Wren

The Wren Insurance Association Limited

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Solvency and Financial Condition Report

As at 30 June 2018

Contents

Solvency and Financial Condition Report

1. Introduction and summary

This is the Solvency and Financial Condition Report (SFCR) for The Wren Insurance Association Limited (Wren or the Association), based on the financial position as at 30 June 2018.

Review of 2017/18

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 61 Members.

The main strategic objectives of the Association, which were agreed by the Board in December 2016, are 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 Investment Strategy is currently in progress and a wider strategic review is scheduled to take place in 2019. The Board will be considering the appropriate scope and format of the next strategic review towards the end of 2018.

Finance and Underwriting

The Association's financial results for the year ended 30 June 2018 have been impacted by three main events: the first was the settlement of a long running claim from the 2007/08 policy year, which has turned out to be the largest claim ever paid by the Association. This settlement resulted in substantial reinsurance recoveries but also the payment of additional reinsurance premiums known as reinstatement premiums. The second was the completion of the process which began three years ago to end the reinsurance arrangement with Citadel Reinsurance Company Limited, by way of a final commutation payment to the Association. The third was a disappointing performance by the investment portfolio, which undershot the longer-term target. The overall result for the year after tax was a deficit of £1.4 million and the free reserves therefore fell from £45.9 million to £44.5 million. However, the Association remains in a strong financial position with capital well within the economic capital corridor set by the Board.

At the renewal on 1 July 2017, there was no general rate increase and many firms enjoyed a modest reduction in their call rates. Some firms declared increased levels of fee income and three new Members joined the Association during the year. The total call income of the Association was marginally lower than the prior year at £10.1 million (2017 - £10.3 million). However, with the Association remaining in a strong financial position, in March 2018 the Board was able to approve returns of call of £1.7 million in aggregate from the 2009/10 and 2010/11 policy years.

Underlying reinsurance costs were at a very similar level to the prior year, a small rate reduction on the market contract being offset by a slightly higher premium paid to Citadel (which, following the termination of the arrangement, will be the last). However, as noted above, the reinsurance recoveries on the large claim settlement triggered the payment to reinsurers of reinstatement premiums totalling £1.2 million and so, in total, reinsurance premiums are higher year on year.

The investment income credited to the policy year, which is based on the expected longer-term rate of return, was lower than the previous year, at just under £2.0 million. This was the result of a more pessimistic view being taken of the longer-term return, which was reduced from 3.50% to 3.05%.

Net claims incurred in the financial year were lower than in the prior year - £3.2 million against £6.9 million. Gross claims paid were significantly higher at £13.8 million (2017 - £2.1 million), however, reflecting in particular the payment of the large claim settlement noted above of just over £10 million. Receipts from reinsurers were also substantially higher than 2017 at £15.8 million. This figure comprises the £8.8 million final commutation receipt from Citadel, previously recorded in reinsurers' share of technical provisions, and reinsurance recoveries from the large claim settlement of £7.0 million.

Claims in the 2017/18 policy year were higher than in 2016/17 in both number and value, with 135 notifications (2016/17 - 123 notifications) being made during the policy year. However, only two of these carried a reserve above £100,000 and that figure includes a number of notifications involving cladding that were made on a precautionary basis following the Grenfell Tower fire. The gross provision for claims fell by £6 million, while the reinsurers' share of claims outstanding fell by £11.1 million, which reflects the payment of the Citadel commutation referred to above and the improvement to one large claim which had accrued reinsurance recoveries at the last year end. On a net basis, the provision for claims outstanding increased by £5.1 million (2017 - £10.4 million) and at 30 June 2018 stood at £29.7 million (2017 - £24.5 million net of reinsurance).

Operating costs were a little higher than in 2017 at £4.3 million (2017 - £4.1 million), reflecting an increase to the management fee and some additional professional fees. The balance on the underwriting (technical) account was a small deficit of £15,965.

The actual investment return achieved for the year, at £0.6 million, was below the longer-term rate, which resulted in a transfer from the investment reserve, after adjusting for tax, of £1.25 million.

The Association's investments fell by £1.6 million to £68.4 million, which reflects the £0.6 million of investment return generated, less a net transfer of £2.2 million out of the portfolio. The investment portfolio benefitted from the investment of the final funds received from Citadel but a significant withdrawal was necessary to pay the claim settlement referred to above. The reinsurance recoveries on that claim, amounting to £5.8 million (net of reinstatement premiums), had not been received by the year end (they were paid in full in early July) and are shown as a debtor in the statement of financial position. They have since been transferred back to the investment portfolio.

Finally, the free reserves of the Association at 30 June 2018 in aggregate stood at £44.5 million. The investment reserve grew by £1.25 million, which resulted from a decision by the Board in March 2018 to transfer £2.5 million from the income and expenditure account to the investment reserve, offset by the tax-adjusted shortfall in the actual investment return against the longer-term rate of £1.25 million. The income and expenditure account grew by £0.4 million to stand at £9.7 million, the general reserve remained at £13.25 million and the reinsurance reserve fell by £3.1 million to stand at £10.2 million. The Association's overall financial position therefore remains strong.

The Board also agreed in March 2018 that there was no necessity for a general rate increase at 1 July 2018. At the 2018 renewal, all of the Association's Members renewed their cover.

Investments

Over the last 12 months, the Defensive (matching) portfolio returned +0.2% reflecting low interest rates and bond yields. The Growth portfolio returned +2.6%. This meant that the Association's total portfolio returned +1.4% for the year to 30 June 2018 and +3.8% per annum over the last three years.

