Soteria Insurance Limited (formerly known as CIS General Insurance Limited)

Annual report and accounts 2020

Strategic report

Principal Activities and business updates

Soteria Insurance Limited ('SIL' and the 'Company'), formerly CIS General Insurance Limited, is a UK-based General Insurer that underwrites insurance, predominantly in personal lines (Motor and Home).

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.

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 principal activity of the Company since this date has been the administration of existing policies in force and the settlement of outstanding claims.

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.

Financial Position & Performance

The financial position of the Company at 31 December 2020 is shown in the Statement of Financial Position on page 18 with the trading results shown in the Income Statement on page 16. A summary of the trading result is shown below.

Highlights

	2020	2019	Change
	£m	£m	£m
Net earned premiums	**291.8**	314.7	(22.9)
Net policyholder claims and benefits incurred	**(215.3)**	(252.2)	36.9
Investment return	**19.0**	13.1	5.9
Commission and expenses	**(131.7)**	(143.3)	11.6
Income from assignment of rights	**-**	14.1	(14.1)
Other income	**52.4**	57.4	(5.0)
Finance costs	**(5.0)**	(8.8)	3.8
Profit/(loss) before business improvement costs and taxation	**11.2**	(5.0)	16.2
Costs in respect of business improvements	**(4.0)**	(11.8)	7.8
Profit/(loss) before taxation	**7.2**	(16.8)	24.0
Gross written premiums	**363.4**	491.4	(128.0)
Claims ratio (1)	**73.8%**	80.1%	
Commission and expense ratio (2)	**26.8%**	27.0%	
Combined operating ratio (3)	**100.6%**	107.1%	

(1) Net policyholder claims and benefits incurred divided by net earned premiums

(2) Commission and operating expenses (excluding business improvement costs and investment management fees of £1.1m (2019: £1.0m)) net of other income divided by net earned premium

(3) This is a combination of the claims ratio and the commission and expense ratio. It reflects net policyholder claims and benefits incurred, commission and operating expenses (excluding business improvement costs and investment management fees of £1.1m (2019: £1.0m)) net of other income divided by net earned premiums

The 2020 full year financial result was a profit before taxation of £7.2m (2019: £(16.8)m loss, which included a payment for the equitable assignment of proceeds of litigation to Co-op Group). The reported profit before business improvement costs and taxation for 2020 was £11.2m (2019: £(5.0)m loss; £(19.1)m loss excluding the assignment of rights).

The Company has achieved its largest profit before tax in several years owing to an improvement in profitability. This benefitted from reduced Motor claims through varying levels of lockdowns throughout 2020 due to the Covid-19 pandemic, 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, with more benign weather thereafter.

Gross written premiums in 2020 reduced by £128.0m to £363.4m. This was due to rating action taken during late 2019 and 2020 to maintain/improve profitability in the period preceding the sale of the business, which resulted in reduced relative competitiveness, particularly in the broker channel.

The claims ratio improved from 80.1% in 2019 to 73.8% in 2020, mainly as a result of the impact of the Covid-19 pandemic on Motor claims and limited impact of adverse weather, as explained above.

The commission and expense ratio improved from 27.0% in 2019 to 26.8% in 2020, partly due to lower commission expense given reduced premiums, as noted above, and continued tight cost control in the lead up to the sale of SIL. The combined operating ratio was 100.6% (2019:107.1%), with the favourable movement primarily driven by the positive impact of Covid-19 on Motor claims.

Investment return increased significantly by £5.9m year on year, driven by investments in collective investments, where unrealised gains and losses are accounted for as fair value through the income and expenses. These investments have performed strongly in the year having been purchased in March 2020 to back long-tailed liabilities.

The Company funds its business through share capital and reserves attributable to equity holders. A reduction in share capital of £60m was made in June 2020 in order to give SIL positive distributable reserves. This reduced the value of share capital from £268m to £208m.

Future Developments

As disclosed above, the Board have made the decision to cease writing insurance business. No insurance business has been written since 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 Company has a Solvency Capital Requirement (SCR) coverage at 31 December 2020, calculated on a run-off basis, of 125% and projections show headroom with the ability to continue to meet regulatory requirements and risk appetite before beginning to pay dividends in 2022.

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 are used by suppliers in order to fulfil insurance claims, including from the European Union (EU). 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.

The Civil Liability Act received Royal Assent in December 2018. This Act and associated changes are expected to reduce the cost of whiplash claims arising from road accidents, but the planned implementation date has been deferred until May 2021 in light of delays caused by the Covid-19 pandemic.

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 strategic monitoring triggers. Investments will continue to be monitored through the usual governance mechanisms.

Operational Developments

Net Promoter Score (NPS) ended the year at 36.5 (2019: 32.5). The increase reflects a change in survey mix and increases in NPS performance over the lockdown period. Customer metrics have improved despite the disruption caused by the sale of the business, which continued throughout the entirety of 2020, and ongoing technology issues that have impacted both the contact centre and the Web Sales journey.

In the Institute of Customer Service's insurance UK CSI index, SIL's position improved from 14 July 2019 to 7 July 2020, with increases in all of the main areas reported on (Experience, Customer Ethos, Emotional Connection and Ethics). SIL scored 1.2pts higher than the average overall Satisfaction score for the Insurance sector in the report.

The roll out and embedding of customer-focussed performance measures and colleague recognition during 2020 was key to continued improvements in customer experience, despite a very challenging year for operations with the implementation of homeworking and the requirements of managing a virtual operation during the pandemic.

Colleague

Given the strategic direction of the business, coupled with the challenges presented by the pandemic during 2020, the priority throughout the year has been to provide extensive support to colleagues and to maintain motivation, morale and productivity during a prolonged period of flux and ambiguity.

In the region of 200 Insurance colleagues (employed by CFS Management Services with costs recharged to SIL) were furloughed during the year for reasons of caring, reduction in workload or clinical vulnerability. They were fully supported throughout by their line managers and were provided with details of all the well-being support available to them.

In preparation for the sale of the Company to SFHL, colleagues in the Sales & Service department who were previously employed by CFS Management Services with 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.

Two-way, open and transparent communication channels were extensively used throughout the year. Throughout the process of consulting colleagues on their transfer of employment to MSG following the announcement of the expected sale of SIL by Co-op Group, a wide range of information and resources was made available on the intranet, including frequently asked questions; and a dedicated mailbox established to deal with individual colleagues' queries.

Market Background

The UK general insurance market remains highly competitive and price driven with multiple insurance providers. This competitive environment led to a reduction in average motor premiums of 1% year on year, which is the lowest level since 2016 (Q4 2020 ABI Premium Tracker Report). Just as SIL has done, the industry as a whole supported motorists throughout the pandemic, continuing to honour policies despite inevitable changes in people's circumstances. This included financial support to pay via instalments.

In the Home market, premiums for individual buildings, contents insurance, and combined policies continued to increase, having risen steadily over the last few years.

Investment yields continue at historically low levels, being particularly adversely impacted by the global pandemic. Despite this, SIL's investment return increased by £5.9m year on year, driven by investments in collective investment assets.

Regulatory Background

At the end of 2019, the PRA and FCA issued a number of consultation papers outlining their proposed approach to firms' operational resilience and outsourcing/third party risk management. The expectation at the time was that consultation would take place by April 2020 with proposed implementation of the various requirements ranging from December 2020 and the second half of 2021. However all of this was subsequently pushed back as a result of Covid -19 with implementations going out until 2021. SIL is supportive of the approach to prioritising operational resilience and will continue to comply with all requests and requirements, and in particular to maintain robust governance over the business activities that have been outsourced.

In September 2020 the FCA published its final report of its market study into the pricing of Motor and Home insurance. The FCA is proposing major reform to these markets. These reforms should not materially impact SIL owing to the decision taken by the Board to stop writing Motor and Home business.

Capital

SIL has continued to monitor available capital on a Solvency II basis throughout 2020, with a Standard Formula Solvency Capital Requirement (SCR) coverage at 31 December 2020 of 125% (2019:142%). Due to the decision made by the Board in February 2021 to cease writing insurance business, this SCR coverage ratio has been determined on a run-off basis. Had this decision not been made and the SCR coverage ratio had been determined on the basis that SIL was to continue to underwrite insurance business it is estimated that the SCR coverage as at 31 December 2020 would have been 138%.

Key Performance Indicators

The business strategy for SIL measures success in the following key areas: financial and trading; customer and capital adequacy & risk. This 'balanced scorecard' approach helps ensure focus on the implications to areas identified as being key in progressing towards the Company's strategic vision.

Indicator	2020	2019
Financial and trading *Financial and trading measures focus on profitability, volumes and efficiency*		
Gross written premium This shows the level of premium income that combined business classes bring to SIL	£363.4m	£491.4m
Combined operating ratio This compares the levels of claims, costs and commissions being paid out against the level of earned premium	100.6%	107.1%
Profit/(loss) before business improvements, income from assignment rights and taxation This shows the level of profit/(loss) before tax (excluding business improvement costs)	£11.2m	£(19.1)m
In force policy count Policies in force is the number of policies SIL holds at the statement of financial position date	969,084	1,373,543
Customer *Customer measures report on customer contacts throughout the customer journey*		
Net Promoter Score (NPS) A cross industry standard metric to track promoters and detractors, producing a clear measure of an organisation's performance through its customers' eyes (An NPS above zero is regarded as good, above 50 is excellent)	**36.5**	**32.5**
Capital adequacy & risk *Risk measures focus on capital adequacy and risk appetite*		
Risk appetite For each of the principal risks, the SIL Board has approved risk appetite statements with underpinning metrics	Risk appetite metrics have approved limits within which business operations are to be conducted, along with thresholds to give early warning of emerging issues	
Capital buffer There are a number of different methodologies for calculating the minimum level of capital that SIL must maintain. At any one time, SIL must ensure it has sufficient capital to meet the most onerous of these requirements. The principal externally imposed capital requirement is the SCR under Solvency II, which is assessed quarterly. *The SCR at 31 December 2020 has been calculated on a run-off basis.	125%*	142%

Non-Financial Information Statement

A non-financial information statement is not provided in the Strategic Report as this information is disclosed within the Strategic Report of the Company's parent, SFHL.

