniques, judgements and assumptions. We also considered the reserving of notified claims to ensure that the case reserves reflect the most recently available information. The inherent uncertainty in the reserving of these claims, being low volume, high value, is such that we regard this area to be a key audit matter.	We: • Reviewed the methodology adopted by the actuaries of the Association to ensure that appropriate methodologies are being used in the assessment of IBNER. BDO actuaries have evaluated the reasonableness of the models and methodologies applied by Wren. • Assessed whether the assumptions made by the Association are consistent with previous years and are appropriate for the classes of business and historical claims development. • Performed a high level review of whether any changes to assumptions would have a material impact on the level of reserves held. • Analysed the development over time of best estimates as calculated by the Association. • Substantively tested outstanding claims at 30 June 2019 to ensure that the claims reserves are consistent with supporting documentation. • We have also substantively tested a sample of the claims paid during the year and ensured that the estimates held accurately reflected the liability prior to settlement. • Undertaken substantive testing to ensure that claims estimates have been properly updated to reflect payments up to the year-end date.

Key observations

Based on the audit procedures performed we did not find any material misstatements in the calculation of the valuation of technical provisions.

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed.

Based on our professional judgement, we determined materiality for the financial statements as whole to be £244,000 (2018 – £230,000). The principal determinant in this assessment was the Association's net assets, which we consider to be the most relevant benchmark, as it reflects the underlying interests of the Members of the Association. We have applied a materiality which represents 0.5% (2018 – 0.5%) of the Association's Net Assets.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Basic performance materiality was set at 75% (2018 – 75%) of the materiality level set out above, which is in line with our assessment of the inherent risk of the business.

We have agreed with the Audit Group that we shall report to them any misstatements in excess of £12,200 (2018 – £11,500) that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of our audit

Our approach to the audit was risk based, with our audit work tailored to ensure that sufficient assurance was gained for us to be able to give an opinion on the financial statements as a whole. Specific audit procedures were carried out on all risk areas identified, including the Key Audit Matters detailed above, and on all material balances and classes of transactions. The Association audit team and our actuarial experts performed all aspects of the audit.

Effectiveness of the audit on the identification of possible fraud

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. As part of our audit we identified possible risks of material misstatements of the financial statements due to fraud. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, as well as the valuation of technical provisions and reinsurers' share of technical provisions, our approach to these areas has been addressed within the areas of risk identified on page 8.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls and the risk of fraud in revenue recognition, including evaluating whether there was evidence of bias by management that represented a risk of material misstatement due to fraud.

We identified areas of laws and regulations that could reasonably be expected to have a material impact on the financial statements from our sector experience and through discussion with the directors and other management, as well as review of correspondence with regulatory authorities, as required by the auditing standards.

We remained alert to any indications of non-compliance throughout our audit. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Other information

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

INDEPENDENT AUDITORS' REPORT

To the Members of the Wren Insurance Association Limited

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matters which we are required to address

We were appointed by ordinary resolution in June 1987. The period of total uninterrupted engagement including previous renewals and reappointments firm is 30 years.

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

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

Use of our report

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

Thomas Reed
Senior Statutory Auditor
For and on behalf of:
BDO LLP
Statutory Auditor
150 Aldersgate Street
London EC1A 4AB
30 September 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

INCOME AND EXPENDITURE ACCOUNT

for the year ended 30 June 2019

Technical account – general business	Note	2019 £	2019 £	2018 £	2018 £
Earned premiums, net of reinsurance					
Calls and premiums	2	**9,921,436**		10,058,663	
Return calls	2	**(1,580,977)**		(1,705,962)	
			8,340,459		8,352,701
Reinsurance premiums	2		**(1,510,412)**		(2,845,946)
			6,830,047		5,506,755
Allocated investment return transferred from the non-technical account			**2,127,814**		1,983,486
			8,957,861		7,490,241
Claims paid					
Gross amount		**(2,226,748)**		(13,806,118)	
Reinsurers' share		**–**		15,750,607	
		(2,226,748)		1,944,489	
Change in the provision for claims	3				
Gross amount		**1,571,018**		6,003,463	
Reinsurers' share		**–**		(11,147,560)	
		1,571,018		(5,144,097)	
Claims incurred net of reinsurance			**(655,730)**		(3,199,608)
Net operating expenses	4		**(4,573,091)**		(4,306,598)
Balance on the technical account			**3,729,040**		(15,965)