Claims

The number of matters notified to the Association during the 2017/18 policy year increased slightly compared to the previous year, returning to the level seen in the 2015/16 policy year. This increase reflects the number of precautionary cladding-related notifications that the Association has received as building owners, developers and contractors seek to ensure that potential claims against them post-Grenfell are passed down to the design team at an early stage amidst increasing nervousness that cover for such claims is being restricted in the insurance market. It remains to be seen how many of these precautionary notifications will result in liabilities to the Association, as poor workmanship appears to be the cause of many of the reported problems. As for prior year claims, payments made were limited in number, although, as noted elsewhere, this financial year saw the settlement of a large claim from the 2007/08 policy year, as well as one from the 2011/12 policy year, demonstrating that some notifications can have a very long tail prior to payment.

2. Directors' responsibility statement

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

We are satisfied that:

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

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

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

S J Peat	**H O Wells**
Director	Director

Date: 27 September 2018

3. Report of the external independent auditor to the Directors of the Wren Insurance Association Limited ('the Association') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ('SFCR')

Opinion

Except as stated below, we have audited the following documents prepared by the Association as at 30 June 2018:

- The 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Association as at 30 June 2018, ('**the Narrative Disclosures subject to audit**'); and

- Association templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21, S.28.01.01 ('**the Templates subject to audit**').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and Performance', 'System of Governance' and 'Risk Profile' elements of the Solvency and Financial Condition Report;

- Association templates S.05.01.02, S.05.02.01, S.19.01.21;

- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Association as at 30 June 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report 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 SFCR is not appropriate; or

- the Directors' have not disclosed in the SFCR 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 SFCR is authorised for issue.

Emphasis of Matter – Basis of Accounting

We draw attention to the Valuation for Solvency Purposes and Capital Management sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, 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 relevant elements of the Solvency and Financial Condition Report 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.

Responsibilities of Directors' for the Solvency and Financial Condition Report

The Directors' are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications and supplemented by the approvals and determinations by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors' are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

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

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Wren Insurance Association Limited's statutory financial statements. 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.

Thomas Reed (Senior Statutory Auditor)
For and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street,
London.
EC1A 4AB

3 October 2017

4. Business and performance

4.1 The Business

4.1.1 Name and legal form of the company

The Wren Insurance Association Limited (Wren or the Association) is a Company Limited by Guarantee registered in England and Wales (Company number 2054592).

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

The Association is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA), firm reference number 202701.

The PRA is the Supervisor for the purposes of Solvency II regulation.

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

www.bankofengland.co.uk/pra

www.fca.org.uk

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

Moore Stephens LLP, 150 Aldersgate Street, London, EC1A 4AB.

4.1.4 Legal structure

The Association is 100% owned by its Members.

4.2 Underwriting performance

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

All underwriting is carried out from Wren's office in London. In the year to 30 June 2018, the Association produced an underwriting deficit of £15,965. Table 1 shows a summary of the technical (underwriting) account.

Table 1: Summary technical account for the year ended 30 June 2018 (based on UK GAAP)

Sources of income and expenditure	**£m 2017/18**	**£m 2016/17**
Calls and premiums	10.0	10.3
Return calls	(1.7)	(1.8)
Reinsurance premiums	(2.8)	(1.5)
Investment income (LTIR basis)	2.0	2.4
Net claims incurred	(3.2)	(6.9)
Net operating expenses	(4.3)	(4.1)
Balance on the technical account	**(0.0)**	**(1.6)**

4.2.1 Reinsurance

The Association currently purchases market excess of loss reinsurance. The market excess of loss programme reduces the impact of individual large losses on the Association. The Association retains the first £3m of every claim (the Association's retention), above which the market excess of loss reinsurance arrangements respond up to the maximum limit of cover, currently set at £20m. These risk tolerances are set by the Board.

4.3 Investment performance

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

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

At 30 June 2018, the Association's investment portfolio comprised the following asset classes:

Table 2: The Association's investment portfolio at 30 June 2018

Asset Class	Amount (£m)	% of portfolio
Equities	18.0	26%
Government bonds	25.3	37%
Corporate bonds	18.5	27%
Cash	6.6	10%
	68.4	**100%**

The Association's investment portfolio returned +1.4% for the year to 30 June 2018. Over the rolling three year period, the portfolio returned an annualised return of +3.8%.

Table 3 sets out the investment return by asset class:

Table 3: Investment return by asset class

Asset class	Total (£) 2017/18	Total (£) 2016/17
Equities	721,081	3,177,401
Government bonds	43,656	263,866
Corporate bonds	84,164	767,171
Cash	(2,532)	1,277
Investment management expenses	(238,587)	(215,477)
	607,783	**3,994,238**

The Association has outsourced arrangements with the following investment managers:

- Sarasin & Partners LLP
- Schroders
- Blackrock
- Mercer

4.4 Overall business performance

In the year ended 30 June 2018, the Association produced a deficit of £1.4m and the UK GAAP balance sheet reserves decreased to £44.5m. Own funds for Solvency II proposes, measured on a best estimate basis, stood at £50.5m, an increase of £4.6m on the position reported last year.

The overall solvency position of the Association at 30 June 2018 is set out in more detail in sections 7 and 8 of this report.

5. System of governance

5.1 General information on the system of governance

5.1.1 Role and responsibilities of the administrative, management or supervisory body and key functions

The Board

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

- Policy Year and Call recommendations
- Rule changes
- Reinsurance
- Membership
- Risk and Compliance
- Release Calls
- Report and Financial Statements
- Appointment of Auditor
- Remuneration of Auditor, Directors and Management Fee
- D&O insurance
- Appointment and Retirement of Directors

The Board meets four times a year and comprises an independent non-executive chairman, up to twelve non-executive directors drawn from its architect 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 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/April. 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. The Committee does not carry out any regulatory functions.