Principal Risks and Uncertainties

The following are considered to be the principal risks facing SIL:

Risk Type	Definition	Page
Strategic and 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	53
Conduct risk	The risk that SIL's (or its parents) processes, behaviours, offerings or interactions will result in unfair outcomes for customers and a damage to reputation.	53
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	53
Insurance (Premium) risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure	53-54
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	54
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	54-56
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	56
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	56-57
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	58-59

A detailed description of each risk type can be found on pages 53 to 59.

For each of the principal risks the SIL Board has approved risk appetite statements, risk policies and control standards with underpinning metrics. The metrics have approved limits within which business operations are to be conducted, along with thresholds to give early warning of emerging issues.

The ongoing impacts of the Covid-19 pandemic are currently a source of risk and uncertainty for SIL. The main effects of the pandemic would be expected to impact Insurance (Premium) Risk (positive impact due to terms of reduced claims as a result of lockdown) and Market Risk (increased volatility). Operational Risks associated with Covid19 have been largely managed and all staff are currently able to work from home with no major impact.

Section 172(1) Statement & Stakeholder Engagement

The Board of SIL considers that it has, in good faith, acted in a way that it considers would be most likely to promote the success of SIL for the benefit of its members as a whole, and, in doing so, has had regard to and recognised the importance of considering all stakeholders and other matters (as set out in s.172 (1) (a-f) of the Act) when making decisions.

Overview

Good corporate governance underpins how we conduct ourselves as a Board; our culture, values, behaviours and how we do business. As a Board, we are conscious of the impacts that our business and decisions have on our direct stakeholders as well as our wider societal impact.

The Board of SIL is aware of its duties under the Companies Act, including the matters set out in s. 172 and has adopted a framework of matters reserved for its decision. It has also approved terms of reference for matters delegated to its committees and reviews these periodically to ensure they accord with best practice.

For any principal decisions approved by the Board, a discussion takes place around impact on our key stakeholders, including our colleagues and our customers. The relevance of each stakeholder group may vary by reference to the issue in question, so the Board seeks to understand the needs of each stakeholder group and any potential conflicts as part of its decision-making.

Section 172(1) Statement & Stakeholder Engagement (continued)

Board Decisions

The table below sets out examples of our key stakeholders, our approach to engaging with them, and how they are taken into regard in Board considerations.

Key Stakeholders	Board Matter	Board Considerations
Members SIL's parent entity until 2 December 2020 was Co-op Group, after which the parent entity became SFHL. Our Board maintains open and regular dialogue with its parent. This includes, for example, regular and formal meetings between the SIL and SFHL Boards and between the SIL Management team and the SFHL Board and SFHL Risk & Audit Committee in order to understand the concerns and priorities of the parent entity. One SIL Non-Executive Director also serves on the SFHL Board to provide a link between the two Boards.	Performance & Risks	In all discussions the Board regularly considers if and how it is acting in the best interest of its parent, whilst ensuring that any actions: • Do/will not breach any regulatory requirements applicable to SIL or the Board. • Do/will not have any adverse effect on the security of SIL's policyholder benefits. • Comply with any legislation applicable to SIL. The SFHL Board receives performance updates on SIL, which includes the SIL Management team attending the SFHL Risk & Audit Committee.
Customers Protecting our customers and improving their overall customer experience remains at the heart of what we do. SIL proactively monitors and manages customer opinion and has a customer focused culture to ensure fair outcomes for all. For example, there is a standing agenda item for the Board Risk Committee on Customer Outcomes.	Response to the Covid-19 pandemic	The Board considered the impact of the pandemic on customers and, amongst other things established a hardship fund, allowed payment holidays and waived claims excesses where customers were in temporary financial difficulties as a result of the pandemic.
Colleagues SIL colleagues, up to point of sale, were individuals contracted by either CFS Management Services Limited or Co-op Group and primarily allocated to SIL. From point of sale a small number of colleagues were TUPE transferred to SIL whilst the majority were TUPE transferred to Markerstudy Insurance Services Limited (MISL). We recognise the importance of engaging our colleagues, ensuring their views are considered when making decisions and supporting their wellbeing. Further detail on colleague engagement can be found on page 4.	Change in business strategy, including sale of SIL and subsequent migration and run-off. SIL entered into a service agreement with MISL to provide services. This resulted in the TUPE transfer of a large proportion of colleagues previously seconded to SIL.	The Board considered, amongst other things, people implications including: • The impacted colleagues. • The TUPE consultation process and pack. • The Business Case shared with the Trade Unions. • Oversight/Governance Structure. • Colleague communications.

Approved by the Board on 7 April 2021 and signed on its behalf by:

Mark Summerfield
Director

Directors' report
Report of the Board of Directors

General Information
On 5 January 2021 the name of the Company was changed to Soteria Insurance Limited (SIL) from CIS General Insurance Limited.

Until 25 June 2020 SIL was a Co-operative Society registered in England under the Co-operative and Community Benefit Societies Act 2014 (Registered number 29999R). It was converted to a Limited Company on 25 June and since that date is a Limited Company registered in England & Wales under the Companies Act 2006 (registered number 12698289). SIL is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FRN 435022).

On 2 December SIL was sold to Soteria Finance Holdings Limited (SFHL). SIL is a wholly owned subsidiary of SFHL. Up to 2 December SIL was a wholly owned subsidiary of The Co-operative Group Limited (Co-op Group).

Post Balance Sheet Events
As disclosed in the Strategic Report on page 3 on 11 February 2021 the Board made the decision to place the Company into run-off and ceased to write new insurance business from 24 February 2021. The PRA approved SIL's application to remove its permission to effect new insurance contracts from 29 March 2021.

Results and Dividends
The financial statements set out the results of SIL for the year ended 31 December 2020 and are shown on pages 16 to 20. The Directors did not propose any dividend payment in the period or prior period.

Political Donations
There were no political donations during the year or prior year.

Directors' Details
The Directors of SIL during the financial year are listed below. Their 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)

Secretary:
Vistra Company Secretaries Limited (appointed 2 December 2020)
Katy Arnold (resigned 2 December 2020)

Employees and employment of people with disability
Until 2 December 2020 SIL had no employees; all colleagues were employed through CFS Management Services Limited, a subsidiary of the former parent Company, Co-op Group, which provided administrative and other services. A management charge was paid to cover the costs of these services. Since 2 December 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).

The Company actively encourages all employees to become involved in the Company's activities and information is shared on a regular basis through email correspondence and weekly meetings so that employees are aware of factors affecting them and the performance of the business. Further information on the systematic provision of information to colleagues is included in the 'Colleague' and 'Section 172' sections of the Strategic report on pages 4 and 7.

SIL is committed to the fair and equitable treatment of all of its employees irrespective of gender, race, age, religion, disability or sexual orientation.

The Company gives full and fair consideration to applications for employment from disabled persons, equally with those who do not have a disability and to retain and re-train any employees that become disabled during their working life.

Corporate responsibility and the environment
All SIL proposed investments in the year were screened against the 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. The investments were also screened against the Climate Change Policy to ensure compliance.

No Streamlined Energy and Carbon Reporting is provided in the Directors' Report as this information is disclosed within the Directors' Report of the Company's parent, SFHL.

Report of the Board of Directors

Statement of Going Concern

The Annual Report and Accounts are prepared on a going concern basis and the Directors are satisfied that SIL has the resources to continue in business over the going concern assessment period, which covers the period from the date of approval of the financial statements up to 31 December 2022. In making this assessment the Directors have performed a detailed analysis of future capital and liquidity.

The going concern assessment performed takes into account that the Company has ceased to write insurance business from February 2021 and continues as a going concern as, during the run-off period, the Company operates its business of administration of existing policies in force and the settlement of outstanding claims. Projections take into account the recognition of all future expenses within technical provisions at the point SIL went into run-off. SIL's ability to continue as a going concern has been considered by reference to its projected coverage of solvency capital requirement, its liquidity and its resilience to withstand foreseeable stress scenarios over the period to 31 December 2022.

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.

Risk Management and Internal Controls

The Board has overall responsibility for SIL's internal control systems and for monitoring their effectiveness. Implementation and maintenance of the internal control systems are the responsibility of the Board and senior management.

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. The control framework cascades through the business, detailing clear responsibilities for ensuring appropriate controls are in place at an operational level, including controls relating to the financial reporting process. SIL's approach to Risk Management is set out in further detail on pages 53 to 59.

SIL's internal control systems are designed to manage, rather than eliminate, the risks of failure to meet business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board has regard to materiality and to the relationship between the cost of, and benefits from, internal control systems.

On behalf of the Board, the Audit Committee regularly reviews the effectiveness of SIL's internal control systems. Its monitoring covers all material controls. Principally it reviews and challenges, on an ongoing basis, reports from management, the internal audit function and external auditors. This enables it to consider how to manage or mitigate risk in line with SIL's risk strategy. The Audit Committee did not identify or report any material failings to the Board in 2020.

Whenever any significant control weaknesses are identified actions are taken, or agreed plans are put in place and tracked by the Board to implementation.

