

THE WREN INSURANCE ASSOCIATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
Year ended 30 June 2022

2022



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2022

The Wren Insurance Association Limited ('Wren' or 'the Association') is a mutual insurance company which provides professional indemnity insurance to a select group of architectural practices. Founded in 1987, at the date of signing these financial statements it currently has 70 (2021 – 70) Members. Of the 70 (2021 – 70) current Members, one Member has run-off cover only (2021 – one).

The Association's strategic objectives were first established in response to the concerns of its founding Members, and are regularly reviewed to ensure that they remain relevant. At the most recent review in 2019, the main strategic objectives were agreed as follows:

- Deliver cost-effective insurance in the long-term;
- Provide Members with control over their professional indemnity insurance and promote the interests of the membership as a whole on insurance issues affecting architects;
- Maintain appropriate cover and assist Members to align their contractual liabilities with the cover provided;
- Maintain stability in the cost of cover and remain as independent of reinsurance as is appropriate;
- 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 profession.

FINANCE AND UNDERWRITING

The Association's financial statements for the year ended 30 June 2022 have been prepared in the midst of the Russian invasion of Ukraine and one of the largest spikes in inflation for over 40 years.

During the previous financial year the Association experienced a strong return in its investment portfolio following periods of significant volatility, however, this strong return was offset by the deterioration of cladding notifications. During the current financial year ended 30 June 2022 the Association has experienced a complete 180 degree rotation in fortunes where the current policy year notifications and the prior year cladding notifications have stabilised and seen some reserve releases as noted in note 4 of these financial statements. This positive development was offset by investment losses which were driven by the spike in inflation, rising interest rates and the invasion of Ukraine by Russia.

The combination of these factors resulted in an overall surplus for the year of £0.8m (2021 – £0.8m) which resulted in the Association's capital and reserves increasing marginally from £39.0m to £39.9m. The Association remains in a sound financial position, with capital in excess of the Solvency Capital Requirement (SCR) set by the Prudential Regulation Authority (PRA).

At the renewal on 1 July 2021, there was an 'as expiry' renewal of the cladding cover provided, capped at an aggregate exposure for the Association. The Association saw further growth in membership during the policy year with one new Member joining the Association while one Member left the Association following this Member going into administration. At the end of the policy year the Association had 70 Members. Overall, total Call income of the Association was down compared to the prior year, at £19.2m (2021 – £19.9m) largely due to lower fee income being declared at renewal compared to the prior year.

Reinsurance costs were higher than the prior year at £3.4m (2021 – £3.0m), due to the an increase in the reinsurance rates compared to the prior year and the reinstatement premium paid in respect of the 2009/10 policy year following the settlement of a large claim.

The investment income credited to the policy year, which is based on the expected longer-term rate of return, was marginally higher than the previous year at £2.4m (2021 – £2.3m). This was the result of the higher projected portfolio when the budget was set, but the longer-term rate remained the same as the prior year at 2.6%.

Net claims incurred for the financial year were significantly lower than the prior year – £1.0m against £17.2m. Gross claims paid, at £15.8m, were higher than the prior year's figure of £7.4m but this simply reflects the timing of settlement.



02 STRATEGIC REPORT

Following the settlement of a number of large claims, reinsurance recoveries of £5.5m were made during the current year (2021 – £0).

GAAP ultimate claims (consisting of paid, outstanding and IBNER) in the 2021/22 policy year were marginally higher in value than in 2020/21 and higher in number at 135 (2021 – 115). Following the end of the policy year seven additional notifications were accepted, bringing the total notifications to 142. None of these notifications carried a figured reserve above £100,000. The Association has continued to see the notifications that involve cladding develop with a few of those settling during the current year. However, a promising sign is that the deterioration seen over the last two financial years has not been seen during the current financial year and the values of those notifications appear to be stabilising.

A number of these notifications remain precautionary in nature, but have the potential to develop into significant claims against the Association. The potential liability is continually assessed as there is limited information available to confidently predict settlement outcomes at this stage. Using the reserving approach adopted in the 2020 financial year, these cladding related notifications have seen limited changes in aggregate projected values compared to the prior year. Gross outstanding claims at year end of £46.0m have seen a reduction in value compared to the prior year of £56.5m, reflecting the settlement of a number of large claims. Following the settlement of the large gross outstanding claims, reinsurers' share of outstanding claims reduced to £3.9m from £5.2m. The claims position in older policy years showed an improvement, with a £7.4m release compared to a deterioration of £9.6m in the prior year. This reflected the improvement and settlement of a number of notifications during the current year and the release of surplus IBNER.

Operating costs were higher than in 2021/22 at £5.8m (2020/21 – £5.4m), reflecting an inflationary increase to the management fee and regulatory fees. The balance on the underwriting (technical) account was a surplus of £11.4m (2021 – deficit of £3.5m).

The actual investment return achieved for the year, was a deficit of £8.2m compared to a surplus of £8.1m, significantly below the long-term rate, which resulted in a transfer from the investment reserve, after adjusting for tax, of £10.6m (2021 – transfer to the investment reserve of £4.7m). More commentary on the investment performance is set out in the investment report below.

The Association's net surplus after tax for the financial year was £0.8m (2021 – £0.8m).

The free reserves of the Association at 30 June 2022 in aggregate stood at £39.9m (2021 – £39.0m). The investment reserve decreased to £5.2m (2021 – £15.8m), reflecting the transfer to the income and expenditure account. The income and expenditure account increased by £10.6m, as a result of the underwriting surplus reflecting the positive development in notifications. The general reserve increased to £14.6m (2021 – £14.1m), and finally the reinsurance reserve is £0.4m (2021 – £0). The Association overall remains adequately capitalised.

The Board agreed in April 2022 that there was no necessity for a general rate increase at 1 July 2022. At the 2022/23 renewal, all of the Association's expiring Members renewed their cover.