Sub-Committees of the Board

There are three sub-committees of the board: the Audit Group, the Remuneration Group and the Nomination Sub-Committee.

Remuneration Group

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

Audit Group

The Audit Group comprises four directors of the Association (not being directors nominated by the Managers), one of whom is the Chairman of the Association 'ex officio'. The duties of the Audit Group are to review and advise the Board in relation to the financial statements, the Solvency and Financial Condition Report, internal and external audit, and the robustness of internal financial systems and controls. The Audit Group meets at least twice a year.

Nomination Sub-Committee

The Nomination Sub-Committee comprises the Chairman of the Association ('ex officio'), two other non-executive directors of the Association and one of the directors nominated by the Managers. The duties of the Nomination Sub-Committee are to review and advise the Board in relation to suitable candidates for appointment as directors of the Association, the performance and re-election of retiring directors and the appointment and re-appointment of the Chairman of the Association. The Nomination Sub-Committee meets at least annually.

In addition, other sub-groups can be established to consider other ad hoc items, for example, investment strategy.

The Association's Board and sub-committee structure is supported by the effective distribution of responsibilities across holders of Senior Insurance Managers Functions (SIMFs) and other Key Functions, notified non-executive and independent non-executive directors. The Association's integrated responsibility and corporate governance model is recorded in its Governance Map.

The Association's website provides details of the roles and responsibilities of the Board and its respective sub-committees (including their individual Terms of Reference), as well as listing the individuals who sit on them:

https://www.wrenmutual.co.uk/about-wren/corporate-governance/

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

5.1.2 Key Functions

Key functions are those functions whose operation "*if not properly managed and overseen could, depending on the nature and complexity of the business, potentially lead to significant losses being incurred or to a failure in the ongoing ability of the firm to meet its obligations to policyholders*"

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

Compliance function

The Compliance function is responsible for:

- identifying, assessing, monitoring and reporting on the Association's compliance risk exposures;
- assessing the possible impact of legislative change and monitoring the appropriateness of compliance procedures; 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 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 CRO manages the day to day risk monitoring of, and reports to the Board on, all aspects of risk management.

Internal Audit function

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

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

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

Actuarial function

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

5.1.3 Segregation of responsibilities

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

5.1.4 Material changes to the system of governance

There were no material changes to the system of governance during the 12 months from 30 June 2017 to 30 June 2018. Given the ongoing uncertainty over the Association's continued access to the Single Market following the UK exit date, the Board is formulating a Brexit contingency plan.

The size of the Association makes it prohibitively expensive and complicated, at this stage, to set up an insurance company in the EU to write European risks.

The Association has therefore been in discussions with one of its reinsurers who have agreed in principle to provide a fronting insurance to the Association's European risks which would then be reinsured 100% by the Association.

Progress with the Association's Brexit contingency plan is monitored by the Managers' Brexit Steering Group, comprising executives from the Association and other senior staff from the Managers.

5.1.5 Remuneration policy and practices

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

All the Association's key functions and services, with the exception of its Non-Executive Directors, are provided by the Managers or a third party appointed by the Managers (and approved by the Association's Board).

Managers' Remuneration

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

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

Remuneration of the Directors

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

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

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

Material Transactions

There were no material transactions during the financial year.

5.2 Fit and proper requirements

The Association has well established procedures in place to ensure that all controlled 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 Regulators' 'fit and proper' test and follow its principles;
- comply with the Statement of 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 controlled 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;
- 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 controlled function and periodically thereafter. These include:

- with the knowledge and agreement of the candidate, the completion of civil and criminal 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.

5.3 Risk management system

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

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

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

- underwriting and reserving;
- asset-liability management;
- investment, derivatives and similar commitments;
- liquidity and concentration risk management;
- operational risk management; and
- reinsurance and other risk mitigation techniques.

