SOLVENCY AND FINANCIAL CONDITION REPORT
Year ended 31 December 2020

Soteria Insurance Limited

Executive Summary

1. Introduction

The Directors are pleased to present the Solvency & Financial Condition Report (SFCR) for the year ended 31 December 2020.

The Report contains detailed qualitative and quantitative information on the undertaking's Business and Performance, System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management, together with standardised Quantitative Reporting Templates with respect to the reporting period.

This Executive Summary provides an overview to assist policyholders and other stakeholders in understanding the nature of the business, how the business is managed and its solvency position.

Amounts are presented in thousands of pounds, sterling (£000), unless otherwise stated.

The document makes reference to the Annual Report and Accounts, which also provides relevant information about the Company, a copy of which can be found at www.soteriainsurance.co.uk.

2. Business & Performance (Summary of Section A)

2.1 Business Model & Strategy

On 2 December 2020, the Company was sold by The Co-operative Group Limited (Co-op Group) to Soteria Finance Holdings Limited (SFHL), following approval by the Prudential Regulation Authority (PRA). At the same date, an outsourcing agreement was entered into with the Markerstudy Group to provide insurance services to the Company. On 5 January 2021, the Company changed its name from CIS General Insurance Limited to Soteria Insurance Limited.

On 11 February 2021, the Board made the decision to place the Company into run-off and subsequently made an application to the PRA for SIL's regulatory permissions to effect new insurance contracts to be cancelled. This application was approved on 29 March 2021. SIL's last new insurance policy was entered into with effect from 24 February 2021. The Company will continue to administer existing policies in force and settle outstanding claims. The focus of the Directors is to meet all obligations to customers throughout a solvent run-off, to fulfil all regulatory requirements and, to the extent the Company has surplus capital above a prudent risk appetite to meet its liabilities and regulatory requirements, it aims to distribute this capital to its parent, SFHL.

The impact of this decision on Solvency Coverage is described in Sections 4 to 6 below.

2.2 Other Significant Events

Coronavirus (Covid-19) impact

The coronavirus (Covid-19) pandemic has caused challenges and uncertainty and is likely to continue to do so in 2021. The primary impact was operational, with the potential for high levels of colleague absence and/or restrictions and setting colleagues up to work remotely over a prolonged period. The Company convened an Incident Management Team with senior representatives from all areas of the business, which met daily during the early days of Government restrictions to manage SIL's response to the pandemic. Existing business continuity arrangements were strengthened to enable greater numbers of colleagues to work from home.

Financially, the primary impact of the pandemic has been to reduce loss ratios owing to there being fewer cars on the road during lockdown, leading to fewer accidents and fewer claims, only partially countered by upward pressure on average costs for some claim types. The pandemic also caused increased volatility in the investment markets, however the Company has been relatively protected owing to a conservative approach to investment, holding predominantly cash and highly-rated government and corporate bonds, which fluctuated in value less than other asset classes.

In 2021, SIL is well prepared both operationally and financially for the impact of the pandemic. The Company remains vigilant to changing customer behaviour giving rise to different patterns of insurance claims or policy cancellations, or claims supply chain disruption affecting the cost or service level to handle claims. Any increased costs of claims or administrative expenses are expected to be relatively modest in the context of the Company's financial resources and will be monitored through the usual governance mechanisms, including the Board's regular oversight of solvency capital coverage and other metrics. Investments will continue to be monitored through the usual governance mechanisms.

Brexit

The Company has not been significantly impacted by Brexit and is not expected to be in 2021. SIL is predominantly a UK business, however it does have exposure to financial markets and is exposed to potential supply chain issues as imported goods and services, including from the European Union (EU) are used by suppliers in order to fulfil insurance claims. SIL monitored events through a working group which considered various aspects including the possible impact of tariffs, data transfers to/from EU, colleague rights to work and the volatility of investment markets. The primary impact and where most time was spent in preparing was to ensure operational readiness and the ability to inform customers of the impact of changes on their insurance and to issue Green Cards, for customers to prove that they have adequate insurance to drive abroad, when required. There remains the risk that costs could increase due to the impact to the supply chain and increased administrative requirements for customers travelling to the EU.

Other

On 7 April 2020, the Company entered into an agreement with the Co-op Group to provide access on request to funding of £70,000k, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. The Company did not draw upon this funding in the period. On 2 December 2020, when SIL was sold to SFHL, this funding agreement with the Co-op Group ceased. On the same date, SIL entered into an agreement with Soteria AOF Solutions Limited (SAOFS) to provide access on request to funding of £25,000k which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. SAOFS is a company related to SIL through having the same shareholders as SFHL. SIL did not draw upon this funding in the period.

On 8 May 2020, the Company repaid £70,000k of subordinated debt which had been issued to external loan note holders on 8 May 2015.

Until 25 June 2020, SIL was a Co-operative Society registered in England under the Co-operative and Community Benefit Societies Act 2014. It was de-mutualised and incorporated as a Limited Company on 25 June 2020.

In preparation for the sale of the Company to SFHL, colleagues in the Sales & Service department who were previously employed by CFS Management Services (CFSMS) and their costs recharged to SIL, moved to Affinity Insurance Services Limited (AISL). AISL was a subsidiary of Co-op Group until 2 December, at which point it was sold to become part of Markerstudy Group (MSG). On 2 December 2020, on completion of the sale of SIL to SFHL, the majority of colleagues previously working for CFSMS and recharged to SIL transferred to Markerstudy Insurance Services Limited (MISL), part of MSG. These colleagues continue to serve SIL customers. An outsourced services agreement was signed with MISL. A small number of colleagues are employed directly by SIL to provide oversight and fulfil regulatory responsibilities.

2.3 Performance

Lines of Business and Geographical Areas

Lines of business which are material to the performance of SIL are defined in the table below:

Line of Business	Definition
Motor vehicle liability insurance (Motor)	Insurance obligations which cover all liabilities arising out of the use of motor vehicles operating on land. Obligations are predominantly those relating to third parties involved in incidents with policyholders.
Other motor insurance (Other Motor)	Insurance obligations which cover all damage to or loss of land vehicles, predominantly those vehicles owned by policyholders.
Fire and other damage to property insurance (Home)	Insurance obligations which cover all damage to or loss of property due to fire, explosion, natural forces including storm, hail or frost, nuclear energy, land subsidence and any event such as theft.

All business is conducted in the UK, Isle of Man and the Channel Islands.

Overall Performance

	Year ended 31 December 2020 (£000)	Year ended 31 December 2019 (£000)	Variance (£000)
Net earned premiums	**291,820**	**314,735**	**(22,915)**
Net policyholder claims and benefits	**(215,253)**	**(252,197)**	**36,944**
Underwriting result	**(1,821)**	**(22,437)**	**20,616**
Net investment income	**17,890**	**12,101**	**5,789**
Profit / (loss) before business improvement costs and tax	**11,250**	**(5,009)**	**16,259**
Profit / (loss) before tax	**7,220**	**(16,765)**	**23,985**

The 2020 full year financial result was a profit before taxation of £7,220k (2019: £16,765k loss, which included receipt of a payment for the equitable assignment of proceeds of litigation to Co-op Group). The reported profit before business improvement costs and tax for 2020 was £11,250k (2019: £5,009k loss, £19,100k loss excluding the assignment of rights). The improvement in profitability, which has led to the largest profit before tax the Company has achieved in several years, has been positively influenced by the Covid-19 pandemic with varying levels of lockdowns throughout 2020 reducing Motor claims, as essential travel only was applicable at times and much reduced multi passenger travel. Additionally, whilst the start of 2020 saw Storms Ciara and Dennis, the impact of these was relatively limited, with more benign weather thereafter.

Net earned premium declined by £22,915k to £291,820k. This was the consequence of rating action taken during late 2019 and 2020 to improve profitability in the period preceding the sale of the business to SFHL. This action resulted in reduced relative competitiveness, particularly in the broker channel.

Policyholder claims and benefits have decreased from £252,197k in 2019 to £215,253k in 2020. This partly reflects the knock-on impact of the reduced premium income above, but claims have additionally fallen as a result of the impact of the Covid-19 pandemic on Motor claims.

Net investment income increased by £5,789k from £12,101k in 2019 to £17,890k in 2020, driven by investments in collective investment assets, where unrealised gains and losses are accounted for as fair value through income and expenses. These investments have performed strongly in the year having been purchased in March 2020 to back long-tailed liabilities.

3. System of Governance (Summary of Section B)

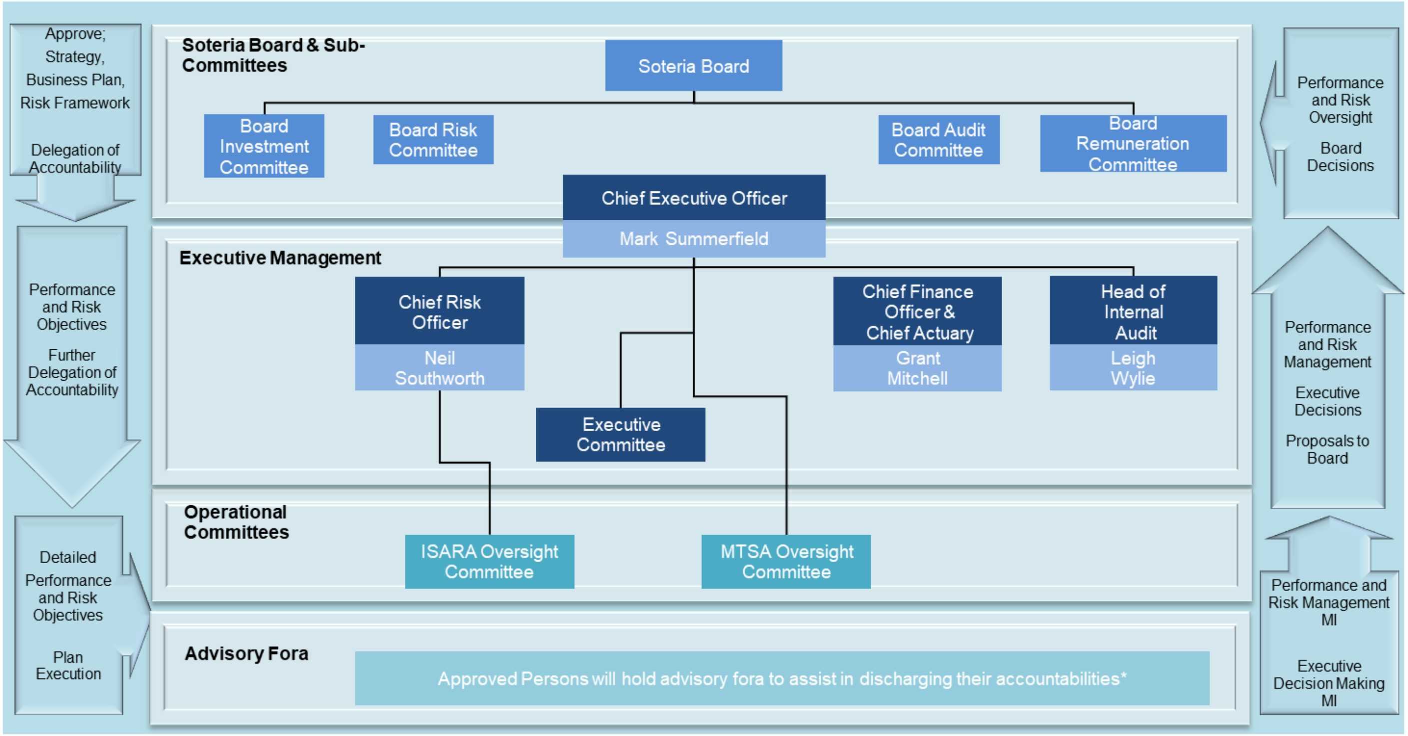
The governance structure has remained largely unchanged, despite the change in ownership and decision to place the Company into run-off.

The most significant changes are as a result of the outsourcing agreement with the Markerstudy Group and a transitional services agreement with the Co-op Group, which led to two new committees being set up to monitor the overall performance and service levels provided as part of these agreements. These are the Insurance Services and Run Off Agreement (ISARA) Governance Committee and, for the period of migration activity, the Migration and Transitional Services Agreement (MTSA) Oversight Committee.

3.1 Governance Framework

Successful delivery of business strategy relies on an effective system of governance, which includes a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective risk management and internal control.

SIL has a strong governance framework and has ensured that the accountability and responsibility of individual Senior Managers and directors is clearly defined and documented. This enables the Board, Executive and associated committees to interact effectively to support delivery of the agreed strategy and the ability to manage and mitigate the risks faced by the business.



The Board owns and approves the Risk Vision, the Risk Appetite Statements and the Risk Management Framework, setting the thresholds and approach to risk taking activities. To assist the Board in carrying out its functions and to ensure that there are effective internal controls and risk management, the Board has established four sub-committees and delegated certain responsibilities to them. All Board sub-committees have Terms of Reference which document the membership, their accountabilities and describe the authority delegated to them by the Board. The Board ensures that each committee is provided with sufficient resources to enable it to undertake its duties.

3.2 Key elements of the System of Governance

Appropriate Responsibility and Accountability

SIL operates a 'three lines of defence' governance model to ensure appropriate responsibility and accountability is allocated to the identification, measurement, management, monitoring and reporting of risks.

Business management is the 1st line of defence. It is responsible for implementing and operating processes to identify, measure, manage, monitor and report risks. As SIL is largely an outsourced model, much of first line work is carried out by third parties. 2nd line oversight activities are not necessarily carried out by the Risk team and can be carried out by anyone working in or for Soteria, as long as they are independent from whoever carried out the work. The Risk function owns the Risk Management Framework, oversees and challenges its implementation and operation by the 1st line of defence, and considers current and emerging risks across SIL.

Internal Audit is the 3rd line of defence within the SIL structure. Internal Audit independently challenges the overall design and operation of the Risk Management Framework and provides assurance to the Board Audit Committee (BAC) and senior management on the adequacy of both the 1st and 2nd lines of defence, including the quality of their work.

Fitness & Propriety of Key Function Holders

All accountabilities are allocated as part of The Senior Manager and Certification Regime (SM&CR).

The SIL Management Responsibilities Map describes and documents the firm's overall governance arrangements. It demonstrates that there are no gaps in the allocation of responsibilities amongst its management.

Senior Manager Functions are roles the regulators deem 'critical' within a firm. They are occupied by individuals who have significant influence over the firm's business strategy, culture and compliance with regulatory requirements. Individuals who are appointed to perform a Senior Manager function must be approved by the FCA and/or PRA.

Key Functions, as defined by Solvency II regulation, are those functions which, if not properly managed and overseen, could potentially lead to significant losses being incurred or to a failure in the on-going ability of the firm to meet its policyholder obligations. The firm's system of governance has identified those persons who are responsible for the Key Functions, known as Key Function Holders (KFHs), along with their lines of accountability.

SIL has established a fit and proper policy and processes which comply with the SM&CR. SIL has identified Certified Employees (the next tier of management below Senior Managers where the role has a risk of customer harm) to which the requirements will also apply.

SIL will ensure that Senior Managers and Certified Employees are at all times fit and proper persons.. This means that these persons have adequate professional qualifications, knowledge and experience to enable the sound and prudent management of the firm and that they are of good repute and integrity.

Robust Risk Management Framework

SIL operates within a Risk Management Framework that identifies processes, ownership, responsibilities and the oversight required to support effective implementation of Risk Management across SIL.

The Risk Management Framework is designed to aid the business in the management of risks at all levels in the business in accordance with the 'Three Lines of Defence' model.

4. Key Risks (Summary of Section C)

SIL's primary activity up to the point of run-off, of providing Home and Motor insurance, exposed the Company to a number of risks which could adversely affect its performance and its ability to meets its objectives. These risks include:

Risk	Definition
Insurance Risk	The inherent uncertainties as to the occurrence, amount and timing of insurance claims and other obligations arising from existing policies or from future underwriting (where applicable). SIL's key financial risks are insurance-related: premium risk and reserve risk.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events.
Market Risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities.
Counterparty Risk, including Credit Risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations.
Liquidity Risk	The current and prospective risk to earnings or solvency arising from SIL's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk is explicitly excluded from the Standard Formula Solvency Capital Requirement.

Risks are captured within the Standard Formula calculation of the Solvency Capital Requirement (SCR). The table below shows the value of capital held by the Company for each risk, including additional capital held for operational risk (an add-on) where the risk is not adequately captured by the Standard Formula SCR (SF SCR).

	At 31 December 2020 £000	At 31 December 2019 £000	Movement (£000)
Insurance Risk - Non Life	97,249	122,988	(25,739)
Insurance Risk - Life	4,552	4,338	214
Operational Risk	53,810	54,818	(1,008)
Market Risk	32,006	19,529	12,477
Counterparty Risk	6,026	7,490	(1,464)
Diversification	(26,413)	(20,793)	(5,620)
SF SCR	**167,230**	**188,370**	**(21,140)**

Overall, there has been a reduction in risk in the year, resulting in a decrease of £21,140k in the SF SCR since 2019. This is due to a reduction in Non-life underwriting risk, mostly as a consequence of the decision to put the Company into run-off. This has been offset in part by an increase in market risk as a result of the Company now investing in a wider range of higher-yielding assets.

Insurance risk is managed by ensuring that business is underwritten and priced in accordance with agreed strategy and through claims reserving and risk modelling approaches to ensure that premiums charged are reflective of the risk. Insurance risk (Non-Life and Life) has reduced by £25,525k in the year to £101,801k (2019: £127,326k), mostly owing to a reduction in future net earned premium as a result of the decision to put the Company into run-off. Insurance risk is mitigated through the use of appropriate reinsurance. In 2020, SIL had three main reinsurance programmes in place: catastrophe excess of loss cover, motor excess of loss cover and a quota share arrangement of both Motor and Home business. SIL has Catastrophe and Motor Excess of Loss contracts in place for 2021 whilst the quota share has not been renewed.

Market risk (credit-spread and counterparty default risks) from corporate bonds is managed through defined limits for exposure to credit-ratings and individual counterparties. Other risk mitigation strategies employed to manage exposure to counterparty default include ensuring that any cash deposits (in excess of counterparty limits) are collateralised on a daily basis. Market risk has increased by £12,477k to £32,006k (2019: £19,529k) as a result of the Company now investing in a wider range of higher-yielding assets, in particular collective investment vehicles, to back longer-tailed liabilities.

Operational risks are identified, measured, managed and mitigated through on-going risk management practices including risk assessments, formal control procedures and contingency planning, and mitigated through corporate insurances. Operational risk includes an add-on of £40,000k (2019: £40,000k) to reflect the risks associated with legacy Co-op systems which were used by the Company and the risks associated with the migration to Markerstudy systems. The migration has now been successfully completed in early 2021. Underlying operational risk (excluding this add-on) has reduced by £1,008k to £13,810k (2019: £14,818k).

The value calculated for each individual risk is the estimated loss that would be incurred in an adverse scenario for that specific risk. As not all of these negative outcomes would be expected to occur within a short time frame the Standard Formula SCR calculation allows for a diversification benefit which is an estimate of the total reduction in the overall level of risk. The effect of diversification in 2020 has reduced the SCR by £26,413k (2019: £20,793k).

The impact of changes in the risk profile of the Society on capital management is explained in Section 6 of this Summary.

5. Valuation for Solvency purposes (Summary of Section D)

Assets and liabilities within the Solvency II balance sheet are valued in accordance with Solvency II regulations. The principle that underlies the valuation methodology is that assets and liabilities are valued at amounts for which they could be exchanged between knowledgeable, willing parties in an arm's length transaction.

The table below shows the valuation of assets and liabilities on a Solvency II basis as at 31 December 2020. Section D includes explanations of the valuation and recognition basis under Solvency II as well as a comparison to the IFRS valuation basis which is used in the Annual Report & Accounts. The valuation of the balance sheet on an IFRS basis is different to the Solvency II balance sheet due to the reclassification of accrued interest, the elimination of deferred acquisition costs, the difference in the valuation of the technical insurance provisions and the difference in the treatment of the quota share reinsurance arrangement. Differences are also caused by the decision of the Board to put the Company into run-off in February 2021. The IFRS balance sheet is unaffected by this as the decision was made after the reporting date. The Solvency II valuation of assets and liabilities is on a run-off basis, which increases the amount of future expenses included within Technical Provisions. The impact of this is to reduce Own Funds by £39,846k compared to a standard Solvency II basis.

	IFRS (£000)	Reclassifications (£000)	Restatements (£000)	Solvency II value (£000)
Assets				
Deferred acquisition costs	15,006	-	(15,006)	-
Property, plant & equipment held for own use	1,077	-	-	1,077
Investments	667,075	4,833	-	671,908
Reinsurance recoverables	66,142	-	97,399	163,541
Deposits to cedants	12	-	-	12
Insurance and intermediaries receivables	155,090	-	(153,736)	1,354
Reinsurance receivables	193	-	-	193
Receivables (trade, not insurance)	15,050	(4,833)	-	10,217
Cash and cash equivalents	26,824	-	-	26,824
Total assets	**946,469**	**-**	**(71,343)**	**875,126**
Liabilities				
Total Technical Provisions/IFRS Insurer Contract Liabilities	630,745	-	(64,503)	566,242
Provisions other than technical provisions	76	-	-	76
Deferred tax liabilities	4,616	-	(4,616)	-
Debts owed to credit institutions	5,950	-	-	5,950
Financial liabilities other than debts owed to credit institutions	1,176	-	-	1,176
Insurance & intermediaries payables	7,801	-	-	7,801
Reinsurance payables	10,329	-	86,793	97,122
Payables (trade, not insurance)	12,334	-	(10,102)	2,232
Any other liabilities, not elsewhere shown	10,105	-	-	10,105
Total liabilities	**683,132**	**-**	**7,572**	**690,704**
Excess of assets over liabilities	**263,337**	**-**	**(78,915)**	**184,422**

The excess of assets over liabilities of £184,422k forms the basis of Own Funds under Solvency II, which is the amount of available capital held to meet the Solvency Capital Requirement.

6. Capital Management (Summary of Section E)

At 31 December 2020, the key Solvency II capital measures were:

	2020 (£000)	2019 (£000)	Movement (£000)
Own Funds before Volatility Adjustment	207,077	264,598	(57,521)
Effect of Volatility Adjustment	2,345	3,048	(703)
Own Funds	209,422	267,646	(58,224)
SCR before Volatility Adjustment	167,498	188,601	(21,103)
Effect of Volatility Adjustment	(268)	(231)	(37)
SCR	167,230	188,370	(21,140)
Solvency Coverage Ratio before Volatility Adjustment	124%	140%	(16%)
Solvency Coverage Ratio	125%	142%	(17%)
Solvency Coverage	42,192	79,276	(37,084)

Solvency coverage has deteriorated by 17% (£37,241k) between 31 December 2020 and 31 December 2019.