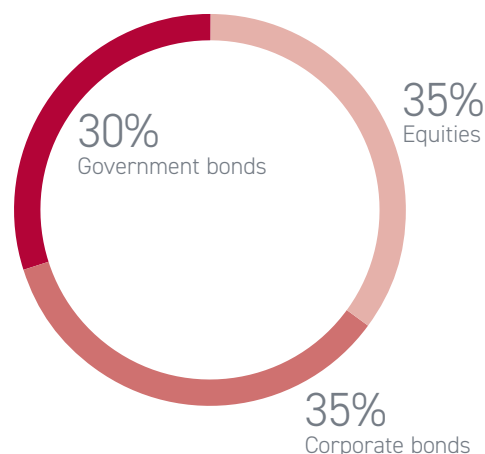
INVESTMENT STRATEGY AND PERFORMANCE

The Association's investment strategy is the responsibility of the Board, with an investment strategy group making recommendations, assisted by its investment manager, Mercer. There has been no material change to the Association's investment strategy during the year.

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

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

INVESTMENT HOLDINGS AT 30 JUNE 2022



The investment performance during the financial year is a tale of two halves with the first half of the year seeing continued recovery from the volatility of the COVID-19 pandemic and the return keeping pace with that of the longer-term rate of return. However, during the second half of the financial year concerns around rising inflation, the gradual increase of interest rates from record lows and the unexpected invasion of Ukraine by Russia during February spooked investors and significant volatility returned to investment markets. This volatility ultimately eroded the returns seen during the first half of the year and generated a significant unrealised loss during the second half of the financial year.

In the year ended 30 June 2022, the overall investment return on investments was negative 10.3%, equivalent to a loss of £8.2m, compared to a long-term rate of 3.2%. The best performing asset class was fixed interest investments, with a return of negative 4.1% before investment management expenses.

The return on investments comprises:

	2022	2021
Investment income (note 6)	1,317,176	(281,500)
Unrealised (loss)/gain on investments	(9,517,755)	8,417,104
Investment management expenses	(10,711)	(10,160)
Total return on investments	(8,211,290)	8,125,444

KEY PERFORMANCE INDICATORS

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

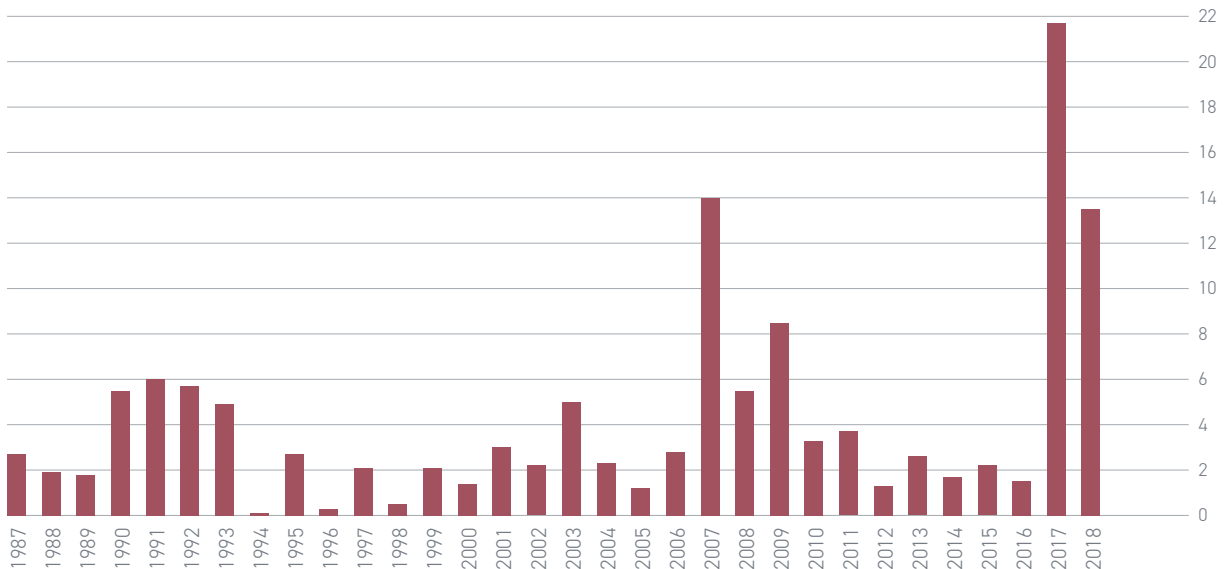
The total reserves of £39.9m (2021 – £39.0m) are sufficient to meet its regulatory requirements and provide the Association with the resources required to meet its strategic objectives as set out on page 1 of the Strategic Report.

CLAIMS

While the Association has continued to receive cladding and fire-related notifications arising out of the repercussions from the Grenfell Tower fire in June 2017, the incidence of these has reduced, as has their apparent severity. Many of these notifications remain precautionary and at an early stage of development, as potential claimants consider their position. In the last year, further Government funding has been allocated to rectification of buildings with fire protection concerns. The Government has also implemented a levy on property developers to fund such works and secured pledges from housebuilders to rectify fire protection concerns on their buildings constructed in the last 30 years. These measures seem likely to promote more remedial works being undertaken and accordingly more activity in relation to the Association's cladding and fire-related notifications. During the last year, the Association has seen a number of cladding and fire-related claims moving towards settlement with some payments made in order to dispose of them, and that seems likely to continue into the coming year. These claim outcomes have informed the Association's reserving, with this additional data assisting in reducing the level of uncertainty around these types of claim.