Non-technical account	Note	2019 £	2018 £
Balance on the technical account		**3,729,040**	(15,965)
Investment income	5	**3,434,765**	607,783
Allocated investment return transferred to the general business technical account	6	**(2,127,814)**	(1,983,486)
Net surplus/(deficit) before taxation		**5,035,991**	(1,391,668)
Taxation	7	**(559,168)**	(54,555)
Net surplus/(deficit) and total comprehensive income after taxation		**4,476,823**	(1,446,223)

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

The notes on pages 15 to 27 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

Assets	Note	2019 £	2018 £
Financial investments	8	**76,583,607**	68,411,405
Reinsurers' share of technical provisions			
Claims outstanding		**–**	–
Debtors			
Reinsurance operations	9	**–**	5,791,044
Direct insurance operations – Members		**61,145**	84,811
Prepayment		**–**	30,000
Cash at bank		**3,323,756**	2,433,279
Accrued income		**11,727**	226,958
		79,980,235	76,977,497

Liabilities			
Capital and reserves			
Investment reserve		**12,398,226**	11,304,042
General reserve		**13,250,000**	13,250,000
Reinsurance reserve		**13,465,194**	10,224,172
Income and expenditure account		**9,821,357**	9,679,740
		48,934,777	44,457,954
Technical provisions			
Gross outstanding claims	3	**28,095,483**	29,666,501
Creditors			
Direct insurance operations – Members		**1,660,617**	2,080,954
Reinsurance operations		**327,990**	292,015
Taxation		**545,616**	17,578
Other creditors		**415,752**	462,495
		31,045,458	32,519,543
		79,980,235	76,977,497

Approved by the Board on 26 September 2019

A D Stanford Director
H O Wells Director

J P Rodgers Wren Managers

The notes on pages 15 to 27 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Investment reserve £	General reserve £	Reinsurance reserve £	Income and expenditure £	Total £
At 30 June 2017	**10,056,262**	**13,250,000**	**13,276,083**	**9,321,832**	**45,904,177**
Deficit for the financial year	–	–	–	(1,446,223)	(1,446,223)
Transfer to investment reserve	1,247,780	–	–	(1,247,780)	–
Transfer from reinsurance reserve	–	–	(3,051,911)	3,051,911	–
At 30 June 2018	**11,304,042**	**13,250,000**	**10,224,172**	**9,679,740**	**44,457,954**
Surplus for the financial year	–	–	–	4,476,823	4,476,823)
Transfer to investment reserve	1,094,184	–	–	(1,094,184)	–
Transfer from reinsurance reserve	–	–	3,241,022	(3,241,022)	–
At 30 June 2019	**12,398,226**	**13,250,000**	**13,465,194**	**9,821,357**	**48,934,777**

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

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

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

The reinsurance reserve has been established in accordance with Rule 32 of the Association to meet the cost of any individual claim in excess of a specified attachment point up to the reinsurance attachment point of £3.0m and claims in aggregate above a specified attachment point, which are both set annually. The funds held in the reserve are available to meet claims in any open policy year where claims either exceed the agreed excess of loss trigger point or the aggregate trigger point.