Annual Report and Accounts

So far as the Directors are aware, there is no relevant audit information of which SIL's auditors are unaware, and the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that SIL's auditors have been made aware of that information.

Statement of Directors' responsibilities in respect of the report of the Board of Directors and the Annual Report and Accounts

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare accounts for each financial year. Under that law the Directors have elected to prepare SIL's accounts in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Report of the Board of Directors

Statement of Directors' responsibilities in respect of the report of the Board of Directors and the Annual Report and Accounts (continued)

As required by Law, the Directors must not approve the Report and Accounts unless they are satisfied that they give a true and fair view of the state of affairs of SIL and of its profit or loss for that period. In preparing these accounts, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- in respect of the financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the accounts on the going concern basis unless it is appropriate to presume that SIL will not continue in business.
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in international accounting standards in conformity with the requirements of the Companies Act 2006 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group and company financial position and financial performance.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy, at any time, the financial position of SIL and enable them to ensure that its accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of SIL and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that comply with that law and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on SIL's website. Legislation in the UK governing the preparation and dissemination of annual report and accounts may differ from legislation in other jurisdictions.

By order of the Board
Mark Summerfield
Director
2nd Floor Arndale House
122a Market Street
Manchester
M4 3AG

7 April 2021

Independent auditor's report to the members of Soteria Insurance Limited

Opinion

We have audited the financial statements of Soteria Insurance Limited for the year ended 31 December 2020 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 32 (except for that section of note 28 (i) which is marked as unaudited), including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

In testing the Company's going concern status management has reflected the capital and liquidity impacts of their decision to put the Company into run-off with effect from 25 February 2021. This decision resulted in a short-term reduction in the projected capital headroom which management's projections indicate will recover as the business runs off. Despite this reduction, capital is projected to remain in excess of both the Solvency Capital Requirement and the director's risk appetite over the assessment period.

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.

Overview of our audit approach

Key audit matters	• Inappropriate setting of claim reserves (specifically IBNR) and an unjustified basis for recognition and measurement of management margin
Materiality	• Overall materiality of £2.5m which represents 1% of net assets.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate setting of claim reserves (specifically IBNR) and an unjustified basis for recognition and measurement of management margin (£102.2m, 2019: £85.3m – both on a gross of reinsurance basis) *Refer to the; Accounting policies (page 27); and Note 22 of the Financial Statements (page 41)* The setting of insurance contract liabilities is inherently uncertain and has a material impact on the reported results. The subjectivity in setting the Best Estimate on both a gross and net basis and the recognition of a margin makes the liabilities susceptible to the risk of management over-ride. In addition to the subjectivity in the reserve projections themselves, management records a margin in addition to the Best Estimate. The margin is judgemental and is intended to bring the reserves to within the Board risk appetite of a 70-80% confidence level. The risk has increased in the current year due to the impact of COVID-19.	We walked through the reserving process employed by management, paying particular attention to the setting of IBNR and management's methodology including that used for setting of the margin, and assessed the design and implementation of key controls within the process. We did not rely on controls over the reserving process as we undertook an independent reprojection. We tested the data used in the reserving process and confirmed it was complete, accurate and consistent with the audited accounting records. Supported by EY actuaries who were part of the audit team, and using management's own data, we independently projected, on both a gross and net basis, the Best Estimate and a range of reasonable estimates. We investigated significant differences between our projections and management's Best Estimate for each reserving class. We assessed management's actuarial assumptions against our own experience, market practice, and other industry participants, especially as regards the liability class of business. The independent projections for the 2020-accident year specifically included an allowance for COVID-19. In doing so, we utilised a range of methods considering UK national statistics, delays in claims assessments due to COVID-19 for example due to delayed medical assessments, and the company's own emerging experience. We challenged the level of margin held compared to market practice, prior periods and in the context of the areas of uncertainty for which the margin is held. We also tested, on a sample basis, that reinsurance recoveries were recorded in line with the underlying contract terms and challenged the recoverability of these balances in light of the potential impact of COVID-19.	We concluded that the data used for the purposes of the actuarial projections was complete, accurate and consistent with the audited accounting records. We consider management's assumptions to be reasonable and that the insurance contract liabilities, on a gross and net of reinsurance basis, lie within what we consider to be a reasonable range of estimates, allowing for the impact of COVID-19. In addition, we consider that the disclosures made are in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Key audit matters (continued)

In the prior year, our auditor's report included a key audit matter in relation to 'Consideration of COVID-19 in the context of both going concern and adequacy of disclosure in accordance with IAS 10'. In the current year, this has been removed and the impact of COVID-19 has been addressed in both the key audit matter noted above and as part of our procedures with respect to going concern which are set out on page 11.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £2.5 million (2019: £2.5 million), which is 1% (2019: 1%) of forecast 2020 year-end net assets at 30 June 2020. We believe that net assets provide us with the most appropriate basis that will enable us to identify misstatements that may influence the users of the financial statements. We believe that users of the financial statements are focused on the capital strength of the Company and note that Capital Adequacy is a Key Performance Indicator albeit a non-GAAP metric, hence net assets is the IFRS metric that is most closely aligned to the focus of users of the financial statements.

During the course of our audit, we reassessed initial materiality and concluded that it remained appropriate as the 2020 year-end net assets were higher than the June 2020 projection upon which our materiality was initially set.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £1.25m (2019: £1.25m). We have set performance materiality at this percentage due to our assessment of the overall control environment and the level of prior year audit differences.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £125k (2019: £125k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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 financial statements 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 Soteria Insurance Limited 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 financial statements 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 claim reserves (specifically IBNR) and the recognition and measurement of the management margin, and performed audit procedures to address the risk as detailed in the key audit matter above.
- 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.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 21 May 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 December 2016 to 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee

Use of our report

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

Giles Watson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
8 April 2021

Notes:
1. The maintenance and integrity of the Soteria Insurance Limited web site 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 financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

For the year ended 31 December 2020

All amounts are stated in £m unless otherwise indicated

	Notes	2020	2019
Income			
Gross earned premiums		**441.2**	489.1
Less premiums ceded to reinsurers		**(149.4)**	(174.4)
Net earned premiums	2	**291.8**	314.7
Fee and commission income	3	**52.2**	57.4
Investment income	4	**7.6**	10.7
Income from assignment of rights	30	**-**	14.1
Other income	5	**0.2**	-
Gains less losses arising from financial instruments	6	**11.4**	2.4
Net income		**363.2**	399.3
Claims paid	7	**(326.7)**	(363.0)
Less amounts receivable from reinsurers	7	**91.3**	94.8
Net policyholder claims and benefits paid	7	**(235.4)**	(268.2)
Change in insurance contract liabilities	22c	**23.0**	(1.8)
Change in reinsurance assets	22c	**(2.9)**	17.8
Net policyholder claims and benefits incurred		**(215.3)**	(252.2)
Fee and commission expenses	8	**(25.0)**	(29.2)
Other acquisition expenses	9	**(24.3)**	(29.5)
Administration expenses	9	**(82.4)**	(84.6)
Finance costs	10	**(5.0)**	(8.8)
Profit/(loss) before transformation costs and taxation		**11.2**	(5.0)
Costs in respect of business improvements	9	**(4.0)**	(11.8)
Profit/(loss) before taxation		**7.2**	(16.8)
Income tax	12	**(1.4)**	3.1
Profit/(loss) for the financial year		**5.8**	(13.7)

Statement of Comprehensive Income/(Expense)

For the year ended 31 December 2020

All amounts are stated in £m unless otherwise indicated

	Notes	2020	2019
Profit/(loss) for the financial year		**5.8**	(13.7)
Items that are or may be reclassified to the income statement:			
Net changes in fair value in available for sale assets		**8.5**	7.9
Net gains transferred to the income statement for available for sale assets		**(1.5)**	(2.4)
Income tax	23	**(1.6)**	(0.9)
Other comprehensive income for the financial year, net of income tax		**5.4**	4.6
Total comprehensive income/(expense) for the financial year		**11.2**	(9.1)

Statement of Financial Position

For the year ended 31 December 2020

All amounts are stated in £m unless otherwise indicated

	Notes	2020	2019
Assets			
Property, plant and equipment	13	**1.1**	1.4
Deferred acquisition costs	14	**15.0**	27.5
Reinsurance assets	22	**66.1**	61.3
Financial investments at fair value through income or expense	15	**141.0**	157.4
Available for sale assets	16	**526.1**	649.7
Current tax assets	23	**3.1**	7.4
Insurance receivables and other assets	17	**167.2**	208.0
Cash and cash equivalents	18	**26.8**	5.6
Total assets		**946.4**	1,118.3
Capital and reserves attributable to equity holders			
Share capital	19	**208.0**	268.0
Retained earnings	20	**(18.2)**	(84.0)
Other reserves	20	**73.6**	68.2
Total equity		**263.4**	252.2
Liabilities			
Insurance contract liabilities	22	**630.7**	738.5
Lease liabilities and borrowings	21	**1.2**	69.7
Current tax liabilities	23	**1.8**	-
Deferred tax liabilities	23	**4.6**	3.5
Reinsurance liabilities	24	**10.3**	4.1
Insurance and other payables	25	**28.4**	42.8
Overdrafts	18	**6.0**	7.5
Total liabilities		**683.0**	866.1
Total equity and liabilities		**946.4**	1,118.3

Approved by the Board of Directors on 7 April 2021 and signed on its behalf by:

Mark Summerfield, Chief Executive Officer

Grant Mitchell, Chief Finance Officer

Statement of Cash Flows

For the year ended 31 December 2020

All amounts are stated in £m unless otherwise indicated

	Notes	2020	2019
Cash flows from operating activities			
Profit before taxation		**7.2**	(16.8)
Adjustment for:			
Interest payable		**5.0**	8.8
Right-of-use asset depreciation		**0.3**	0.2
Disposal of fixed assets		**-**	0.5
Investment income		**(7.6)**	(10.7)
Gains less losses arising from financial instruments		**(11.4)**	(2.4)
Decrease in deferred acquisition costs		**12.5**	1.9
Increase in reinsurance assets		**(5.0)**	(7.6)
Net proceeds/(purchases) of sale of financial instruments at value through income and expense		**26.3**	(1.4)
Decrease/(Increase) in insurance receivables and other assets		**40.8**	(1.5)
(Decrease)/increase in insurance contract liabilities		**(107.8)**	4.8
Increase in reinsurance liabilities		**6.2**	0.9
Investment interest received		**16.5**	19.9
Net proceeds of sales on investments held as AFS		**123.1**	18.5
Decrease in insurance and other payables		**(14.5)**	(8.7)
Income tax received	23	**4.3**	3.5
Net cash flows from operating activities		**95.9**	9.9
Cash flows from financing activities			
Repayment of subordinated debt		**(70.0)**	-
Interest paid		**(2.9)**	(8.4)
Repayment of lease liability principal		**(0.2)**	(0.2)
Interest paid on leases		**(0.1)**	(0.2)
Net cash flows from financing activities		**(73.2)**	(8.8)
Net increase in cash and cash equivalents		**22.7**	1.1
Cash and cash equivalents at the beginning of the financial year		**(1.9)**	(3.0)
Cash and cash equivalents at the end of the financial year	18	**20.8**	(1.9)

Cash flows from operating activities

SIL classifies the cash flows for the acquisition and disposal of financial assets as operating cash flows. This is because purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payments of claims incurred for insurance contracts, which are classified under operating activities.

Cash and cash equivalents in the Statement of Cash Flows above represents Cash and cash equivalents shown as an asset in the Statement of Financial position net of Overdrafts included in liabilities (see note 18).

Statement of Changes in Equity

For the year ended 31 December 2020

All amounts are stated in £m unless otherwise indicated

	Share capital	Available for sale reserve	Capital reserve	Retained earnings	Total
2020					
Balance at the beginning of the financial year	**268.0**	**11.1**	**57.1**	**(84.0)**	**252.2**
Transactions with owners of the Company:					
Reduction in share capital	**(60.0)**	**-**	**-**	**60.0**	**-**
Total comprehensive income for the financial year:					
Profit for the year	**-**	**-**	**-**	**5.6**	**5.6**
Other comprehensive income	**-**	**5.4**	**-**	**-**	**5.4**
Balance at the end of the financial year	**208.0**	**16.5**	**57.1**	**(18.4)**	**263.2**
2019					
Balance at the beginning of the financial year	268.0	6.5	57.1	(70.3)	261.3
Total comprehensive income/(expense) for the financial year:					
Loss for the year	-	-	-	(13.7)	(13.7)
Other comprehensive income	-	4.6	-	-	4.6
Balance at the end of the financial year	268.0	11.1	57.1	(84.0)	252.2

1. Basis of preparation and significant accounting policies

Soteria Insurance Limited (SIL) is a Limited Company registered in England under the Companies Act. The registered office is 2nd Floor, Arndale House, 122a Market Street, Manchester, M4 3AG. SIL is a UK-based General Insurer that underwrites insurance, predominantly in personal lines (Motor and Home). The annual report and accounts were authorised for issue by the Board of Directors on 7 April 2021.

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 converted to a Limited Company on 25 June 2020. The conversion represents a continuation of business, with no change to the assets or liabilities of the Company. The last set of accounts as a Society were for the period to 31 December 2019 and there is no requirement under the Co-operative & Community Benefit Societies Act 2014 to produce accounts for the period up to conversion. Therefore, this annual report and accounts has been prepared for the year from 1 January 2020 as a continuation of business converted to a limited company and not solely for the period since incorporation. Comparative information for the business has also been presented. The Directors consider that this approach provides a true and fair view of the results and state of affairs of the business of the Company.

On 5 January 2021 the Company changed its name from CIS General Insurance Limited to Soteria Insurance Limited.

Basis of preparation

The annual report and accounts have been prepared on a going concern basis and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial information has been prepared under the historic cost convention as modified by available for sale financial assets and other financial assets and financial liabilities held at fair value. SIL applies the recognition, measurement and disclosure requirements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Going concern

In preparing the annual report and accounts on a going concern basis the directors 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 the financial statements 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 annual report and accounts have been prepared on a going concern basis.

Adoption of new and revised standards

No new or revised standards were issued in 2020 which had significant impact on SIL.

Standards and interpretations issued but not yet effective

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 was effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company applies the temporary exemption from IFRS 9 as permitted by the amendment to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' issued in September 2016. The temporary exemption permits the Company to continue applying IAS 39 rather than IFRS 9 for annual periods commencing before 1 January 2023.

The Company meets the eligibility criteria of the temporary exemption from IFRS 9 because its activities are predominantly connected with insurance. As at 31 December 2015, the Company's percentage of its gross liabilities connected with insurance represented 100% of its total liabilities. A reassessment of the eligibility criteria was completed as at 31 December 2020 and the Company continues to meet the conditions of the temporary exemption.

1. Basis of preparation and significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

As at 31 December 2015, the gross liabilities connected with insurance relative to total liabilities were as follows:

Liability type	£m	%
Liabilities arising from contracts within the scope of IFRS 4	753.6	84
Debt instruments issued included in regulatory capital	67.7	7
Relevant tax liabilities	5.0	1
Relevant other liabilities	70.7	8

As at 31 December 2020, assets that would have been categorised under IFRS 9 as 'Solely Payments of Principal and Interest' (SPPI) after the appropriate tests have been applied are expected to be the same assets categorised as 'Available For Sale' (AFS) assets under IAS 39. The credit ratings are as follows:

	AAA	AA	A	BBB and below	Not rated	Total
As at 31 December 2020						
Available for sale assets	141.0	197.8	176.6	10.7	-	**526.1**
Insurance receivables and other assets	1.0	1.6	2.2	-	2.8	**7.6**
Cash and cash equivalents	-	-	26.6	0.2	-	**26.8**
	142.0	**199.4**	**205.4**	**10.9**	**2.8**	**560.5**
As at 31 December 2019						
Available for sale assets	131.0	311.4	199.4	7.9	-	649.7
Insurance receivables and other assets	1.0	2.5	2.8	0.1	3.4	9.8
Cash and cash equivalents	-	-	4.8	0.8	-	5.6
	132.0	313.9	207.0	8.8	3.4	665.1

As at 31 December 2020, the fair values of classes of financial assets and the changes in fair value during the year are shown in the following table. The financial assets are divided into two categories:

(i) SPPI Assets - for which contractual cash flows represent solely payments of principal and interest, excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis.
(ii) All financial assets other than those specified in SPPI above.

	SPPI financial assets		Other financial assets	
Asset type	**Fair value**	**Fair value change**	**Fair value**	**Fair value change**
Available for sale assets	526.1	6.9	-	-
Financial assets at fair value through income or expense	-	-	141.0	9.9
Insurance and other receivables	7.6	-	-	-
Cash and cash equivalents	26.8	-	-	-
Total financial assets	**560.5**	**6.9**	**141.0**	**9.9**

The following table provides information on the fair value and carrying amount under IAS 39 for those SPPI assets which the Company has determined do not have a low credit risk. The carrying amount is measured in accordance with IAS 39 although this is prior to any impairment allowance for those measured at amortised cost. Assets graded BBB and below, or not rated, are considered not to have a low credit risk.

Asset type	**Fair Value**	**Carrying Amount**
Available for sale assets	**10.7**	**10.7**
Other receivables	**2.8**	**2.8**
Cash and cash equivalents	**0.2**	**0.2**
	13.7	**13.7**

1. Basis of preparation and significant accounting policies (continued)

IFRS 17 'Insurance Contracts'
In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

In June 2020, the International Accounting Standards Board issued amendments to IFRS 17 Insurance Contracts aimed at helping companies implement the Standard and making it easier for them to explain their financial performance. It decided that the effective date of the Standard will be deferred to annual reporting periods beginning on or after 1 January 2023. The Board also decided to extend the exemption currently in place for some insurers regarding the application of IFRS 9 Financial Instruments to enable them to implement both IFRS 9 and IFRS 17 at the same time.

Early application is permitted; provided the entity also applies IFRS 9 on or before the date it first applies IFRS 17. SIL has not early adopted IFRS 17.

The impact of adopting IFRS 17 has yet to be fully assessed by SIL, but it is expected there will be significant impacts relating to the measurement and presentation of contracts within scope of the standard.

Significant accounting policies

Use of estimates and judgments
The preparation of the annual report and accounts requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the annual report and accounts, are described within the significant accounting policies below.

Information about estimation uncertainty, that has the most significant effect on the amounts recognised in the annual report and accounts, relates to the determination of the ultimate liability arising from claims made under insurance contracts. Details of the methodology, key assumptions and sensitivities are provided in note 22. Additionally further reference is made within the risk management section in relation to insurance risk on page 53 and 54.

In deriving the fair value of assets and liabilities the methods and assumptions used by the Company are detailed within the fair values of financial assets and liabilities in note 31 (pages 64 to 67).

The accounting policies set out below have been applied consistently to all periods presented in this annual report and accounts. The accounting policies are split between insurance and non-insurance specific accounting policies. The insurance accounting policies are detailed in accounting policy 14 on pages 27 and 28. The major methods and assumptions used in estimating the fair values of financial instruments are detailed in note 31.