Looking ahead, the Building Safety Act enacted changes to the Defective Premises Act (DPA) with effect from 28 June 2022, extending the limitation period for claims under the DPA from 6 years to 30 years,

CLAIMS BEFORE REINSURANCE RECOVERIES £M



Policy year (Data in 2019, 2020 and 2021 policy years is insufficient to make accurate projections)

with retrospective effect. This means that some DPA claims previously time-barred are now viable once again. The DPA confers remedies on the owners of residential 'dwellings' against the designers and constructors of those 'dwellings' if they are found to be 'unfit for human habitation'. There is a risk that the Courts will decide that buildings with unsafe cladding or insulation meet that threshold, thereby exposing Members to claims under the DPA. An analysis has been undertaken of the Association's existing dormant cladding and fire-related notifications which may be re-activated by the changes to the DPA, and this has been reflected in the Association's reserving. The extent of new cladding and fire-related claims that may arise from the DPA is unknown, although the Association's exposure to such claims would be subject to an overall aggregate limit of £5.5m.

CONTRACT REVIEW

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

RISK MANAGEMENT OF MEMBERS

The 2020-22 programme of Wren risk management reviews of Member offices in the UK continues, with reviews being conducted remotely or in person. A series of presentations are offered to Members on request, and these have also been conducted both remotely and in person. Additional guidance to that included in the Wren Risk Management Guidelines is issued to Members to reflect the most recent developments in the construction industry, the latest Court decisions, new or pending legislation and Members' claims experience.

RULES OF THE ASSOCIATION

The Managers and the Board continue to review the cover provided by the Association to ensure that it meets the needs of the Members and responds to developments in the market, while remaining as broad as is sustainable in the long-term. A number of housekeeping amendments were made to the Rules with effect from 1 July 2022. The changes removed outdated references to personal liability of individual Members and updated the Rules relating to non-disclosure and trade and economic sanctions to clarify the extent of the cover provided by the Association.

PRINCIPAL BUSINESS RISKS AND UNCERTAINTIES

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

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

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

MARKET CONDITIONS

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

The Board agreed to continue to provide cover for Cladding claims (as defined) involving Residential buildings (as defined) from 1 July 2021 but to limit the cover provided by the Association on a per Member per policy year basis, capped for all cladding claims in the policy year, with some reinsurance protection secured.

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



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

COVID-19

The directors have considered the impact on the Association's business of the long-term impact of the COVID-19 pandemic and have concluded, that there is no material risk to the underlying risks covered or to the Association being able to continue its operations for the foreseeable future.

FUTURE DEVELOPMENT

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

WREN SCHOLARSHIPS

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

Five scholarships of £6,000 each were awarded in September 2021, and the 2022 cohort award will be made in September 2022. Eight scholarship recipients from the 2019, 2020 and 2021 cohorts attended the Members' Forum, which took place in April 2022.

CLIMATE CHANGE

The Board has ultimate oversight of climate-related risks and opportunities to the Association. These inevitably arise from the work done by the Members insured by the Association and the operational activities of the Managers, Tindall Riley & Co Limited trading as Wren Managers (the Managers), to whom day to day operations are outsourced. The Managers assess and manage the latter risks.

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

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

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

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

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

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

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

The Association's key stakeholders are the Members, who comprise the architectural practices that have their professional indemnity insurance provided by the Association. The Association's corporate governance structure includes a Committee, which has a representative from each Member practice, and which allows wider engagement with the membership on the impacts of the main decisions of the Board, which include Call setting, investment strategy and setting the Association's strategic direction.

At the Committee meeting in April 2022 the Managers provided a briefing on the key decisions that had been taken during the year, primarily in relation to the Call setting for the policy year renewing on 1 July 2022. This included the decision to apply an 'as expiry' renewal.

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

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

The Association has built strong relationships with these stakeholders over the years. In particular, the average length of the current membership of the Association is 17 years.

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

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

The Association has for many years aligned the way that it does business with the Regulators' conduct rules, such as 'treating customers fairly'. As a mutual insurance business, the fair treatment by the Association of its Members is a fundamental principle. It has in place an Ethics policy which sets out these regulatory conduct rules and covers additional areas such as the Whistleblowing policy, how the Association manages conflicts of interest, the Remuneration policy, the Association's modern slavery statement and the Anti-bribery and Corruption policy. The Association also has a financial crime policy.

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

The financial statements were authorised for issue by the Board on 28 September 2022.

C P Bennie Chair
28 September 2022



The directors have pleasure in presenting their report together with the audited financial statements for the year to 30 June 2022.

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

The names of the directors are shown on page 32. David Stanford retired from the Board on 5 April 2022, and the Board agreed to appoint Christopher Bennie to succeed him as Chair of the Association. At the Annual General Meeting on 5 April 2022, James Greaves, Jonathan Hall and Nicholas Thompson retired by rotation and were reappointed, and the Members agreed to appoint Emily Rae to the Board to fill the vacancy arising from Mr Stanford's retirement.

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

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

DIRECTORS' INDEMNITY INSURANCE

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

FINANCIAL INSTRUMENTS

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

FUTURE DEVELOPMENTS

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

AUDIT

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

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

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

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

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

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

ENERGY AND CARBON REPORTING

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

- 1) Turnover (or gross income) of £36m or more;
- 2) Statement of financial position assets of £18m or more;
- 3) 250 employees or more

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

SUBSEQUENT EVENTS

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

S N Parramore Secretary
28 September 2022

08 AUDIT GROUP REPORT

The key role of the Audit Group is to protect Members' interests in relation to the Association's financial reporting and internal controls. I am pleased to present the Audit Group's Report on how the Group fulfilled that role in the year to 30 June 2022.

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

Anthony Poole, BSc (Hons), BA (Hons), Dip Arch ARB RIBA (Member since March 2018) (Deputy Chair)

Nicholas Thompson, BSc (Hons), MBA, ACMA (Member since March 2021)

Heather Wells, BSc (Hons), ACMA (Member since June 2013) (Chair)

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

FINANCIAL REPORTING

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

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

The Audit Group is satisfied that the external auditor remains independent. During the course of 2021/2022 Mazars LLP did not receive any fees from the Association in respect of non-audit work.