Own Funds have reduced by £58,224k, largely due to the repayment of £70,000k of subordinated debt in the year and the decision of the Board to put the Company into run-off in February 2021, which increased the amount of future expenses included within Technical Provisions and reduced Own Funds by £39,846k.

These items have been partly offset by the introduction of £25,000k of ancillary own funds and a reduction in TPs, due in part to the expected impact of Covid-19 on the claims experience during 2020 and 2021.

As described in Section 4, the SCR has fallen to £167,230k, an improvement of £21,140k, largely due to the impact on underwriting risk of going into run-off.

SIL applies a Volatility Adjustment in calculating solvency coverage which has improved solvency coverage by 1%. The Volatility Adjustment is designed by the European Insurance and Occupational Pensions Authority to protect insurers with long-term liabilities from the impact of volatility on the insurers' solvency position. SIL does not apply the transitional measures of a matching adjustment, transitional deduction to the technical provisions or the transitional risk-free interest rate.

The table below shows the value of Own Funds eligible to meet the Minimum Capital Requirement (MCR) and SCR at 31 December 2020, classified by tier.

	2020						
	Total (£000)	Tier 1 unrestricted (£000)	Tier 1 restricted (£000)	Tier 2 (£000)	Tier 3 (£000)	2019 Total (£000)	Movement (£000)
Ordinary share capital	208,000	208,000	-	-	-	268,000	(60,000)
Reconciliation reserve	(23,578)	(23,578)	-	-	-	(69,509)	45,931
Subordinated liabilities	-	-	-	-	-	69,155	(69,155)
Total basic own funds after deductions	**184,422**	**184,422**	**-**	**-**	**-**	**267,646**	**(83,224)**
Ancillary own funds	**25,000**	**-**	**-**	**25,000**	**-**	**-**	**25,000**
Total available own funds to meet the SCR	**209,422**	**184,422**	**-**	**25,000**	**-**	**267,646**	**(58,224)**
Total available own funds to meet the MCR	**184,422**	**184,422**	**-**	**-**	**-**	**267,646**	**(83,224)**
Total eligible own funds to meet the SCR	**209,422**	**184,422**	**-**	**25,000**	**-**	**267,646**	**(58,224)**
Total eligible own funds to meet the MCR	**184,422**	**184,422**	**-**	**-**	**-**	**210,870**	**(26,448)**
SCR	**167,230**					**188,370**	**(21,140)**
MCR	**48,610**					**61,895**	**(13,285)**

Tier 1 Own Funds relate to share capital and the reconciliation reserve and equate to the value of the excess of assets over liabilities in the Solvency II balance sheet. The reconciliation reserve represents the changes resulting from valuation differences between IFRS versus Solvency II and also retained earnings and other reserves.

Tier 2 Own Funds relate to ancillary own funds. On 2 December 2020, SIL entered into an agreement with Soteria AOF Solutions Limited (SAOFS) to provide access on request to funding of £25,000k, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. The available funds are held in an escrow account which SIL can draw down on at its discretion. In the event that these ancillary funds are utilised, shares would be issued in SIL which would be classified as Tier 1 Basic Own Funds.

Non-compliance with the MCR occurs when the value of eligible Own Funds falls below the MCR. As at 31 December 2020, SIL has exceeded the MCR with coverage of 379% (2019: 340%) of the MCR. SIL has been compliant with the MCR throughout the reporting period.

Non-compliance with the SF SCR occurs when the value of eligible Own Funds falls below the SF SCR. As at 31 December 2020, SIL has exceeded the SF SCR with coverage of 125% (2019: 142%) of the SCR. SIL has been compliant with the SCR throughout the reporting period.

Directors' Report

The Directors of SIL during the financial year are listed below and all appointments were for the full period unless otherwise stated.

Non-Executive Directors:

Ewen Gilmour (Chair)	(appointed 2 December 2020)
Kathryn Morgan	(appointed 25 June 2020)
Oliver Peterken	(appointed 2 December 2020)
Peter Hubbard (Chair)	(resigned 2 December 2020)
Caroline Fawcett	(resigned 2 December 2020)
Diane Buckley	(resigned 2 December 2020)
Ian Ellis	(resigned 2 December 2020)

Executive Directors:

Mark Summerfield (Chief Executive Officer)	
Grant Mitchell (Chief Finance Officer)	(appointed 2 December 2020)
Neil Southworth (Chief Risk Officer)	(appointed 26 February 2020, resigned 2 December 2020)
Rob Harding (Chief Finance Officer)	(resigned 26 February 2020)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Solvency and Financial Condition Report in all material respects in accordance with the Prudential Regulation Authority Rules and the Solvency II Regulations.

Each of the Directors confirms that, to the best of their knowledge:

a) throughout the financial year in question, the Company has complied in all material respects with the requirements of the Prudential Regulation Authority Rules and the Solvency II Regulations as applicable to the Company; and

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

By order of the Board:

Mark Summerfield
Chief Executive Officer

7 April 2021

Independent Auditors Report

Report of the independent external auditor to the Directors of Soteria Insurance Limited ('the Company') pursuant to Rule 4.1(2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2020, ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01, S.25.01.21, S.28.01.01 ('the Templates subject to audit').

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.19.01.21; and
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2020 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including 'ISA (UK) 800 *(Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks'* and 'ISA (UK) 805 *(Revised) Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement'*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the relevant elements of the Solvency and Financial Condition Report, we have concluded that the Director's use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate. To evaluate the Directors' assessment of the company's ability to continue to adopt the going concern basis of accounting we have:

- confirmed our understanding of management's going concern assessment process and obtained management's assessment which covers the period to 31 December 2022;
- with support from our actuarial team, evaluated the solvency and liquidity position of the Company by reviewing base case solvency and liquidity projections that take into account the decision to place the company into run-off;
- understood how severe the downside solvency and liquidity scenarios would have to be to result in the elimination of available headroom and concluded them to be remote;
- assessed management's considerations of operational risks, including those related to Outsourced Service Providers ('OSPs') and its impact on the going concern assessment;
- performed enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees, and made enquiries as to the impact of COVID-19 on the business; and
- assessed the appropriateness of the going concern disclosures by comparing the consistency with management's assessment and for compliance with the relevant reporting requirements.

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 Company's ability to continue as a going concern for the period to 31 December 2022.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Emphasis of Matter – Basis of Accounting & Restriction on Use

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

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of the External Audit Part of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of these matters.

Other Information
The Directors are responsible for the Other Information contained within the Solvency and Financial Condition Report.

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

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report 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.

Responsibilities of Directors for the Solvency and Financial Condition Report
The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of the Financial Services and Markets Act 2000, the PRA Rules and Solvency II Regulations 2015.

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

In preparing the Solvency and Financial Condition Report, the Directors are responsible for assessing the Company's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the Directors either intend to cease to operate the Company, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the relevant laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the Solvency and Financial Condition Report included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA'), the Financial Conduct Authority ('FCA') and the Jersey Financial Services Commission ('JFSC').
- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and Board committees and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework and internal control processes
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiry of those charged with governance and senior management for their awareness of any non-compliance with laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies and inspecting significant correspondence with the PRA, FCA and JFSC.
- We assessed the susceptibility of the Company's Solvency and Financial Condition Report to material misstatement, including how fraud might occur by considering the controls that the company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered the impact of COVID-19 on the Company's control environment. These procedures included an assessment of the consistency of the financial processes and controls in place within the Company as it transitioned to operating remotely for a significant proportion of 2020.
- We also considered areas of significant judgment, including performance targets, external pressures and the impact these have on the control environment.
  The fraud risk, including management override, was considered to be higher in respect of the setting of the Technical Provisions.
- We also performed journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business, incorporating unpredictability into the nature, timing and/or extent of our testing, and challenged assumptions and judgments made by management in setting significant estimates.

The company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team and concluded that the team had the appropriate competence and capabilities, which included the use of specialists, where appropriate.

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

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1(3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young LLP
Manchester
8 April 2021

The maintenance and integrity of the Soteria Insurance Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the web site.

A. Business and Performance

A.1 Business

A.1.1 Legal Form, Ownership and Registered Address

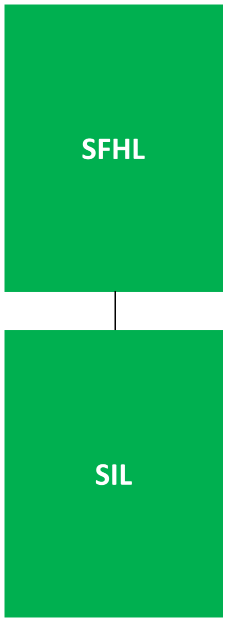
Soteria Insurance Limited (SIL) is a Company registered in England under the Companies Act 2006. The registered office is 2nd Floor, Arndale House, 122a Market Street, Manchester, M4 3AG and the registered number is 12698289. SIL was incorporated on 25 June 2020. Prior to incorporation, SIL was a Society registered in England under the Co-operative & Community Benefit Societies Act 2014. SIL changed its name on 5 January 2021 from CIS General insurance Limited (CISGIL).

SIL underwrote insurance risk predominantly within the personal lines segment of the Motor and Home insurance markets. The Board made the decision to place the Company into run-off in February 2021 and the last new insurance policy was entered into with effect from the same month (see Section A.1.6). Since this date the Company has continued to administer existing policies in force and settle outstanding claims.

A.1.2 Simplified Group Structure, Description of Holders of Qualifying Holdings in the Society and Material Related Undertakings

On 2 December 2020, SIL was sold by the Co-operative Group Limited (Co-op Group) to Soteria Finance Holdings Limited (SFHL). SFHL owns 100% of the Ordinary Shares in SIL. The registered office of SFHL is 40 Berkeley Square, London, England, W1J 5AL.

SFHL is an Insurance Holding Company whose only subsidiary undertaking is SIL. The group structure is shown below:



A.1.3 Employees

Up to 2 December 2020, SIL had no employees. All colleagues were employed through the Co-op Group or CFS Management Services Limited (CFSMS), a subsidiary of Co-op Group which provided administrative and other services, with a management charge payable to cover these costs. Since 2 December 2020, SIL has employed a small number of colleagues to oversee the key functions of the business, with additional services now provided by Markerstudy Insurance Services Limited (MISL).

A.1.4 Name and Contact Details of External Auditors

The Company's auditors are Ernst & Young LLP (registered no. OC300001), whose registered office is 1 More London Place, London SE1 2AF.

A.1.5 Name and Contact Details of Supervisory Authority and Regulator

SIL is authorised and regulated by the Prudential Regulatory Authority (PRA) in the United Kingdom, whose offices are at 20 Moorgate, London, EC2R 6DA and regulated by the Financial Conduct Authority (FCA), whose head office is at 12 Endeavour Square, London, E20 1JN.

A.1.6 Significant Business or Other Events

Change of ownership

On 2 December 2020, the Company was sold by The Co-operative Group Limited (Co-op Group) to Soteria Finance Holdings Limited ('SFHL'), following approval by the Prudential Regulation Authority (PRA). At the same date, an outsourcing agreement was entered into with the Markerstudy Group to provide insurance services to the Company. On 5 January 2021, the Company changed its name from CIS General Insurance Limited to Soteria Insurance Limited.

Run-off

On 11 February 2021, the Board made the decision to place the Company into run-off and subsequently made an application to the PRA for SIL's regulatory permissions to effect new insurance contracts to be cancelled. This application was approved on 29 March 2021. SIL's last new insurance policy was entered into with effect from 24 February 2021. The Company will continue to administer existing policies in force and settle outstanding claims. The focus of the Directors is to meet all obligations to customers throughout a solvent run-off, to fulfil all regulatory requirements and, to the extent the Company has surplus capital above a prudent risk appetite to meet its liabilities and regulatory requirements, it aims to distribute this capital to its parent, SFHL.

Brexit

The Company has not been significantly impacted by Brexit and is not expected to be in 2021. SIL is predominantly a UK business, however it does have exposure to financial markets and is exposed to potential supply chain issues as imported goods and services, including from the European Union (EU), are used by suppliers in order to fulfil insurance claims. SIL monitored events through a working group which considered various aspects including the possible impact of tariffs, data transfers to/from EU, colleague rights to work and the volatility of investment markets. The primary impact and where most time was spent in preparing was to ensure operational readiness and the ability to inform customers of the impact of changes on their insurance and to issue Green Cards, for customers to prove that they have adequate insurance to drive abroad, when required. There remains the risk that costs could increase due to the impact to the supply chain and increased administrative requirements for customers travelling to the EU.

Coronavirus (Covid-19) impact

The coronavirus (Covid-19) pandemic has caused challenges and uncertainty and is likely to continue to do so in 2021. The primary impact was operational, with the potential for high levels of colleague absence and/or restrictions and setting colleagues up to work remotely over a prolonged period. The Company convened an Incident Management Team with senior representatives from all areas of the business, which met daily during the early days of Government restrictions to manage SIL's response to the pandemic. Existing business continuity arrangements were strengthened to enable greater numbers of colleagues to work from home.

Financially, the primary impact of the pandemic has been to reduce loss ratios owing to there being fewer cars on the road during lockdown, leading to fewer accidents and fewer claims, only partially countered by upward pressure on average costs for some claim types. The pandemic also caused increased volatility in the investment markets, however the Company has been relatively protected owing to a conservative approach to investment, holding predominantly cash and highly-rated government and corporate bonds, which fluctuated in value less than other asset classes.

In 2021, SIL is well prepared both operationally and financially for the impact of the pandemic. The Company remains vigilant to changing customer behaviour giving rise to different patterns of insurance claims or policy cancellations, or claims supply chain disruption affecting the cost or service level to handle claims. Any increased costs of claims or administrative expenses are expected to be relatively modest in the context of the Company's financial resources and will be monitored through the usual governance mechanisms, including the Board's regular oversight of solvency capital coverage and other metrics. Investments will continue to be monitored through the usual governance mechanisms.

Other

On 7 April 2020, the Company entered into an agreement with the Co-op Group to provide access on request to funding of £70m, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. The Company did not draw upon this funding in the period. On 2 December 2020, when SIL was sold to SFHL, this funding agreement with the Co-op Group ceased. On the same date, SIL entered into an agreement with Soteria AOF Solutions Limited (SAOFS) to provide access on request to funding of £25m, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. SAOFS is a company related to SIL through having the same shareholders as SFHL. SIL did not draw upon this funding in the period.

On 8 May 2020, the Company repaid £70m of subordinated debt which had been issued to external loan note holders on 8 May 2015.

Until 25 June 2020, SIL was a Co-operative Society registered in England under the Co-operative and Community Benefit Societies Act 2014. It was de-mutualised and incorporated as a Limited Company on 25 June 2020. The change in form did not change the regulatory permissions of the business.

In preparation for the sale of the Company to SFHL, colleagues in the Sales & Service department who were previously employed by CFS Management Services and their costs recharged to SIL, moved to Affinity Insurance Services Limited (AISL). AISL was a subsidiary of Co-op Group until 2 December, at which point it was sold to become part of Markerstudy Group (MSG). On 2 December 2020, on completion of the sale of SIL to SFHL, the majority of colleagues previously working for CFSMS and recharged to SIL transferred to Markerstudy Insurance Services Limited (MISL), part of MSG. These colleagues continue to serve SIL customers. An outsourced services agreement was signed with MISL. A small number of colleagues transferred to be employed directly by SIL. These colleagues provide oversight and fulfil regulatory responsibilities.

A.2 Underwriting Performance

A.2.1 Business Performance

The table below shows the performance of the Company in the current financial year and preceding financial year.

	Year ended 31 December 2020 (£000)	Year ended 31 December 2019 (£000)	Variance (£000)
Net earned premiums	291,820	314,735	(22,915)
Net policyholder claims and benefits	(215,253)	(252,197)	36,944
Fee and commission income	52,248	57,399	(5,151)
Fee and commission expenses	(25,049)	(29,220)	4,171
Acquisition and administrative expenses	(105,587)	(113,154)	7,567
Underwriting result	**(1,821)**	**(22,437)**	**20,616**
Net investment income	17,890	12,101	5,789
Income from assignment of rights	-	14,100	(14,100)
Other income	157	-	157
Finance costs	(4,976)	(8,773)	3,797
(Loss)/profit before business improvement costs and taxation	**11,250**	**(5,009)**	**16,259**
Costs in respect of business improvement	(4,030)	(11,756)	7,726
Loss before taxation	**7,220**	**(16,765)**	**23,985**
Claims ratio	**(73.8%)**	**(80.1%)**	**6.3%**
Commission and expense ratio excluding business improvement costs	**(26.9%)**	**(27.0%)**	**0.1%**

The 2020 full year financial result was a profit before taxation of £7,220k (2019: £16,765k loss, which included receipt of a payment for the equitable assignment of proceeds of litigation to Co-op Group).). The reported profit before business improvement costs and tax for 2020 was £11,250k (2019: £5,009k loss, £19,100k loss excluding the assignment of rights). The improvement in profitability, which has led to the largest profit before tax the Company has achieved in several years, has been positively influenced by the Covid-19 pandemic with varying levels of lockdowns throughout 2020 reducing Motor claims, as essential travel only was applicable at times and much reduced multi passenger travel. Additionally, there was limited impact due to adverse weather, i.e. storms Ciara and Dennis in the first quarter of 2020, with more benign weather thereafter.

Net earned premium declined by £22,915k to £291,820k. This was the consequence of rating action taken during late 2019 and 2020 to improve profitability in the period preceding the sale of the business to SFHL. This action resulted in reduced relative competitiveness, particularly in the broker channel.

Policyholder claims and benefits have decreased from £252,197k in 2019 to £215,253k in 2020 mainly as a result of the impact of the Covid-19 pandemic on Motor claims and the limited impact of adverse weather.

Fee and commission income is generated through policy administration fees, brokerage commission, fees administered by third parties and from quota share reinsurance arrangements. Fee and commission income has reduced by £5,151k to £52,248k, largely owing to lower numbers of policies sold in Motor in the year leading to reduced opportunity for income from sale of ancillary products and policy add-ons.

Fee and commission expenses, relating to the sales of policies through both web-based aggregators and third party brokers, decreased from £29,220k in 2019 to £25,049k in 2020 mainly owing to a reduced volume of sales through Broker and Aggregator channels.

Net investment income increased by £5,789k from £12,101k in 2019 to £17,890k in 2020, driven by investments in collective investments, where unrealised gains and losses are accounted for as fair value through income and expenses. These investments have performed strongly in the year having been purchased in March 2020 to back long-tailed liabilities.

Costs in respect of business improvement decreased to £4,080k in 2020, from £11,756k in 2019. 2020 costs relate to preparation for the sale of SIL only, whereas 2019 also included bank separation costs and legal costs relating to the terminated contract with IBM.

The underlying commission and expense ratio (excluding business improvement costs) decreased marginally to 26.9% in 2020, from 27.0% in 2019, as a result of continued tight cost control in the lead up to the sale of SIL.

A.2.2 Underwriting Performance

Analysis of the Company's underwriting performance by line of business is presented below. No geographic segmental reporting analysis is presented as all business is conducted in the UK, Isle of Man and the Channel Islands.

Motor Vehicle Liability Insurance (Motor)

	Year ended 31 December 2020 (£000)	Year ended 31 December 2019 (£000)	Variance (£000)
Net earned premiums	166,777	178,880	(12,103)
Net policyholder claims and benefits	(124,753)	(154,540)	29,787
Acquisition, administrative and commission expenses	(66,462)	(68,732)	2,270
Fee and commission income	30,630	34,643	(4,013)
Underwriting result	**6,192**	**(9,749)**	**15,941**
Claims ratio	**(74.8%)**	**(86.4%)**	**11.6%**

Net earned premiums above includes £2,318k (2019: £2,595k) relating to the 'Legal expenses' Solvency II line of business (SII LOB). All other figures relate to the 'Motor vehicle liability insurance' SII LOB.

The underwriting performance of the Motor book improved significantly year on year, generating a profit of £6,192k (2019: £9,749k loss). This was primarily a result of the impact of lockdown restrictions due to Covid-19 meaning less traffic on the road and therefore less accidents.

Net earned premiums reduced by £12,103k to £166,777k following rate changes during late 2019 and in 2020, made in line with observed claims inflation and to improve profitability, particularly in the Broker and Aggregator channels, ahead of the sale of the business to SFHL.

Other Motor Insurance (Other Motor)

	Year ended 31 December 2020 (£000)	Year ended 31 December 2019 (£000)	Variance (£000)
Net earned premiums	67,731	71,266	(3,535)
Net policyholder claims and benefits	(50,011)	(58,025)	8,014
Acquisition, administrative and commission expenses	(25,323)	(26,154)	831
Fee and commission income	13,075	13,802	(727)
Underwriting result	**5,472**	**889**	**4,583**
Claims ratio	**(73.8%)**	**(81.4%)**	**7.6%**

A significant improvement in underwriting performance was also seen within the Other Motor line of business, with decreased net earned premiums being more than offset by lower level of net policyholder claims and benefits due to travel restrictions at various times of the year because of the Covid-19 pandemic.

Fire and Other Damage to Property Insurance (Home)

	Year ended 31 December 2020 (£000)	Year ended 31 December 2019 (£000)	Variance (£000)
Net earned premiums	57,312	64,589	(7,277)
Net policyholder claims and benefits	(34,306)	(35,247)	941
Acquisition, administrative and commission expenses	(38,851)	(47,491)	8,640
Fee and commission income	8,543	8,870	(327)
Underwriting result	**(7,302)**	**(9,279)**	**1,977**
Claims ratio	**(59.9%)**	**(54.6%)**	**(5.3%)**

Net earned premiums within Home reduced from £64,589k in 2019 to £57,312k in 2020 owing to lower volumes of sales following rate changes made in line with observed claims inflation and to improve profitability.

Net policyholder claims and benefits decreased from £35,247k in 2019 to £34,306k in 2020. This has been impacted by Covid-19 as, with more people working from home, any issues are more likely to be found before they become too serious. There were also lower notifications for theft perils where there has been less scope for opportunistic thefts and the severity of claims emerging is lower. Offsetting this were higher claims costs relating to adverse weather, including Storms Ciara and Dennis in February 2020, and a strengthening of prior year reserves.

Acquisition, administrative and commission expenses have reduced by £8,640k to £38,851k, partly owing to lower commission and acquisition expenses, in line with lower earned premium, and partly owing to lower administrative expenses.