(1) Property, plant and equipment
Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight line basis to allocate the difference between cost and residual value over the estimated useful lives when assets are commissioned for use. Estimated useful lives are as follows:

- Computer equipment — 3 – 10 years
- Furniture and equipment — 5 – 10 years
- Leasehold property — Over the term of the lease

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within operating expenses in the income statement.

Costs that are directly associated with the internal production of tangible assets that will generate future economic benefit are capitalised and recognised as tangible assets in the course of construction. Assets in the course of construction are only depreciated when they are commissioned for use.

1. Basis of preparation and significant accounting policies (continued)

(2) Financial instruments
SIL classifies its financial assets (excluding derivatives) as either:
- available for sale; or
- financial assets at fair value through income or expense; or
- loans and receivables.

i) Recognition of financial assets and financial liabilities
Financial assets are recognised by SIL on the trade date which is the date it commits to purchase the instruments. All other financial instruments are recognised on the date that they are originated.

ii) Derecognition of financial assets and financial liabilities
Financial assets are derecognised when they are sold and:
- the rights to receive cash flows from the assets have ceased; or
- SIL has transferred substantially all the risks and rewards of ownership of the assets.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing liability is replaced by the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised, with any difference in carrying amounts recognised in the income statement.

iii) Financial assets classified as available for sale
SIL classifies its holdings in debt securities as available for sale. Initial measurement is at fair value, being purchase price on the date on which SIL commits to purchase plus directly attributable transaction costs.

Subsequent valuation is at fair value with movements recognised in other comprehensive income as they arise. Interest is recognised on the effective interest rate basis in the income statement, refer to accounting policy note 8 (page 26) for further details. Where there is evidence of impairment, the extent of any impairment loss is recognised in the income statement. For further information refer to accounting policy note 2 (vii) on page 25. An effective interest rate for each holding is calculated on initial recognition and subsequently recognised in the income statement over the lifetime of the bond.

On disposal, gains or losses previously recognised in other comprehensive income are transferred to the income statement.

iv) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and SIL does not intend to sell immediately or in the near term. For SIL, this includes insurance premium debt receivables but excludes salvage and subrogation. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost. The amortised cost is the initial amount at recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount, less impairment provisions for incurred losses.

v) Financial investments at fair value through income or expense
Investments, other than those classified as available for sale, are designated as financial assets at fair value through income or expense, where they are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally to key management personnel on that basis. This includes investments in collective investment assets.

Initial measurement is at fair value, being purchase price on the date on which SIL commits to purchase. Directly attributable transaction costs are expensed immediately on recognition. Subsequent valuation is at fair value with changes in fair value being recognised in gains less losses within the income statement in the period in which they arise. Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques.

(vi) Financial liabilities
Financial liabilities are contractual obligations to deliver cash or other financial assets. Financial liabilities are initially recognised at fair value, net of directly attributable transaction costs. Financial liabilities are subsequently measured at amortised cost.

Borrowed funds
Financial liabilities primarily represent borrowed funds. Borrowings are initially recognised at fair value, which equates to issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

1. Basis of preparation and significant accounting policies (continued)

vii) Impairment of financial assets

Assessment

At the statement of financial position date, SIL assesses its financial assets not carried at fair value through income or expense for objective evidence that an impairment loss has occurred.

Objective evidence that financial assets are impaired can include default by a borrower or issuer, indications that a borrower or issuer will enter bankruptcy or the disappearance of an active market for that financial asset because of financial difficulties.

Measurement

Any impairment losses on assets classified as available for sale, and those carried at amortised cost, are recognised immediately through the income statement. The amount of the loss is the difference between:

- the asset's carrying amount (calculated on an amortised cost basis); and
- the present value of estimated future cash flows (discounted at the asset's original or variable effective interest rate for amortised cost assets, or at the current market rate for available for sale assets).

Impairment of financial assets classified as available for sale

Impairment losses are recognised by transferring the cumulative loss that has been recognised through other comprehensive income to the income statement.

When a subsequent event causes the amount of impaired loss on available for sale investment securities to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement.

Impairment of financial assets carried at amortised cost

The amount of the impairment loss on assets carried at amortised cost is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write off is made when all or part of an asset is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write offs are charged against previously established provisions for impairment or directly to the income statement.

Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write off charge in the income statement once they are received.

Provisions are released at the point when it is deemed that following a subsequent event the risk of loss has reduced to the extent that a provision is no longer required.

viii) Gains less losses arising from financial assets

Gains less losses arising from financial assets represents unrealised fair value movements of assets held at fair value through income or expense as well as realised gains/losses on available for sale assets.

(3) Sale and repurchase arrangements

SIL participates in reverse sale and repurchase transactions whereby SIL buys gilts but is contractually obliged to sell them at a fixed price on a fixed future date. Cash loaned under reverse repo arrangements is classified on the statement of financial position as deposits with credit institutions within financial investments at fair value through income or expense.

(4) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Banking facilities that are repayable on demand and form an integral part of SIL cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(5) Offsetting

IFRS 4 prohibits the offsetting of reinsurance assets against the related insurance liabilities unless the appropriate legal requirements are met. Financial assets and liabilities arising under the quota share arrangements are offset and the net amount reported in the statement of financial position as there is a legally enforceable right to set off the amounts, and there is an intention to settle on a net basis. The contractual terms of the funds withheld quota share agreement require such a set-off of associated amounts.

(6) Impairment of non-financial assets

The carrying value of SIL's non-financial assets, excluding deferred tax assets, is reviewed at the statement of financial position date to determine whether there is any indication of impairment. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use as assessed by reference to discounted future cash flows) is estimated.

An impairment loss is recognised in the income statement to the extent that the carrying value of an asset exceeds its recoverable amount. An impairment loss is reversed if there has been an increase in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1. Basis of preparation and significant accounting policies (continued)

(7) Provisions

A provision is recognised in the statement of financial position if SIL has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(8) Revenue recognition

Revenue principally comprises:

Premium income from insurance contracts

SIL's accounting policy in respect of revenue arising from insurance contracts is set out within the insurance specific accounting policy note 14(i) on page 27.

Investment income

Interest income on financial assets designated as available for sale and loans and receivables is recognised within investment income on an effective interest rate (EIR) basis, inclusive of directly attributable incremental transaction costs and fees, and discounts and premiums where appropriate.

The EIR basis spreads the interest income over the expected life of the instrument. The EIR is the rate that, at inception of the instrument, exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating EIR, SIL estimates cash flows considering all contractual terms of the instrument (for example prepayment options) but does not consider future credit losses.

Interest income on assets designated as fair value through income or expense is recognised within investment income in the income statement as it accrues on an effective interest rate basis.

Dividend income

Dividend income is recognised when the right to receive the payment is established, which is generally when the Directors approve the dividend as final. Interim dividends are recognised when the dividend is paid.

Fee and commission income

Fees and commission receivable mainly relates to administration fee income and brokerage commission received for products and services administered by third parties.

Revenue is recognised as the Company satisfies the related performance obligation in accordance with IFRS 15. In the case of services such as policy administration fees, SIL's performance obligations are met when the third party makes adjustments in its administration of the policy. At this point, SIL's commission income is recognised in full at the contracted rate. The resulting receivable to SIL is settled by the third party to contract terms of 30 days following the month end the service was completed. All obligations in respect of the service, including obligations for returns, refunds and other similar obligations are completed by the third party. There are no warranty or related obligations for which SIL is liable.

Commission receivable on third party product sales is recognised upon the sale as all SIL's obligations are met immediately. The resulting receivable to SIL is settled by the third party to contract terms of 30 days following the month end the transaction was completed. The SIL receivable is fixed per policy per contract terms with the third party. SIL has no future obligation for the commission received on sale of that product through warranty or any other related obligations. Obligations for returns, refunds and other similar obligations are met by the third party.

Profit commission due under reinsurance arrangements

Profit commission due under reinsurance arrangements is recognised in the income statement in line with the associated premiums ceded and ceded incurred claim costs, in accordance with the contractual terms to which they are subject.

(9) Fee and commission expenses

Fees and commission expenses mainly relates to commission payable to insurance intermediaries that is recognised over the lifetime of the related policy. All other fees and commission expenses is recognised on an accruals basis as the service is provided.

(10) Government grants

In 2020 SIL received government grants for the payment of employment costs as part of the UK Government's furlough scheme during the Covid-19 pandemic. Prior to the sale of the Company to Soteria Finance Holdings Limited, SIL had no employees, with all colleagues employed through CFS Management Services Limited (CFSMS) , a subsidiary of the Co-op Group. A management charge was payable by SIL to CFSMS to cover the costs of these colleagues. In 2020 grants totalling £0.6m were received from the government by CFSMS and passed on to SIL where they related to colleagues costs that had been recharged. In accordance with IAS 20 the funds received have been offset against the related expenses. There are no unfulfilled conditions attached to recognising the grants.

1. Basis of preparation and significant accounting policies (continued)

(11) Income tax

Tax in the income statement for the year comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items in other comprehensive income, in which case it is recognised in the statement of comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

When there is uncertainty over the income tax treatment, if it is probable that a particular tax treatment is accepted, SIL determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in SIL's corporation tax filing. If it is not probable that a particular tax treatment is accepted, SIL uses the most likely amount or the expected value of the tax treatment when determining taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates, whichever gives better predictions of the resolution of the uncertainty.

Deferred tax

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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 statement of financial position date.

A deferred tax asset is recognised only to the extent that it is 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.

(12) Foreign currencies

The functional and presentational currency for SIL is sterling. Substantially all transactions conducted by SIL are in sterling. All amounts presented are stated in pound sterling and millions, unless stated otherwise.