The notes on pages 15 to 27 form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

Cash flows from operating activities	2019 £	2018 £
Net surplus/(deficit) before taxation	**5,035,991**	(1,391,668)
Adjustments for:		
Change in provisions for claims	**(1,571,018)**	5,144,097
Decrease/(increase) in insurance and other debtors	**6,059,941**	(5,018,372)
Increase/(decrease) in insurance and other creditors	**(431,105)**	333,935
Investment income	**(7,236,647)**	(1,418,146)
Unrealised loss on investments	**3,801,882**	810,363
Cash from operations	**5,659,044**	(1,539,791)
Income taxes paid	**(31,130)**	(467,905)
Net cash generated from operating activities	**5,627,914**	(2,007,696)
Cash flows from investing activities		
Purchase of equity shares	**(29,189,595)**	(1,152,330)
Purchase of fixed interest investments	**(46,994,950)**	(11,121,372)
Sale of equity shares	**21,858,940**	2,987,493
Sale of fixed interest investments	**45,705,940**	7,734,925
Net change to deposits with credit institutions	**2,881,265**	2,798,614
Income from equity investments	**477,882**	292,261
Income from fixed income investments	**799,335**	875,327
Income from bank and other cash	**(36,248)**	(3,543)
Investment management expenses	**(240,006)**	(238,587)
Net cash from investing activities	**(4,737,437)**	2,172,788
Net increase in cash at bank	**890,477**	165,092
Cash at bank at the beginning of the financial year	**2,433,279**	2,268,187
Cash at bank at the end of the financial year	**3,323,756**	2,433,279

The notes on pages 15 to 27 form part of these financial statements.

1 Accounting policies

Basis of accounting

These financial statements have been prepared under the historical cost convention as modified to include investments at market value, in compliance with Part 3 of Schedule 6 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) under the Companies Act 2006 and in accordance with applicable accounting standards in the U.K. In accordance with Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103), the Association has applied existing accounting policies for insurance contracts. The Regulations require the use of the term 'Profit and Loss Account' as a heading. The Statutory 'Profit and Loss Account' is replaced by an 'Income and Expenditure Account' in these financial statements, consistent with the mutual status of the Association.

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

Statement of Compliance

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102), Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103) and the Companies Act 2006.

Policy year accounting

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

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

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

Calls and premiums

Calls and premiums are credited to the income and expenditure account as and when charged to Members. Return calls are accounted for when approved by the directors, but credited to the Member's account on renewal as at 1st July. Since all insurance policies are coterminous with the Association's financial year, there are no unearned premiums at the year-end date.

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

Claims and reinsurance recoveries

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

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

1 Accounting policies (continued)

Investment income
Investment income includes interest and dividends receivable for the year.

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

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

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

Claims outstanding
The Association underwrites professional liability risks on a 'claims made' basis. Claims outstanding represent the Managers' assessment of the ultimate cost of claims reported at the statement of financial position date.

The Association reserves individual claims notified on a 'worst likely outcome' basis. Estimates for the cost of claims are made by legally experienced claims handlers who base their estimates on the information available about the individual claim and experience of similar cases. Where it is not yet possible to make an assessment of the likely outcome of a claim, a statistically derived reserve is applied based on the development of similar notifications in earlier policy years. In addition, IBNER (incurred but not enough reserved) provisions are applied to aggregate outstanding estimates for each policy year using percentages that reflect the stage of development of the policy year.

In the case of policies incepting less than thirty-six months before the balance sheet date, the information available is frequently inadequate to form a reliable basis for case-by-case estimates. Accordingly, claims reserves are also calculated on the basis of standard actuarial claims projection techniques and stochastic modelling based on historical claims patterns, adjusted for inflation and other variables such as the volume of business transacted by the membership, to predict their potential ultimate cost. The principal assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims for more recent years.

Any surplus IBNER provisions will be automatically released once the policies to which they relate have been in existence for longer than thirty-six months. By contrast, in years where it appears to the Managers that the actual claims experience is likely to be worse than the original provisions established, those provisions are increased accordingly.

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

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

1 Accounting policies (continued)

Critical accounting judgements and estimation uncertainty

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Cash and cash equivalents

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

Investments

The Association has chosen to apply the recognition and measurement provision of IAS39 and the disclosure requirements of FRS102 in respect of financial investments.