Other

	Year ended 31 December 2020 (£000)	Year ended 31 December 2019 (£000)	Variance (£000)
Net earned premiums	-	-	-
Net policyholder claims and benefits	(6,183)	(4,385)	(1,798)
Acquisition, administrative and commission expenses	-	3	(3)
Fee and commission income	-	84	(84)
Underwriting result	**(6,183)**	**(4,298)**	**(1,885)**

This category includes the aggregate of all other lines of business which are not material to disclose separately. The underwriting result for the year was largely due to a strengthening of prior year general liability claims reserves. Although the number of Mesothelioma cases notified in 2020 was broadly in line with expectation (eight), the methodology has been updated to recognise the potential for a longer run off of claim notifications as suggested by the projection produced by Institute & Faculty of Actuaries working party.

A.3 Investment Performance

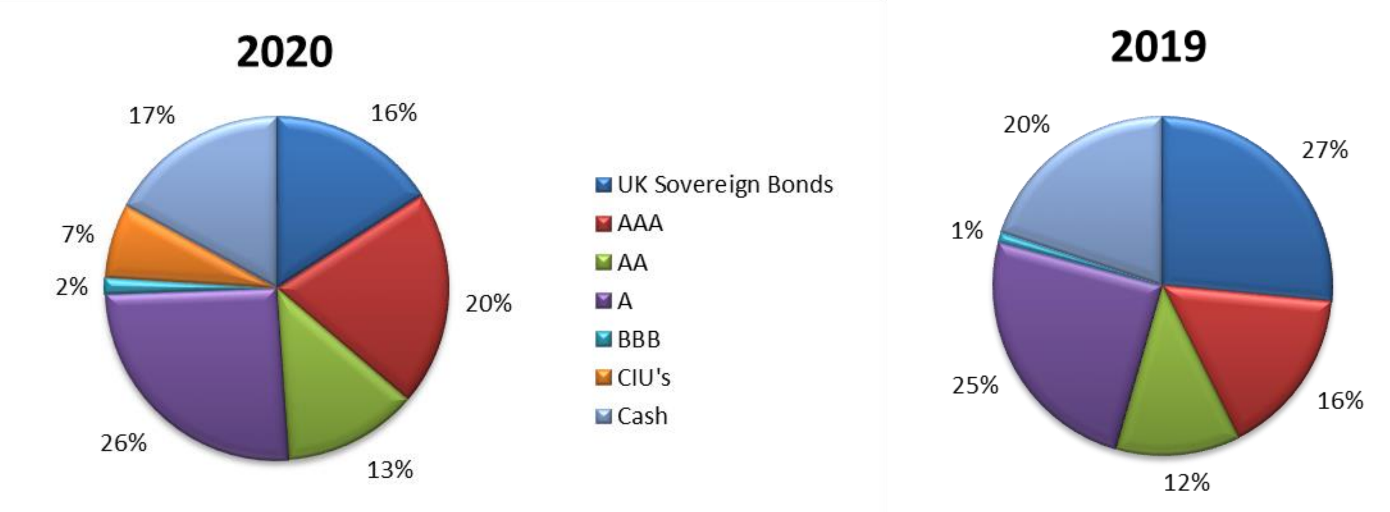
A.3.1 Investment Income and Expenses

The table below analyses SIL's investment income and expenses:

	Year to 31 December 2020 (£000)	Year ended 31 December 2019 (£000)	Variance (£000)
Investment income from cash deposits	289	997	(708)
Investment income from government bonds	820	1,360	(540)
Investment income from corporate bonds	5,557	7,399	(1,842)
Investment income from collaterised securities	83	-	83
Investment income from structured products	848	950	(102)
Investment income	**7,597**	**10,706**	**(3,109)**
Gains less losses arising from financial instruments	11,401	2,371	9,030
Investment expenses	(1,108)	(976)	(132)
Investment return	**17,890**	**12,101**	**5,789**

SIL has a low investment risk appetite, with a portfolio of investments which focuses on higher rated corporate bonds, gilts and cash, all denominated in sterling. In 2020, SIL expanded its range of investments with investment in Collective Investment Assets. These are unit funds where gains and losses are recognised at fair value through income and expenses and so the performance of these assets is included in 'Gains less losses arising from financial instruments' in the table above.

All proposed investments in the year were screened against SIL's Ethical Policy and existing investments have been reviewed periodically to ensure ongoing compliance in four identified areas: Human Rights, Ecological Impact, International Development and Animal Welfare.



Investment return increased by £5,789k to £17,890k (2019: £12,101k) , largely owing to investments in collective investment undertakings (CIUs), where unrealised gains and losses are accounted for as fair value through income and expenses. These investments have performed strongly in the year having been purchased in March 2020 to back long-tailed liabilities. Investment income, before gains less losses arising from financial instruments, decreased by £3,109k to £7,597k (2019: £10,706k) mainly owing to a lower value of corporate bonds held in the period due to the purchase of CIU's and repayment of subordinated debt. The pie charts above show that the portfolio has remained strong within the period with investments mainly in government and high-rated bonds. AAA corporate bonds now account for 20% (2019: 16%) of the portfolio and AAA to A corporate bonds account for 59% (2019: 53%) of the portfolio, while the level of BBB rated bonds remains low at 2% (2019: 1%) of the portfolio.

Free cash balances are placed on deposit with approved financial institutions, backed with collateralised short term investment.

A.3.2 Investment Gains and Losses Recognised Directly in Equity

Other than for its investments in Collective Investment Assets, SIL has adopted a policy of recognising investment assets on an 'available for sale' basis in order to avoid fluctuations in reported operating result driven by volatility in the market value of investments held. As a result, movements in the market values of these assets, other than impairment losses, are recognised in other comprehensive income. The table in Section A.3.1 above does not include the annual value of movement in these assets of £5,400k after tax (2019: £4,600k).

Collective Investment Assets are recognised on a 'fair value through income and expenses' basis as units in these funds are held for trading.

A.3.3 Investments in Securitisations

SIL had no investments in securitisations at December 2020 (2019: one investment valued at £815k).

A.4 Performance of Other Activities

A.4.1 Leasing Arrangements

SIL has operating lease arrangements relating to occupied property. In accordance with IFRS 16, right-of-use assets are recognised under Property, Plant & Equipment Held for Own Use (See Section D.1.1) and lease liabilities under Financial Liabilities other than Debts Owed to Credit Institutions (See Section D.3.1).

A.5 Any Other Information

A.5.1 Related Party Transactions

SIL was a subsidiary of the Co-op Group for the majority of 2020 and during the course of normal business entered into arm's length transactions with other Group companies. This included operational support such as IT, Legal and Human Resources and the provision of employees from CFSMS (See Section A.1.3). Since 2 December 2020, SIL has been a subsidiary of SFHL. SFHL has no other subsidiaries.

Further information relating to related party transactions, including key management compensation, can be found in Note 30 to the Company's Annual Report and Accounts.

B. System of Governance

B.1 General Information on the System of Governance

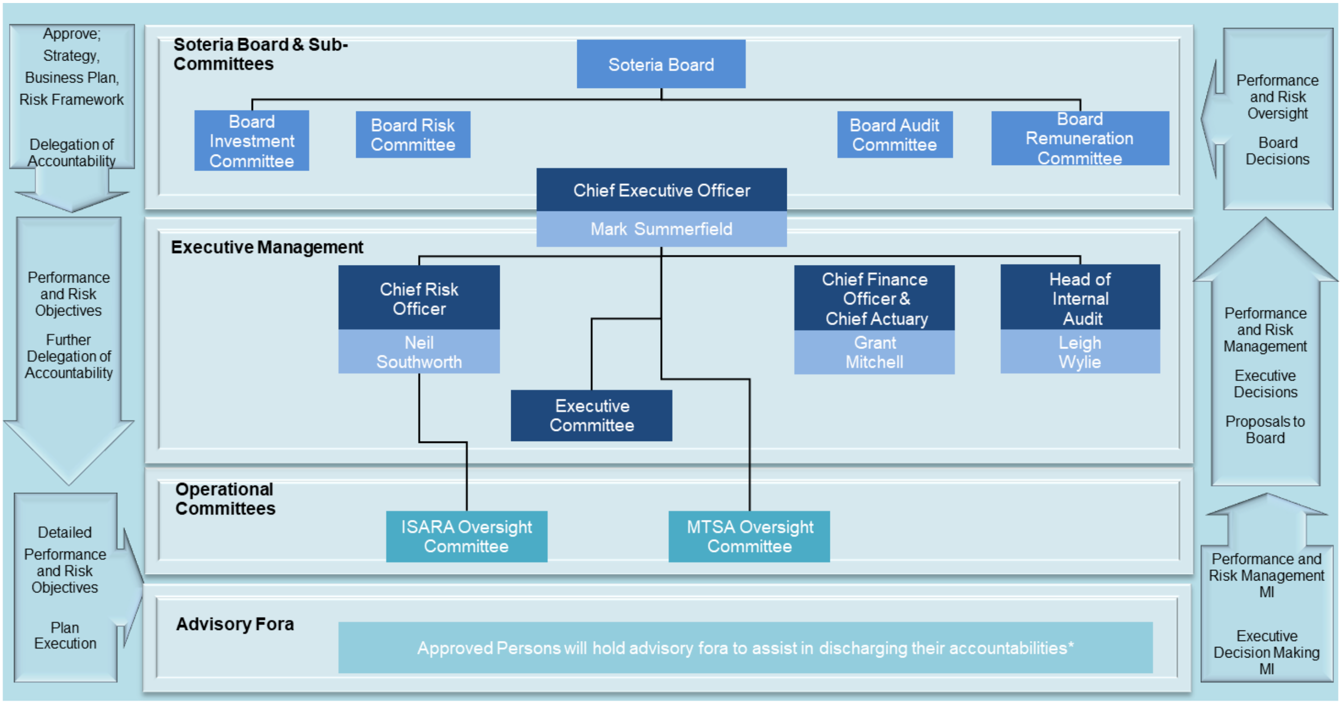
B.1.1 Governance Structure

Successful delivery of business strategy relies on an effective system of governance, which includes a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective risk management and internal control.

SIL has established a strong governance framework and ensured that the accountability and responsibility of individual Senior Managers and directors is clearly defined and documented. This enables the Board, Executive and associated committees to interact effectively to support delivery of the agreed strategy and the ability to manage and mitigate the risks faced by the business.

The governance framework includes a formal committee structure, consisting of the Board and its sub-committees (shown in the diagram below), Executive Management committees and Advisory committees. The governance framework is managed using a 'Three Lines of Defence Model' (see Section B.3.1.3). Material changes to the governance framework as a result of the sale of SIL to SFHL are described in Section B.1.3.

The diagram below illustrates how the Board and its sub-committees operate within the governance structure.



The sections below outline the main roles and responsibilities of the Board and its sub-committees.

Committee	Overview	Responsibilities
SIL Board (Board)	The Board is responsible for organising and directing the affairs of the business in a manner that is most likely to promote the success of the business for the benefit of its shareholders and is consistent with its purpose, regulatory and statutory requirements and corporate governance best practice.	See Note 28 of SIL's Annual Report and Accounts.
SIL Board Risk Committee (BRC)	The purpose of the BRC is to oversee and advise the Board on current and potential risks and the overall risk framework. The committee also oversees SIL's risk management arrangements, ensuring that Risk Appetite is appropriate and adhered to and that key risks are identified and managed.	See Note 28 of SIL's Annual Report and Accounts.
SIL Board Audit Committee (BAC)	The purpose of the BAC is to assist the Board in discharging its responsibilities for the integrity of SIL's financial statements, to review the effectiveness of internal controls and risk management systems and to monitor the effectiveness and objectivity of internal and external auditors.	See Note 28 of SIL's Annual Report and Accounts.
SIL Board Investment Committee (BIC)	The purpose of the Committee is to assist the Board in discharging its responsibilities in relation to the Prudent Person Principle by overseeing the Company's out-sourced investment activities and to ensure investments are made in line with the approved strategy and mandate.	See Note 28 of SIL's Annual Report and Accounts.
SIL Board Remuneration Committee (REMCO)	The purpose of the Remuneration Committee is to determine the Remuneration Policy for SIL in respect of its Executive and set/approve remuneration.	See Note 28 of SIL's Annual Report and Accounts.

B.1.2 Key Functions

All accountabilities are allocated as part of The Senior Manager and Certification Regime (SM&CR).

The SIL Management Responsibilities Map describes and documents the firm's overall governance arrangements. It demonstrates that there are no gaps in the allocation of responsibilities amongst its management.

Senior Manager Functions are roles the regulators deem 'critical' within a firm. They are occupied by individuals who have significant influence over the firm's business strategy, culture and compliance with regulatory requirements. Individuals who are appointed to perform a Senior Manager function must be approved by the FCA and/or PRA.

Key Functions, as defined by Solvency II regulation, are those functions which, if not properly managed and overseen, could potentially lead to significant losses being incurred or to a failure in the on-going ability of the firm to meet its policyholder obligations. The firm's system of governance has identified those persons who are responsible for the Key Functions, known as Key Function Holders (KFHs), along with their lines of accountability.

The table below summarises the four Key Functions:

Key Function	Key Function Holder	Section Reference
Risk management function	Chief Risk Officer	B.3
Compliance function	Chief Risk Officer	B.4.2
Internal Audit	Head of Internal Audit	B.5
Actuarial function	Chief Actuary	B.6

Details on how each Key Function has the necessary authority, independence and resources needed to carry out tasks and report to the Board is located under the section references noted in the above table.

B.1.3 Material Changes

As described in Section A.1.6 the Company was sold by Co-op Group to SFHL on 2 December 2020, following approval by the Prudential Regulation Authority (PRA). The Board composition changed on this date but there were no material changes to the governance structure.

On the same date as the change in control, an outsourcing agreement was entered into with the Markerstudy Group to provide insurance services to SIL, including the provision of claims handling, risk management, compliance, internal audit and actuarial services. At the same time a transitional services agreement with the Co-op Group was entered into to provide IT and other services. Two new committees have been set up to monitor the overall performance and service levels provided as part of these agreements, being the Insurance Services and Run-Off Agreement (ISARA) Governance Committee and, for the period of migration activity, the Migration and Transitional Services Agreement (MTSA) oversight committee.

As noted in Section A.1.6 SIL has ceased underwriting and has gone into run-off. Whilst this is a significant change to the business model and impacts the risk framework, it will not lead to any changes to the above Governance Structure.

B.1.4 Remuneration

The SIL Pay Policy documents the remuneration principles of Executives of the business. The policy is governed by the SIL Remuneration Committee (REMCO).

The SIL Pay Policy promotes a competitive but not excessive employment offer which achieves an appropriate balance between fixed and variable pay and which promotes sound and sustainable decision-making through effective risk management.

In determining SIL Executive remuneration, the Policy takes into account a number of principles which reflect the regulatory responsibilities of SIL, including the following:

- The Policy has been designed to ensure that overall levels of remuneration are sufficient to attract, retain and motivate individuals of the quality necessary to manage SIL effectively and successfully, but are not excessive in comparison to the relevant external market.
- The Policy aims to align the remuneration of SIL Executives with balanced business judgement, in order to ensure that customers are placed first, and sustainable decisions and actions are taken in their best interests. Therefore, SIL Executives are not remunerated solely on the basis of the sales and profits of SIL, but on a balanced scorecard including both customer and colleague measures.
- REMCO will seek to maintain a market-aligned and sustainable remuneration structure for SIL Executives.
- Any performance conditions attached to incentive awards will be appropriate, stretching and support the strategy and purpose of SIL.
- REMCO should ensure that performance conditions do not encourage excessive risk taking and protect the delivery of fair customer outcomes.
- Variable remuneration will be subject to appropriate claw-back and, where appropriate, malus arrangements.
- Remuneration for new hires should be sufficient to attract Executives of the required calibre using the same policies that apply to current SIL Executives.
- If SIL Executives depart SIL, REMCO will aim to ensure colleagues are treated fairly whilst minimising the cost to SIL.

Long term incentive awards and supplementary pension and early retirement schemes

SIL does not directly issue any long term incentive awards. No supplementary pension or early retirement schemes are offered.

Remuneration paid to Non-Executive Directors

The Board delegated responsibility for determining the Non-Executive Directors' (NED) fees, to the Chair and the Chief Executive Officer (CEO). A review of NED fees includes a benchmarking exercise conducted by a specialist external consultancy, which was last conducted in March 2016.

The Remuneration Committee is responsible for determining the fees payable to the Board Chair. The fees were last considered by the Committee in 2018 following a review of External Market Data and in the context of the strategic landscape.

Further information relating to remuneration including compensation paid to key management and Non-Executive Directors is included in the Note 30 of SIL's Annual Report and Accounts.

B.1.5 Material Transactions

SIL's ownership structure is detailed in Section A.1.1 and A.1.2 above. As explained in Section A.5, information relating to transactions with related companies, including key management compensation, can be found in Note 30 to the Company's Annual Report and Accounts.

B.2 'Fit and Proper' Requirements

Persons who effectively run the business or who are responsible for other Key Functions within the business must be 'fit and proper' at all times. This means that these persons must have adequate professional qualifications, knowledge and experience to enable the sound and prudent management of the firm and that they are of good repute and integrity.

SIL has established a fit and proper policy and processes which comply with the Senior Managers and Certification Regime (SM&CR). SIL has identified Certified Employees (the next tier of management below Senior Managers where the role has a risk of customer harm) to which the requirements will also apply. SIL will ensure that Senior Managers and Certified Employees are at all times fit and proper persons.

B.2.1 Process for Assessing Fitness and Propriety

The process for assessing fitness and propriety comprises of two stages:

1. Pre-appointment

To assess an individual's fitness and propriety to perform a role the following steps are undertaken:

- Executive search consultancy utilised to identify the best candidates for the role.
- Request a formal application along with a full and comprehensive CV.
- Request and review evidence of relevant qualifications, where appropriate.
- Interviews conducted by individuals with appropriate expertise and seniority within the firm.
- Obtain regulatory references from previous employers. These must include the minimum information as prescribed by our regulators. Personal references may also be obtained.
- Criminal records checks.
- Credit checks to establish an individual's financial soundness.
- Other due diligence from other publicly available sources, for example Financial Services Register, Companies House (to establish any conflicts of interest) and media searches.

SIL will only recruit individuals to a position of significant influence who have the appropriate skills, knowledge and experience. Where any minor development needs are identified these will be addressed as part of a development plan and the individual will be provided with appropriate support.

SIL will also ensure that any appointments to the Board contain an appropriate mix of skills and experience, and the right mix of both financial industry capability and critical perspective from high-level experience in other major businesses.

2. On-going (post appointment)

SIL monitors an individual's fitness and propriety on an on-going basis via regular performance appraisals. In addition, an assessment is conducted and documented on an annual basis using the following information:

- Results of performance appraisals, including adherence to the conduct rules outlined by SM&CR.
- Progress against development plans, where appropriate.
- Self-certification by the individual as to their fitness and propriety.
- Other relevant supporting documentation, for example an assessment of their risk performance over the year, Internal Audit Summary, role profiles & Continuous Professional Development logs.
- An up to date version of their handover pack – Senior Managers only.

B.3 Risk Management System Including the Own Risk and Solvency Assessment (ORSA)

B.3.1 Risk Management System

The Risk Management Framework (RMF) identifies processes, ownership, responsibilities and the oversight required to support effective implementation of Risk Management across SIL.

Effective Risk Management is essential for the achievement of business success and is everyone's responsibility. Customers, members, regulators and other stakeholders expect SIL to manage risk effectively.

B.3.1.1 Risk Vision & Appetite

SIL's Risk Vision is set by the Board and overarches the risk appetite statements.

Risk Appetite is the expression of how much risk SIL would be prepared to accept in pursuit of its vision. The elements are:

- One or more metrics that underpin each of the level 1 and level 2 risks, along with 'red', 'amber' and 'green' thresholds for monitoring and reporting exposure against each metric.
- Overarching Risk appetite statements that group these metrics into themes.

The detailed statements and their supporting metrics are contained within the ***Risk Vision and Appetite*** document which is maintained by the Chief Risk Officer (CRO).

The Board owns and approves the SIL level Risk Appetite and delegates the setting of more detailed risk limits and through the formal assignment of Risk Framework Owner (RFO) accountabilities.

B.3.1.2 Risk Management Process

The risk management process outlines the key requirements including roles and responsibilities for the way in which risk management is conducted across SIL. The risk management process consists of five stages:

1. Identification.
2. Measurement.
3. Management.
4. Monitoring.
5. Reporting.

The purpose and requirements for each stage of the risk management process are outlined in the section below.

Stage	Purpose	Requirement
Risk Identification	To identify the current and emerging risks that may impact SIL.	The process requires in-depth knowledge of SIL's strategic and operational objectives, business, markets and structure.
Risk Measurement	To quantify the risks to SIL in a consistent manner.	Risks within SIL are assessed by considering the 'likelihood' of the risk materialising and the 'impact' should it materialise. Risks within SIL are assessed using a 5 x 5 Risk Assessment Matrix.
Risk Management	To carry out an appropriate strategy to address the risk in question.	Risk mitigation by the use of well documented and robust controls will be the most appropriate approach for the majority of risks.
Risk Monitoring	To ensure that the selected risk management approach is effective, and to keep track of any changes which may impact the risk environment and the level of exposure over time.	Exposure by risk type is monitored on a regular basis. The frequency will depend upon the materiality of the risk.
Risk Reporting	To provide the Board, Executive and senior management with an accurate, timely and clear account of the current risk exposure and to highlight any risks to achievement of business objectives.	The aim is to provide the Board, Executive and senior management with an accurate, timely and clear account of the current risk profile. This is achieved by taking the most material outputs from the above processes and presenting them to the Board. Ultimately the CRO is responsible for ensuring that this aim is met.

B.3.1.3 Three Lines of Defence

The RMF has been built around the 'Three Lines of Defence' model as follows:

- 1st line: manage risk in day to day operations.
- 2nd line: provide oversight and challenge of first line activities; establish and oversee the risk management framework.
- 3rd line (Internal Audit): provide assurance that the RMF is being executed as intended and functioning correctly (see Section B.5 for further details of the Audit function).

As SIL is largely an outsourced model, much of 1st line work is carried out by third parties. 2nd line activities do not aim to repeat the independent checks and controls of the work produced by MSG on behalf of SIL. The 2nd line will separately review based on a 1st line residual risk prioritisation to provide proportionate assurance of the Risk profile and control status.

B.3.1.4 Policies and Controls

Policies

SIL has developed a set of risk policies to manage risk across the business. Each risk policy is owned by a designated RFO. These policies outline the principles that the RFO expects the business to follow.