(13) Dividends to shareholders

Dividends are only recognised in the annual report and accounts by SIL once they have been approved by the shareholders in a general meeting.

(14) Insurance accounting policies

Contracts under which SIL accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts. A contract that qualifies as insurance remains an insurance contract until all the risks and obligations are extinguished or expire.

All contracts of general insurance business written by SIL are classified as insurance contracts. General insurance business is accounted for on an annual basis.

i) Premiums

Gross written premiums comprise premiums receivable on those contracts which incepted during the financial year, irrespective of whether they relate in whole or in part to a later accounting period, together with any adjustments in the accounting period relating to premium receivable in respect of business written in prior periods.

Gross written premiums:

- are stated gross of commission and exclude any taxes or levies based on premiums;
- include an estimate for cancellations for those renewal contracts which incepted prior to the year-end but which may be cancelled after the statement of financial position date; and
- include an estimate of pipeline premium, using historic average trends.

Gross written premium (whether paid in advance or by instalments) is earned evenly over the period of the contract.

ii) Unearned premium provision

For general insurance business, the proportion of written premiums relating to periods of risk beyond the year end is carried forward to future accounting periods. The relevant proportion is calculated using the daily pro rata basis.

Outward reinsurance premiums are treated as earned in accordance with the profile of the reinsured contracts.

iii) Claims incurred

Insurance claims incurred comprises claims paid during the year, together with related claims handling costs and the change in the gross liability for claims in the period, net of related recoveries including salvage and subrogation.

1. Basis of preparation and significant accounting policies (continued)

iv) Claims outstanding

Claims outstanding comprises provisions representing the estimated ultimate cost of settling:

- estimates on claims reported by the statement of financial position date ('claims reported'); and
- expected additional cost in excess of claims reported for all claims occurring by the statement of financial position date ('claims incurred but not reported').

Aggregate claims provisions, which include attributable claims handling expenses, are set at a level such that no adverse run off deviations are expected. Adverse run off deviations, which are material in the context of the business as a whole, would be separately disclosed in the notes to the annual report and accounts including the claims development tables.

Anticipated reinsurance recoveries and estimates of salvage and subrogation recoveries are disclosed separately within assets under the headings of 'reinsurance assets' and 'insurance receivables and other assets' respectively.

Outstanding reserves are discounted in respect of periodical payments and a portion of historic liability claims from the electric industry for which separate assets are held of similar duration.

v) Unexpired risk provision

Additional provision is made for unexpired risks where the claims and expenses, likely to arise after the end of the financial year in respect of contracts concluded before that date, are expected to exceed the unearned premiums less deferred acquisition costs carried forward for those contracts.

Unexpired risk provision is calculated for each category of business. Where categories of business are managed together a combined calculation is performed. Surpluses and deficits within each category are offset within the calculation. The provision is determined after taking account of future investment return arising on investments supporting the unearned premium provision and unexpired risk provision.

Such provisions seek to ensure that the carrying amount of unearned premiums provision less related deferred acquisition costs is sufficient to cover the current estimated future cash flows, including claims handling expenses and therefore meets the requirements of the liability adequacy test as set out in IFRS 4 (Insurance Contracts).

vi) Acquisition costs

Costs directly associated with the acquisition of new business, including commission, are capitalised and amortised in accordance with the rate at which the gross written premiums associated with the underlying contract are earned.

vii) Reinsurance

Contracts with reinsurers that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. 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 income statement and statement of financial position.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. If objective evidence of impairment exists, reinsurance assets are reduced to the level at which they are considered to be recoverable and an impairment loss is recognised in the income statement.

viii) Quota share

The quota share reinsurance contract transfers insurance risk on a proportional basis. The income statement is shown net of premiums ceded, claims recoverable and commission earned under this arrangement. See Note 11 Segmental analysis.

Premiums ceded are held in a notional funds withheld account, against which claims paid recoveries, earned commission and margin paid, are deducted. The funds withheld balance is offset against expected recoveries for claims outstanding and future profit commission in the statement of financial position.

For the purposes of classification in the income statement, commutation of the contract is not assumed, such that future recoveries in the funds withheld account are recognised against claims incurred. At the point of commutation, outstanding recoveries in the funds withheld account would be earned as further commission.

(15) Costs in respect of business improvements

The costs associated with the programme of activity to strategically improve the business are charged to the income statement as incurred, with recognition of assets where the recognition criteria are met.

Costs that are capitalised would be held within the asset section of the statement of financial position and be amortised in accordance with SIL stated policies.

As the programme of activity is intended to fundamentally change the way the organisation operates, it is deemed appropriate to treat the expensed costs separately within the income statement.

1. Basis of preparation and significant accounting policies (continued)

(16) Income from assignment of certain rights to Co-operative Group Limited

During 2019 SIL (then CISGIL) assigned in equity the proceeds of the litigation with IBM to its then parent Company, Co-operative Group Limited, for £14.1m. The income was recognised upon approval of the assignment by both the SIL Board and the Co-operative Group Limited Board.

(17) Right-of-use assets and Lease liabilities

Right-of-use assets

SIL recognises right-of-use assets at the commencement date of the 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. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless SIL is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, SIL recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by SIL and payments of penalties for terminating a lease if the lease term reflects SIL exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, SIL uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

SIL applies the short-term lease recognition exemption to its short-term leases of machinery and equipment i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value i.e. below £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

All amounts are stated in £m unless otherwise indicated

2. Net earned premiums

	2020	2019
Gross premiums		
Gross written premiums	**363.4**	491.4
Change in unearned premium provision	**77.8**	(2.3)
Gross earned premiums	**441.2**	489.1
Outward reinsurance premiums		
Premiums ceded	**(151.2)**	(178.1)
Change in unearned premium provision	**1.8**	3.7
Premiums ceded to reinsurers	**(149.4)**	(174.4)
Net earned premiums	**291.8**	314.7

3. Fee and commission income

	2020	2019
Fee income	**7.8**	13.0
Reinsurance commission earned	**43.4**	43.2
Other commission	**1.0**	1.2
	52.2	57.4

Fee income is in respect of policy administration fees and commission from third party arrangements, predominantly within Motor and is considered revenue from contracts with customers per IFRS 15.

Reinsurance commission earned relates to profit commission due under reinsurance arrangements. For further details see *Profit commission due under reinsurance arrangements* on page 26.

Other commission is in respect of ancillary income from aggregator business within Motor and is also considered revenue from contracts with customers per IFRS 15. For further details see *Fee and Commission income* on page 26.

See note 8 for explanation of the quota share impact to reinsurance commission earned.

4. Investment income

	2020	2019
Interest and similar income from assets held at fair value through income or expense:		
Deposits with credit institutions	**0.4**	1.0
	0.4	1.0
Interest income (calculated using Effective Interest Rate) from available for sale assets:		
Listed debt securities	**7.2**	9.7
	7.6	10.7

All amounts are stated in £m unless otherwise indicated

5. Other income

	2020	2019
Other income	**0.2**	-
	0.2	-

Other income relates to the write back of a balance due to Affinity Insurance Services Limited, a subsidiary of Markerstudy Group, at the date of sale of SIL to SFHL. At this date the liability was transferred to another Markerstudy Group Company, Markerstudy (Affinity) Holdings Limited, at no cost to SIL.

6. Gains less losses arising from financial instruments

	2020	2019
Net gains arising on financial assets:		
Net fair value gains on financial assets at fair value through income or expense	**9.9**	-
Available for sale listed debt securities	**1.5**	2.4
	11.4	2.4

7. Net policyholder claims and benefits paid

	2020	2019
Gross claims paid		
Current year claims	**165.7**	224.6
Prior year claims	**205.5**	193.6
Gross claims paid	**371.2**	418.2
Less salvage and subrogation		
Current year claims	**(19.2)**	(26.9)
Prior year claims	**(25.3)**	(28.3)
Salvage and subrogation received	**(44.5)**	(55.2)
Claims paid	**326.7**	363.0
Less amounts receivable from reinsurers		
Current year claims	**(41.6)**	(59.4)
Prior year claims	**(49.7)**	(35.4)
Amounts receivable from reinsurers	**(91.3)**	(94.8)
Net policyholder claims and benefits paid	**235.4**	268.2

8. Fee and commission expenses

	2020	2019
Commission paid	**17.9**	27.2
Change in deferred commission	**7.1**	2.0
	25.0	29.2

9. Operating expenses

	2020	2019
Other acquisition expenses	**24.3**	29.5
Administration expenses	**82.4**	84.6
Costs in respect of business improvements	**4.0**	11.8
Operating Expenses	**110.7**	125.9

Up to 2 December 2020 SIL did not have any employees; all sales were effected by employees of the Co-operative Group or CFSMS which also provided some administration and other services. These businesses were also responsible for the remuneration of SIL directors. SIL incurred a management service charge from CFSMS, at cost. From 2 December 2020 SIL has had a small number of employees to oversee key functions, with other services provided by MISL. Key management compensation is disclosed in note 30. Staff costs, included within administrative expenses, and average number of employees from 2 December 2020 are shown below.

Included within administration expenses is a credit of £0.6m (2019: £nil) relating to UK government grants received through the furlough scheme. The grants were received from the government by CFSMS and passed on to SIL where they related to colleagues costs that had been recharged.

Included within the administration expenses is £3.3m (2019: £4.0m) paid by SIL in respect of regular pension contributions, which includes £Nil (2019: £Nil) in respect of the Pension Average Career Earnings (PACE) scheme deficit funding.