The valuation of the Association's technical provisions is always an area of particular focus for both the Audit Group and the external auditor. Mazars LLP concluded that the technical provisions at 30 June 2022 were fairly stated and consistent with the evidence obtained.

The Audit Group is pleased to report that the 2022 external audit proceeded smoothly and that no matters of concern were raised.

The Audit Group is also charged to make recommendations to the Board concerning the appointment or reappointment of the external auditors. Following a tender process in 2019/2020, Mazars LLP was appointed as auditor at the AGM in March 2020 and this is their third audit. The Audit Group has recommended to the Board that Mazars LLP be reappointed for 2023.

INTERNAL AUDIT

At each of its meetings in 2021/22, the Audit Group received reports from the Association's internal auditor. The internal auditor's findings were discussed at each meeting. In addition, the Chair met with the internal auditor a number of times during the year, independently of the Managers, to ensure that the internal auditor had the opportunity to raise any matters of concern; no such matters were raised.

At its meeting in June 2022, the Audit Group approved the Association's internal audit plan for 2022/2023 and reviewed and approved the Terms of Reference for the internal audit function. The Group also received a report on the external quality assessment of the Association's internal audit function, which had taken place earlier towards the end of the 2021 calendar year.

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

COMPLIANCE MONITORING

The Audit Group received reports from the Association's Chief Risk Officer at each of its meetings in 2021/2022 and approved the Association's Compliance Monitoring Plan at its meeting in March 2022. It also approved a number of changes to its Terms of Reference to clarify the extent of its compliance monitoring responsibilities.

GOVERNANCE

At its meeting in March 2022 the Audit Group reviewed its Terms of Reference and performance over the preceding year, and agreed that Mr Poole should be appointed as deputy Chair of the Group. The Group concluded that it continued to operate effectively and in accordance with its terms of reference, and this view was supported by the feedback received from members of the Board as part of the Association's annual director appraisal process.

H O Wells Chair of the Audit Group
28 September 2022



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

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

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

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

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

2022

OPINION

We have audited the financial statements of The Wren Insurance Association Limited ('the Association') for the year ended 30 June 2022 which comprise the Income and Expenditure Account, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Association's affairs as at 30 June 2022 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Association's ability to continue as a going concern;
 - Obtaining and reviewing a copy of the Association's Own Risk and Solvency Assessment report ('ORSA');
 - Obtaining an understanding of the process entered into by the directors in making their going concern assessment, the period of the assessment and the assumptions they made when assessing the Association's future financial performance;
 - Obtaining a cash flow forecast for the Association extending 12 months from the date of approval of the financial statements;
 - Evaluating the appropriateness of the directors' key assumptions in their cash flow forecasts;
 - Testing the accuracy and functionality of the model used to prepare the directors' forecasts;
 - Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit;
 - Evaluating the key assumptions used and judgements applied by the directors in forming their conclusions on going concern; and
 - Evaluating the appropriateness of the disclosures in the financial statements.
- Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Association's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

KEY AUDIT MATTERS

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



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

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

KEY AUDIT MATTER

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

**Technical provisions – £45,983,026
(2021 – £56,488,399)**

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

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

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

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

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

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

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

HOW OUR SCOPE ADDRESSED THIS MATTER

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

- We reviewed the Reserving Paper produced by the Association's internal actuarial team as at 30 June 2022 to gain an understanding of the reserving processes and the approaches applied by the actuaries of the Association and, applying our industry knowledge and experience, compared these with recognised actuarial practices. This assessment included reviewing the loadings made to allow for inflation and the changes to the Defective Premises Act affecting the cladding claims;
- We checked the integrity of the data used by the actuaries by reviewing the data reconciliation and validation performed, and agreeing the data to the accounting records to confirm that the data used for reserving was complete and accurate;
- We compared the actual gross incurred and paid claims positions and ultimates at 30 June 2022 for non-cladding claims with the expectations set last year. We challenged the explanations given for the variances and considered whether they had been appropriately reflected in the ultimate selections;
- We performed diagnostic checks in order to understand the developments in the paid and incurred data;
- We performed an independent reserve projection for non-cladding claims by comparing our independent reserve projection to that derived by the actuaries of the Association;
- For the cladding claims, we considered the appropriateness of the actuarial methodologies and assumptions applied;
- We evaluated the methodology for the reserving of NAB claims (both cladding NABs and other NABs) and reviewed the adequacy of case estimates for cladding NABs by reperforming the calculation based on the views of the claims' handlers and the Association's actuaries;
- We evaluated the appropriateness of the margin applied to the actuarial best estimate, the approach taken and benchmarked the margin against margins held by other general insurers; and
- We assessed the disclosures in the financial statements.

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

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

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

OVERALL MATERIALITY

£797,000 (2021 – £781,000)

HOW WE DETERMINED IT

2% of the Association's capital and reserves.

RATIONALE FOR BENCHMARK APPLIED

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

PERFORMANCE MATERIALITY

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

We set performance materiality of £598,000, which represents 75% of overall materiality.

REPORTING THRESHOLD

We agreed with The Audit Group that we would report to it misstatements identified during our audit above 3% of overall materiality, which is £24,000 based on overall materiality, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

OTHER INFORMATION

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

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

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

We have nothing to report in this regard.



OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the Association and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: breaches of the regulatory requirements of the Prudential Regulation Authority ('PRA'), the Financial Conduct Authority ('FCA') and the Companies Act 2006.

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

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

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

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

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

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing;
- Critically assessing accounting estimates impacting amount included in the financial statements for evidence of management bias; and
- Considering significant transactions outside of the normal course of business. Our approach included reviewing Board minutes, review of correspondence with the PRA and FCA and substantively testing the transactions and related disclosures where considered material.

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

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

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

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of The Audit Group, we were appointed by the Board of Directors on 16 December 2019 to audit the financial statements for the year ending 30 June 2020 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 30 June 2020 to 30 June 2022.