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

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

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

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

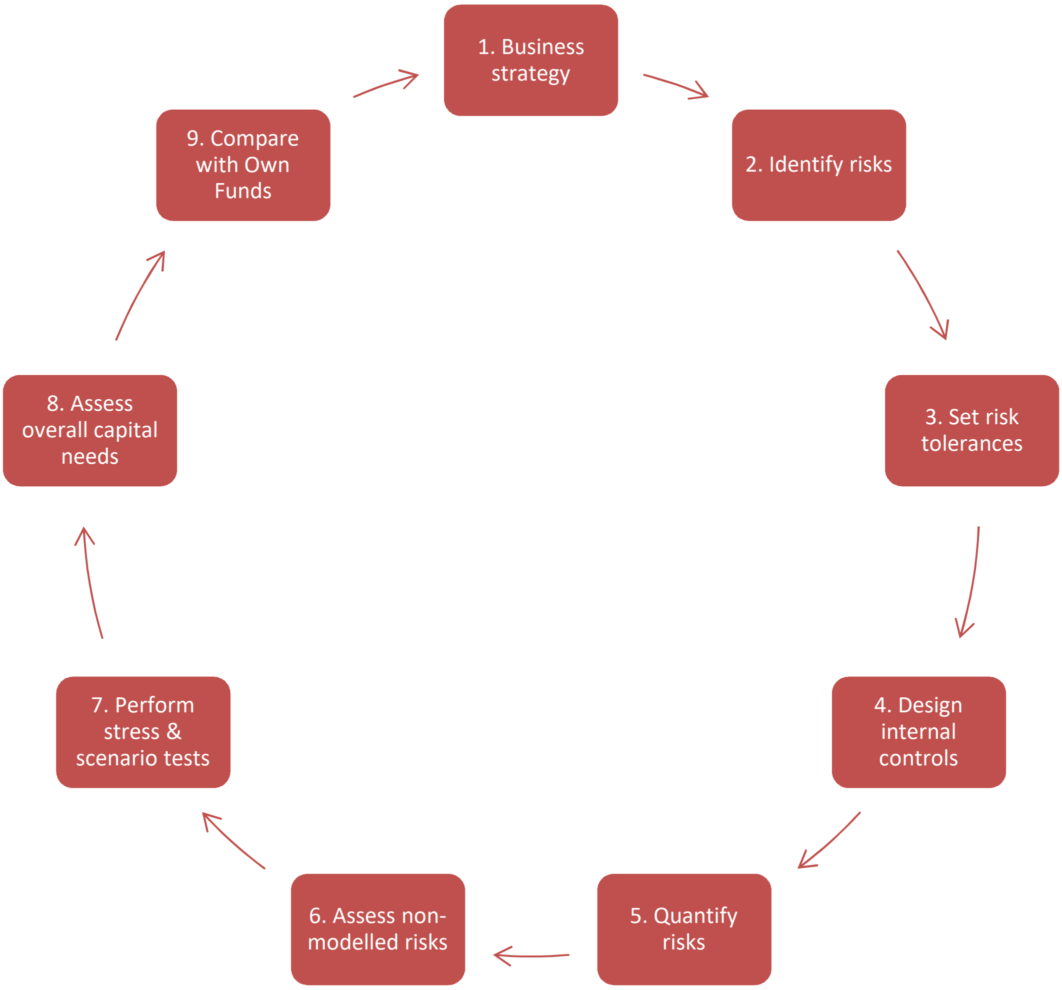
The Association's risk management system allows the Board and the senior management team to review and challenge credible risk information and make informed decisions about the risk profile of the business.

5.4 Conducting the Own Risk and Solvency Assessment (ORSA)

The ORSA is carried out in accordance with the Association's ORSA Policy (the Policy). The policy sets out required standards and guidance for conducting the ORSA process and reporting to ensure all relevant regulatory and business requirements are continuously met. The purpose of the policy is to assist the Board in implementing consistent processes to demonstrate the link between business strategy, risk appetite, risk profile and solvency needs. The Policy is reviewed and approved 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 it generates. From an operational point of view, ORSA processes and results are used to inform and support the Board when making key decisions, for example on calls on Members, Returns of call, pricing, reinsurance purchase and investment strategy.

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

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

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

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

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

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

The annual nature of the ORSA report is consistent with the stable nature of the Association's capital needs over time.

The ORSA is undertaken more frequently if specific triggers occur which are set out in the Policy. However, none of these events have occurred since the last ORSA was prepared.

5.5 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 quarterly control attestations provided to the CRO. Each identified control owner attests to the performance and effectiveness of their control environment over the six months. The CRO reports the results and any associated recommendations to the half yearly meeting of the Wren Enterprise Risk Group (WERG) 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 WERG half yearly and to the Board;
- Annual stress and scenario testing (including reverses stress tests) of the assumptions within the business plan to determine the financial, reputational, operational and capital impact of extreme adverse events. An agreed set of tests relevant to the Association's business plan and strategy are run by relevant members of the Finance and Actuarial Functions, reported to the CRO and included within the annual ORSA report;
- annual independent validation of capital calculations, including underlying assumptions and associated projections both within the Actuarial team and by the Chief Actuary;
- annual review and assessment of the effectiveness of the Association's risk management framework by the CRO;
- regulatory guidance, 'horizon scanning', recording and quarterly reporting of operational losses (actual, potential and near misses) and compliance breaches to the Board;
- half yearly compliance monitoring and reporting to the WERG 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.

5.5.1 Implementation of the Compliance Function

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

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

1. Advisory

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

2. Horizon scanning

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

3. Incident management

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

4. Regulatory relationship management

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

5. Compliance training

   - Providing direction, education and formal training on compliance and regulatory matters; and
   - Monitoring staff completion of mandated compliance and financial crime training.

6. Reporting

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

7. Oversight and assurance

   - Assessing and monitoring compliance across the business using agreed indicators and reporting the results to the Board;

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

5.6 Implementation and independence of the Internal Audit Function

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

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

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

The internal audit universe and the annual internal audit programme are presented annually to the Audit Group.

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

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

5.7 Implementation of the Actuarial Function

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

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

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

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

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

Given the structure of the Association's actuarial function, some actuarial function duties are the responsibility of the CFO. These include:

- Responsibility for, and oversight of, the outsourced actuarial function and notifying the PRA of any subsequent material developments with respect to the function;
- Coordinating and managing the calculation of the UK GAAP and Solvency II technical provisions; and
- Acting as line manager for internal actuarial personnel employed by the Association's Managers.

5.8 Outsourcing policy

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. The 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 under Solvency II 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.

Where 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 the 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, Tindall Riley & Co Limited trading as Wren Managers;
- the role of Chief Actuary provided by LCP; and
- the management of its investments to the following managers:
    - Sarasin & Partners LLP;
    - Schroders;
    - Blackrock; and
    - Mercer

5.9 Assessment of the adequacy of the systems of governance

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

6. 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 six-monthly 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 to 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 WERG half yearly and to the Board.

The assumptions underlying the Association's standard formula SCR are considered to be a good fit with its risk profile, noting that strategic risk is captured within operational risk and liquidity risk is incorporated within market risk.