SIL is not a participating employer in PACE. CFSMS is the participating employer and SIL had an agreement with CFSMS to pay any amounts allocated to CFSMS which are in respect of current or past employees of CFSMS who were or are assigned to work for SIL should there be a deficit. On 26 March 2020 SIL signed a Deed of Release and Termination with PACE Trustees Limited in which SIL was released from any liability in relation to the scheme, effective from the date of sale of SIL to SFHL, being 2 December 2020. SIL has no outstanding liability or contingent liability in relation to the scheme.

Costs in respect of business improvements relates to the programme of activity to prepare the Company for sale to SFHL and the subsequent migration of data, colleagues and processes, to an outsourced model with services provided by Markerstudy. These changes have allowed SIL to reduce its costs base, and allowed the decision to place the Company into run-off to be made. As the programme of activity is intended to fundamentally change the way the organisation operates by reducing costs and operating risk, it is deemed appropriate to treat the expensed costs separately within the income statement.

Staff costs

	2020 £'000	2019 £'000
Wages and salaries	**133**	-
Social security costs	**23**	-
Pension costs - defined contribution scheme	**8**	-
	164	-

Average number of employees

	2020	2019
Administration	**6**	-
Management	**7**	-
	13	-

The average number of employees is shown for the period from 2 December 2020 in order to show a representative number since the Company had employees.

Amounts payable to auditors

	2020 £'000	2019 £'000
Audit of these financial statements	**429**	410
Amounts receivable by SIL's auditor and its associates in respect of:		
Other assurance services	**80**	78
	509	488

Other assurance services relate to assurance provided on SIL's Solvency II reporting. The above amounts are exclusive of VAT.

All amounts are stated in £m unless otherwise indicated

10. Finance costs

	2020	2019
Interest paid on subordinated debt	**2.9**	8.4
Other subordinated debt costs	**1.7**	0.2
Other interest expenses	**0.4**	0.2
	5.0	8.8

Other subordinated debt costs relate to the expense of capitalised fees which were being amortised over the period to maturity of the debt in May 2025. The remaining costs were expensed in 2020 on repayment of the debt.

11. Segmental analysis

SIL evaluates the performance of business segments on a number of metrics, of which the combined operating ratio has primary focus.

Overall SIL performance is evaluated on the basis of profit or loss from operations before tax attributable to shareholders, adjusted for non-operating items outside the control of the management, including variances in investment performance resulting from significant changes in external market conditions.

There is no geographic segmental reporting as all business is conducted in the UK. Revenues are attributed to the business segments in which they are generated.

Segmental results include items directly attributable to a business segment as well as those that can be allocated on a reasonable basis. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies.

Business segments

SIL comprises the following segments:

- **Motor** – Private motor car and motor cycle, individual commercial vehicles.
- **Home** – Domestic buildings, contents and personal possessions.
- **Other** – Commercial risks covering property, liability, financial loss, and motor fleet. Other minor personal risks, pet, run off of inwards reinsurance liabilities and finance costs.

The impact of the quota share reinsurance arrangement is shown separately from the segments above.

All amounts are stated in £m unless otherwise indicated

11. Segmental analysis (continued)

Segmented income statement for the year ended 31 December 2020

	Motor	**Home**	**Other**	**Quota Share**	**Total**
Net earned premiums	334.6	81.9	-	(124.7)	291.8
Net claims incurred	(237.7)	(49.7)	(6.3)	78.4	(215.3)
Net fee and commission (expenses)/income	(10.3)	(5.9)	-	43.4	27.2
Operating expenses	(72.6)	(33.0)	-	-	(105.6)
Underwriting result	**14.0**	**(6.7)**	**(6.3)**	**(2.9)**	**(1.9)**
Net investment return	18.1	(0.2)	-	-	17.9
Other income	0.1	0.1	-	-	0.2
Interest expense	(4.0)	(0.6)	(0.1)	(0.3)	(5.0)
Segmented operating (loss)/profit	**28.2**	**(7.4)**	**(6.4)**	**(3.2)**	**11.2**
Costs in respect of business improvements					(4.0)
Profit before tax					**7.2**
In force policy count (Individual policies held)	**608,984**	**360,100**	**-**	**-**	**969,084**
Gross written premiums	283.6	79.8	-	-	363.4
Claims ratio	71.0%	60.7%	-	-	73.8%
Commission and expense ratio	24.8%	47.5%	-	-	26.8%
Combined operating ratio	95.8%	108.2%	-	-	100.6%

Segmented income statement for the year ended 31 December 2019

	Motor	Home	Other	Quota Share	Total
Net earned premiums	370.7	95.7	-	(151.7)	314.7
Net claims incurred	(302.9)	(58.7)	(4.8)	114.2	(252.2)
Net fee and commission (expenses)/income	(6.8)	(8.3)	0.1	43.2	28.2
Operating expenses	(73.9)	(39.2)	-	-	(113.1)
Underwriting result	(12.9)	(10.5)	(4.7)	5.7	(22.4)
Net investment return	12.2	(0.1)	-	-	12.1
Interest expense	(7.4)	(1.2)	(0.2)	-	(8.8)
Segmented operating (loss)/profit	(8.1)	(11.8)	(4.9)	5.7	(19.1)
Costs in respect of business improvements					(11.8)
Income from assignment of rights					14.1
Loss before tax					(16.8)
In force policy count (Individual policies held)	880,257	493,286	-	-	1,373,543
Gross written premiums	391.3	100.1	-	-	491.4
Claims ratio	81.7%	61.3%	-	-	80.1%
Commission and expense ratio	21.8%	49.6%	-	-	27.0%
Combined operating ratio	103.5%	111.0%	-	-	107.1%

All amounts are stated in £m unless otherwise indicated

11. Segmental analysis (continued)

Reconciliation of segmental income to statutory income statement

Net earned premiums and claims are reported on a consistent basis for segmental and statutory reporting purposes.

	2020	2019
Commission expenses		
Net fee and commission expense from segmented income statement	**27.2**	28.2
Reclassified fee and commission income per income statement	**(52.2)**	(57.4)
Fee and commission expenses within income statement	**(25.0)**	(29.2)
Segmental income statement operating expenses		
Total operating expenses from segmented income statement	**(105.6)**	(113.1)
Reclassification of investment expenses	**(1.1)**	(1.0)
Other acquisition and administration expenses within income statement	**(106.7)**	(114.1)
Investment return		
Net investment return from segmented income statement	**17.9**	12.1
Reclassification of investment expenses to operating expenses	**1.1**	1.0
Analysed as below in the income statement	**19.0**	13.1
Investment income within income statement	**7.6**	10.7
Gains less losses arising from financial instruments per income statement	**11.4**	2.4
Income Statement	**19.0**	**13.1**
Other expenses for segmented income statement is made up of:		
Costs in respect of business improvements	**(4.0)**	(11.8)
Finance costs	**(5.0)**	(8.8)
	(9.0)	(20.6)

All amounts are stated in £m unless otherwise indicated

12. Income tax

	2020	2019
Current tax		
UK tax (charge)/credit for the current year	**(2.1)**	2.2
UK tax credit for the prior year	**0.1**	-
Total current tax (charge)/credit	**(2.0)**	2.2
Deferred tax		
Origination and reversal of temporary differences	**0.8**	0.8
Effect of tax rate change	**(0.2)**	0.1
Total deferred tax credit	**0.6**	0.9
Total tax (charge)/credit recognised in the income statement	**(1.4)**	3.1

Further information about deferred tax is presented in note 23.

Reconciliation of effective tax rate
The tax charge in the income statement differs from the theoretical amount that would arise using the corporation tax rate in the UK as follows:

	2020	2019
Profit/(loss) before taxation	**7.2**	(16.8)
Tax calculated at domestic corporation tax rate of 19% (2019: 19%)	**(1.4)**	3.2
Effect of:		
Non-qualifying depreciation, amortisation and loss on disposal	**-**	(0.2)
Adjustment in respect of prior years	**0.1**	-
Revision of deferred tax to 19% (2019: 17.1%)	**(0.1)**	0.1
Income tax (charge)/credit	**(1.4)**	3.1

All amounts are stated in £m unless otherwise indicated

13. Property, plant and equipment

	Fixtures & Fittings	**Leasehold property**	**Total**
2020			
Cost			
At the beginning of the financial year	**0.7**	**1.6**	**2.3**
Disposals	**(0.7)**	**-**	**(0.7)**
At the end of the financial year	**-**	**1.6**	**1.6**
Depreciation			
At the beginning of the financial year	**0.7**	**0.2**	**0.9**
Depreciation charge for the financial year	**-**	**0.3**	**0.3**
Disposals	**(0.7)**	**-**	**(0.7)**
At the end of the financial year	**-**	**0.5**	**0.5**
Carrying amount			
At the end of the financial year	**-**	**1.1**	**1.1**
At the beginning of the financial year	**-**	**1.4**	**1.4**

	Fixtures & Fittings	Leasehold property	Total
2019			
Cost			
At the beginning of the financial year	0.9	-	0.9
Recognition of right-of-use assets on initial application of IFRS16	-	1.6	1.6
Disposals	(0.2)	-	(0.2)
At the end of the financial year	0.7	1.6	2.3
Depreciation			
At the beginning of the financial year	0.4	-	0.4
Depreciation charge for the financial year	0.5	0.2	0.7
Disposals	(0.2)	-	(0.2)
At the end of the financial year	0.7	0.2	0.9
Carrying amount			
At the end of the financial year	-	1.4	1.4
At the beginning of the financial year	0.5	-	0.5

The leasehold properties comprise 2 right of use properties used for client service activities.

14. Deferred acquisition costs

	2020	2019
At the beginning of the financial year	**27.5**	29.4
Deferred acquisition cost additions	**32.5**	55.9
Amortisation	**(45.0)**	(57.8)
At the end of the financial year	**15.0**	27.5

All amounts in the current and prior year are expected to be recovered within one year.