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

Acquisition costs

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

2 Calls and premiums

	2019 £	2018 £
Advance calls and premiums	**9,921,436**	10,058,663
Returns of call – 2010/11	**(1,580,977)**	(724,157)
Returns of call – 2009/10	**–**	(981,805)
	(1,580,977)	(1,705,962)

All business is written in the UK.

Reinsurance premiums for 2018 include £1,208,956 (2019 – £nil) relating to reinstatement premiums paid on a market reinsurance recovery.

3 Movement in prior years' claims provisions

Included within the net change in provision for claims of £1,571,018 is a charge of £6,669,119 (2018 – credit of £4,966,892) relating to prior years. The balance is made up as follows:

	2019 £	2018 £
Net provision at beginning of year	**29,666,501**	24,522,404
Net payments during the year in respect of these provisions	**(1,566,812)**	2,717,535
Net provision carried forward in respect of claims provided for at the end of the previous year	**(21,430,570)**	(22,273,047)
Movement in prior years' claims provision	**6,669,119**	4,966,892

Development claim tables

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

Insurance claims – gross

Estimate of ultimate claims cost attributable to the policy year.

	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
End of reporting year	5,000,000	8,980,463	5,000,000	4,280,000	4,280,000	4,662,000	5,227,000	5,199,000	7,529,000	6,672,049
One year later	5,000,000	8,980,463	5,000,000	4,280,000	4,280,000	4,662,000	3,542,400	7,309,200	7,461,140	
Two years later	5,000,000	8,980,463	6,000,000	4,280,000	4,280,000	7,003,300	2,697,400	4,239,125		
Three years later	4,065,930	2,705,610	4,182,227	3,335,462	3,220,600	7,033,300	3,202,203			
Four years later	3,603,492	2,608,461	7,305,725	3,379,000	2,016,600	3,162,407				
Five years later	3,892,431	3,209,393	8,739,719	2,114,000	3,001,567					
Six years later	4,196,723	3,967,000	4,559,800	2,134,680						
Seven years later	4,397,600	3,935,000	4,368,662							
Eight years later	2,886,140	3,769,481								
Nine years later	2,972,887									
Current estimate of ultimate claims	2,972,887	3,769,481	4,368,662	2,134,680	3,001,567	3,162,407	3,202,203	4,239,125	7,461,140	6,672,049
Cumulative payments to date	1,772,356	3,769,481	4,218,694	1,649,376	1,420,431	1,790,677	739,909	897,199	903,459	7,136
Liability recognised at the end of the year	1,200,531	–	149,968	485,304	1,581,136	1,371,730	2,462,294	3,341,926	6,557,681	6,664,913
Total liability relating to the last ten policy years										23,815,483
Other claims liabilities										4,280,000
Total reserve included in the statement of financial position										**28,095,483**

Insurance claims – net

Estimate of ultimate claims cost attributable to the policy year.

	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
End of reporting year	3,000,000	4,000,000	4,000,000	4,280,000	4,280,000	4,662,000	100,000	1,460,141	7,529,000	6,672,049
One year later	3,000,000	4,000,000	4,000,000	4,280,000	4,280,000	4,662,000	100,000	3,566,390	7,461,140	
Two years later	3,000,000	4,000,000	4,000,000	4,280,000	4,280,000	4,700,000	(175,000)	496,315		
Three years later	2,575,269	2,395,538	3,879,494	3,335,462	3,220,600	4,059,000	329,803			
Four years later	1,848,575	2,298,389	4,000,000	3,379,000	2,016,600	188,107				
Five years later	2,067,935	2,661,939	3,046,959	2,114,000	3,001,567					
Six years later	(1,541,200)	3,419,546	(252,041)	2,134,680						
Seven years later	(1,340,323)	3,387,546	(443,179)							
Eight years later	(2,851,783)	3,222,027								
Nine years later	(2,765,036)									
Current estimate of ultimate claims	(2,765,036)	3,222,027	(443,179)	2,134,680	3,001,567	188,107	329,803	496,315	7,461,140	6,672,049
Cumulative payments to date	(3,965,567)	3,222,027	(593,147)	1,649,376	1,420,431	(1,183,623)	(2,132,491)	(2,845,611)	903,459	7,136
Liability recognised at the end of the year	1,200,531	–	149,968	485,304	1,581,136	1,371,730	2,462,294	3,341,926	6,557,681	6,664,913
Total liability relating to the last ten policy years										23,815,483
Other claims liabilities										4,280,000
Total reserve included in the statement of financial position										**28,095,483**