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

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

USE OF THE AUDIT REPORT

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

Sam Porritt (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

30 Old Bailey

London EC4M 7AU

10 October 2022



2022

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2022

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Technical account – general business	Note	2022 £	2021 £
Earned premiums, net of reinsurance			
Calls and premiums	3	19,182,500	19,906,123
Return calls		-	-
		19,182,500	19,906,123
Reinsurance premiums		(3,399,491)	(3,040,746)
		15,783,009	16,865,377
Allocated investment return transferred from the non-technical account		2,355,507	2,271,712
		18,138,516	19,137,089
Claims paid			
Gross amount		(15,799,511)	(7,354,194)
Reinsurers' share		5,542,137	-
		(10,257,374)	(7,354,194)
Change in the provision for claims			
Gross amount		10,505,373	(14,824,154)
Reinsurers' share		(1,238,000)	5,005,001
		9,267,373	(9,819,153)
Claims incurred net of reinsurance			
Net operating expenses	5	(5,755,512)	(17,173,347)
Balance on the technical account		11,393,003	(3,482,932)
Non-technical account			
Balance on the technical account		11,393,003	(3,482,932)
Investment income/(loss)	6	1,317,176	(281,500)
Investment management expenses		(10,711)	(10,160)
Unrealised (loss)/gain on investments		(9,517,755)	8,417,104
Allocated investment return transferred to the general business technical account	7	(2,355,507)	(2,271,712)
Net surplus before taxation		826,206	2,370,800
Taxation	8	10,776	(1,543,835)
Net surplus and total comprehensive income after taxation		836,982	826,965

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

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

16 STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

Assets	Note	2022 £	2021 £
Financial investments	9	74,257,690	85,458,234
Reinsurers' share of technical provisions			
Claims outstanding	4	3,917,000	5,155,000
Debtors			
Direct insurance operations – Members		72,050	95,228
Reinsurance operations		440,322	–
Cash at bank		8,458,270	7,478,966
		87,145,332	98,187,428
Liabilities and reserves			
Capital and reserves			
Investment reserve		5,246,585	15,809,041
General reserve		14,562,500	14,125,000
Reinsurance reserve		400,000	–
Income and expenditure account		19,658,325	9,096,387
		39,867,410	39,030,428
Technical provisions			
Gross outstanding claims	4	45,983,026	56,488,399
Creditors			
Direct insurance operations – Members		28,466	9,138
Reinsurance operations		561,244	937,740
Taxation		–	993,345
Other creditors		705,186	728,378
		47,277,922	59,157,000
		87,145,332	98,187,428

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

Approved by the Board on 28 September 2022

C P Bennie Director

H O Wells Director

S J Peat Wren Managers

Companies House No. 2054592



STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2022

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	Investment reserve £	General reserve £	Reinsurance reserve £	Income and expenditure £	Total £
At 30 June 2020	11,067,517	13,687,500	537,119	12,911,327	38,203,463
Surplus for the financial year	-	-	-	826,965	826,965
Transfer to investment reserve	4,741,524	-	-	(4,741,524)	-
Transfer from reinsurance reserve	-	-	(537,119)	537,119	-
Transfer to general reserve	-	437,500	-	(437,500)	-
At 30 June 2021	15,809,041	14,125,000	-	9,096,387	39,030,428
Surplus for the financial year	-	-	-	836,982	836,982
Transfer from investment reserve	(10,562,456)	-	-	10,562,456	-
Transfer to reinsurance reserve	-	-	400,000	(400,000)	-
Transfer to general reserve	-	437,500	-	(437,500)	-
At 30 June 2022	5,246,585	14,562,500	400,000	19,658,325	39,867,410

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

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

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

The reinsurance reserve has been established in accordance with Rule 32 of the Association to meet the cost of any individual claim in excess of a specified attachment point up to the reinsurance attachment point of £3.0m and claims in aggregate above a specified attachment point, which are both set annually. The funds held in the reserve are available to meet claims in any open policy year where claims either exceed the agreed excess of loss trigger point or the aggregate trigger point, however, the transfers to the reinsurance reserve from 2018/19 onwards are only available to cover claims in those policy years and are not available to cover claims in the 2017/18 policy year and back.

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2022

	2022 £	2021 £
Cash flows from operating activities		
Net surplus before taxation	826,206	2,370,800
Adjustments for:		
Net change in provisions for claims	(9,267,373)	9,819,153
(Increase)/decrease in insurance and other debtors	(417,144)	9,749
(Decrease)/increase in insurance and other creditors	(380,360)	898,441
Investment (income)/loss (net of expenses)	(1,306,465)	291,660
Unrealised loss/(gain) on investments	9,517,755	(8,417,104)
Cash from operations	(1,027,381)	4,972,699
Income taxes paid	(982,569)	(611,622)
Net cash generated from operating activities	(2,009,950)	4,361,077
Cash flows from investing activities		
Purchase of equity shares	(47,687)	(12,814,942)
Purchase of fixed interest investments	(5,947,772)	(25,499)
Sale of equity shares	3,932,221	12,770,294
Sale of fixed interest investments	3,069,495	-
Net change to deposits with credit institutions	1,917,232	(2,672)
Income from bank and other cash	76,476	73,031
Investment management expenses	(10,711)	(10,160)
Net cash from investing activities	2,989,254	(9,948)
Net increase in cash at bank	979,304	4,351,129
Cash at bank at the beginning of the financial year	7,478,966	3,127,837
Cash at bank at the end of the financial year	8,458,270	7,478,966

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



1 GENERAL INFORMATION

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

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

2 ACCOUNTING POLICIES

Basis of accounting

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

Going concern

The directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future which includes the renewing 2022/23 policy year and the business planning horizon included in the ORSA that was conducted in June covering a further two years to 30 June 2025. This provided the directors with comfort that the Association will continue to meet its strategic objectives and all capital requirements over the planning horizon. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Statement of compliance

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

Policy year accounting

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

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

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

Calls and premiums

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

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

Claims and reinsurance recoveries

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

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

2 ACCOUNTING POLICIES (CONTINUED)**Investment income**

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

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

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

Allocation of investment return

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

Claims outstanding

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

The provision also includes an allowance for future claims handling costs.