The Association's standard formula SCR risk profile as at 30 June 2018 is as follows:

Key areas	Percentage of SCR
Underwriting risk	42.1%
Market risk	49.6%
Credit risk	5.6%
Operational risk	2.7%

6.1 Underwriting risk

The Association's exposure to underwriting risk is managed through the underwriting process, acquisition of reinsurance cover, the management of claims costs and the reserving process. Underwriting risk exposure arises from a single line of business: Professional indemnity (PI) risks and for the purposes of capital reporting this is categorised as General Liability insurance. All business is written in the United Kingdom (UK) and majority of the exposure is UK based.

6.1.1 Underwriting process

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

6.1.2 Reinsurance

The establishment of the Association's reinsurance programme is driven by the Board's objective of managing risk to an acceptable level and to optimise the Association's capital position. The programme comprises excess of loss reinsurance cover from reputable reinsurers in the London Market covering various reinsurance layers between £3.0m and £20.0m.

6.1.3 Management of claims cost – 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 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.

6.1.4 Reserving process

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

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

6.1.5 Sensitivity testing of underwriting risk

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

	2018	2017
	£	£
Increase in loss ratio by 5 percentage points		
Gross	**502,933**	513,676
Net	**275,338**	347,568

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

6.2 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 price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities.

The investment strategy, which is reviewed periodically, is set by the Board with the assistance of external investment consultants. The strategy reflects the risk appetite of the Association and is designed to maximise return while holding risk to a level deemed acceptable. The policy allows the investment managers to invest a proportion of the portfolio in assets which carry a greater risk but potentially higher return (the growth portfolio), such as equities, with the majority in lower risk investments that match liabilities and provide a cash buffer (the matching portfolio).

6.2.1 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 the volatility of surpluses/deficits. The table below shows the effects of a 0.5% increase or decrease in interest on earnings from debt securities:

	2018	2017
	£	£
0.5% increase in interest rates	**24,552**	24,332
0.5% decrease in interest rates	**(24,552)**	(24,332)

6.2.2 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 26% (2017 – 28%) of the investment portfolio. The value of the equity holding at the year end amounted to £18.0m (2017 – £19.45m).

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

	2018	2017
	£	£
5% increase in equity price	900,743	971,060
5% decrease in equity price	(900,743)	(971,060)
5% increase in corporate bond price	923,491	919,283
5% decrease in corporate bond price	(923,491)	(919,283)
5% increase in fixed interest price	1,265,308	1,137,569
5% decrease in fixed interest price	(1,265,308)	(1,137,569)

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.

6.3 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.

6.3.1 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 Towers Watson, 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.

6.3.2 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.

6.3.3 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.

	2018 **£**	2017 £
Debt securities	**43,775,973**	41,137,034
Reinsurers share of technical provisions	**-**	11,147,560
Reinsurance debtors	**5,791,044**	738,903
Member and other debtors	**84,811**	7,846
Deposits with credit institutions	**6,620,568**	9,418,170
Cash at bank	**2,433,279**	2,268,187
Total financial assets bearing risk	**58,705,675**	**64,717,700**

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

	2018 **£**	2017 £
AAA	**470,082**	5,918,170
AA	**30,780,887**	25,563,575
A	**11,724,323**	15,654,650
BBB+ and below	**15,645,572**	17,573,459
No rating	**84,811**	7,846
Total financial assets bearing risk	**58,705,675**	**64,717,700**

The unrated exposures relate to amounts due from Members.

6.4 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 adapted 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 2018	Short term assets £	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
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 is based on current estimates and historic trends. The actual timings of cash flows may be materially different from those disclosed below:

At 30 June 2018	Short term liabilities £	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
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**

6.5 Operational risk

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

The assessment of key operational risks and associated controls is recorded in the Association's Risk Register which is updated and reported to the Board on a quarterly basis.

Operational risk is also measured through a set of risk scenarios – those scenarios used in the Association's ECB as at 30 June 2018 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 Errors and Omissions insurance; validation of references; background checks and the segregation of duties.

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

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

6.6 Strategic Risk

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

Strategic risk is accepted where sufficient value is available.

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

7. Valuation of assets and liabilities for solvency purposes

7.1 Assets

Table 4 sets out the value of the Association's assets at 30 June 2018.

Table 4: Valuation of the Association's assets

	Assets per GAAP £m	Assets per Solvency II £m	Variance £m
Financial investments	68.4	68.6	(0.2)
Reinsurance recoverable	-	(0.4)	0.4
Other assets	8.6	8.4	0.2
Total assets	**77.0**	**76.6**	**0.4**

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

<u>Investments</u>

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.

Accrued interest for the purposes of Solvency II has been included in financial investments whereas for UK GAAP this is included in 'other assets'.

<u>Reinsurers' share of technical provisions</u>

In the Solvency II balance sheet, the reinsurers' share of technical provisions is valued as part of net technical provisions. Additional market reinsurance recoveries have been accounted for under Solvency II compared to GAAP to take into account a potential deterioration in one reported notification at year end. These are the only differences in valuation between GAAP and Solvency II.

<u>Other assets</u>

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

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

7.2 Technical provisions – Solvency II basis

At 30 June 2018, the Association held technical provisions, valued for Solvency II purposes, of £23.18m.

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

Table 5 shows the analysis of these provisions between best estimate and risk margin, and compares them to the UK GAAP technical provisions.