The individual policies must be reviewed and updated by the RFO annually, as a minimum, to ensure on-going relevance and effectiveness against business strategy and organisational design, or any changes in external regulatory requirements.

Controls

Each risk identified in the risk register has one or more controls appended to it. Each of the controls are owned and approved by the relevant RFO, however they may choose to delegate the management and testing of the controls to a subject matter expert within their area. The RFO must attest that all controls are operating effectively every 6 months, and call out areas of control weakness.

B.3.2 Own Risk and Solvency Assessment (ORSA)

The ORSA is the totality of all processes used to identify, measure, manage, monitor and report the short term and long term risks SIL faces or may face and the Own Funds necessary to ensure solvency requirements are met on a continuous basis.

SIL has a governance structure to ensure the necessary technical expertise to provide input to and challenge the ORSA:

- The Board has ultimate responsibility and accountability for the ORSA, including providing direction for the overall approach.
- The overall responsibility for the conduct and documentation of the ORSA lies within the CRO and the Risk function. The CRO will provide oversight across the overall SIL RMF for all known risks and related processes and controls.
- Business areas are responsible for providing requested documentation in support of the underlying ORSA process and production of reports.

B.3.2.1 ORSA Policy

The ORSA policy sets out SIL's approach to the conduct of the ORSA and its reporting. The policy outlines the framework approved by the Board to ensure that the ORSA is an integral part of business planning, strategy and decision making; and the Board has an active role in directing the ORSA process and challenging the output.

All SIL employees are required to comply with the requirements of the ORSA Policy and to report any breaches in accordance with the guidance contained within the RMF Policy.

B.3.2.2 ORSA Principles

The ORSA policy is founded on the following principles:

Process	1. The ORSA is forward-looking and closely related to business planning. 2. The ORSA considers the link between the risk profile, approved risk appetite limits and overall solvency needs. 3. The ORSA encompasses all material quantitative and qualitative risks that may impact SIL. 4. The ORSA includes stress tests, sensitivity analyses and reverse stress tests.
Report and Documentation	5. The full ORSA report documents the ORSA process, conclusions and implications, providing links to further evidence. 6. A full ORSA report is produced annually alongside SIL's Strategic Plan. 7. Ad hoc updates to the ORSA report are produced following material changes to SIL's current and/or projected risk profile, business model or solvency position. 8. 2nd Line will produce and maintain an ORSA record document.

B.3.2.3 ORSA Process

The ORSA process is the on-going process by which SIL manages and assesses its risk and solvency (both regulatory and internal) within its decision-making processes.

ORSA Methodology & Assumptions

- The ORSA considers all known risks to which SIL is exposed in both qualitative and quantitative terms. The ORSA will assess exposure to these risks against the risk appetite limits set by SIL Board.
- Risk and solvency is considered and projected over (at least) SIL's medium-term planning horizon. The ORSA considers emerging risks, the impact of the business plan on its risk profile, and the extent to which the strategic plan aligns with risk appetite.
- The internal economic view of SIL's risks is calculated based upon the Standard Formula, which is adjusted appropriately.
- The ORSA considers capital and solvency on all relevant regulatory and internal bases, including reconciliations and explanation for differences.
- The ORSA includes an analysis of the Standard Formula against SIL's risk-profile.
- The ORSA documents and explains the change in the risk profile, capital and solvency from the previous exercise. This assessment includes confirmation of continuous solvency over the period from the previous ORSA report.
- The ORSA considers the quantity and quality of its Own Funds over the business planning period and the composition of Own Funds across tiers.
- Stress and scenario tests (SSTs) are performed at least annually, normally as part of the Strategic Planning process, and additionally on an ad hoc basis if appropriate. These include economic scenarios, individual stress events and sensitivities to key assumptions. The SSTs include reverse stress tests which are events or a combination of events that would lead to business failure. The SST analysis includes the impact upon the risk profile, profits and solvency. This provides management with information on the potential vulnerabilities faced by SIL so that they can identify appropriate management actions.

Key Activities

Process	Key activities that form part of the ORSA process
Business Planning	• Reviewing and updating risk appetite. • Setting and quantifying stresses and scenarios. • Projections of risk, capital and solvency. • Assessment against risk appetite. • Production of full ORSA report.
Ad Hoc Strategic Processes	• Reviewing risk, capital and solvency implications of mergers, acquisitions and other strategic activity. • Production of ad hoc ORSA reports.
Reinsurance	• Assessing the risk and solvency impact of possible reinsurance strategies.
Investment	• Assessing the risk and solvency impact of possible investment strategies and decisions.
Pricing and Underwriting	• Consideration of risk, capital and solvency upon the pricing of business being written.
Risk Management	• Maintenance of a risk register. • Risk quantification, including capital modelling. • Risk management actions and contingency plans. • Risk monitoring, including against risk appetite Risk reporting.
Capital Management	• Identification of risk factors that could impact solvency. • Continuous monitoring of regulatory and internal solvency. • Solvency management actions and contingency plans. • Regulatory and internal solvency reporting.
Performance Management	• Profitability of business and how this impacts risks and future solvency.

Production and Review Frequency

An annual frequency is considered appropriate to update the full ORSA report in normal circumstances, alongside the annual strategic plan, given SIL's business-model and risk-profile. SIL's last ORSA was presented to Board in Jan 2020 and the Change in Control submissions in September 2020 and run-off Scheme of Operations in February 2021 incorporated ORSA analysis and reporting . The next full ORSA is expected to be approved by the SIL Board in Q2 2021.

SIL's current and projected risk profile and solvency position is monitored continuously with reporting provided on a quarterly basis to Executive and Board. An 'ad hoc ORSA' is principally required where there is a significant change to the business model or risk profile. The CRO is responsible for recommending to the Board when an ad hoc ORSA assessment and report should be carried out, which may also be carried out upon request by the Board or the PRA.

The change in control and run-off were both material decisions, however an ad hoc ORSA was not produced on the grounds that it would not have added any value to the decision-making process given that the accompanying documents (Change in Control document and Scheme of Operations respectively) contained all of the material information that would be included in an ORSA. In the run up to the sale, the Board was presented with an early version of the Change in Control document (named the Capital Management Plan, or CMP) which contained all of the financial projections and helped support the decision to sell the business.

The table below shows drivers and triggers that are likely to result in an ad hoc ORSA.

Change driving ad hoc ORSA		Trigger
Business Model	• A significant change to SIL's strategy or medium-term plan. • A merger, acquisition or divesture.	• Board-approved change to the strategic plan.
Risk Profile and Solvency	• An event that significantly impacts the current/projected risk profile or solvency, including: - Market stress. - Catastrophe or cluster of large claims. - Change in liability portfolio and reserves. - Failure of reinsurance partner or other key 3rd party. - Regulatory breach resulting in disciplinary measures and/or sanctions.	• Risk Appetite status for solvency becoming red.

B.4 Internal Control System

Section C.2.3 of the UK Corporate Governance Code has a requirement that companies carry out a review of their risk management and internal control systems.

Whilst the requirements apply to listed companies, SIL views this as good practice, and an important part of demonstrating the embedding of the RMF and control as an on-going discipline.

The controls operating in a business area include all measures and practices used to reduce exposures for all types of risk that could prevent an organisation from achieving its objectives. A strong and effective control framework is fundamental to effective management of risk, allowing management to reduce risks to acceptable levels.

Each control must be assessed in terms of its design and performance. Such assessment is required to determine how effective the control is in reducing either the impact or likelihood of each risk, and to enable the determination of the residual risk, after taking into account the operation of all controls.

As part of SIL's RMF the following internal processes are performed by members of the Executive Team:

- They understand the risks and controls in their area of accountability.
- They have assessed the risk and controls where they are a RFO.
- They have implemented and embedded the requirements of the Risk Policies and associated Control Standards within their business area/function.
- They have undertaken a Risk and Control Self-Assessment process, including assessments of control effectiveness with suitable evidence having been retained to support test results (see Section B.4.1).
- Material risks have been reported through appropriate governance, and are being mitigated or have been formally recorded as risk exceptions.
- All material risk events within their area of accountability have been reported and are being managed through to closure, understand the root cause and improve controls.
- There are no further risk management or internal control matters that require disclosure.

B.4.1 Risk and Control Self-Assessment (RCSA)

Each Executive is required to undertake an RCSA, which identifies the risks to the achievement of their key objectives and the controls against these risks, together with an assessment of the effectiveness of the controls (Design and Performance) with appropriate testing of control performance.

The RCSAs cover all material controls.

The CRO ensures that RCSAs are reviewed and challenged by the 2nd Line Risk function to ensure these provide reasonable assurance over the material accuracy of the Executive and RFO assurances.

SIL also operates a risk exception process to ensure that there is a consistent procedure to provide transparency, challenge and oversight of risks where no further mitigation action is being taken. The processes for capturing and assessing the impact of risk events has been outsourced to MISL and is monitored via the ISARA oversight committee.

In addition to this, SIL maintains regular dialogue with both the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) to ensure that they are updated on any material control issues.

Risk and control assessments must be provided by each Executive for all of their areas of accountability. This procedure of producing assessments is required on a six monthly cycle.

B.4.2 Compliance

The CRO holds compliance officer responsibilities and is supported in this by a small team. Throughout 2020, the regulatory monitoring team carried out independent audits in all areas of the business against FCA requirements and other guidance, together with Financial Crime oversight. Since 2 December 2020 these activities are now outsourced to MSG via the ISARA, with ownership by the CRO.

Accountability

The CRO is accountable to the Soteria Board.

Authority and Independence

The CRO reports to and receives authority from the Soteria BRC.

The Soteria Risk team are accountable to the CRO and propose the risk framework for BRC approval.

Implementing and reporting on the Risk according to the Framework is supported by the MSG Risk and Compliance team which acts independently from Soteria but performs its activities objectively according to the agreed Risk Framework requirements. The MSG Risk and Compliance team report to Soteria through the ISARA Oversight Committee and therefore has direct access to persons with sufficient authority to be in a position to intervene if Soteria's regulatory status or risk appetite are at stake.

The Soteria Risk team has wide ranging access to information that the Board or Risk Team considers necessary to enable the team to meet its responsibilities.

The Soteria Risk team is free from any restriction on the scope of monitoring work and can set audit objectives and allocate resources required to achieve the monitoring plan.

Resources

The Soteria Risk team report to the CRO and are supported by the MSG Risk and Compliance team which is outsourced with their output monitored by the ISARA Oversight Committee, thus ensuring that service level requirements are met.

Reporting

The Risk team is required to report findings to the Soteria Board and relevant executives in such a way that allows them to understand their possible exposures to Regulatory & Conduct Risks.

B.5 Internal Audit function

The role of Internal Audit is established by the BAC on behalf of the Board of Directors of SIL.

The scope of Internal Audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of SIL's governance, risk management and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives.

In setting its scope, Internal Audit takes into account business strategy, forming an independent view as to whether the key risks to SIL have been identified and assessing how effectively these risks are being managed. Internal Audit assesses whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management; assesses whether they are adequately controlled; and challenges management to improve the effectiveness of governance, risk management and internal controls. All of SIL's activities (including outsourced activities) are within the scope of Internal Audit. There is no aspect of SIL from which Internal Audit is restricted as it delivers its mandate.

Internal Audit determines which areas within its scope should be included within the annual audit plan by adopting an independent risk based approach. Internal Audit does not necessarily cover all potential scope areas every year. The audit plan is developed to reflect Internal Audit's view of the risk profile of the organisation and its control environment. The audit programme includes obtaining an understanding of the processes and systems under review, evaluating their adequacy, and testing the operating effectiveness of key controls. Internal Audit will only seek to rely on the work of other assurance providers following a review to evaluate the effectiveness of their work.

The Head of Internal Audit is responsible for preparing the annual audit plan (in consultation with the BAC and senior management), submitting the audit plan and Internal Audit budget for review and approval by the BAC, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the BAC and senior management. Internal Audit provides assurance over specific areas as requested by Regulators. The Head of Internal Audit reviews the audit plan regularly in light of Internal Audit's on-going assessment of risk. Any material changes to the audit plan proposed by the Head of Internal Audit are submitted for approval by the BAC, including any impact on resource requirements.

B.5.1 Rights and Authority

SIL's Internal Audit function derives its authority from the Board through the BAC. The Head of Internal Audit is authorised by the BAC to have full and complete access to any of the organisation's records, properties and personnel.

The Head of Internal Audit attends Executive Committee meetings and has the right to attend other management committees, with full access to all related papers and minutes. The Head of Internal Audit has full access to all Board and Board Committee papers and minutes and attends BAC and BRC meetings.

The Head of Internal Audit has access to the BAC, without the presence of Executive Management, at any time and meets periodically with the Chair of the BAC.

B.5.2 Roles and responsibilities in the Risk Management Framework

The 'three lines of defence' governance model operated by SIL ensures appropriate responsibility and accountability is allocated to the identification, measurement, management, monitoring and reporting of risks.

Business management, the 1^{st} line of defence, is responsible for implementing and operating processes to identify, measure, manage, monitor and report risks. As SIL is largely an outsourced model, much of 1^{st} line work is carried out by third parties.

2^{nd} line oversight activities are not necessarily carried out by the Risk team and can be carried out by anyone working in or for Soteria, as long as they are independent from whoever carried out the work. The Risk function owns the Risk Management Framework, oversees and challenges its implementation and operation by the 1^{st} line of defence, and considers current and emerging risks across SIL.

The 3^{rd} line of defence, Internal Audit, independently challenges the overall design and operation of the Risk Management Framework and provides assurance to the BAC and senior management on the adequacy of both the 1^{st} and 2^{nd} lines of defence, including the quality of their work.

B.5.3 Independence and Objectivity

The Head of Internal Audit reports to the Chair of the BAC and does not hold any management responsibility outside of the Internal Audit function.

The Internal Audit function operates a co-source model; audit work is performed by third party firms as requested by the Head of Internal Audit. The Head of Internal Audit will ensure the adequate rotation of staff on repeated audit assignments, to ensure independence and judgement are not impaired. A paper confirming there are no conflicts of interest is included on each audit file.

Internal Audit governs itself by adherence to the mandatory elements of the Institute of Internal Auditors' Professional Practices Framework (including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Auditing) and the Institute of Internal Auditors' Code for Effective Internal Audit in Financial Services.

B.6 Actuarial Function

The CEO has delegated the accountability for the Actuarial Function to the Chief Actuary, who also fulfils the Chief Financial Officer (CFO) role, as a key component of the SIL governance framework. To avoid any conflicts, as the Chief Actuary also fulfils the CFO role, certain responsibilities have been further delegated to a senior member of the Actuarial team, the Actuarial Function Actuary, to ensure independence.

The Chief Actuary is approved by the PRA as the Actuarial Function Holder (SMF20) under the Senior Managers' and Certification Regime. He holds a Practising Certificate issued by the Institute and Faculty of Actuaries as a Chief Actuary (Non-Life without Lloyd's).

As SIL is now largely an outsourced model, having entered into the outsourcing agreement with Markerstudy Group in December 2020, much of 1st line work is carried out by third parties, with finance and risk accountability being assumed by the Soteria management team. This is in contrast to the business model prior to 2 December 2020 where the Company managed the majority of its own operations with some services outsourced to Co-op Group and other 3rd party suppliers.

Independence is essential for the effectiveness of the Actuarial Function. The apportionment of the CEO's accountability to the Chief Actuary or Actuarial Function Actuary demonstrates that these individuals are assigned accountabilities which do not compromise independence. In addition, the Chief Actuary has authority and independence through unfettered access to the Board and to any Functions, and the Actuarial Function has the freedom to remain objective in performing its work.

Resourcing requirements are regularly reviewed to ensure the department is adequately resourced.

The Actuarial Function is one of the four key defined functions under Pillar II of the Solvency II regulations as defined in the Level 1 framework directive text Article 48.

As such the Actuarial Function is responsible for:

- Ensuring calculation of Technical Provisions (TPs) is undertaken using appropriate actuarial techniques.
- Validation of the calculation process and outputs (comparing expected experience against emerging experience).
- Providing opinion on the availability and suitability of data for the calculation of TPs.
- Communicating the results of the TP exercise to Management and the SIL Board.
- Expressing an opinion on the overall underwriting policy.
- Expressing an opinion on the adequacy of reinsurance arrangements.
- Contributing to the effective implementation of the risk-management system (in particular with respect to the risk modelling underlying the calculation of the capital requirements).
- Preparing (at least) an annual report to be submitted to the BRC stating how the requirements of the Actuarial Function have been discharged.

B.7 Outsourcing

SIL's approach to its outsourcing activity is documented within its Third Party Supplier Risk Policy. Where SIL outsources critical or important operational functions, services and activities it remains fully responsible for discharging all of its regulatory obligations. To do this SIL sets the following high level principles:

- SIL management will exercise due skill, care and diligence when entering into, managing or terminating any arrangement for the outsourcing of an activity to a third party supplier. This is governed through a Supplier Management Framework which sets out a specific set of principles by which SIL manages Third Party Service Provider Risk in a way that is consistent with its overall risk appetite and aligns with its purpose, values and vision.
- Any outsourcing must not result in the delegation of responsibility by senior SIL management.
- Any third party service provider must protect any confidential information relating to SIL or its customers and comply with the relevant GDPR legislation.
- SIL's relationship with and obligations to its customers must not be altered.
- The conditions for the authorisation of the regulated entities within SIL must not be undermined.

Key activities outsourced are:

- Claims handling & loss adjusting (for example; Motor, Home & Personal Injury).
- Claims supply chain (for example; building, car and car windscreen repairs).
- Distribution and associated activities (for example; Retail pricing and administration).
- IT, Finance and HR Services
- Banking activities.
- Investment Management.
- Internal Audit

All key activities listed above fall within UK regulated jurisdiction.

B.8 Any Other Information

B.8.1 Adequacy of the System of Governance

The system of governance is adequate based on the nature, scale and complexity of the risks inherent in the business.

C. Risk Profile

Risks are classified into Level 1 and Level 2 categories. The Level 1 risks are the highest category of inherent financial and non-financial risks to which SIL is exposed. This section explains these risks, including how each of these risks is covered within the Standard Formula Solvency Capital Requirement (SF SCR). Further details of the impact of these risks on the SF SCR is shown in Section E.2. Business activity can be exposed to one or a combination of the following risk types.

Level 1 Risks	Definition	SF SCR Section Reference
Insurance (Premium) Risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure.	See Sections E.2.3.1 (Premium), E.2.3.2 (Reserve), E.2.3.3 (Catastrophe), E.2.3.4 (Lapse).
Insurance (Reserving) Risk	The risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events for earned policies, and in the timing and amount of claim settlements.	
Market Risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities.	See Section E.2.3.5 (Market).
Credit Risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations.	See Section E.2.3.6 (Counterparty Default).
Liquidity Risk	The current and prospective risk to earnings or solvency arising from SIL's inability to meet its obligations when they come due without incurring unacceptable losses.	Risk is explicitly excluded within SF SCR.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events.	See Section E.2.3.8 (Operational).
Strategic & Business Risk	The risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital.	Risk is explicitly excluded within SF SCR.
Conduct Risk	The risk that SIL's processes, behaviours, offerings or interactions will result in unfair outcomes for customers.	Risk is allowed for in the SF SCR within operational risk. See Section E.2.3.8.
Regulatory Risk	The risk of regulatory sanctions, regulatory censure, material financial loss, or loss to reputation SIL may suffer as a result of failure to comply with regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its activities.	Risk is allowed for in the SF SCR within operational risk. See Section E.2.3.8.

C.1 Insurance Risk

Description

Insurance risk comprises the risk of loss resulting from future claims events other than catastrophes (Premium Risk), adverse change in the value of insurance liabilities (Reserve Risk), natural or man-made catastrophe events (Catastrophe Risk) and the risk that assumptions underlying expenses are not borne out in practice (Expense Risk).

The nature of insurance contracts is that the obligations of the insurer are uncertain as to the timing or quantum of liabilities arising from contracts. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. SIL manages this risk through the Reserving Committee which supports the Chief Financial Officer (CFO) in their responsibility to formally review claims reserves on a quarterly basis.

Risk Management Objective

SIL manages insurance risk in accordance with its overall aims to achieve stable insurance earnings, a fair customer experience and to meet all regulatory requirements.

Risk Exposure

- Key risks under Motor policies are bodily injury to third parties, accidental damage to property and theft of or from policyholders' vehicles.
- The most significant factors affecting the frequency and severity of Motor claims are judicial, legislative and inflationary changes and the frequency and severity of large bodily injury claims.
- Key risks under Home policies are damage from storm and flood, fire, escape of water, subsidence, theft of or accidental damage to contents and liability risks.
- Risks exist with respect to historical classes of business, in particular the liability class which is long tailed and exposed to latent claims.
- SIL is exposed to the risk that expenses are worse than expected.

As described in Section A.1.6, on 11 February 2021 the SIL Board made the decision to put the Company into run-off. As the Company has now ceased underwriting, the risk exposure for premium and catastrophe risk will start to fall until there is no exposure remaining 12 months post run-off. The main classes of business written were UK Private Motor and Home business, either written directly or through brokers, all of which cover a 12-month duration.

SIL remains exposed to reserve risk while there are still outstanding claims. The exposure is for Motor and Home business, together with other classes of business, mainly comprising employer's liability and commercial motor business, which were underwritten historically and are now already in run-off.

Risk Mitigation

Mitigation technique	Explanation
Ensuring that insurance risks are carefully selected in accordance with risk appetite, underwritten in accordance with underwriting strategy and priced to reflect the underlying risk.	SIL's strategy to cease underwriting will naturally lead to a reduction in insurance risk over time as policies come to the end of their live exposure. Throughout the period between the Change in Control and the completion of migration, SIL outsourced its underwriting to Affinity Insurance Solutions Limited (AISL). Oversight of these processes is maintained by the outsourcing agreement in place, the BUA (Binding Underwriting Agreement), which SIL monitors on a monthly basis. Since February 2021, SIL has not underwritten any business and is in run-off.
Minimising reserve risk volatility through proactive claims handling, the claims provisioning process and robust reserving and modelling approaches.	SIL outsources its underwriting, claims handling and reserving processes to Markerstudy Insurance Services Limited (MISL). Oversight of these processes is maintained by the outsourcing agreement in place, the ISARA, which SIL monitors on a monthly basis.
Mitigating risk through the use of appropriate reinsurance arrangements.	Reinsurance is used to manage insurance risk and in particular to mitigate the cost of catastrophe events such as storms and floods and the cost of large claims arising within its Motor account. The appropriate level of reinsurance is proposed by Management and approved by the Board. In 2020, SIL had three main reinsurance programmes in place: catastrophe excess of loss cover, motor excess of loss cover and a quota share arrangement of both Motor and Home business. SIL has Catastrophe and Motor Excess of Loss contracts in place for 2021 whilst the quota share has not been renewed.