The negative figures for the estimate of ultimate costs attributable to 2009/10 and 2011/12 are due to the overall gain made from a commuted reinsurance contract.

4 Net operating expenses

	2019 £	2018 £
Acquisition costs	**571,200**	450,000
Administrative expenses	**4,001,891**	3,856,598
	4,573,091	4,306,598

Acquisition costs represent the management cost of underwriting, including the renewal of the entry of existing Members, negotiations with potential Members and the processing of entry documentation.

Included in administrative expenses are:
- Risk management fees of £760,000 (2018 – £690,000) payable to the Managers in respect of the conduct of the Association's risk management programme.
- Directors' remuneration of £152,393 (2018 – £141,537).
- Auditors' remuneration of £40,000 (2018 – £45,000). In respect of taxation services, PKF Littlejohn LLP were paid £3,780 (2018 – £3,600).

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

5 Net investment income

	2019 £	2018 £
Income from fixed interest investments	**763,087**	875,327
Dividends receivable from equities	**477,882**	292,261
Profit on the realisation of investments	**6,235,684**	492,688
Change in unrealised loss on investments	**(3,801,882)**	(810,363)
Investment income	**3,674,771**	846,370
Investment management expenses	**(240,006)**	(238,587)
Net investment income	**3,434,765**	607,783

6 Investment return

	2019 £	2018 £
Allocated investment return	**2,127,814**	1,983,486

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

	2019	2018
Bonds	**1.50%**	1.30%
Corporate bonds	**2.25%**	3.10%
Equities	**6.00%**	6.30%

A transfer of £1,094,184 has been made to the investment reserve equivalent to the surplus of actual return against the longer-term return for the year (net of tax) during the current year.

Ten-year comparison of allocated return with actual returns	2019 £	2018 £
Net investment income since 1 July 2009 (2008)	**26,191,177**	22,154,100
Allocated return since 1 July 2009 (2008)	**18,684,347**	18,221,648
Surplus of actual return above allocated return	**7,506,830**	3,932,452

7 Taxation

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

Analysis of charge in period	2019 £	2018 £
UK Corporation Tax	**559,168**	54,555
Under provision in previous years	**–**	–
Total tax charge	**559,168**	54,555

Factors affecting tax charge for period

The tax assessed for the period is different from the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are explained below:

	2019 £	2018 £
Net surplus/(deficit) before tax	**5,035,991**	(1,391,668)
Deficit on ordinary activities multiplied by standard rate of corporation tax in the UK	**956,838**	(264,417)
Effects of:		
Non-taxable mutual insurance operations	**(306,872)**	373,828
UK dividends not taxable	**(90,798)**	(54,856)
Under provision in previous years	**–**	–
Current tax charge (see above)	**559,168**	54,555

8 Investments

Investments comprise fixed interest investments (UK government securities), corporate bonds, equities and deposits with credit institutions. All fixed interest investments and equities are listed.