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

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

The provision for outstanding claims is based on information available at the statement of financial position date.

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

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

The ultimate liability arising from claims made under insurance contracts

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



2 ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

Investments

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

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

Acquisition costs

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

Critical accounting judgements and estimation uncertainty

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Large claims are usually separately addressed using input from the claims handlers. Further disclosure can be found in note 4 and 10.1.

	2022 £	2021 £
3 CALLS AND PREMIUMS		
Advance calls and premiums	19,182,500	19,906,123
All business is written in the UK.		
4 TECHNICAL PROVISIONS		
Net claims movement	2022 £	2021 £
Net provision at beginning of year	51,333,399	41,514,246
Net current year provision	7,953,000	7,216,000
Net claims paid in year	(10,257,374)	(7,354,194)
Net movement in prior years' claims provisions	(7,367,642)	9,570,579
Claims handling expenses	404,643	386,768
Net provision at end of year	42,066,026	51,333,399

Net movement in prior years' claims provisions

Included within the net change in provision for claims of £9,267,373 (2021 – £9,819,153) is a credit of £7,367,642 (2021 – charge of £9,570,579) relating to prior years. The balance is made up as follows:

	2022 £	2021 £
Net provision at beginning of year	51,333,399	41,514,246
Net payments during the year in respect of these provisions	(9,830,767)	(6,955,262)
Net provision carried forward in respect of claims provided for at the end of the previous year	(34,134,990)	(44,129,563)
Movement in prior years' claims provision	7,367,642	(9,570,579)

During the year the future claims handling cost allocation calculation was reviewed and the methodology to calculate the allocation was reassessed. This resulted in the future claims handling cost allocation reducing from £2.5m to £1.0m. The £1.5m improvement forms part of the overall movement in prior years' claims provisions reflected in the table above.

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Development claim tables

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

Insurance claims – gross

Estimate of ultimate claims cost attributable to the policy year.

	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
End of reporting year	4,280,000	4,280,000	4,662,000	5,227,000	5,199,000	7,529,000	6,672,049	4,719,081	7,216,000	7,953,000
One year later	4,280,000	4,280,000	4,662,000	3,542,400	7,309,200	7,461,140	7,517,057	6,819,081	3,266,000	
Two years later	4,280,000	4,280,000	7,003,300	2,697,400	4,239,125	18,405,867	12,586,059	5,969,081		
Three years later	3,335,462	3,220,600	7,033,300	3,202,203	2,645,876	26,941,867	12,141,459			
Four years later	3,379,000	2,016,600	3,162,407	3,043,520	1,695,876	26,028,467				
Five years later	2,114,000	3,001,567	2,839,122	2,543,520	2,145,876					
Six years later	2,134,680	3,056,378	2,589,122	2,693,520						
Seven years later	2,354,724	3,206,378	2,239,122							
Eight years later	1,854,724	3,206,378								
Nine years later	1,854,724									
Current estimate of ultimate claims	1,854,724	3,206,378	2,239,122	2,693,520	2,145,876	26,028,467	12,141,459	5,969,081	3,266,000	7,953,000
Cumulative payments to date	1,649,376	2,827,715	1,853,091	1,612,808	1,806,052	6,680,801	5,874,767	353,830	30,913	21,964
Liability recognised at the end of the year	205,348	378,663	386,031	1,080,712	339,824	19,347,666	6,266,692	5,615,251	3,235,087	7,931,036
Total liability relating to the last ten policy years										44,786,310
Other claims liabilities										1,196,716
Total reserve included in the statement of financial position										45,983,026

Insurance claims – net

Estimate of ultimate claims cost attributable to the policy year.

	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
End of reporting year	4,280,000	4,280,000	4,662,000	100,000	1,460,141	7,529,000	6,672,049	4,719,081	7,216,000	7,953,000
One year later	4,280,000	4,280,000	4,662,000	100,000	3,566,390	7,461,140	7,367,058	6,819,081	3,266,000	
Two years later	4,280,000	4,280,000	4,700,000	(175,000)	496,315	18,405,867	10,867,059	5,969,081		
Three years later	3,335,462	3,220,600	4,059,000	329,803	(1,096,934)	23,505,867	12,117,059			
Four years later	3,379,000	2,016,600	188,107	171,120	(2,046,934)	22,305,867				
Five years later	2,114,000	3,001,567	(135,178)	(328,880)	(1,596,934)					
Six years later	2,134,680	3,056,378	(385,178)	(178,880)						
Seven years later	2,354,724	3,206,378	(735,178)							
Eight years later	1,854,724	3,206,378								
Nine years later	1,854,724									
Current estimate of ultimate claims	1,854,724	3,206,378	(735,178)	(178,880)	(1,596,934)	22,305,867	12,117,059	5,969,081	3,266,000	7,953,000
Cumulative payments to date	1,649,376	2,827,715	(1,121,209)	(1,259,592)	(1,936,758)	6,680,801	5,874,767	353,830	30,913	21,964
Liability recognised at the end of the year	205,348	378,663	386,031	1,080,712	339,824	15,625,066	6,242,292	5,615,251	3,235,087	7,931,036
Total liability relating to the last ten policy years										41,039,310
Other claims liabilities										1,026,716
Total reserve included in the statement of financial position										42,066,026

The negative figure for the estimate of ultimate costs attributable to 2014/15, 2015/16 and 2016/17 is due to the overall gain made from a commuted reinsurance contract.