SIL does not use Special Purpose Vehicles (SPV's) as a means of mitigating risk.

Risk Concentration

At the statement of financial position date there were no significant concentrations of insurance risk.

C.2 Market Risk

Description

Market risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers such as interest rates and market prices of assets and liabilities.

Risk Management Objective

SIL's objective is to deliver stable investment return. It achieves this through the use of highly rated UK government and corporate bonds while limiting exposure to equities and other volatile instruments. To enhance certainty over the investment return generated from these assets, management practice is generally to maintain holdings to maturity.

Risk Exposure

- The value of, or income from, investments held is subject to volatility from changes in both market interest-rates and additional spreads related to the specific credit-worthiness of the issuer ("credit spreads").
- Proceeds from maturing investments are subject to risk over the future return on reinvestment.
- Exposure to market interest rates through the discounted present value placed upon future claims. All future claims are discounted for assessing solvency on both an economic and regulatory basis.
- In 2020 SIL invested in collective investment funds which hold non-GBP equities and bonds. Some of these investments are unhedged giving rise to some currency risk. There is no other direct exposure to currency risk as contracts of insurance are written only in the United Kingdom and insurance liabilities and borrowings are denominated in sterling. All funds other than those invested in collective investments are invested solely in assets denominated in sterling.
- The value of collective investment funds is subject to volatility with the resulting movements in the market values directly affecting SIL's solvency.
- SIL is not exposed to any market risks in respect of pension schemes.

Risk Mitigation

Mitigation technique	Explanation
Management of risk through governance and the investment mandate.	The investment mandate is approved by the Board and sets strategic asset allocation and limits of investment types and durations. The mandate is determined through considering the risk/reward trade off and the impact upon capital adequacy and solvency of the overall business.
Management of credit spread and default risks from corporate bonds.	Through setting limits for exposure to credit ratings and individual counterparties and transacting only through a diversified range of authorised counterparties. Ensuring that any cash deposits (in excess of counterparty limits) are collateralised on a daily basis. The Investments, Finance and Capital Committee supports the CFO in overseeing the monitoring and management of these risks and exposures against limits.

Mitigation technique	Explanation
Management of interest rate risk through investing in fixed interest securities with a similar duration profile to the liabilities under the general insurance contracts.	SIL seeks to match the average duration of assets and liabilities in this portfolio by estimating their mean duration. The mean duration of financial assets is measured against the Investment mandate and remained within these boundaries during the period. SIL's investment mandate allows investment in a mixture of assets including index linked bonds, equity, global high yielding bonds and property to match, by amount and duration, periodic payment orders (PPOs) and provisions relating to historic liability claims from the electric industry. In order to do this, an expert opinion on life expectancy is used along with an expectation of long term average earnings inflation.

Risk Concentration

The investment mandate controls the exposure to concentration risk via limits on individual counterparties and credit ratings, as described above. Mean durations for these exposures are:

Duration in years	2020 (years)	2019 (years)
Insurance liabilities	**2.4**	2.6
Financial assets	**3.3**	3.5

Periodical payments (PPO)	Amount (£000)	Duration (years)
Insurance liabilities	**49,200**	**23.7**
Financial assets		
Index linked bonds	**32,400**	**20.2**
Collective investment undertakings	**49,000**	**n/a**

Historic liability claims from the electric industry	Amount (£000)	Duration (years)
Insurance liabilities	**1,800**	**8.5**
Financial assets	**2,668**	**6.7**

Sensitivity Analysis

The most significant aspects of market risk to which SIL is exposed are changes in value of collective investment funds and the effect of changes in credit spreads on corporate bonds. The resulting movements in the market values directly affect SIL's solvency.

An increase of 100 basis points in credit spreads would reduce the value of SIL's assets at the end of the financial year by £16,800k (2019: £19,900k). This would reduce SIL's solvency by £13,600k net of tax (2019: £16,100k), although it is likely that the overall net impact on solvency would be lower than this as the fall would be partially offset by a reduction in the value of liabilities arising from the use of the Volatility Adjustment to value claims provisions. The impact of a decrease of 100 basis points in credit spreads would have similar but opposite effects. Changes in the market value of collective investment undertakings also affect SIL's solvency. Every £1,000k reduction in value of these assets impacts the overall value of SIL's assets held, net of tax by £810k, with a corresponding reduction in Solvency offset in part by a reduction in the SCR.

Climate Change
SIL has incorporated Climate Change into its Risk Management Framework and has assigned an owner who is responsible for the management and reporting of financial risks associated with climate change.

SIL has made a high level assessment of its risk with the conclusion that the main risk category impacted is Market risk. The risks include a fall in the value of corporate bonds in carbon intensive companies due to stranded assets or legislation to deal with climate change. Furthermore, as more investors move to sustainable investment strategies there is the risk that investments that fall outside of these criteria fall in price as a result of this. A review of SIL's investment portfolio has concluded that there is not an undue level of risk. SIL's available for sale assets do not include any bonds in companies involved in the extraction or refining of, or power generation from, fossil fuels.

Prudent Person Principle
The EU Solvency II Directive Article 132 states that all Insurance undertakings should invest their assets in line with the Prudent Person Principle. The requirements specified in Article 132 that are relevant to SIL are summarised below:

- All assets shall be invested in such a manner to ensure the security, quality, liquidity and profitability of the portfolio.
- Only invest in assets whose risks can be properly identified, measured and monitored.
- Assets should be held in a manner appropriate in nature and duration for the insurance liabilities.
- Investments in assets should not expose the undertaking to excessive concentration.

The current portfolio is monitored against the Board approved mandate. Any breaches of the mandate or other issues with the portfolio are reported to the Investment, Finance and Capital Committee in the first instance and potentially escalated.

C.3 Credit Risk

Description
Credit risk is the risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations.

Risk Management Objective
SIL's objective is to achieve stable insurance earnings. This objective can best be met by minimising potential losses arising from credit risk. SIL does not aim to earn a return from credit risk, hence its credit risk appetite is very low.

Risk Exposure
SIL is exposed to credit risk from the following:

- Insurance receivables (e.g. AISL fail to collect policy premiums and administration charges that are payable to SIL, or fail to pass them on).
- Reinsurance (e.g. counterparties failing to meet financial obligations).
- Insurers (e.g. insurance counterparties failing to meet financial obligations).

SIL manages credit risks associated with cash and corporate bonds as part of market risk (see Section C.2).

Risk Mitigation

Mitigation technique	Explanation
SIL manages credit risk through setting limits for exposure to credit ratings and individual counterparties.	Operationally, credit risk is managed by setting robust contract terms and having in place cashflow management processes with all counterparties. The Investment, Finance and Capital Committee supports the CFO in overseeing the monitoring and management of credit risk and exposures against limits.
SIL places limits over exposure to a single reinsurance counterparty or counterparty group, based upon their credit-worthiness.	Where reinsurance is used to manage insurance risk, there is a risk that the reinsurer fails to meet its obligations in the event of a claim. These limits apply when reinsurance is initially placed, usually annually, and are then regularly monitored by the Investment, Finance and Capital Committee. Where concern exists over the credit quality of a reinsurer, a review will be undertaken to determine the most appropriate management action.

Risk Concentration

Insurance receivables and other assets held are primarily premium debtors due from customers and insurance intermediaries. Exposure to insurance intermediaries is managed in line with SIL's Credit risk framework.

SIL has a credit exposure of up to £60,000k (2019: £60,000k) with a trading counterparty that provides administrative services including the collection of premiums. Credit Insurance is purchased to mitigate against this exposure to bring it within risk appetite.

Sensitivity Analysis

Stress Test and Scenario testing is captured within Section C.7.1.

C.4 Liquidity Risk

Description

Liquidity risk is the current and prospective risk to earnings or solvency arising from SIL's inability to meet its obligations when they come due without incurring unacceptable losses.

Risk Management Objective

SIL's objective is to maintain adequate liquidity at all times. This means SIL needs resources which are adequate to meet all policyholder and other funding obligations as they fall due, and achieves this primarily through the use of cash and highly liquid UK government and corporate bonds.

Risk Exposure

The model to assess liquidity has been updated in 2020 to take account of the change to the business during run-off. Liquidity is assessed against minimum requirements for stressed investments and liquid investments. The values of stressed investments are the market values of the investments less haircuts which are based on the credit rating of the investment. Liquid investments are cash and gilts. Both are assessed against forecast cash flows that would be required under stress scenarios.

The haircuts applied to stressed investments are:

Credit Rating	Maturity	Government %	Corporate %
AAA to AA-	≤ 1 year	0.5	1.5
AAA to AA-	> 1 ≤ 5 years	1.5	5.5
AAA to AA-	> 5 years	3	11
A+ to BBB-	≤ 1 year	1.5	2.5
A+ to BBB-	> 1 ≤ 5 years	4	8.5
A+ to BBB-	> 5 years	6	17
BB+ and lower	≤ 1 year	100	100
BB+ and lower	> 1 ≤ 5 years	100	100
BB+ and lower	> 5 years	100	100
Equity funds, Bond OEICs & Property funds	N/a	100	100
Cash	N/a	0	0

Risk Mitigation

Mitigation technique	Explanation
Governance structure to monitor liquidity.	The level of cash and other assets held are monitored regularly and managed through Investments, Finance and Capital Committee, with oversight by the BRC and Board. This includes monthly monitoring of liquid investments and stressed investments against risk appetite limits including forecasts for 2021 and beyond.
The investment mandate controls the exposure to concentration risk.	By setting limits on individual counterparties and credit ratings.

Risk Concentration

A table indicating the time profile of undiscounted cash flows arising from financial liabilities (based upon contractual maturity) and insurance liabilities (based upon estimated timing of amounts recognised in the statement of financial position) can be found on ‘Note 28 i) liquidity risk’ of the Annual Report and Accounts.

Expected Profits Included in Future Premiums

Solvency II regulations require the calculation of “Expected profits included in future premiums” (EPIFP). EPIFP are profits which result from the inclusion in Technical Provisions of premiums on existing (in force) business that will be received in the future, but that have not yet been received. They can be considered as the future premium receivable less the anticipated gross claims and expenses, related to this future premium only, and are calculated at Solvency II segment level for those classes producing a profit. The value of EPIFP has been estimated at £701k.

The approach taken by SIL to calculate EPIFP is firstly to ascertain the discounted profit by line of business on the unearned premium (including legally obliged premium and allowing for cancellations). For each line of business the EPIFP is calculated as the proportion of discounted profit (subject to a minimum of zero) that relates to the future premium receivable.

Sensitivity Analysis

Stress Test and Scenario testing is captured within Section C.7.1.

C.5 Operational Risk

Description

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events.

Risk Management Objective

SIL's objective is to maintain business confidence and to provide resilient business processes. Operational risk is minimised through the implementation of a robust control environment which minimises the potential for loss as a result of the failure of processes, people, technology and due to external events.

The sale of SIL and subsequent data migration to Markerstudy has significantly improved SIL's operational risk profile, as SIL is no longer reliant on the outdated IT systems it used within Co-op.

Risk Exposure

SIL can divide the operational risk into two categories; risks that are managed by SIL and risks that are outsourced to MISL to manage. Each sub-category has its own risk appetite metrics and thresholds, approved by the Risk Framework Owner (RFO).

Risks managed by MISL on behalf of SIL:	**Risks managed by SIL:**
• Financial Reporting Risk	
• Technology Risk	• Technology - SIL Services
• Third Party Supplier Risk	• Internal Financial Crime
• Change Risk	• Physical Risk
• Financial Crime Risk	• People Risk
• Information Risk	
• Health & Safety Risk	

Risk Mitigation

Mitigation technique	Explanation
Operational risks are identified, managed and mitigated through on-going risk management practices including appetite review and RCSA process.	Operational risks and key controls are regularly reviewed by the Executive Team. Significant operational risks are reported to the Board Risk Committee (BRC) and Board.
Transfer of Risk	SIL has a corporate insurance programme to transfer specific risks to insurers as part of its risk management approach which in 2020 included; property and business interruption, financial crime, employer's liability and Directors and Officers. Due to the changes to the business in 2021, it has not been necessary to renew the property and business interruption or financial crime insurance.

Sensitivity Analysis

Stress Test and Scenario testing is captured within Section C.7.1.

C.6 Other Significant Risks

C.6.1 Strategic & Business Risk

Description

Strategic & Business risk is the risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital.

Risk Management Objective

SIL's financial objective in managing these risks is to maintain capital adequacy.

Risk Exposure/Mitigation

The Board has defined detailed risk appetite measures and limits underpinning this objective, which are measured, monitored and reported regularly to the Executive, BRC and Board.

C.6.2 Conduct Risk

Description

Conduct risk is the risk that SIL's processes, behaviours, offerings or interactions will result in unfair outcomes for customers.

Risk Management Objective

SIL's objective is to offer a fair customer outcome and to meet all regulatory requirements.

Risk Exposure/Mitigation

Conduct risk may arise from any aspect of the way a business is conducted, the sole test being whether the outcome is an unfair one for customers. Conduct risk is a key area of focus across the financial services industry, with close scrutiny from the FCA. Although all underwriting and claims handling has been outsourced to AISL and MISL, respectively, SIL retains ownership of this risk, and ensures it receives the appropriate MI to enable SIL to perform the required oversight.

C.6.3 Regulatory Risk

Description

Regulatory risk is the risk of regulatory sanctions, regulatory censure, material financial loss or loss to reputation SIL may suffer as a result of its failure to comply with regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its activities.

Risk Management Objective

SIL's objective is to be compliant with all relevant regulatory requirements.

Risk Exposure/Mitigation

Regulatory risks are regularly monitored and reported to the Executive, BRC and Board.

C.7 Any Other Information

C.7.1 Stress Tests and Sensitivity Analysis

SIL uses Scenario Analysis, Sensitivity Analysis and Reverse Stress-Testing to analyse the impact of scenarios and changes in assumptions on Solvency, as well as understanding the events that would have to occur to cause Solvency (SCR) Coverage to fall below the Company's risk appetite.

Method	Description
Scenario Analysis	Analysis to understand the impact of plausible events which could have a material impact on SCR coverage.
Sensitivity Analysis	Analysis to understand the impact of a change in the key planning assumptions to which profit is most sensitive. Sensitivities are not complex scenarios but rather a defined change in key assumptions.
Reverse Stress-Testing	A review as to whether there is a scenario which gives a loss which would leave SCR coverage below SIL's risk appetite after management actions, and how extreme or unlikely this scenario is to occur in reality.

The table below shows the scenarios considered, which risks each scenario takes into account, the assumptions used and the impact on capital if the stressed scenario were to occur. It states the estimated (increase)/decrease on surplus capital and the impact on the solvency ratio if the stress were to occur in March 2021 which is the most critical point from the perspective of solvency coverage.

Description	Risk Type Impacted	Assumptions	Probability	Amount £'000	Amount %*
1. CAO falls to nil	Strategic and Business Risk	Positive stress which assumes that CAO falls to nil 1 year post run off.	High (20% - 40%)	-40,000	N/A
2. A1) Prior Year Reserves deterioration – large	Insurance Risks: Reserve Risk	Assumes 2 new large losses relating to prior years are reported.	<1%	5,000 - 10,000	5% - 10%
2. A2) PPO propsensity	Reserve Risk	Increase in PPO propensity	Medium (5% - 20%)	0 - 5,000	0 - 5%
2. B) Series of weather losses	Catastrophe Risk	4 weather losses reported	<1%	20,000 - 30,000	10% - 20%
2. C) Loss Ratio increase	Premium Risk	5% increase has been added to the 12 months post run off	Medium (5% - 20%)	0 - 5,000	0 - 5%
2. D) Favourable Covid Experience	Premium Risk	Assume that Premium Provisions are £20m lower due to favourable Covid experience in early 2021 (reflecting likely actual experiece)	Very High (>40%)	-20,000	-10% - -20%
3. MSG Failure	Operational Risk	Based on high level estimate	<1%	5,000 - 10,000	5% - 10%
4. Increase in credit spread	Market Risk	Fall in interest rates and widening of credit spreads, falls in equity markets.	Medium (5% - 20%)	10,000 - 20,000	10% - 20%
5. A) Recession Risk	Combination of Risks: Market Risk, Premium Risk	Combination of a milder market loss and an insurance loss together with increased cancellations	High (20% - 40%)	5,000 - 10,000	10% - 20%
5. B) Random Events: Medium Insurance risk and operational risk occur together	Catastrophe Risk, Operational Risk	Insurance risk assumed is a 1 in 10 weather loss plus Operational risk scenario	Low (<5%)	5,000 - 10,000	5% - 10%

**at 21Q1*

The base case includes natural recovery as a result of the falling SF SCR (reflecting the falling premium risk). Therefore, in all of the stresses considered, there is an improvement of coverage ratio purely as a result of this underlying fall in required capital and not as a result of any management actions.

All results except scenario 1 assume that there is a Capital Add On (CAO), although SIL expects to submit a request to the PRA that this is reduced during 2021. See section E for further details. Note that the impacts on the SF SCR will be second order and are not deemed material for this high level exercise.

Reverse stresses consider what event(s) could occur that would lead to a "breaking" of the business model, where the business model is to run-off internally with dividends being paid to SFHL. Even in the worst case stress, which involves all of stresses 2a, 2b, 2c, 3 and 4 happening concurrently, and is estimated as less than 1 in a million probability, SIL would still be expected to be able to meet all of its liabilities as they fall due, albeit with no dividends.

D. Valuation for Solvency Purpose

The table below shows the balance sheet at the end of the reporting period calculated under both a Solvency II and an IFRS basis. A description of the differences between the two valuation methods is included in Section D.1.4 (Assets), D.2.4 (Technical Provisions) and D.3.5 (Other Liabilities) below.

A description of the bases, methods and main assumptions used for valuation of each material class of:

- Asset is included in Section D.1.
- Technical Provision is included in Section D.2.
- Other Liability is included in Section D.3.

As disclosed in Section A, on 11 February 2021 the Board made the decision to place the Company into run-off. SIL's last new insurance policy was entered into with effect from February 2021. As this decision was taken after the balance sheet date it has not impacted the IFRS balances noted in the table below. It has however impacted the Solvency II valuation of assets and liabilities. Where this is the case it has been noted in the sections below.

	IFRS (£000)	Reclassifications (£000)	Restatements (£000)	Solvency II value (£000)
Assets				
Deferred acquisition costs	15,006	-	(15,006)	-
Property, plant & equipment held for own use	1,077	-	-	1,077
Investments	667,075	4,833	-	671,908
Bonds	526,083	4,834	-	530,917
Government Bonds	110,340	769	-	111,109
Corporate Bonds	376,401	3,396	-	379,797
Collateralised securities	39,342	669	-	40,011
Collective Investments Undertakings	48,956	-	-	48,956
Deposits other than cash equivalents	92,036	(1)	-	92,035
Reinsurance recoverables	66,142	-	97,399	163,541
Deposits to cedants	12	-	-	12
Insurance and intermediaries receivables	155,090	-	(153,736)	1,354
Reinsurance receivables	193	-	-	193
Receivables (trade, not insurance)	15,050	(4,833)	-	10,217
Cash and cash equivalents	26,824	-	-	26,824
Total assets	**946,469**	**-**	**(71,343)**	**875,126**

	IFRS (£000)	Reclassifications (£000)	Restatements (£000)	Solvency II value (£000)
Liabilities				
Total Technical Provisions/IFRS Insurer Contract Liabilities	630,745	-	(64,503)	566,242
Best Estimate	-	-	539,724	539,724
Risk margin	-	-	26,518	26,518
Provisions other than technical provisions	76	-	-	76
Deferred tax liabilities	4,616	-	(4,616)	-
Debts owed to credit institutions	5,950	-	-	5,950
Financial liabilities other than debts owed to credit institutions	1,176	-	-	1,176
Insurance & intermediaries payables	7,801	-	-	7,801
Reinsurance payables	10,329	-	86,793	97,122
Payables (trade, not insurance)	12,334	-	(10,102)	2,232
Any other liabilities, not elsewhere shown	10,105	-	-	10,105
Total liabilities	**683,132**	**-**	**7,572**	**690,704**
Excess of assets over liabilities	**263,337**	**-**	**(78,915)**	**184,422**

D.1 Assets

D.1.1 Valuation Bases and Assumptions

Deferred Acquisition Costs

Deferred acquisition costs are costs relating to the acquisition of insurance contracts in force at the balance sheet date, which are carried forward from one reporting period to subsequent reporting periods because they relate to the unexpired periods of risks. Under IFRS they are initially valued at cost and amortised over the period to which they relate. Under Solvency II the cashflows relating to acquisition costs are taken into account within Technical Provisions.

Property, Plant & Equipment Held For Own Use (PPE)

PPE relates to right-of-use assets which SIL recognises at the commencement date of the operating lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities under IFRS. For Solvency II purposes PPE is valued at fair value, which is deemed to be aligned to the IFRS value.

Investments (Bonds)

SIL holds a portfolio of low risk investments, being holdings in debt securities (government bonds and corporate bonds). Initial measurement is at fair value, being purchase price upon the date on which SIL commits to purchase plus directly attributable transaction costs.

Subsequent valuation is at fair value. Fair value measurements are those derived from inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) as found in Note 31 to the Company's Annual Report and Accounts. Where there is evidence of impairment, the extent of any impairment loss is recognised.

In the Solvency II balance sheet the value of the investment includes accrued interest, which is classified within receivables under IFRS.

Investments (Collective Investment Undertakings)

These are investments in units of Collective Investment Funds. Initial measurement is at fair value, being purchase price on the date on which SIL commits to purchase. Subsequent valuation is at fair value using quoted market prices in an active market. Changes in fair value are recognised in gains less losses within the income statement in the period in which they arise.

Investments (Deposits Other Than Cash Equivalents)

These are short-term deposits held with highly rated banks and other financial counterparties. Valuation is at the par amount of the deposit made plus any attaching accrued interest.

Deferred Tax Assets and liabilities

Deferred tax assets and liabilities are recognised and valued in accordance with IFRS (IAS12), except that deferred tax assets and liabilities in respect of temporary differences are valued based upon the difference between the values ascribed to assets and liabilities on the Solvency II balance sheet (recognised and valued in accordance with the Valuation and Technical Provisions parts of the PRA Rulebook for Solvency II firms) and the values ascribed to assets and liabilities as recognised and valued for tax purposes.

In accordance with IAS12 principles, the amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that:

- There are appropriate deferred tax liabilities against which the asset can be net against.