	Deposits with credit institutions £	Corporate bond investments £	Fixed interest investments £	Equity investments £	Total £
Purchase of investments	16,759,019	15,853,928	31,141,022	29,189,595	92,943,564
Sale of investments	(19,640,284)	(18,829,817)	(26,876,123)	(21,858,940)	(87,205,164)
Realised gains/(losses)	19,716	2,186,108	(695,899)	4,725,759	6,235,684
Net portfolio investment	(2,861,549)	(789,781)	3,569,000	12,056,414	11,974,084
Unrealised gains/(losses)	1,836	(1,629,638)	637,540	(2,811,620)	(3,801,882)
Change in value of portfolio	(2,859,713)	(2,419,419)	4,206,540	9,244,794	8,172,202
Market value at 1 July 2018	6,620,568	18,469,820	25,306,154	18,014,863	68,411,405
Market value at 30 June 2019	**3,760,855**	**16,050,401**	**29,512,694**	**27,259,657**	**76,583,607**
Cost at 1 July 2018	6,620,568	16,643,709	25,840,707	14,367,249	63,472,233
Cost at 30 June 2019	3,759,019	15,853,928	29,409,707	26,423,663	75,446,317

9 Risk Management

The Association is governed by a Board comprising a non-executive Chairman, 12 non-executive directors and two executive directors, who are also directors of Tindall Riley & Co Limited ('TRC'), trading as Wren Managers ('the Managers'). There are four sub-committees of the board: the Audit Group, the Remuneration Group, the Nomination Sub-Committee and the Investment Strategy Group.

The Remuneration Group is responsible for making recommendations to the Board on remuneration of the Managers and the Directors, and the Audit Group is responsible for reviewing the Association's annual Report and Financial Statements, Solvency and Financial Condition Report and Regulatory Supervisory report. The Audit Group receives regular reports from the Association's internal and external auditors and is responsible for approving the audit plan for each year, and for handling the relationship with the external auditors.

The Nomination Sub-Committee consists of the Chairman of the Association, two elected Member directors and one of the Manager directors. The Sub-Committee meets at least twice a year and is responsible for making recommendations to the Board in respect of suitable candidates for appointment/reappointment as directors of the Association, the performance of directors retiring by rotation and of the Board as a whole, and the appointment and retirement of the Chairman.

The Investment Strategy Group consists of the Chairman of the Association 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 undertaking a periodic review of the Association's wider investment strategy, taking into account the Association's economic capital benchmark, technical provisions, risk appetite and target return, and for monitoring the performance of the Association's investment managers

Each Member Practice is entitled to nominate one of its partners or directors to sit on the Association's Committee. Members of the Committee meet twice each year. The first meeting is the Members' Forum, to which Representative Members are also invited. This is held in conjunction with the Association's Annual General Meeting in March. The second is the Committee Meeting in September. All Member directors of the Association are also members of the Committee. Practices represented on the Association's Board are entitled to nominate a second Committee Representative should they wish to do so.

At each meeting, reports are given on major decisions made by the Board. The Committee Meeting and Members' Forum provide an opportunity to exchange views concerning matters relating to the running of the Association as well as on matters of general commercial interest.

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

The Association has in place a robust risk management framework that is the responsibility of the Board. The Risk Register is one of the key elements of this framework. The Register sets out in detail the risks faced by the Association and the internal controls that operate to mitigate those risks. It is reviewed and updated every six months.

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

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

In order to manage these risks, the Association has continued to develop and review the internal and external governance frameworks and the operational effectiveness of the internal controls environment through the Own Risk and Solvency Assessment (ORSA) process.

The Board and Managers have sought to establish and embed risk management procedures within the business through a risk management framework which considers and logs potential risks and how they are managed. The Board monitors the development and operation of risk management policies and controls in place to mitigate risk through a governance structure which includes an internal audit function (which reports to the Audit Group).

9 Risk Management (continued)

9.1 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 Chairman of Wren Managers, the board of Wren Managers and the Board of the Association.

Due to the nature of the Association's business, insurance risk is wholly concentrated on professional indemnity risks.

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 (the Association's retention), above which the market reinsurance arrangements respond up to the £20m maximum limit of cover. These risk tolerances are set by the Board.

Claim reserves

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

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

Prudence is monitored over time by measuring the aggregate surplus of actual technical provisions against the average – this figure should be more or less constant over time. Prudence is also monitored by analysing the release of redundancy from technical provisions in respect of claims from prior years. Any significant variation in the figure year on year is investigated.