5 NET OPERATING EXPENSES	2022 £	2021 £
Acquisition costs	838,575	646,793
Administrative expenses	4,916,937	4,799,881
	5,755,512	5,446,674

Included in administrative expenses are:

i) Risk management fees of £670,416 (2021 – £625,000) payable to the Managers in respect of the conduct of the Association's risk management programme.

ii) Directors' remuneration of £159,984 (2021 – £150,536).

iii) Auditor's remuneration of £53,500 (2021 – £46,000).

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

6 INVESTMENT INCOME/(LOSS)	2022 £	2021 £
Exchange loss	(35)	–
Bank and other interest	76,511	73,031
Profit/(loss) on the realisation of investments	1,240,700	(354,531)
Investment income/(loss)	1,317,176	(281,500)

7 ALLOCATED INVESTMENT RETURN	2022 £	2021 £
Allocated investment return	2,355,507	2,271,712

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

	2022	2021
Bonds	1.45%	1.25%
Corporate bonds	1.75%	1.80%
Equities	5.50%	5.40%

A transfer of £10,562,456 has been made from the investment reserve equivalent to the deficit of actual return against the longer-term return for the year (net of tax) during the current year. During the prior year a transfer of £4,741,524 was made to the investment reserve equivalent to the surplus of actual return against the longer-term return for the year (net of tax) during that year.

Ten-year comparison of allocated return with actual returns	2022 £	2021 £
Net investment income since 1 July 2011 (2010)	15,969,993	27,844,740
Allocated return since 1 July 2011 (2010)	20,518,078	19,829,485
(Deficit)/surplus of actual return above allocated return	(4,548,085)	8,015,255

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8 TAXATION

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

Analysis of charge in period	2022 £	2021 £
Total tax (credit)/charge	(10,776)	1,543,835

Factors affecting tax charge for period

The tax assessed for the period is different from the standard rate of corporation tax in the UK of 19% (2021 – 19%) mainly due to the impact of non-taxable mutual insurance operations (balance on the technical account) gross of the allocated investment return. The differences are explained below:

	2022 £	2021 £
Net surplus before tax	826,206	2,370,801
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK	156,979	450,452
Effects of:		
Non-taxable mutual insurance operations	(156,979)	1,093,382
Over provision in previous years	(10,766)	–
UK Corporation tax – see above	(10,766)	1,543,835

It was announced in the Budget on 3 March 2021 the rate of corporation tax would be increased to 25% with effect from 1 April 2023. The Finance Bill 2021 was substantively enacted on 24 May 2021.

9 INVESTMENTS

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

	Deposits with credit institutions £	Corporate bond investments £	Fixed interest investments £	Equity investments £	Total £
Purchase of investments	893	3,512,769	2,435,003	47,687	5,996,352
Sale of investments	(1,918,125)	(994,926)	(2,074,569)	(3,932,221)	(8,919,841)
Realised losses	(6,211)	25,176	(21,832)	1,243,566	1,240,699
Net portfolio investment	(1,923,443)	2,543,019	338,602	(2,640,968)	(1,682,790)
Unrealised gains	3,323	(3,324,269)	(908,427)	(5,288,381)	(9,517,754)
Change in value of portfolio	(1,920,120)	(781,250)	(569,825)	(7,929,349)	(11,200,544)
Market value at 1 July 2021	1,920,120	26,447,149	22,764,271	34,326,694	85,458,234
Market value at 30 June 2022	–	25,665,899	22,194,446	26,397,345	74,257,690
Cost at 1 July 2021	1,923,443	24,645,553	22,192,080	26,466,107	75,227,183
Cost at 30 June 2022	–	27,188,572	22,530,682	23,825,139	73,544,393



10 RISK MANAGEMENT

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

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

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

The **Nominations Group** is responsible for reviewing and making recommendations to the Board in relation to suitable candidates for appointment or re-appointment as directors of the Association, candidates for appointment to regulatory roles and the appointment and re-appointment of the Chair of the Association. The Nominations Group also monitors the overall performance and collective skills of the Board and its sub-groups.

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

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

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

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

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

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

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

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

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

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

The Association manages the risks relating to the operations of the Association through the Risk Register, which analyses exposures by degree and magnitude of risk. There have been no changes in the methods or assumptions used to calculate these risks. The Association uses a 5% movement (0.5% interest rates) as a reasonable benchmark to measure the impact of market risk.

10 RISK MANAGEMENT (CONTINUED)**10.1 Underwriting risk**

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

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

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

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

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

Reinsurance

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

Claim reserves

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

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

Sensitivity

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

	2022 £	2021 £
Increase in loss ratio by 5 percentage points		
Gross	959,125	995,306
Net	789,150	843,269

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



10 RISK MANAGEMENT (CONTINUED)

10.2 Market risk

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

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

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

Interest rate risk management

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

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

	2022 £	2021 £
0.5% increase in interest rates	24,860	24,381
0.5% decrease in interest rates	(24,860)	(24,381)

Investment price sensitivity analysis

The Association is exposed to price risk through its holding of equities. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end the holding in equities was 35% (2021 – 40%) of the investment portfolio. The value of the equity holding at the year end amounted to £26.4m (2021 – £34.3m).

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

	2022 £	2021 £
5% increase in equity price	1,319,867	1,716,335
5% decrease in equity price	(1,319,867)	(1,716,335)
5% increase in corporate bond price	1,283,295	1,322,357
5% decrease in corporate bond price	(1,283,295)	(1,322,357)
5% increase in fixed interest price	1,109,722	1,138,214
5% decrease in fixed interest price	(1,109,722)	(1,138,214)

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

10 RISK MANAGEMENT (CONTINUED)**10.3 Counterparty risks****10.3.1 Credit risk**

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

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

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

Amounts recoverable on reinsurance contracts

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

The excess of loss reinsurance programme is placed through Gallagher Re, a Lloyd's broker. The Association has set selection criteria whereby each reinsurer is required to hold a credit rating of at least 'A-' at the time the contract is made. The reinsurance is placed with Lloyd's and company market underwriters. This is monitored by the Board.