  Or

- It is considered probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The assessment as to whether future taxable profits are available uses future profits from the Company's Strategic Plan as its basis. Based on forecast profits and realisation of profits from the equalisation reserve, SIL recognises the element of the deferred tax asset that it believes will be utilised within the planning horizon. At 31 December 2020 SIL had deferred tax assets of £11,412k (2019: £7,342k) which were not recognised as they are not forecast to be utilised within the planning horizon.

The net £nil deferred tax asset on the Solvency II balance sheet is comprised as shown in the table below:

Item	Solvency II (£000)	IFRS (£000)	Further details
Recognised deferred tax (assets)/liabilities:			
Claims equalisation reserve	903	903	This deferred tax liability reflects the remaining part of a transitional adjustment in relation to equalisation reserves that is required to be brought into tax over a 6 year period from 1 January 2016 under relevant tax rules.
Available for sale assets	3,899	3,899	This deferred tax liability reflects the expected future tax arising when gains on AFS assets recognised in OCI are recycled to the income statement after taking into account relevant transitional tax rules.
Capital allowances and other IFRS temporary differences	(186)	(186)	This deferred tax asset principally comprises expected future tax depreciation in excess of accounting depreciation in relation to fixed assets.
IFRS to SII temporary differences	(4,616)	-	This deferred tax asset relates to differences between the value of assets and liabilities on the Solvency II balance sheet and their value on the IFRS balance sheet (see section D1.4 for further details). The deferred tax asset has been capped at the level of IFRS deferred tax liabilities available to offset.
Net deferred tax (asset)/liability	**-**	**4,616**	

Reinsurance Recoverables

This balance represents contracts with reinsurers that give rise to a significant transfer of insurance risk. The value of such items is calculated alongside the value of Technical Provisions (see Section D.2). Amounts recoverable under such contracts are recognised in the same period as the related claim. Premiums, claims and receivables are presented on a gross basis in the balance sheet.

The reinsurance recoveries balance incorporates the quota share arrangement. Under IFRS 4 the recoveries, and amounts payable to the reinsurer, are not recognised as the contract contains rights of set off. A withheld funds account is used to record the balance held on behalf of the reinsurer (See Section D.3.1), and at the commutation of the contract any remaining amounts within the account would be settled.

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. If objective evidence of impairment exists, reinsurance assets are reduced to the level at which they are considered to be recoverable.

Insurance and Intermediary Receivables

This balance relates to amounts due and past-due for payment by policyholders, insurers, and others linked to insurance business, that are not included in cash-in flows of Technical Provisions. All insurance and intermediary receivables are annual and therefore, as they are recoverable within one year, are deemed to be short term in nature. The valuation is based on the outstanding amount owed to the business at the end of the reporting period, less appropriate allowance for estimated irrecoverable amounts.

Receivables (Trade, not Insurance)

This category includes any non-insurance amounts that are receivable from business partners. This includes commissions due from aggregators, brokers and other outsourcing partners. For Solvency II purposes fair value is deemed to be aligned to the IFRS valuation, as these receivables are short term in nature.

Cash and Cash Equivalents

This category includes cash held in bank accounts to meet short-term cash commitments, rather than for investment or other purposes. There are no valuation differences for cash between Solvency II and IFRS.

D.1.2 Changes Made to the Recognition and Valuation Bases Used or Estimations During the Reporting Period

No changes were made to the recognition and valuation bases used or estimations relating to assets on an IFRS basis during the reporting period. On a Solvency II basis the impact of the Board's decision to put the Company into run-off in February 2021 has been taken into account, however this has had no impact on the valuation of assets as at 31 December 2020.

D.1.3 Assumptions and Judgements About the Future and Other Major Sources of Estimation Uncertainty

There are no significant assumptions and judgements or areas of uncertainty in the valuation of assets.

D.1.4 Analysis of Differences Between the Valuation of Assets on a Financial Statements Basis (IFRS) and Valuation on a Solvency II Basis

A quantitative view of material differences between the valuation of assets on a Financial Reporting basis and valuation on a Solvency II basis is shown in the balance sheet at the beginning of Section D. Differences between these bases relating to assets are described below:

- Deferred Acquisition Costs are recognised at cost under IFRS and are then amortised over the period of the Insurance contract. For Solvency II purposes such assets are valued within Technical Provisions on a future cash flow basis.
- The value of investments under Solvency II includes the value of interest earned but not received (accrued interest). Under IFRS the valuation of accrued interest is the same but this is categorised under 'receivables (trade, not insurance)'.
- Deferred tax is recognised under both IFRS and Solvency II, however the value of the balance is different owing to the differences in values of the assets and liabilities to which the deferred tax balance relates. Deferred tax is calculated on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with Solvency II (or IFRS for Financial Reporting purposes) and the values ascribed to assets and liabilities as recognised and valued for tax purposes (see Section D.1.1).
- Insurance and intermediaries receivables recognised on an accruals basis under IFRS, are not recognisable as assets under Solvency II. The balance is replaced, within Technical Provisions, by future premiums receivable calculated on a cash flow basis, relating to amounts not yet due at the balance sheet date.

- Reinsurance recoverables incorporate the quota share reinsurance arrangement. Within the reinsurance agreement, monies due to or from the reinsurer under the 'Right of Offset' are reported within a withheld funds balance with any remaining balances settled at commutation of the contract. Under IFRS, the quota share withheld funds balance held on behalf of the reinsurer is recognised on an accruals basis and reported net of the associated reinsurance liability. Under Solvency II, the withheld funds are deemed a non-insurance cashflow and therefore recognised as a Reinsurance Payable (see Section D.3.1).

D.2 Technical Provisions

D.2.1 Value of Technical Provisions

Technical Provisions (TPs) are represented by the sum of Best Estimate liabilities and Risk Margin.

The value of Best Estimate liabilities equates to the estimated net outwards cash flows in respect of business earned to date (Claim Provisions) and business to be earned in future but for which SIL has entered into a legal obligation with the customer (Premium Provisions).

The Risk Margin is an additional provision prescribed by the regulator which insurance companies are required to hold in addition to the Best Estimate liabilities.

The table below shows a summary of the level of TPs by line of business at the end of 2020. TPs are shown on a run-off basis owing to the decision of the Board on 11 February 2021 to put the Company into run-off. As a result of the calculation moving to a run-off basis, allowance for expenses increased the TPs by £39,846k.

SII Technical Provisions										
	Motor Liability (£000)	Motor Other (£000)	Fire & Other Damage (£000)	General Liability (£000)	Legal Expenses (£000)	Miscellaneous (£000)	Non- Life Annuities (PPO) (£000)	Non Proportional Inwards Reinsurance		Total (£000)
								Casualty (£000)	Property (£000)	
Claims Provision (Net)	229,245	(7,876)	36,139	17,250	(850)	73	51,383	194	-	325,557
Premium Provision (Net)	22,592	7,895	20,883	-	(744)	-	-	-	-	50,626
Best Estimate Liabilities (Net)	**251,836**	**18**	**57,022**	**17,250**	**(1,594)**	**73**	**51,383**	**194**	**-**	**376,183**
Risk Margin	13,156	391	2,420	2,483	19	10	8,013	26	-	26,518
Total Technical Provision (Net)	**264,992**	**409**	**59,442**	**19,732**	**(1,575)**	**83**	**59,396**	**220**	**-**	**402,701**
Reinsurance Recoverables	104,429	5,284	10,803	135	859	3	42,029	-	-	163,541
Total Technical Provision (Gross)	**369,421**	**5,693**	**70,245**	**19,867**	**(716)**	**86**	**101,425**	**220**	**-**	**566,242**

A description of the bases, methods and main assumptions used to calculate the Claims Provisions, Premium Provisions and Risk Margin is included below.

D.2.1.1 Claims Provisions

Claims Provisions relate to events that occurred on or before the reporting date and comprise all material future in and out going cash flows.

Claims Provisions are calculated by line of business and key claim type, by suitably qualified personnel, using a combination of recognised actuarial and statistical techniques in order to calculate the total cost of claims, which then form the main part of the provision.

These techniques include:

- Projecting historic numbers of claims, claims payments, recoveries and incurred data – Chain Ladder technique.
- Average cost per claim methods are used for additional insight in certain areas.
- Bornhuetter-Ferguson/Cape Cod techniques based on cost per policy, cost per claim and loss ratio.
- Large value Motor claims are projected on an individual basis in order to calculate expected reinsurance recoveries.

Extensive analysis of detailed claims data, including individual case estimates, is undertaken to derive patterns in claims costs (for example, the accuracy of an initial estimate for the claim at different points throughout its lifetime). The most common method used to derive patterns is called the Chain Ladder method.

A degree of judgement is required in selecting the most suitable trends to apply, which has been particularly important recently owing to the impact of Covid-19 and associated restrictions on the number of claims, the average cost of claims, and the development of incurred costs. Where it is not deemed suitable to use the Chain Ladder method, for example for claims reported in recent months/years (which require a greater degree of judgement), an alternative method is used. These methods may use some prior expectation of the ultimate claims cost (such as percentage of premium) or expected average cost of claims (based on past experience).

Once an estimate of the future claims cost has been calculated, the timing of future cash payments is estimated. This is based on past claims payment experience. These future payments are then discounted using a discount rate prescribed by the PRA and adjusted to take into account the following items which are described in more detail below:

- Reinsurance claims.
- Expenses.
- Events not in data (ENID). For example Latent claims.

Reinsurance – A provision is included to allow for the expected amount of reinsurance premium payable and is dependent upon the volumes of business written during the year of cover. The estimated premium will be in respect of exposure to claim events occurring on or before the balance sheet date. This provision is offset by the expected claims costs to be paid by the reinsurer.

Expenses – A provision is held for the expected expenses associated with settling the existing claims. These are made up of claims handling expenses and an allocation of other management and administration costs relating to the settlement of the outstanding claims costs using figures from the business plan. This allowance is significantly higher at year-end 2020 compared to prior years as a result of adopting a run-off approach to the calculation of TPs, as there is limited future written business to which expenses can be allocated.

ENID – There is a possibility that claims could arise in future from causes which are not yet known about. Scenarios have been created of possible events leading to ENID latent claims. Past examples are Asbestosis or Industrial deafness claims, where claims were made several years after the events.

High level assumptions underlying the Claims Provisions are agreed and signed off by senior management.

These include:

- In respect of existing Periodic Payment Order (PPO) cases it is assumed that care costs will increase in line with expected earnings or price inflation as appropriate for each case and that an individual's life expectancy is in line with expert opinions (or the general population where these are not available). In addition, allowance is made for possible future PPO cases by assessing which claims are likely to result in PPO settlement and what would be the associated costs. Such costs are then discounted at the Risk Free Rate in line with known PPO claims. The assumed probability of settling on a PPO basis makes allowance for the level of the Ogden discount rate.
- Inflation – in respect of calculating Gross Reserves, judgement is required as to whether future inflation of claims costs is in line with that implicit in the base data. Any difference is allowed for explicitly in the calculation of the undiscounted reserves. Likewise, explicit inflation is allowed for in deriving the reinsurance recoveries for Motor claims by indexing both the claims cost and reinsurance retention until settlement.
- Expenses – The level of expenses to be incurred in respect of the business included within the Claims Provisions needs to be allowed for until all such liabilities have been settled.
- Future Mesothelioma Notification Pattern - The reserve amount within the legacy liability business, particularly in respect of Mesothelioma, is highly sensitive to the assumptions made. One of the most material assumptions is how the number of new claims notified will reduce over time.

The Key Assumptions in the projection analysis carried out are as follows:

- The development factors selected for the Best Estimate projections reflect the mean expectation of future development.
- The groupings chosen by product and claims description code/payment code/peril code are broadly homogeneous.
- The development ratios in the data, after making appropriate allowance for known trends, will be repeated in future. Due to the impact of Covid-19 and associated restrictions this assumption is currently not likely to hold so additional judgement has been applied to allow for expected delays in recognising incurred claim cost.
- No significant events occurring after the cut-off point of data being used were missed.

D.2.1.2 Premium Provisions

Premium Provisions are associated with events occurring after the valuation date for policies that are legally bound as at the valuation date.

A TP is required to be calculated in respect of business written prior to the balance sheet date but earned after that date and any legally obliged business. The calculation approach is based on the same principles discussed in the Claims Provisions.

Significant items that form the Premium Provision are:

- Future Best Estimate Claims – The claims cost expected to arise in respect of future earned business relating to written and legally obliged business at the balance sheet date is derived by applying an agreed assumed loss ratio to the Unearned Premium Reserve and future projected premium respectively. The loss ratio includes an allowance for the expected impact of Covid-19 and associated restrictions on the future number of claims and the average cost of claims.

- Future Premiums – Allowance is made in the cash flows for future premiums in respect of business already written and legally obliged business. In respect of business already incepted, these premiums relate to business which is written by direct debits and are paid on a monthly basis. In respect of legally obliged business the future premium cash flow allows for the total premium of such policies.

- Reinsurance – Allowance is made in respect of the reinsurance premium which will be payable in respect of unexpired period of risk for business written prior to the balance sheet date and for the legally obliged business. Associated costs relating to reinsurance are also taken into account. Allowance is also made for the expected claims to arise on the business included within the Premium Provision and consequential reinsurance recoveries.

- Expenses – Expected administration, claims handling expenses and associated costs of settling these claims, calculated using figures from the business plan, are applied to the future expected claims costs. This allowance is significantly higher at year-end 2020 compared to prior years as a result of adopting a run-off approach to the calculation of TPs, as there is limited future written business to which expenses can be allocated.

D.2.1.3 Risk Margin

Risk Margin is the additional amount of provision prescribed by the regulator which insurers are required to hold over and above the value of the Best Estimate liabilities. The Risk Margin is described in more detail in Section D.2.2.

D.2.2 Simplifications

A simplified approach has been taken to the calculation of the Risk Margin.
The Risk Margin is set to the cost of holding regulatory capital while liabilities run off with the purpose of making the overall TPs equal to the amount that another company would require to take over and meet the insurance liabilities.

The main part of the calculation is estimating the regulatory capital at each point in the run-off. The method used estimates this for each key risk type and each longer-tailed (claims which take longer to settle) class of business projected separately. The approach adopted assumes that the future SCR, for each risk type and sector of the business, is proportional to a factor that can be considered a driver of the risk, i.e. reserve risk is proportional to overall TPs net of reinsurance; and counterparty risk is proportional to reinsurance TPs. Life risk is adjusted to recognise claims settling as motor PPOs over time resulting in a slower reduction of risk compared to other classes of business.

The Risk Margin is based on existing commitments (policies that are already written or quoted), like the rest of the TPs.

The calculation depends heavily on the mix of business. Higher risk business segments require a larger SCR, and this directly increases the Risk Margin. In addition, longer-tailed classes of business need to be supported by capital for longer, and tend to add more to the Risk Margin. Consequently, the calculation is sensitive to the assumed run-off pattern for each segment of the business. The calculation includes an allowance for discounting, and so is sensitive to the risk-free rate.

Finally, because the Risk Margin is based on insurance liabilities and relates to a situation where 'another company' takes on the risk of the liabilities, the Risk Margin is not adapted to reflect SIL's own exposure to market risk or heightened operational risk.

D.2.3 Uncertainty

The uncertainty existing within TPs is primarily due to the random nature of how claims develop and is impacted by both external and internal factors. For example, inflation may be higher or lower than expected or claims may be settled more quickly or slowly than anticipated.

Assessment of the uncertainty of key assumptions through sensitivity testing of plausible alternative views gives management a clearer understanding of the key risks and provides an indication of the level of confidence in the reported reserves. Sensitivity analysis is performed to understand the effect of key inputs which include the most material assumptions. The results of the sensitivity analysis on the value of the TPs are shown below:

Uncertainty	Alternative View	Impact on Net TPs (£000)
ASHE Index	Increase in the ASHE index of (i) 0.5% for both (a) Known PPOs and the (b) impact on potential future PPO settlements.	8,761
Life Expectancy	A reduction of 20% in the life impairment values for existing and potential PPOs.	4,133
Motor Loss Ratio	The Motor and Home Gross Loss Ratios which feed into the PP are 10% higher	13,596
Future claim notifications from past Liability business	Using an unadjusted industry wide notification run off pattern for Mesothelioma claims rather than our existing one (impact is undiscounted).	10,324
Ogden Discount Rate and PPO Propensity	Propensity increased (35% -> 50%, 10% -> 25%) similar to levels expected at 1% Ogden discount rate. Limited evidence and experience to judge PPO propensity at current Ogden discount rate. The Ogden discount is unchanged as this is now known over the medium term.	5,693

D.2.4 Analysis of Differences Between the Valuation of Technical Provisions on a Financial Reporting Basis (IFRS) and Valuation on a Solvency II Basis

TPs are calculated differently under Solvency II and IFRS.

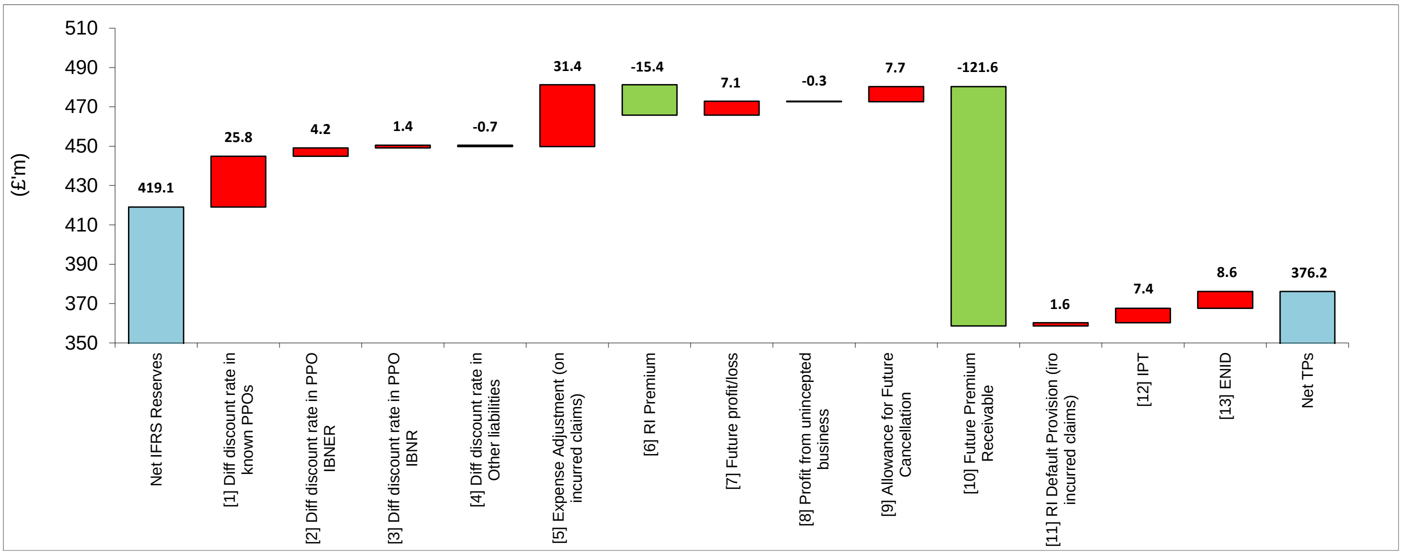
In respect of Claims Provisions the main differences in the calculation of the Solvency II TPs compared with the IFRS basis are in respect of discounting and the allowances for expenses. The Solvency II TPs are discounted for all claim types at the prescribed rate, whereas for IFRS reserves only the known and potential PPO claims, and historic liability claims from the electric industry, are discounted and these are discounted at the rate supported by the investments held. The view of expenses is a run-off basis for Solvency II TPs but business as usual basis for IFRS due to the timing of recognising run-off of the business.

In respect of Premium Provisions there are many differences in the valuation method to that used in IFRS.

Premium Provisions are based on a cashflow approach under Solvency II. Allowance is made for all incoming and outgoing cashflows such as future premium payments and includes policies that the insurer is obligated to at the valuation date including policies which have not yet been incepted; whereas the IFRS valuation need only allow for policies in force at the valuation date.

The other significant difference is that, under Solvency II, there is allowance in the provision for profits arising from future earned business. This is not the case under IFRS. The determination of any future profit or loss under Solvency II includes allowance for associated expenses which for this exercise are on a run-off basis.

The following diagram shows all the differences between the TPs held for IFRS reporting purposes and those for Solvency II purposes, as at the end of the reporting period. Net IFRS reserves shown in the diagram below are the IFRS Insurer Contract Liabilities as shown in the balance sheet at the beginning of Section D (£629,962k), less reinsurance recoverables, deferred acquisition costs, management margin and other such items, totalling £210,878k. Net TPs are as shown in Section D.2.1, before Risk Margin and net of reinsurance recoverables.



The elements of the bridge are described below. Where appropriate, values are shown for Motor (including the Motor liability, PPOs and Other motor insurance lines of business) and Non-Motor (mainly the Fire and other damage to property insurance and General Liability lines of business). The elements described affect all lines of business unless specifically noted.

- [1] to [3] The discount rate prescribed by the PRA for Solvency II is lower than that used for IFRS. The PPOs are discounted in IFRS reserves using an investment yield derived from the assets backing the PPO liabilities. As a result there is an adverse impact of £31,435k when moving to the lower Solvency II discount rate.

- [4] Other than PPOs and some Employer's Liability Claims, IFRS liabilities are not discounted, so there is a discounting benefit of £710k (Motor £513k, Non-Motor £197k) when moving to the Solvency II basis.

- [5] The CPs include an additional £31,395k (Motor £22,142k, Non-Motor £9,253k) provision for expenses until all existing liability for incurred claims have run-off. These expenses are not held under claim liabilities on the IFRS balance sheet, and also include an allowance for moving to a run-off basis. The impact of moving to a run-off basis for expenses increases CPs by £22,519k.

- [6] There is a reinsurance premium payable of £10,631k, which largely reflects the adjustment premiums payable in respect of the 2020 Cat XOL and Motor XOL contracts. In addition £26,023k of reinsurance commission is expected to be received from the 2020 quota share agreement, leading to an overall reduction of £15,392k (Motor £15,280k, Non-Motor £112k).

- [7] to [9] The recognition of future profit/loss from unearned business leads to an increase in overall provisions of £14,472k (Motor £11,331k, Non-Motor £3,141k). The IFRS basis only recognises future losses and not future profits, and since the reported IFRS position does not allow for the run-off view of expenses, there is no future loss held within the IFRS position.

- [10] £121,647k (Motor £97,003k, Non-Motor £24,644k) of future premium receivable is recognised under Solvency II. This relates to outstanding direct debit premium and pipeline premium. These are accounted for as assets on the IFRS balance sheet but are reported as negative liabilities within TPs under Solvency II.