The adequacy of reserves is monitored by senior management quarterly; by the board of Wren Managers, the Audit Group and the Board of the Association at each year end, when a formal report is prepared by the Actuarial Department, setting out the reserves for each policy year and the percentage of confidence for each policy year and an explanation as to how these have moved since the last formal review.

Sensitivity

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

Increase in loss ratio by 5 percentage points	2019 £	2018 £
Gross	**496,071**	502,933
Net	**341,502**	275,338

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

9 Risk Management (continued)

9.2 Market risk

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

The investment strategy, which is reviewed periodically, is set by the Board with the assistance of external investment consultants. During the year the Investment Strategy Group considered the option of transferring the Association's entire investment fund to a fiduciary management model and the Board approved the Group's recommendation to appoint Mercer as fiduciary manager. Mercer has been instructed to achieve a 3.1% return with an expected volatility of 4.7% p.a. and a capital requirement of £14.5m.

Interest rate risk management

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

The Association uses a number of sensitivity management tools to understand volatility of surpluses/deficits. The table below shows the effects of a 0.5% increase or decrease in interest on earnings from debt securities:

	2019 £	2018 £
0.5% increase in interest rates	**24,511**	24,552
0.5% decrease in interest rates	**(24,511)**	(24,552)

Investment price sensitivity analysis

The Association is exposed to price risk through its holding of equities. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end the holding in equities was 36% (2018 – 26%) of the investment portfolio. The value of the equity holding at the year end amounted to £27.0m (2018 – £18.0m).

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

	2019 £	2018 £
5% increase in equity price	**1,362,983**	900,743
5% decrease in equity price	**(1,362,983)**	(900,743)
5% increase in corporate bond price	**802,520**	923,491
5% decrease in corporate bond price	**(802,520)**	(923,491)
5% increase in fixed interest price	**1,475,635**	1,265,308
5% decrease in fixed interest price	**(1,475,635)**	(1,265,308)

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.

9 Risk Management (continued)

9.3 Counterparty risks

9.3.1 Credit risk

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

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

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

Amounts recoverable on reinsurance contracts

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

The excess of loss reinsurance programme is placed through Willis 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 (A rated). This is monitored by the Board.

Amounts due from Members

Amounts due from Members represents premium owing to the Association in respect of insurance business written. The Association manages the risk of Member default through a screening process to ensure the quality of new entrants to the Association and the ability to cancel cover and outstanding claims to Members that fail to settle amounts payable. The Association's policy is that Members should have paid all outstanding 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 investment policy manages the risk of default by limiting investment in instruments with a credit rating below 'A' whilst also ensuring a diversification of the portfolio by asset, market and counterparty. The policy allows for investment in equities, fixed interest securities, corporate bonds and cash. Within these, materially all investments are at least A rated with many relating to government or supranational bodies.

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

	2019 £	2018 £
Debt securities	**45,563,095**	43,775,973
Reinsurers' share of technical provisions	**–**	–
Reinsurance debtors	**–**	5,791,044
Member and other debtors	**61,145**	84,811
Deposits with credit institutions	**3,760,855**	6,620,568
Cash at bank	**3,323,756**	2,433,279
Total financial assets bearing risk	**52,708,851**	58,705,675

An analysis of this exposure by credit rating is shown below		
AAA	**–**	470,082
AA	**3,323,756**	30,780,887
A	**–**	11,724,323
BBB+ and below	**–**	15,645,572
No rating	**49,385,095**	84,811
Total financial assets bearing risk	**52,708,851**	58,705,675

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

9 Risk Management (continued)

9.3.2 Liquidity risk

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

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

At 30 June 2019	Short term assets £	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
Quoted shares and variable field securities	27,259,657	–	–	–	–	27,259,657
Debt securities and other fixed income securities	45,563,095	–	–	–	–	45,563,095
Deposits with credit institutions	3,760,855	–	–	–	–	3,760,855
Reinsurers' share of outstanding claims	–	–	–	–	–	–
Direct insurance operations – Members	61,145	–	–	–	–	61,145
Reinsurance operations	–	–	–	–	–	–
Cash at bank	3,323,756	–	–	–	–	3,323,756
Accrued Interest	11,727	–	–	–	–	11,727
Other debtors and prepayments	–	–	–	–	–	–
Total assets	**79,980,235**	**–**	**–**	**–**	**–**	**79,980,235**