Table 5: Analysis of technical provisions at 30 June 2018

	Gross £m	**RI £m**	**Net* £m**
Balance per UK GAAP	29.67	-	29.67
Prudence Margin (GAAP to BE)	(10.86)	0.96	(9.90)
Bound but not incepted (“BBNI”) business	(0.98)	(1.41)	(2.39)
Non-investment expenses	0.63	-	0.63
Reinsurance credit default	-	-	-
ENID	1.86	0.10	1.96
Investment expenses	0.30	-	0.30
Discounting	(0.95)	(0.03)	(0.98)
Balance per Solvency II before risk margin adjustment	19.67	(0.38)	19.29
Risk Margin	3.51	-	3.51
Balance per SII	23.18	(0.38)	22.80
Variance between SII and GAAP variance	6.49	0.38	6.87

* The net amount in table 5 above is calculated as Gross less RI

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

- all margins for prudence are removed;
- a provision is made for events not in data (“ENID”) to represent a true average of future outcomes;
- technical provisions are stated both gross and net of reinsurance;
- an allowance is made for business which is ‘bound but not incepted’(BBNI) as at 30 June 2018; and
- an additional Solvency II risk margin is added, which is intended to represent a notional market value adjustment.

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

Solvency II Technical Provisions methodology

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

Homogeneous risk groups

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

Gross claims cashflows and reinsurance recoveries

Gross claims are projected to ultimate cost using standard actuarial techniques including Bornhuetter-Ferguson and chain ladder with some judgment overlaid. This judgment is important because of the nature of the historical data and the need to apply relevant information regarding specific claims. The key assumptions made include the projected development patterns (both incurred and paid), initial expected loss ratio for the most recent policy years and the credibility assigned to the loss ratio.

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

At the valuation date, 30 June 2018, the Association had no unearned business except for business that was bound but not incepted (BBNI). This is because all coverage is annual, renews prior to year-end and incepts on the first day of the policy year. For the purposes of Solvency II, any business that is bound to be written before the beginning of the Association's financial year (i.e. from 1 July 2018) 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 inflows 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 calls projections (business plan) and the ultimate gross claims and reinsurance recoveries are outputs from the Association's premium risk model. This is a stochastic model which projects future gross claims by applying a statistical distribution (based on historical claims experience) to the exposure. The gross claims are then subjected to the applicable reinsurance programme to obtain the expected reinsurance recoveries.

A percentage loading is added to both earned and BBNI business to allow for events not in data (ENIDs), which allows for severe events to which the Association could be exposed but which are absent from the historical data. The ENIDs percentage loading has been calculated using the Lloyd's Approximation Method 1, which is a simple and pragmatic calculation based on the assumption that the underlying data is a good fit with the log-normal distribution. The model uses the estimated coefficient of variation from the underlying data and an estimated return period to calculate the percentage loading.

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

Premiums

Future amounts and timing of premium cashflows are assumed to be in line with the latest call setting decisions.

Gross and reinsurance premiums for the BBNI business are taken from the projected 2018/19 policy year, which forms the Association's business plan.

Expenses

Acquisition and administrative expenses

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

For BBNI business, acquisition costs and internal administrative costs are calculated as a percentage of the total operating costs from the business plan for the forthcoming policy year. The operating costs from the business plan are set assuming a percentage increase in operating costs from 2018/19 plus some specific additional costs. The external administrative costs are taken from 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 are split between expenses that are expected to be paid in the 2018/19 policy year and expenses paid in subsequent years. The expenses paid in 2018/19 are calculated as an assumed percentage of the total operating costs for the forthcoming year. The expenses paid beyond 2018/19 are the same as those included in the GAAP reserves. The unallocated claims handling expenses are allocated between claims and premium provisions in proportion to claims payments.

Investment management expenses

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

Discounting

Claims, premium and expense cashflows have been discounted using the GBP EIOPA yield curve as at 30 June 2018.

Risk Margin

The method used to calculate the risk margin is to:

- estimate the SCR for the Association using the standard formula;
- project the future SCRs using different runoff patterns for different elements of the SCR as follows:
    - non-life underwriting 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; and
- discount and sum the projected SCRs and multiply by the cost of capital.

Uncertainty associated with the value of technical provisions

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

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

Data adjustments and recommendations

There were no data deficiencies for which an adjustment was necessary. Improvements to the data governance procedures are planned for 2018/19 including the introduction of a data governance policy and data controls.

Changes since the last reporting period

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

7.3 Other liabilities

Table 6 sets out the value of the Association’s other liabilities at 30 June 2018.

Table 6: Valuation of the Association’s other liabilities

	Liabilities per GAAP £m	Liabilities per Solvency II £m	Variance £m
Member creditors	2.0	1.9	0.1
Other creditors	0.5	0.8	(0.3)
Reinsurance creditors	0.3	0.2	0.1
Other liabilities	**2.8**	**2.9**	**(0.1)**

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

Alternative methods of valuation

The Association does not use any alternative valuation methods.

8. Capital management

8.1 Own funds

The Association's Business Plan and ORSA process measure the current and projected capital and solvency position over a three-year time horizon. The core capital management objective over this period 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 economic capital benchmark).

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

At 30 June 2018 and 2017, the Association held the following own funds.