- [11] Reinsurance default provision (in respect of incurred claims) of £1,613k. Solvency II requires insurers to hold an additional provision relating to the risk that a reinsurer may default on all or part of the reinsurance recovery. In IFRS an allowance is made only where there is a known risk of default from a reinsurer.

- [12] Insurance Premium Tax of £7,375k is held elsewhere on the IFRS balance sheet and has minimal impact on Own Funds.

- [13] There is an additional £8,560k (Motor £7,111k, Non-Motor £1,449k) provision allowed for in TPs in respect of ENID under Solvency II, whereas under IFRS, reserves only allow for events that are reasonably foreseeable as opposed to allowing for extreme outcomes.

D.2.5 Matching Adjustment

SIL does not apply a Matching Adjustment.

D.2.6 Volatility Adjustment

A Volatility Adjustment has been used (as approved by the PRA) to discount all future cash flows in respect of the Claims Provisions. The Volatility Adjustment reduces Best Estimate TPs, net of reinsurance by £2,345k, reduces the Standard Formula Solvency Capital Requirement (SF SCR) by £268k and leads to an increase in solvency coverage of £2,614k.

The table below sets out the impact on Own Funds, Risk Margin and SF SCR, further information on which is included in Section E.2.2.

YE 2020	Impact of VA (£000)
Best Estimate Technical Provisions (Gross)	3,465
Effect of Reinsurance	(1,120)
Risk Margin	0
Own Funds	**2,345**
SF SCR	268
Capital Surplus (Own Funds - SCR)	**2,614**

The impact on the Minimum Capital Requirement is a reduction of £117k.

D.2.7 Transitional Interest Rate

SIL has not applied the transitional risk-free interest rate.

D.2.8 Transitional Deduction

SIL has not applied the transitional deduction to the TPs.

D.2.9 Impact of Reinsurance and Special Purpose Vehicles

SIL has a number of different reinsurance arrangements in place in relation to both existing claims and business that is still to be earned. The main ones are:

- The Motor XoL Risk programme covers large individual motor losses.
- The Catastrophe XoL programme provides coverage for combined Home and Motor losses due to major weather events.
- There is a quota share arrangement whereby a proportion of the net premium earned during 2017, 2018, 2019 and 2020 on the combined motor and home business is ceded. The quota share arrangement applies after the catastrophe, motor excess of loss and outsourced reinsurance covers.

SIL does not use Special Purpose Vehicles.

D.2.10 Material Changes in Assumptions from Previous Reporting Period

The key assumption changes affecting the TPs from the end of 2019 to the end of 2020 are as follows:

- Establishing an allowance for Covid-19 restrictions to reduce the level of future claims leading to a decrease in TPs of £13,463k.
- Allowance for expenses as a result of the calculation moving to a run-off basis leading to an increase in TPs of £39,846k.
- Change in the prescribed discount rate leading to an increase in TPs of £13,443k.
- Change in the ASHE care-workers' salary assumption leading to a decrease in TPs of £4,368k.

D.3 Other Liabilities

D.3.1 Valuation Bases and Assumptions

Details of SIL's liabilities, other than Technical Provisions (see Section D.2), including the valuation bases and main assumptions used (where applicable) are shown below by material class of liability.

Contingent Liabilities

Contingent liabilities and contingent contract obligations in existence at 31 December 2020 are detailed in Note 26 and Note 27 of the Company's Annual Report and Accounts.

The expected value of each contingent liability and contingent contract obligation reflects all expectations of possible cash flows and not the single most likely or the expected maximum or minimum cash flow. However, the more likely it is that any particular outcome will occur, the greater the effect that the outcome has on the expected value (probability weighted cash flow method).

SIL reviews all contingent liabilities and contract obligations using the following definition of materiality; "contingent liabilities shall be material where information about the current or potential size or nature of those liabilities could influence the decision-making or judgement of the intended user of that information, including the supervisory authorities."

The contingent liabilities and contract obligations in existence at 31 December 2020 are immaterial, as calculated using the probability weighted cash flow method.

Provisions Other Than Technical Provisions

This category relates to liabilities of uncertain timing or amount. Provisions are recognised when there is a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation. Valuation is at fair value based on the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Debts Owed to Credit Institutions

This is predominantly a cash book balance for amounts paid relating to claims which have not yet cleared bank accounts. These balances are short term in nature and therefore reflect the current market value in line with the Solvency II valuation hierarchy.

Financial liabilities other than Debts Owed to Credit Institutions

This balance is the operating lease liabilities valued in accordance with IFRS. At the commencement date of the operating lease, SIL recognises lease liabilities measured at the present value of lease payments to be made over the lease term. For Solvency II purposes this is valued at fair value, which is deemed to be aligned to the IFRS value.

Insurance and Intermediaries Payable

This balance comprises commission payable on premiums not yet received and premiums collected in advance of the due date. These balances are short term in nature and therefore reflect the current market value in line with the Solvency II valuation hierarchy.

Reinsurance Payables

As explained in Section D.1.1 above, contracts with reinsurers that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. The Company has three main reinsurance arrangements: Motor and Catastrophe Excess of Loss (XoL) programmes and a quota share. Under IFRS the reinsurance payables and receivables under XoL are recognised on the balance sheet gross while the quota share is presented net.

The Technical Provisions in the Solvency II balance sheet include all amounts payable and receivable under the XoL programme, however the quota share funds withheld balance is not included as a component of those provisions. It is recognised as a separate liability (£97,122k), outside of the Technical Provisions, as it is not expected to be paid to the reinsurer. The amounts are recorded at their contractual value.

Payables (Trade, not Insurance)

This balance relates to liabilities due to suppliers which are not insurance related. These balances are short term in nature and therefore reflect the current market value in line with the Solvency II valuation hierarchy. The Insurance Premium Tax (IPT) liability is also included within this category under IFRS. Under Solvency II future IPT payable is held as part of the Technical Provisions.

Deferred Tax Liabilities

Details regarding deferred tax liabilities are set out in Section D.1.1.

Other Liabilities not shown elsewhere

This is a category for all liabilities not captured elsewhere. The balance is predominantly IFRS expense accruals, which are short term in nature and therefore reflect a market price valuation in line with the Solvency II valuation hierarchy. SIL has had a small number of employees since 2 December 2020.

Contributions to defined contribution pension schemes totalling £8k are included within Other Payables at 31 December 2020.

D.3.2 Changes Made to the Recognition and Valuation Bases Used or Estimations During the Reporting Period

No changes have been made to the recognition or valuation bases or estimations of Other Liabilities on an IFRS basis during the reporting period. On a Solvency II basis, the impact of the Board's decision to put the Company into run-off in February 2021 has been taken into account, however this has had no impact on the valuation of Other Liabilities as at 31 December 2020. The impact this has had on Technical Provisions is shown in section D.2.

D.3.3 Assumptions and Judgements About the Future and Other Major Sources of Estimation Uncertainty

There are no significant assumptions and judgements or areas of uncertainty in the valuation of other liabilities.

D.3.4 Expected Timing of any Outflows of Economic Benefits

The expected timing of cash outflows relating to contingent liabilities is unknown, owing to their nature. However, there are currently no material contingent liabilities. Debts owed to credit institutions, insurance and intermediaries payable and other liabilities are settled throughout the year with all such balances due in less than one year.

D.3.5 Analysis of Differences Between the Valuation of Other Liabilities on a Financial Reporting Basis (IFRS) and Valuation on a Solvency II Basis

A quantitative view of material differences between the valuation of other liabilities on a Financial Reporting basis and valuation on a Solvency II basis is shown in the balance sheet at the beginning of Section D. Differences between these bases relating to other liabilities are described below:

- Reinsurance payables – the withheld funds balance arising from the 'Right of Offset' within the quota share reinsurance arrangement is recognised on an accruals basis and reported within Reinsurance Recoverables under IFRS. On a Solvency II basis, the withheld funds are deemed to be a non-insurance cashflow and are reported within Reinsurance Payables on the balance sheet.

- Trade payables - Under Solvency II future IPT payable is held as part of the Technical Provisions, rather than as Trade Payables under IFRS.

D.4 Alternative Methods for Valuation

SIL does not apply alternative valuation methods to any assets or liabilities.

D.5 Any Other Information

Going concern

In preparing the SFCR on a going concern basis the Directors of SIL have made an assessment considering the Company's financial position, its solvency capital requirement and its ability to meets its obligations, as and when they fall due, over the going concern assessment period, which covers the period from the date of approval of this document up to 31 December 2022. In making this assessment the Directors have performed a detailed analysis of future capital and liquidity.

In the central forecast case, solvency projections show a low point in the SCR coverage of 122% just after the business enters run-off, but this quickly starts to recover as the solvency requirement falls owing to ceasing underwriting. Liquidity projections assess expected liquid assets (cash, overnight reverse repos and UK gilts) and stressed investments (the value of investments in a stressed scenario after applying a haircut, which considers the type of asset and maturity). Both projected liquid investments and stressed investments are expected to be in excess of the Board's risk appetite throughout the period of review.

The Directors have then considered the potential impact of various stresses including, but not limited to, a series of weather events, adverse claims experience and a fall in the market value of assets. In addition the Directors have also considered a specific COVID-19 stress scenario which includes the impact of a delay in collecting premiums. In all cases, solvency coverage remains above 100%. In each scenario SIL has sufficient liquidity to pay liabilities as they fall due. Even in the event of an extreme stress scenario it is projected that SIL would be able to meet the majority of payments solely from existing cash holdings and investment maturities, with only modest reliance on either additional income from premium cashflow or the sale of highly liquid short-dated gilts or highly rated corporate bonds.

The Directors have also considered a reverse stress test, which involves several of the stress scenarios happening concurrently, and is therefore extremely unlikely. In this scenario, the SCR coverage ratio is projected to fall below 100% but assets continue to exceed liabilities and solvency coverage recovers naturally to over 100% within 6 months. In this scenario SIL would still be expected to be able to meet all of its liabilities as they fall due through the sale of corporate bonds.

Following their assessment the Directors are satisfied that the Company will be able to operate over the going concern assessment period and therefore the SFCR has been prepared on a going concern basis.

E. Capital Management

E.1 Own Funds

E.1.1 Objectives, Policies and Processes for Managing Own Funds

E.1.1.1 Background and Objectives

Own Funds correspond to SIL's available financial resources (capital) which can serve as a buffer against risks and absorb financial losses.

The Company's strategy in respect of capital management is to maintain its financial strength by ensuring that the following objectives are met:

- There is sufficient capital to meet all regulatory requirements – i.e. the value of Own Funds is greater than the Solvency Capital Requirement (see Section E.2) and will continue to be throughout the business planning period.
- There is additional capital ("solvency coverage") to meet internal Board agreed thresholds which are significantly above regulatory requirements. This ensures that policyholders are protected and also that the Board's risk appetite is met.
- Subject to the above objectives being met, capital is distributed to its parent Company, SFHL.

The policies and processes employed by the Company are designed to benefit policyholder protection by giving management an accurate understanding of the amount and quality of the Company's Own Funds. This helps the Company to ensure that sufficient Own Funds are held to absorb unexpected losses and maintain solvency. This is a key focus in the Company's business planning.

E.1.1.2 Policies and Processes

The SIL Board sets capital risk appetite, which defines how much additional capital the Company should hold over and above its regulatory capital requirement. This coverage in excess of 100% provides an additional cushion well beyond the regulatory capital requirement, providing additional security for policyholders by ensuring that the Company can survive even the most severe unexpected losses.

The Company has maintained capital above all its regulatory requirements throughout 2020. It has also maintained sufficient capital to meet the Board's capital risk appetite that was in force over 2020.

The Company reviews solvency regularly, with reports provided to the Board Risk Committee and Board periodically, and more frequent monitoring of key components. In the event that the Company falls below its risk appetite, it would be possible to reduce capital requirements by executing actions that reduce risk albeit often resulting in reduced returns.

E.1.2 Analysis of Own Funds by Tier

Under Solvency II regulations the excess of assets (other than deferred tax assets) over liabilities is classified as Tier 1 capital. Deferred tax assets, to the extent they are recognised, are classified as Tier 3 capital and together these form the Basic Own Funds.

In addition, SIL holds Ancillary Own Funds in the form of cash held in escrow of £25,000k which can be drawn upon by the Company as required. The agreement with Soteria AOF Solutions Limited (SAOFS) to provide access on request to the funding was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. SAOFS is a company related to SIL through having the same shareholders as SIL's parent company, SFHL. SIL did not draw upon this funding in the period.

The table below shows Own Funds by tier and amount of eligible Own Funds versus the SCR and MCR at the end of the reporting period.

	2020				
	Total (£000)	Tier 1 unrestricted (£000)	Tier 1 restricted (£000)	Tier 2 (£000)	Tier 3 (£000)
Ordinary share capital (gross of own shares)	208,000	208,000	-	-	-
Reconciliation reserve	(23,578)	(23,578)	-	-	-
Subordinated liabilities	-	-	-	-	-
Total basic own funds after deductions	**184,422**	**184,422**	**-**	**-**	**-**
Unpaid and uncalled ordinary share capital callable on demand	**25,000**	**-**	**-**	**25,000**	**-**
Total ancillary own funds	**25,000**	**-**	**-**	**25,000**	**-**
Total available own funds to meet the SCR	**209,422**	**184,422**	**-**	**25,000**	**-**
Total available own funds to meet the MCR	**184,422**	**184,422**	**-**	**-**	**-**
Total eligible own funds to meet the SCR	**209,422**	**184,422**	**-**	**25,000**	**-**
Total eligible own funds to meet the MCR	**184,422**	**184,422**	**-**	**-**	**-**
SCR	**167,230**				
MCR	**48,610**				

100% of Own Funds held at the end of the reporting period were available to meet the SCR. In line with Solvency II regulations, all Tier 1 items are eligible to meet the SCR, whilst the value of Tier 2 and Tier 3 items is not permitted to exceed 50% of the value of own funds eligible to meet the SCR.

100% of Tier 1 Basic Own Funds held at the end of the reporting period were available to meet the MCR, whilst the Ancillary Own Funds are not available to meet the MCR. In line with Solvency II regulations, all Tier 1 items are eligible to meet the MCR, whilst Tier 2 basic Own Funds are eligible as long as they are less than 20% of the MCR.

E.1.2.1 Tier 1

Share Capital

SIL has issued 208,000,000 ordinary shares of £1 each. The ordinary shares have attached to them full voting, dividend and capital distribution rights. The ordinary shares do not confer any rights of redemption. All shares are held by SFHL.

On 30 June 2020 60,000,000 ordinary shares were cancelled and extinguished by special resolution. This reduced share capital and increased the reconciliation reserve by £60,000k.

Reconciliation Reserve

The reconciliation reserve is derived by taking the excess of assets over liabilities from the balance sheet and reducing it by the value of ordinary share capital and deferred tax assets. As such it represents both the changes resulting from valuation differences (IFRS versus Solvency II), but also retained earnings and other reserves.

The reconciliation reserve is calculated as follows:

	(£000)
Excess of assets over liabilities	184,422
Less:	
Share capital	(208,000)
Reconciliation reserve	**(23,578)**

The value of the reconciliation reserve is directly related to the value of the excess of assets over liabilities and is therefore subject to potential volatility of those assets and liabilities. Regular Solvency II balance sheet forecasting is undertaken to monitor the expected future value of assets and liabilities. Where risks are identified, management actions are undertaken to mitigate any impact on solvency coverage.

E.1.2.2 Tier 2

Ancillary Own Funds

SIL has an agreement with Soteria AOF Solutions Limited (SAOFS) to provide access on request to funding of £25,000k, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds.

On 7 April 2020, the Company entered into an agreement with the Co-op Group to provide access on request to funding of £70,000k, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. On completion of sale to SFHL, the funding from Co-op Group ceased and was replaced by the agreement with SAOFS.

Subordinated Debt

SIL previously held subordinated debt in the form of £70,000k of Callable Dated Deferrable Tier Two Notes due 2025 at par, raised on 8 May 2015 with a coupon rate of 12%. The Company repaid this debt on 8 May 2020.

E.1.2.3 Tier 3

Deferred Tax

A deferred tax asset is recognised when future taxable profits are deemed available within the planning horizon to utilise the asset. The deferred tax asset recognised by SIL as detailed in Section D.1.1 is offset by the deferred tax liability and therefore a net nil deferred tax asset is reported at 31 December 2020.

E.1.2.4 Changes in Own Funds by Tier Over the Reporting Period

	Total (£000)	Tier 1 unrestricted (£000)	Tier 1 restricted (£000)	Tier 2 (£000)	Tier 3 (£000)
Previous year	**267,646**	**198,491**	**-**	**69,155**	**-**
Movement in reconciliation reserve:					
Movement in IFRS reserves - operating profit after tax	5,791	5,791	-	-	-
Movement in IFRS reserves - other comprehensive expense	5,350	5,350	-	-	-
Change in valuation differences between IFRS and Solvency II	(25,210)	(25,210)	-	-	-
Change in market value of subordinated debt	845	-	-	845	-
Repayment of subordinated debt	(70,000)	-	-	(70,000)	-
Ancilliary own funds issued in the period	25,000	-	-	25,000	-
Current year	**209,422**	**184,422**	**-**	**25,000**	**-**

Own Funds have reduced by £58,224k between 31 December 2019 and 31 December 2020.

Tier 1 Own Funds have reduced by £14,069k despite the profit for the year described in Section A.2, owing to the sum of valuation differences between IFRS and Solvency II. This is mainly impacted by the decision by the Board in February 2021 to put the Company into run-off. Due to this Own Funds are calculated on a run-off basis where a greater value of future costs is included within Technical Provisions. The impact of this was to reduce Own Funds by £39,846k.

Tier 2 Own Funds have decreased by £44,155k owing to repayment of £70,000k subordinated debt in the period. This funding has been replaced by an agreement with SAOFS to provide access on request to funding of £25,000k, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. SAOFS is a company related to SIL through having the same shareholders as SFHL. SIL did not draw upon this funding in the period.

The reduction in Own Funds is in line with expectations as SIL is now in run-off.

E.1.2.5 Development of Own Funds Over the Business Planning Period

The strategic direction over the business planning period is determined by SIL's directors.

On 2 December, after PRA approval, the Company was sold by Co-op Group to SFHL and Co-op Group entered into a distribution agreement with the Markerstudy Group, which specialises in general insurance products and complementary services. On 11 February 2021, the Board made the decision to put the Company into run-off. As a result Own Funds at December 2020 have been calculated on a run-off basis, increasing the value of TPs and reducing Own Funds by £39,846k.

The Company will continue to administer existing policies in force and settle outstanding claims. As SIL is now in run-off, Own Funds is expected to reduce over time as assets are used to pay liabilities as they fall due. The focus of the Directors is to meet all obligations to customers throughout a solvent run-off, to fulfil all regulatory requirements and, to the extent the Company has surplus capital above a prudent risk appetite to meet its liabilities and regulatory requirements, it aims to distribute this capital to its parent, SFHL.

E.1.3 Other Information in Relation to Own Funds

E.1.3.1 Loss Absorbency Mechanisms

The Company does not have any Own Funds relating to paid-in subordinated mutual member accounts, paid-in preference shares and the related share premium account or paid-in subordinated liabilities included in Tier 1 capital and therefore disclosure of loss absorbency mechanisms to comply with Article 71 (1)(e) of the Solvency II Delegated Regulation is not relevant.

E.1.3.2 Total Equity Under IFRS versus Basic Own Funds Under Solvency II

	(£000)
Total Equity per Annual Report and Accounts	263,337
Difference in valuation of assets and liabilities	(78,915)
Own Funds	**184,422**

Differences in valuation of assets and liabilities between IFRS and Solvency II are described in Sections D.1.4 (Assets), D.2.4 (Technical Provisions) and D.3.5 (Other Liabilities). The adjustments described have the effect of reducing the value of Own Funds by the same value as the reduction in net assets, £78,915k. Approximately half of this difference, £39,846k, is due to Solvency II Own Funds taking into account the run-off decision. Under IFRS, as this decision was made after the reporting date, the impact of this decision is not taken into account in deriving the value of total equity. Overall, Own Funds are £53,915k lower than Equity under IFRS including ancillary own funds which have £nil value under IFRS.

E.1.3.3 Transitional Arrangements

Transitional arrangements, lasting a maximum of ten years from 1 January 2016, have been introduced to the Solvency II regime to provide a smooth transition between Solvency I and Solvency II requirements. Under these transitional arrangements the subordinated debt held by SIL, which met the eligibility criteria under Solvency I, was classified as Tier 2 Own Funds under Solvency II. This debt was repaid in 2020.

E.1.3.4 Ancillary Own Funds

As disclosed in section E.1.2.5 above, on 7 April 2020, the Company entered into an agreement with the Co-op Group to provide access on request to funding of £70,000k, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds.

On completion of sale to SFHL, the funding from Co-op Group ceased and was replaced by an agreement with Soteria AOF Solutions Limited (SAOFS) to provide access on request to funding of £25,000k, which was approved by the PRA to be treated as Tier 2 Ancillary Own Funds. The available funds are held in an escrow account which SIL can draw down on at its discretion. In the event that these ancillary funds are utilised, shares would be issued in SIL which would be classified as Tier 1 Basic Own Funds.

E.1.3.5 Items Deducted from Own Funds

No items have been deducted from Own Funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Under the Solvency II regime, an insurance company is required to hold sufficient capital to cover unexpected losses. These additional funds held reduce the chance of insurers running out of funds, thus protecting policyholders. There are two capital requirements: the Solvency Capital Requirement and the Minimum Capital Requirement.

E.2.1 Minimum Capital Requirement (MCR)

The MCR is calculated using a prescribed formula using the value of Best Estimate Technical Provisions split by Solvency II line of business and the value of net written premium, including bound but not incepted, over a rolling 12-month period up to the reporting date, also split by Solvency II line of business. The MCR is then subject to a minimum value (floor), which is equal to 25% of the SCR, and maximum value (ceiling), which is equal to 45% of the SCR. The MCR also has an absolute floor, set at €3,700k and converted to pounds sterling.

E.2.2 Solvency Capital Requirement (SCR)

The SCR should be sufficient to protect the Company from unexpected losses over the following year – losses that are not expected more often than once every 200 years – and still be able to honour its claims. There are two ways of calculating the SCR. Insurers can use their own model (Internal Model) with approval from the PRA. Otherwise, they can use a standard approach (Standard Formula) defined by the regulations.