Amounts due from Members

Amounts due from Members represents premium owing to the Association in respect of insurance business written. The Association manages the risk of Member default through a screening process to ensure the quality of new entrants to the Association and the ability to cancel cover and outstanding claims to Members that fail to settle amounts payable. The Association's policy is that Members should have paid all debited calls within 30 days. Amounts written off as bad debt have been minimal over recent years.

Counterparty risk with respect to cash and investments

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

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

The remaining financial assets with no rating relate to Member and other debtors amounting to £512,372 (2021 – £95,228).

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

	2022 £	2021 £
Corporate bond investments	25,665,899	26,447,149
Fixed interest investments	22,194,446	22,764,271
Equity investments	26,397,345	34,326,694
Reinsurers share of technical provisions	3,917,000	5,155,000
Member and other debtors	512,372	95,228
Deposits with credit institutions	-	1,920,120
Cash at bank	8,458,270	7,478,966
Total financial assets bearing risk	87,145,332	98,187,428

An analysis of this exposure by credit rating is shown below

AAA	-	-
AA	-	-
A	12,375,271	12,663,968
BBB+ and below	-	-
No rating	74,770,061	85,553,462
Total financial assets bearing risk	87,145,332	98,187,430

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



10 RISK MANAGEMENT (CONTINUED)

10.3.2 Liquidity risk

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

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

	Short term assets £	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
At 30 June 2022						
Quoted shares and variable yield securities	26,397,345	-	-	-	-	26,397,345
Debt securities and other fixed income securities	47,860,345	-	-	-	-	47,860,345
Reinsurers' share of outstanding claims	-	-	47,572	1,554,734	2,314,694	3,917,000
Reinsurance operations	440,322	-	-	-	-	440,322
Direct insurance operations – Members	72,050	-	-	-	-	72,050
Cash at bank	8,458,270	-	-	-	-	8,458,270
Total assets	83,228,332	-	47,572	1,554,734	2,314,694	87,145,332
At 30 June 2021						
Quoted shares and variable yield securities	34,326,694	-	-	-	-	34,326,694
Debt securities and other fixed income securities	49,211,420	-	-	-	-	49,211,420
Deposits with credit institutions	1,920,120	-	-	-	-	1,920,120
Reinsurers' share of outstanding claims	-	-	-	1,294,247	3,860,753	5,155,000
Direct insurance operations – Members	95,228	-	-	-	-	95,228
Cash at bank	7,478,968	-	-	-	-	7,478,968
Total assets	93,032,428	-	-	1,294,247	3,860,753	98,187,428

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

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

At 30 June 2022						
Gross outstanding claims	-	558,472	2,753,016	20,247,798	22,423,740	45,983,026
Direct insurance operations – Members	-	28,466	-	-	-	28,466
Reinsurance operations	561,244	-	-	-	-	561,244
Other creditors	705,186	-	-	-	-	705,186
Total liabilities	1,266,430	586,938	2,753,016	20,247,798	22,423,740	47,277,922
At 30 June 2021						
Gross outstanding claims	-	793,523	4,048,860	29,452,793	22,193,223	56,488,399
Direct insurance operations – Members	-	9,138	-	-	-	9,138
Reinsurance operations	937,740	-	-	-	-	937,740
Taxation	-	993,345	-	-	-	993,345
Other creditors	728,378	-	-	-	-	728,378
Total liabilities	1,666,118	1,796,006	4,048,860	29,452,793	22,193,223	59,157,000

10 RISK MANAGEMENT (CONTINUED)**10.4 Operational risk**

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

10.5 Limitation of the sensitivity analyses

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

10.6 Capital risk management

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

The Solvency II regime has been effective from 1 January 2016. The Association is subject to these regulations. The Association is required to meet a SCR which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Association calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a reasonable fit for the Association's risk profile.

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

Throughout the period the Association complied with the regulators' capital requirements. At 30 June 2022 the Association's Solvency II own funds exceeded the SCR with a solvency ratio of 1.4. In accordance with the PRA rulebook, the Association has taken benefit of the audit exemption of the SCR and SFCR and therefore the current year SCR and SFCR are unaudited.

10.7 Fair value hierarchy

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

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



10 RISK MANAGEMENT (CONTINUED)

10.7 Fair value hierarchy (continued)

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

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

Group	Deposits with credit institutions		Corporate bonds		Fixed interest		Equity and other investments	
	2022 £	2021 £	2022 £	2021 £	2022 £	2021 £	2022 £	2021 £
Level 1	-	1,920,120	25,665,899	26,447,149	22,194,446	22,764,271	13,128,006	19,637,082
Level 2	-	-	-	-	-	-	13,269,340	14,689,612
Level 3	-	-	-	-	-	-	-	-
	-	1,920,120	25,665,899	26,447,149	22,194,446	22,764,271	26,397,346	34,326,694

11 RELATED PARTIES TRANSACTIONS

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

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

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

Tindall Riley & Co Limited (trading as Wren Managers) manages the Association and received £5,661,000 (2021 – £5,390,000) in respect of management fees and risk management services. These fees include the cost of the service provided by one executive director of Tindall Riley & Co Limited who is also a director of the Association.

12 SUBSEQUENT EVENTS

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

32 DIRECTORS AND COMPANY INFORMATION

THE WREN INSURANCE ASSOCIATION LIMITED, LIMITED BY GUARANTEE

BOARD OF DIRECTORS

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

REGISTERED OFFICE

Regis House
45 King William Street
London EC4R 9AN

Companies House Number 2054592

MANAGERS

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

AUDITORS

Mazars LLP
30 Old Bailey
London EC4M 7AU





2022

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2022