Table 7: Solvency II Own funds at 30 June 2017

	30 June 2018 £m	30 June 2017 £m	Movement £m
Income and expenditure account	9.68	9.32	0.36
Investment reserve	11.30	10.06	1.25
Reinsurance reserve	10.22	13.28	(3.05)
General reserve	13.25	13.25	-
Total resources	44.46	45.90	(1.45)
Solvency II adjustment (tables 4, 5 and 6)	6.07	0.04	6.03
Total own funds	50.52	45.94	4.58

<u>Analysis of significant changes during the period</u>

Table 8 shows the movement in own funds between 30 June 2017 and 30 June 2018:

Table 8: Movement in Own Funds between 30 June 2017 and 30 June 2018

	£m
Own funds at June 2017	45.94
Decrease in net technical provisions	13.65
Decrease in investments	(1.55)
Decrease in other assets	(7.59)
Decrease in other liabilities	0.08
Total own funds at 30 June 2018	50.52

Table 9 shows the reconciliation between UK GAAP net asset value and Solvency II net asset value at 30 June 2018:

Table 9: Differences between UK GAAP and Solvency II net asset value

	£m
Total Resources – UK GAAP	44.46
Asset valuation difference	(0.42)
Gross technical provisions valuation difference	6.79
Liability valuation difference	(0.30)
Total own funds – Solvency II	50.52

8.2 Solvency Capital Requirement (SCR)

Table 10 shows an analysis of the Association's SCR on a group basis split by risk modules and comparison to the previous year end.

Table 10: Comparison of the SCR with that at 30 June 2017

	SCR		
Heads of risk	**30 June 2018 £m**	**30 June 2017 £m**	**Movement £m**
Underwriting risk	9.0	11.9	(2.9)
Market risk	10.7	11.8	(1.1)
Counterparty default risk	1.2	2.7	(1.5)
Operational risk	0.6	1.0	(0.4)
Aggregate SCR	**21.5**	**27.4**	**(5.9)**
Correlation credit	(4.7)	(6.3)	(1.6)
Aggregate SCR net of correlations	**16.8**	**21.1**	**(4.3)**

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

The main changes in the SCR since 30 June 2017 reflect the following factors.

<u>Underwriting risk</u>

SCR underwriting risk capital 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. Reserve risk is based on the valuation of net technical (claims) provisions. CAT risk is based on a prescribed scenario-based approach of one claim from a member resulting in one full claim on the Association.

Reserve risk is the main driver of the decrease in overall underwriting risk since last year. Reserve risk has decreased significantly as a result of a reduction in the best estimate claims provisions. Premium risk has also decreased slightly as a result of lower net premiums written in the last 12 months compared to the previous 12 months. CAT risk remains the same as last year as the Association’s limit of cover and reinsurance structure has remained the same and therefore the net impact to the Association of one full claim also remains the same.

Overall, SCR underwriting risk capital has decreased by £2.9m which represents a 24% reduction since last year.

Market risk

Market risk is driven by a combination of market risk drivers - interest rate risk, equity risk, currency risk, spread risk and concentration risk.

The decrease in overall market risk has been driven primarily by a decrease in spread risk of £0.7m. The lower spread risk capital charge is as a result of a decrease in the average duration of the assets held within the growth portfolio which are subject to spread risk.

Currency risk has also reduced by £0.7m. This is as a result of assets and liabilities being matched more closely by currency compared to the position last year.

The value of the Association’s equity holdings based on look through investment data has reduced by £0.3m since last year which has driven a corresponding reduction of a similar size on the equity risk capital charge.

An increase in the value of the investment assets less the claims liabilities that are exposed to interest rate fluctuations has resulted in an increase of £0.4m in interest rate risk.

A concentration risk capital charge of £0.2m has arisen this year as a result of the amount invested in particular counterparties exceeding the Solvency II concentration risk threshold. In previous submissions, there was no concentration risk charge as the amounts were deemed to be negligible.

Furthermore, the correlation credit between the elements of market risk described remains at a very similar level to last year at £4.3m.

Overall, SCR market risk capital has decreased by £1.1m which represents a 9% reduction since last year.

Counterparty default risk

The counterparty default risk capital requirement has decreased in the past 12 months. This has been driven by a decrease in all three key exposures of the counterparty default risk calculation – the value of cash related investments held by the Association, the reinsurer’s share of technical provisions and debtors on the Solvency II balance sheet.

The reduction in the value of cash related investments held by the Association, the reinsurers share of technical provisions and the debtors on the Solvency II balance sheet is primarily as a result of the settlement of a large claim. Last year, this large claim was reserved in excess of the reinsurance retention and therefore the expected reinsurance recoveries were subject to the risk of default of the reinsurance counterparties in the counterparty default risk calculation. During the year, this claim has been fully settled and paid and is therefore no longer subject to counterparty default risk. The claim was paid out of the Association’s cash related investments, hence the total value of cash related investments at risk of counterparty default has also reduced. Furthermore, last year there were debtors on the balance sheet in respect of the Citadel commutation. However, Citadel has now been fully commuted so there are no longer any debtors on the balance sheet in respect to Citadel. The debtors this year are largely in respect of reinsurance operations whereby the reinsurance recoveries on the large claim mentioned above were still outstanding at the year end and were received shortly after year end.

Overall, SCR counterparty default risk capital has decreased by £1.5m which represents a 56% reduction since last year.

Operational risk

There has been a decrease of £0.4m in the operational risk charge since last year. Under the Standard Formula, operational risk is calculated as the maximum of a proportion of either the gross technical provisions (excluding risk margin) or gross earned premium (the greater of the amounts in the last 12 or 24 months), subject to a minimum of 30% of the calculated basic SCR. The gross technical provisions are the higher of the two and it is therefore the decrease in gross technical provisions that has driven the decrease in operational risk.

Overall, SCR counterparty default risk capital has decreased by £0.4m which represents a 40% reduction since last year.

Overall movement

Overall, the SCR has decreased by £4.3m year on year, from £21.1m to £16.8m.

8.3 Minimum Capital Requirement (MCR)

The MCR calculation is based on the net value of technical provisions and the expected level of retained premiums over the 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 both 30 June 2017 and 30 June 2018, the MCR has been set at the minimum level, i.e. equal to 25% of the SCR. The MCR as at 30 June 2018 was £4.2m, down from £5.3m last year, reflecting lower net retained premiums and net technical provisions.