However, even when using the Standard Formula, the standard approach must be appropriate for the Insurer. When the regulator believes the standard approach does not adequately capture the risk of the particular business the regulator can approve a 'capital add-on' to be included within the Standard Formula SCR (SF SCR).

SIL use the standard approach defined by the regulations, i.e. the SF SCR.

As part of the use of the standard approach, SIL holds a Capital Add On (CAO) to reflect that the Standard Formula does not adequately capture all risks. Further information is provided in E.2.5.

The table below shows the SF SCR, including capital add-ons, by risk, as at 31 December 2020 and as at 31 December 2019. The SCR, and in particular, non-life underwriting risk, has reduced between 31 December 2019 and 31 December 2020. Section E.2.3 below explains each risk, including reasons for movements in the year. Note that the 31 December 2020 SCR is still subject to supervisory assessment by the PRA.

SF SCR	At 31 December 2019 (£000)	At 31 December 2020 (£000)	Change £000
Premium Risk	58,590	28,400	(30,190)
Reserve Risk	73,415	68,605	(4,809)
Catastrophe Risk	20,129	22,960	2,831
Lapse Risk	12,251	17,570	5,318
Diversification	*(41,397)*	*(30,570)*	*10,827*
Non Life Underwriting Risk	**122,988**	**97,249**	**(25,739)**
Market Risk	19,529	32,006	12,477
Counterparty Default Risk	7,490	6,026	(1,463)
Life Underwriting Risk	4,338	4,552	214
Health Underwriting Risk	0	0	0
Operational Risk	14,818	13,810	(1,008)
Diversification	*(20,792)*	*(26,413)*	*(5,621)*
SCR excluding add-ons	**148,370**	**127,230**	**(21,140)**
Pension Risk loading	0	0	0
Operational Risk loading	40,000	40,000	0
SCR including add-ons	**188,370**	**167,230**	**(21,140)**

The table shows that SIL's key financial risks are insurance-related: premium risk and reserve risk.

E.2.3 Material Change to the MCR and to the SCR over the Reporting Period

At the end of the reporting period the Company's SCR is £167,230k (2019: £188,370k), a decrease of £21,140k since 31 December 2019 reflecting reduced insurance risk. More detailed explanations of the change in the SCR over the period are described below.

At the end of the reporting period the Company's MCR is £48,467k (2019: £61,895k), a decrease of £13,428k since 31 December 2019.

E.2.3.1 Premium Risk

Premium risk relates to policies that will be earned over the coming 12 months. At 31 December 2020, this includes policies which will earn over 2021, and the claims that may be incurred on these policies. The risk is that expenses and losses for these claims are higher than expected.

The SF SCR uses the net earned premium (NEP) expected over the coming 12 months as a driver for the premium risk, but normally also uses the previous 12 months NEP to set a minimum level of premium risk. Under certain conditions, however, the standard formula permits this prior year minimum to be waived. SIL's decision during February 2021 to enter run-off meets these conditions, and consequently the premium risk calculation as at 31 December 2020 has been determined on the basis of future expected NEP only. Further, as a direct consequence of the entry into run-off the expected NEP during 2021 is materially lower than the actual NEP during 2020. This has resulted in a material reduction in the premium risk charge since 31 December 2019.

This is illustrated in the following table, which shows the change in the NEP measure and premium risk for each Solvency II line of business (LOB) between 31 December 2019 and 31 December 2020.

£000's	Net Earned Premium Measure in 2019	Net Earned Premium Measure in 2020	Change %	2019 Premium Risk	2020 Premium Risk	Change %
Motor Liability	174,732	81,251	(53%)	41,936	19,500	(53%)
Other Motor	75,288	34,549	(54%)	18,069	8,292	(54%)
Fire & other damage to property	66,987	43,515	(35%)	12,861	8,355	(35%)
Legal expense	2,747	1,241	(55%)	577	309	(46%)
Diversification	-	-	-	*(14,853)*	*(8,055)*	(46%)
Total	**319,754**	**160,555**	**(50%)**	**58,590**	**28,400**	**(52%)**

E.2.3.2 Reserve Risk

Reserve risk arises from losses from the past. Insurers hold reserves to cover these losses (claims provisions), but the amount that claims will eventually settle for, and how many more claims are still to be reported, are uncertain. The risk is that claims payments exceed the current level of reserves, so the claims provisions (net of reinsurance) are used as a key input for the reserve risk.

The following table shows the change in the net claims provisions and reserve risk for each Solvency II LOB between 31 December 2019 and 31 December 2020.

£000's	Net Claims Provisions in 2019	Net Claims Provisions in 2020	Change %	2019 Reserve Risk	2020 Reserve Risk	Change %
Motor Liability	251,146	229,245	(9%)	67,809	61,896	(9%)
Other Motor	(1,071)	(7,876)	635%	-	-	-
Fire & other damage to property	33,008	36,139	9%	9,902	10,842	9%
General Liability	13,753	17,250	25%	4,539	5,692	25%
Legal expense	(936)	(850)	(9%)	-	-	-
Miscellaneous	73	73	0%	44	44	0%
Non-Prop. RI	189	194	3%	113	116	3%
Diversification	-	-	0%	*(8,994)*	*(9,985)*	11%
Total	**296,162**	**274,175**	**(7%)**	**73,414**	**68,605**	**(7%)**

Reserve risk has decreased between 31 December 2019 and 31 December 2020. This is owing to a fall in net claim provisions for Motor business, offset by increases in the claims provisions for General Liability and Fire. The large proportionate increase in General Liability net claim provisions over the year follows a reserve strengthening on mesothelioma claims. The increase in net claims provision for the Fire account reflects a reduction in the quota share reinsurance protection during 2020 compared to Q4 2019.

E.2.3.3 Catastrophe Risk

Catastrophe risk arises from extreme events such as major windstorms and large fires. It is divided into natural and man-made catastrophe risks:

- Natural catastrophe events such as windstorms which result in home damage and floods which cause both home and motor damage.
- Man-made catastrophe events arise from motor liability and fire risks.

Catastrophe risk has increased between 31 December 2019 and 31 December 2020. The increase reflects the decision not to renew the quota share reinsurance contract in 2021.

E.2.3.4 Lapse Risk

Lapse risk is the risk that the Company makes less profit because of customers cancelling existing policies or not taking out policies that the Company has committed to write.

Lapse risk has increased owing largely to higher projected profitability for future motor business.

E.2.3.5 Market Risk

SIL is exposed to the following Standard Formula market risks based on the portfolios at end 2019 and end 2020:

- Equity risk, which arises from the level and volatility of market prices for equities.
- Currency risk, which arises from changes in the level or volatility of currency exchange rates.
- Interest rate risk, which is the risk that the value of an asset or liability will change due to a change in interest rates. Interest rate risk is calculated by determining the impact on the balance sheet of either increasing or decreasing interest rates. The higher of the two impacts is the interest rate risk.
- Spread risk, which is the risk that a widening of credit-spreads reduces the value of assets.
- Concentration risk, which arises when a significant investment is made in a single company, or closely related companies. This increases the risk that the money invested is not paid back.

In December 2019 the Board approved a change in investment approach, which resulted in a wider range of higher-yielding assets to back long-tailed liabilities (primarily those arising from Periodical Payment Orders (PPOs)). These changes took effect in 2020. In particular, SIL invested in an equity fund and a global high yield fund, both of which have impacted materially on the market risk calculation. Specifically:

- The equity fund has directly given rise to an equity risk charge, which amounts to £9,382k (pre-diversification). In addition, some of the underlying investments are in non-GBP equities, and are unhedged, which leads to a currency risk charge of £1,035k (pre-diversification).
- The global high yield fund invests in short-dated lower-rated bonds. These lower-rated bonds attract a higher spread risk capital charge, which is also driving the increase in market risk. The non-GBP investments within this fund are almost 100% hedged, so that the currency risk impact is not material.
- The remaining portfolio has remained relatively stable, with less material movements in interest rate risk and concentration risk.

As a consequence of the above changes, the total market risk has increased materially over the year, from £19,529k as at 31 December 2019 to £32,006k as at 31 December 2020 – a total increase of 64%.

E.2.3.6 Counterparty Default Risk

Counterparty default risk relates to the losses arising when reinsurers and other debtors (counterparties) fail to pay what they owe (default). These counterparties include reinsurers, banks with which cash is deposited and trade receivables. SIL uses a simplified approach to calculate a component of counterparty default risk (see Section E.2.4).

Counterparty default risk has decreased. This reduction is across different categories of counterparty and reflects a reducing book of business.

E.2.3.7 Life Underwriting Risk

Life risk is the risk associated with life insurance obligations. In the case of SIL, this relates to annuities stemming from the non-life insurance obligations, i.e. PPOs. The most material risk is longevity risk where payments may be paid for a longer period than previously expected. Longevity risk has remained broadly level over the period.

E.2.3.8 Operational Risk

Operational risk is the risk of loss arising from inadequate and failed internal processes, or from people and systems, or from external events. This is basically the risk of operating a company. Operational risk is based on gross TPs and gross earned premiums in the last 24 months. These are used to measure the size of the business because, the greater the size of the business, the more operational risk it is exposed to. As explained in Section E.2.5 operational risk also includes a capital add-on of £40,000k (2019: £40,000k).

Operational risk has decreased slightly over the reporting period, reflecting a reduction in the size of the business.

E.2.4 Simplifications and Undertaking-specific Parameters

Solvency II regulations allow some specified simplifications to be used as part of the standard approach, where this is proportionate. Proportionality takes into account the potential impact of the risk should it occur and the complexity of the full calculation to decide whether the full calculation would be an undue burden.

SIL uses a simplified approach to calculate a component of counterparty default risk. The simplification relates to how the total risk-mitigating effect of all reinsurance arrangements is allocated across each reinsurer. The simplification is proportionate as although the full calculation is considerably more complex, it is not material as it would not alter any decision making relating to the SCR. The total impact of risk mitigation in the counterparty default calculation on the overall SF SCR has been estimated to be approximately £700k (0.4%). The impact of the simplification is expected to be a small part of that.

SIL does not use any undertaking-specific parameters in the calculation of its SF SCR.

E.2.5 Capital Add-ons

SIL assessed the appropriateness of the Standard Formula for the Company's risk profile. Two risks were identified which are not adequately captured by the SF SCR calculations. SIL has calculated the additional capital required to cover these risks and proposed an add-on to the SCR, which has been approved by the PRA. These two areas are operational risk and pension risk:

- The operational risk add-on was established to reflect the legacy Co-op systems used by SIL and the risks associated with the migration to Markerstudy systems.
- The pension risk add-on was established to reflect that SIL, while not a participating employer, still had indirect exposure to the Co-op Group pension scheme (PACE), and could be expected to make a contribution to any worsening in the scheme's position. However, due to the surplus in the scheme, the add-on was £nil.

As at 31 December 2020, the add-on was still in place for SIL, although SIL expects to apply for a reduction in 2021, given that:

- As the migration has completed and SIL is no longer on legacy systems then the operational risk is significantly reduced.
- Following Change in Control, SIL no longer has exposure to the PACE scheme, or any other pensions risk, and consequently no add-on is required.

The Standard Formula appropriateness assessment, including any potential add-ons will be recalculated annually.

E.3 Use of the Duration-based Equity Risk Sub-module in the Calculation of the SCR

SIL does not include the duration-based equity risk sub-module in the calculation of the SF SCR. This sub-module may only be used with the express permission of the regulator.

E.4 Differences Between the Standard Formula and any Internal Model Used

SIL uses the Standard Formula to calculate the SCR.

E.5 Non-compliance with the MCR and Non-compliance with the SCR

E.5.1. Non-compliance with the MCR

Non-compliance with the MCR occurs when the value of eligible Own Funds falls below the MCR. As at 31 December 2020, SIL is in compliance with the MCR with coverage of 379% (2019: 340%) of the MCR. SIL has been compliant with the MCR throughout the reporting period.

E.5.2. Non-compliance with the SCR

Non-compliance with the SF SCR occurs when the value of eligible own funds falls below the SF SCR. As at 31 December 2020, SIL is in compliance with the SF SCR with coverage of 125% (2019: 142%) of the SCR. SIL has been compliant with the SCR throughout the reporting period.

E.6 Any Other Information

No additional information is required to be disclosed.

Appendix 1: Public Quantitative Reporting Templates (QRTs)

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	1,077
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	671,908
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	530,917
R0140	*Government Bonds*	111,109
R0150	*Corporate Bonds*	379,797
R0160	*Structured notes*	40,011
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	48,956
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	92,035
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	163,541
R0280	*Non-life and health similar to non-life*	121,512
R0290	*Non-life excluding health*	121,512
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	42,029
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	42,029
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	12
R0360	Insurance and intermediaries receivables	1,354
R0370	Reinsurance receivables	192
R0380	Receivables (trade, not insurance)	10,217
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	26,824
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	875,126

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	464,817
R0520	*Technical provisions - non-life (excluding health)*	464,817
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	446,312
R0550	*Risk margin*	18,505
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	101,425
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	101,425
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	93,412
R0680	*Risk margin*	8,013
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	76
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	5,950
R0810	Financial liabilities other than debts owed to credit institutions	1,176
R0820	Insurance & intermediaries payables	7,801
R0830	Reinsurance payables	97,122
R0840	Payables (trade, not insurance)	2,230
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	10,105
R0900	**Total liabilities**	690,704
R1000	**Excess of assets over liabilities**	184,422

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	-1			201,694	78,993		79,827	0		2,863		0					363,375
R0120	Gross - Proportional reinsurance accepted	0			0	0		0	0		0		0					0
R0130	Gross - Non-proportional reinsurance accepted														0			0
R0140	Reinsurers' share	0			87,011	29,823		33,370	0		993		0		0			151,198
R0200	Net	-1			114,683	49,169		46,457	0		1,869	0	0		0		0	212,177
	Premiums earned																	
R0210	Gross - Direct Business	-1			249,862	97,555		90,469	0		3,311		0					441,196
R0220	Gross - Proportional reinsurance accepted	0			0	0		0	0		0		0					0
R0230	Gross - Non-proportional reinsurance accepted														0			0
R0240	Reinsurers' share	0			85,403	29,823		33,156	0		993		0		0			149,376
R0300	Net	-1			164,459	67,731		57,313	0		2,318	0	0		0		0	291,820
	Claims incurred																	
R0310	Gross - Direct Business	0			161,329	63,216		44,020	6,281		0		9					274,856
R0320	Gross - Proportional reinsurance accepted	0			0	0		0	0		0		0					0
R0330	Gross - Non-proportional reinsurance accepted														28			28
R0340	Reinsurers' share	0			51,708	18,037		16,333	135		0		0		0			86,212
R0400	Net	0			109,621	45,180		27,687	6,146		0	0	9		28		0	188,671
	Changes in other technical provisions																	
R0410	Gross - Direct Business	0			-1,231	-469		0	0		0		0					-1,700
R0420	Gross - Proportional reinsurance accepted	0			0	0		0	0		0		0					0
R0430	Gross - Non-proportional reinsurance accepted														0			0
R0440	Reinsurers' share	0			0	0		0	0		0		0		0			0
R0500	Net	0			-1,231	-469		0	0		0	0	0		0		0	-1,700
R0550	**Expenses incurred**	0			81,044	30,878		45,625	25		0	0	1		0		0	157,573
R1200	**Other expenses**																	4,030
R1300	**Total expenses**																	161,604

S.05.01.02

Premiums, claims and expenses by

Life

		Line of Business for: life insurance obligations		Life reinsurance obligations	
		Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance	Life reinsurance	Total
		C0250	C0260	C0280	C0300
	Premiums written				
R1410	Gross				0
R1420	Reinsurers' share				0
R1500	Net		0	0	0
	Premiums earned				
R1510	Gross				0
R1520	Reinsurers' share				0
R1600	Net		0	0	0
	Claims incurred				
R1610	Gross		4,591		4,591
R1620	Reinsurers' share		2,139		2,139
R1700	Net		2,452	0	2,452
	Changes in other technical provisions				
R1710	Gross				0
R1720	Reinsurers' share				0
R1800	Net		0	0	0
R1900	**Expenses incurred**		0	0	0
R2500	**Other expenses**				
R2600	**Total expenses**				0

QRT S.05.02.01 (Premiums, Claims and Expenses by Country) is not included in this report as information regarding the UK represents 100% of the total gross and written premiums.

S.12.01.02

Life and Health SLT Technical Provisions

		Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)
			Contracts without options and guarantees	Contracts with options or guarantees			
		C0060	C0070	C0080	C0090	C0100	C0150
R0010	**Technical provisions calculated as a whole**					0	0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole					0	0
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
R0030	**Gross Best Estimate**				93,412	0	93,412
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				42,029	0	42,029
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		0	0	51,383	0	51,383
R0100	**Risk margin**				8,013	0	8,013
	Amount of the transitional on Technical Provisions						
R0110	Technical Provisions calculated as a whole						0
R0120	Best estimate						0
R0130	Risk margin						0
R0200	**Technical provisions - total**	0			101,425	0	101,425

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance								Accepted non-proportional reinsurance		
		Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional casualty reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0050	C0060	C0070	C0080	C0090	C0110	C0120	C0130	C0150	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0	0		0	0	0	0	0	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0		0	0	0	0	0	0		0
	Technical provisions calculated as a sum of BE and RM											
	Best estimate											
	Premium provisions											
R0060	Gross	21,558	7,715		19,845	0	-744	0	0	0	0	48,374
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-1,033	-180		-1,039	0	0	0	0	0		-2,252
R0150	**Net Best Estimate of Premium Provisions**	22,592	7,895		20,883	0	-744	0	0	0	0	50,626
	Claims provisions											
R0160	Gross	334,707	-2,412		47,981	17,384	9	0	76	194	0	397,938
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	105,462	5,464		11,842	135	859	0	3	0		123,764
R0250	**Net Best Estimate of Claims Provisions**	229,245	-7,876		36,139	17,250	-850	0	73	194	0	274,174
R0260	**Total best estimate - gross**	356,265	5,302		67,825	17,384	-735	0	76	194	0	446,312
R0270	**Total best estimate - net**	251,836	18		57,022	17,250	-1,594	0	73	194	0	324,800
R0280	**Risk margin**	13,156	391		2,420	2,483	19	0	10	26	0	18,505
	Amount of the transitional on Technical Provisions											
R0290	Technical Provisions calculated as a whole											0
R0300	Best estimate											0
R0310	Risk margin											0
R0320	**Technical provisions - total**	369,421	5,693		70,245	19,867	-716	0	86	220	0	464,817
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	104,429	5,284		10,803	135	859	0	3	0	0	121,512
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	264,992	409		59,442	19,732	-1,575	0	83	220	0	343,304

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year					**Development year**							**In Current**	**Sum of years**
		0	1	2	3	4	5	6	7	8	9	10 & +	**year**	**(cumulative)**
R0100	Prior											12,811	12,811	12,811
R0160	2011	173,817	157,126	63,006	40,059	20,482	8,275	1,799	628	4,454	412		412	470,056
R0170	2012	179,700	125,331	50,014	34,298	17,137	6,960	2,528	1,296	2,336			2,336	419,601
R0180	2013	135,724	92,531	29,057	19,181	14,599	8,119	5,028	2,990				2,990	307,230
R0190	2014	118,585	64,817	20,588	11,457	14,587	5,505	537					537	236,078
R0200	2015	107,605	77,618	22,894	11,952	8,494	2,294						2,294	230,857
R0210	2016	141,052	87,433	29,400	17,218	15,651							15,651	290,753
R0220	2017	154,212	82,926	22,769	15,685								15,685	275,592
R0230	2018	180,619	86,225	28,322									28,322	295,166
R0240	2019	186,532	83,961										83,961	270,493
R0250	2020	135,799											135,799	135,799
R0260												**Total**	300,799	2,944,437

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
													Year end
	Year					**Development year**							**(discounted**
		0	1	2	3	4	5	6	7	8	9	10 & +	**data)**
R0100	Prior											35,590	34,060
R0160	2011	0	0	0	0	0	5,062	4,648	7,698	3,862	4,663		4,655
R0170	2012	0	0	0	0	19,445	6,748	4,341	3,091	280			279
R0180	2013	0	0	0	34,301	28,671	6,971	3,201	577				575
R0190	2014	0	0	39,076	25,552	8,357	1,280	1,281					1,269
R0200	2015	0	65,332	30,236	17,920	6,313	4,332						4,304
R0210	2016	194,065	129,147	77,566	47,412	38,269							35,387
R0220	2017	176,067	76,673	48,856	35,388								34,999
R0230	2018	178,883	75,939	49,625									49,367
R0240	2019	182,368	95,430										94,758
R0250	2020	139,860											138,285
R0260												**Total**	397,938

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	**Technical provisions**	566,242	0	0	3,465	0
R0020	**Basic own funds**	184,422	0	0	-2,345	0
R0050	**Eligible own funds to meet Solvency Capital Requirement**	209,422	0	0	-2,345	0
R0090	**Solvency Capital Requirement**	167,230	0	0	268	0
R0100	**Eligible own funds to meet Minimum Capital Requirement**	184,422	0	0	-2,345	0
R0110	**Minimum Capital Requirement**	48,610	0	0	117	0

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	208,000	208,000		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-23,578	-23,578			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	184,422	184,422	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	25,000			25,000	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	25,000			25,000	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	209,422	184,422	0	25,000	0
R0510	Total available own funds to meet the MCR	184,422	184,422	0	0	
R0540	Total eligible own funds to meet the SCR	209,422	184,422	0	25,000	0
R0550	Total eligible own funds to meet the MCR	184,422	184,422	0	0	
R0580	**SCR**	167,230				
R0600	**MCR**	48,610				
R0620	**Ratio of Eligible own funds to SCR**	125.23%				
R0640	**Ratio of Eligible own funds to MCR**	379.39%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	184,422
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	208,000
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-23,578
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	701
R0790	**Total Expected profits included in future premiums (EPIFP)**	701

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	32,006		
R0020	Counterparty default risk	6,026		
R0030	Life underwriting risk	4,552		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	97,249		
R0060	Diversification	-26,413		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	113,420		

USP Key

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

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

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

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	13,810
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	127,230
R0210	Capital add-ons already set	40,000
R0220	**Solvency capital requirement**	167,230
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	47,388

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	251,836	117,117
R0060	Other motor insurance and proportional reinsurance	18	49,892
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	57,022	52,257
R0090	General liability insurance and proportional reinsurance	17,250	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	1,869
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	73	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	194	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	1,079

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	51,383	
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	48,467
R0310	SCR	167,230
R0320	MCR cap	75,253
R0330	MCR floor	41,807
R0340	Combined MCR	48,467
R0350	Absolute floor of the MCR	3,338
R0400	**Minimum Capital Requirement**	48,467