At 30 June 2018						
Quoted shares and variable field securities	18,014,863	–	–	–	–	18,014,863
Debt securities and other fixed income securities	18,469,820	1,745,900	4,656,504	9,037,398	9,866,352	43,775,974
Deposits with credit institutions	6,620,568	–	–	–	–	6,620,568
Reinsurers' share of outstanding claims	–	–	–	–	–	–
Direct insurance operations – Members	84,811	–	–	–	–	84,811
Reinsurance operations	5,791,044	–	–	–	–	5,791,044
Cash at bank	2,433,279	–	–	–	–	2,433,279
Accrued Interest	226,958	–	–	–	–	226,958
Other debtors and prepayments	30,000	–	–	–	–	30,000
Total assets	**51,671,343**	**1,745,900**	**4,656,504**	**9,037,398**	**9,866,352**	**76,977,497**

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

At 30 June 2019						
Gross outstanding claims	–	504,998	2,813,923	14,659,019	10,117,543	28,095,483
Direct insurance operations – Members	–	1,660,617	–	–	–	1,660,617
Reinsurance operations	327,990	–	–	–	–	327,990
Taxation	–	545,616	–	–	–	545,616
Other creditors	415,752	–	–	–	–	415,752
Total liabilities	**743,742**	**2,711,231**	**2,813,923**	**14,659,019**	**10,117,543**	**31,045,458**

At 30 June 2018						
Gross outstanding claims	–	533,236	2,971,270	15,478,708	10,683,287	29,666,501
Direct insurance operations – Members	–	2,080,954	–	–	–	2,080,954
Reinsurance operations	292,015	–	–	–	–	292,015
Taxation	–	17,578	–	–	–	17,578
Other creditors	462,495	–	–	–	–	462,495
Total liabilities	**754,510**	**2,631,768**	**2,971,270**	**15,478,708**	**10,683,287**	**32,519,543**

9 Risk Management (continued)

9.4 Operational risk

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

9.5 Limitation of the sensitivity analyses

The sensitivity analyses in section 9.1, 9.2 and 9.3 above shows the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above.

9.6 Capital risk management

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

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

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

The Association is regulated by the PRA and Financial Conduct Authority (FCA). Throughout the period the Association complied with the regulators' capital requirements.

The Solvency II regime has been effective from 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Association is subject to these regulations. The Association is required to meet a SCR which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Association calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Association's risk profile.

9.7 Fair value hierarchy

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

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

9 Risk Management (continued)

9.7 Fair value hierarchy (continued)

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

• The unadjusted quoted price in an active market for identical assets or liabilities that the Association can access at the measurement date (Level 1)

• Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly (Level 2)

• Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability (Level 3)

Group	2019 £	2018 £
Level 1	**31,020,512**	24,635,431
Level 2	**45,563,095**	43,775,974
Level 3	**–**	–
	76,583,607	68,411,405

10 Related parties transactions

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

The 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.

Tindall Riley & Co Limited (trading as Wren Managers) manages the Association and received £4,480,000 (2018 – £4,440,000) in respect of management fees and risk management services.

11 Subsequent events

There are no subsequent events which require adjustment or disclosure in the financial statements. The financial statements were authorised for issue by the Board on 26 September 2019.

DIRECTORS

The Wren Insurance Association Limited, Limited by Guarantee

Board of Directors

A D Stanford (Chairman)
J A Greaves
J J Hall
D Hills
D Lawrence
S J Peat
J T Pickard
A Poole
J P Rich
I M Rudolph
W J Ryan
S C G Scriven
J N E Thompson
G Tidmarsh
H O Wells

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Auditors

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