8.4 The Association's overall capital position.

Table 11 shows the Association's capital position in relation to the SCR and the MCR.

Table 11: Summary of the Association's capital position at 30 June 2018

	SCR £m	MCR £m
Capital requirement	16.8	4.2
Own funds available	50.5	50.5
Headroom	33.7	46.3
Solvency ratio	3.0	12.0

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

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

The Wren Insurance Association Limited

Solvency and Financial Condition Report

Disclosures

30 June

2018

(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 2018
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	68,601
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	7,641
R0110	*Equities - listed*	7,641
R0120	*Equities - unlisted*	
R0130	*Bonds*	25,492
R0140	*Government Bonds*	25,492
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	31,494
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	3,974
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	-383
R0280	*Non-life and health similar to non-life*	-383
R0290	*Non-life excluding health*	-383
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	85
R0370	Reinsurance receivables	5,791
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	0
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	2,433
R0420	Any other assets, not elsewhere shown	30
R0500	**Total assets**	76,557

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	23,180
R0520	*Technical provisions - non-life (excluding health)*	23,180
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	19,670
R0550	*Risk margin*	3,510
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	2,081
R0830	Reinsurance payables	292
R0840	Payables (trade, not insurance)	18
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	462
R0900	**Total liabilities**	26,033
R1000	**Excess of assets over liabilities**	50,524

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business								8,353									8,353
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share								2,846									2,846
R0200	Net								5,507									5,507
	Premiums earned																	
R0210	Gross - Direct Business								8,353									8,353
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share								2,846									2,846
R0300	Net								5,507									5,507
	Claims incurred																	
R0310	Gross - Direct Business								7,165									7,165
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share								4,603									4,603
R0400	Net								2,562									2,562
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net								0									0
R0550	**Expenses incurred**								5,183									5,183
R1200	**Other expenses**																	
R1300	**Total expenses**																	5,183

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	8,353						8,353
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	2,846						2,846
R0200	Net	5,507	0	0	0	0	0	5,507
	Premiums earned							
R0210	Gross - Direct Business	8,353						8,353
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	2,846						2,846
R0300	Net	5,507	0	0	0	0	0	5,507
	Claims incurred							
R0310	Gross - Direct Business	7,165						7,165
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	4,603						4,603
R0400	Net	2,562	0	0	0	0	0	2,562
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	5,183						5,183
R1200	**Other expenses**							
R1300	**Total expenses**							5,183

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**								0									0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross								307									307
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								-1,402									-1,402
R0150	**Net Best Estimate of Premium Provisions**								1,709									1,709
	Claims provisions																	
R0160	Gross								19,363									19,363
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								1,019									1,019
R0250	**Net Best Estimate of Claims Provisions**								18,344									18,344
R0260	**Total best estimate - gross**								19,670									19,670
R0270	**Total best estimate - net**								20,053									20,053
R0280	**Risk margin**								3,510									3,510
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**								23,180									23,180
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**								-383									-383
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**								23,563									23,563

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Underwriting Year

Gross Claims Paid (non-cumulative)

(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											11,008	11,008	11,008
R0160	2009	31	104	220	317	27	3,228	35	1,495	0	0		0	5,456
R0170	2010	36	60	558	45	485	26	15	9	42			42	1,275
R0180	2011	54	84	344	789	318	1,010	5	649				649	3,253
R0190	2012	26	61	1,152	186	34	1,031	1,185					1,185	3,674
R0200	2013	54	155	9	878	2	0						0	1,097
R0210	2014	24	684	11	84	19							19	821
R0220	2015	3	42	27	22								22	95
R0230	2016	12	15	55									55	83
R0240	2017	0	52										52	53
R0250	2018	136											136	136
R0260												Total	13,169	26,950

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											42	41
R0160	2009	0	0	0	0	0	0	0	9	0	0		0
R0170	2010	0	0	0	0	0	0	5,522	2,963	933			922
R0180	2011	0	0	0	0	0	2,084	729	57				55
R0190	2012	0	0	0	0	3,939	4,745	0					0
R0200	2013	0	0	0	2,410	1,197	583						566
R0210	2014	0	0	2,238	1,405	132							129
R0220	2015	0	3,746	5,278	7,009								6,780
R0230	2016	5,584	3,804	1,361									1,319
R0240	2017	5,038	2,614										2,530
R0250	2018	7,313											7,021
R0260												Total	19,363

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Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	50,524	50,524			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	50,524	50,524	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	50,524	50,524	0	0	0
R0510	Total available own funds to meet the MCR	50,524	50,524	0	0	
R0540	Total eligible own funds to meet the SCR	50,524	50,524	0	0	0
R0550	Total eligible own funds to meet the MCR	50,524	50,524	0	0	
R0580	**SCR**	16,773				
R0600	**MCR**	4,193				
R0620	**Ratio of Eligible own funds to SCR**	301.21%				
R0640	**Ratio of Eligible own funds to MCR**	1204.85%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	50,524
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	50,524
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	10,654		
R0020	Counterparty default risk	1,199		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	9,035		
R0060	Diversification	-4,704		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	16,183		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	590
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	16,773
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	16,773

	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	2,787

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	0	
R0090	General liability insurance and proportional reinsurance	20,053	5,507
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	0

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

	Overall MCR calculation	C0070
R0300	Linear MCR	2,787
R0310	SCR	16,773
R0320	MCR cap	7,548
R0330	MCR floor	4,193
R0340	Combined MCR	4,193
R0350	Absolute floor of the MCR	3,251
R0400	**Minimum Capital Requirement**	4,193