All amounts are stated in £m unless otherwise indicated

15. Financial investments at fair value through income or expense

	2020	2019
Reverse repo arrangement with credit institutions	**92.0**	157.4
Collective investment assets	**49.0**	-
	141.0	157.4

All amounts in the current and prior year are expected to be recovered within one year. Within the above are secured deposits of £92.0m (2019: £157m). Collateral of £92.0m, in the form of gilts is held against these deposits. Please see the credit risk note on pages 58 to 59 for further details.

Other than the Collective investment assets all items within this category comprises short term fixed rate deposits which are designated as fair value through income and expense upon initial recognition. The Collective investment assets are investments in unit funds. These funds have no maturity date and units are readily tradeable.

Under IFRS 9, these instruments would fail the 'Solely Payments of Principal and Interest' (SPPI) test and would be classified as held for trading as they are managed on a fair value basis.

16. Available for sale assets

	2020	2019
Listed debt securities - fixed rate	**472.5**	507.2
Listed debt securities - floating rate	**53.6**	142.5
	526.1	649.7

At 31 December 2020, debt securities of £355.9m (2019: £437.5m) are expected to be recovered more than 12 months after the reporting date.

17. Insurance receivables and other assets

	2020	2019
Receivables arising from insurance:		
Arising from insurance operations	**123.0**	155.7
Salvage and subrogation recoveries	**32.1**	39.0
Reinsurance ceded	**0.2**	0.2
Other receivables:		
Accrued interest	**4.8**	6.5
Prepayments	**4.3**	2.5
Prepayments with Group	**-**	0.7
Amounts receivable from Group companies	**-**	0.8
Other receivables	**2.8**	2.6
	167.2	**208.0**

No amounts are due after more than one year.

Other receivables are net of a bad debt provision of £0.2m (2019: £nil). This is a specific provision against receivables from Repair Workshops that are over 84 days past due. Receivables arising from insurance operations are stated net of an impairment provision of £0.4m (2019: £0.3m). The provision is calculated based on an assessment of insurance receivables for objective evidence that an impairment loss has been incurred. Any adjustment to the level of the provision is recorded within the income statement as an adjustment to written premium.

Amounts overdue but not impaired are £nil (2019: £nil).

Assets past due typically comprise high volume/low value balances for which SIL does not seek collateral but continues to work with counterparties to secure settlement.

Amounts receivable relating to contracts with customers under IFRS 15 is £1.2m (2019: £1.1m).

All amounts are stated in £m unless otherwise indicated

18. Cash and cash equivalents

	2020	2019
Cash and cash equivalents	**26.8**	5.6
Overdrafts	**(6.0)**	(7.5)
Net cash and cash equivalents	**20.8**	(1.9)

This balance is included as cash and cash equivalents for the purpose of the statement of cash flows. The balance represents the net position across the company's various bank accounts.

Included in cash and cash equivalents is £21.5m (2019: £nil) held in SIL's custodian account for investment purposes.

19. Share capital

	2020	2019
Authorised	**208.0**	268.0
Issued and fully paid		
208,000,000 (2019: 268,000,000) ordinary shares of £1 each	**208.0**	268.0

On 30 June 2020 60,000,000 ordinary shares were cancelled and extinguished by special resolution.

The ordinary shares have attached to them full voting, dividend and capital distribution rights. The ordinary shares do not confer any rights of redemption.

20. Retained earnings and other reserves

	2020	2019
Retained earnings		
At the beginning of the financial year	**(84.0)**	(70.3)
Cancellation of ordinary shares	**60.0**	-
Profit/(loss) for the financial year	**5.8**	(13.7)
At the end of the financial year	**(18.2)**	(84.0)

	2020	2019
Other reserves		
Available for Sale	**16.5**	11.1
Capital Reserves	**57.1**	57.1
	73.6	68.2

Any retained earnings would represent amounts available for dividend distribution to the equity shareholder of SIL, subject to certain conditions being met.

The capital reserve represents a non-refundable capital contribution from a former parent company, the Co-operative Banking Group Limited, and is distributable.

All amounts are stated in £m unless otherwise indicated

21. Lease liabilities and borrowings

	2020	2019
Lease liabilities	**1.2**	1.4
Callable dated deferrable tier two notes	**-**	68.3
	1.2	69.7

Lease liability at the beginning of the financial year	**1.4**	**-**
Recognition of lease liability on initial application of IFRS 16	**-**	**1.6**
Payment of lease liabilities	**(0.2)**	**(0.2)**
Other changes:		
Interest expense	**0.2**	**0.2**
Interest paid	**(0.2)**	**(0.2)**
Lease liability at the end of the financial year	**1.2**	**1.4**

On 8th May 2015, SIL (then CIS General Insurance Ltd) issued £70m of Callable Dated Deferrable Tier Two Notes due 2025 at par, charged at 12% interest. The Notes included an option for repayment on 8 May 2020. SIL took this option and fully repaid the Notes.

There were no defaults or breaches of contractual obligations attaching to the subordinated debt during the financial year.

Finance costs incurred during the financial period include £2.9m (2019: £8.6m) in relation to interest on the subordinated debt.

The lease liabilities relates to right of use assets denominated in sterling and maturing between 2021 and 2026, with interest rates ranging from 9.5% to 9.9%. Any lease options have been ignored as they are not reasonably certain to be exercised.

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets

(a) Analysis of insurance contract liabilities

	2020	2019
Gross		
Claims reported	**349.6**	394.0
Claims incurred but not reported	**102.2**	85.3
Claims settlement expenses	**10.6**	11.4
Unexpired risk provision	**-**	1.7
Unearned premiums	**168.3**	246.1
Total gross insurance liabilities	**630.7**	738.5
Recoverable from reinsurers		
Claims reported	**(108.6)**	(115.5)
Claims incurred but not reported	**(25.8)**	(21.9)
Unearned premiums	**(5.7)**	(3.8)
Quota Share*	**74.0**	79.9
Total reinsurers' share of insurance liabilities	**(66.1)**	(61.3)
Net		
Claims reported	**241.0**	278.5
Claims incurred but not reported	**76.4**	63.4
Claims settlement expenses	**10.6**	11.4
Unexpired risk provision	**-**	1.7
Unearned premiums	**162.6**	242.3
Quota Share*	**74.0**	79.9
Total net insurance liabilities	**564.6**	677.2

Reinsurance is used to limit risk to the statement of financial position for the various classes of general insurance business. Proportional and non-proportional types of reinsurance cover have been purchased in accordance with assumptions made regarding the possible levels of losses and required returns on equity.

* Quota share recoverable amounts are shown net of amounts payable, regarding premiums ceded and amounts receivable regarding commission income. See accounting policies note 14 (viii) on page 28 for details.

The balance in the quota share funds withheld account is £97.1m (2019: £79.1m).

(b) General insurance contracts – assumptions, changes in assumptions and sensitivity

i) Basis of assessing liabilities

SIL uses a combination of recognised actuarial and statistical techniques to assess the ultimate cost of claims. These include:

- projecting historic claims payment and recoveries data;
- projecting numbers of claims;
- deriving average costs per claim to apply to claim numbers; and
- projecting historic claims paid and incurred data (payment plus estimates) – statistical actuarial techniques including chain ladder, Bornhuetter-Ferguson and Cape Cod.

22. Insurance contract liabilities and reinsurance assets (continued)

(b) General insurance contracts – assumptions, changes in assumptions and sensitivity (continued)

Detailed claims data, including individual case estimates, are used to derive patterns in average claims costs and timings between occurrence and estimate/payment of claims. The most common method used is the chain ladder method. This technique involves the analysis of historical claims development trends and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident quarter, which is not yet fully developed, to produce an estimated ultimate claims cost for each accident quarter. A degree of judgment is required in selecting the most appropriate development factors.

The chain ladder method can be volatile for relatively undeveloped origin periods so a Bornhuetter-Ferguson/Cape Cod method is often used in such cases. These methods use some prior expectation of the ultimate claims and stabilise the projected ultimate by weighting between the prior expected ultimate and that projected based on the assumed development factors. The Cape Cod method differs from the Bornhuetter-Ferguson method in that it uses a trending of ratios (such as the average cost) to arrive at a prior expected ultimate for use in the projections.

The work is undertaken and supervised by suitably qualified personnel. Claims provisions are separately computed for each claim type such as bodily injury, accidental damage, storm, flood and subsidence. All provisions are calculated with explicit allowance for reinsurance and subrogation recoveries. Provisions are not discounted for investment return other than any required additional provision for unexpired risks, periodic payment settlements and provisions relating to exposure within the electric industry.

Discounted reserves in respect of periodic payment settlements are £51.2m (2019: £48.3m) and historic liability claims from the electric industry discounted reserve amounts to £2.4m (2019: £2.3m). Further details around expected settlement patterns for claims arising on these reserves are disclosed within the market risk section on pages 54 to 56.

The historic liability claims from the electric industry reserve was based on a report produced for the industry at the end of 2018 by Willis Towers Watson, an actuarial consultancy. This gave Willis Towers Watson's estimate of both the undiscounted and discounted incurred but not reported (IBNR) reserves as at the end of June 2018. This was the most recent report available when SIL calculated its year end 2020 reserves.

As outlined within the risk management section, there is significant uncertainty in the assessment of liabilities and provisions are set to be adequate to cover the anticipated eventual cost. A management margin is added to the 'actuarial best estimate', so that no adverse run-off deviations are envisaged. Sensitivity analysis is performed to assist the selection of key parameters and, hence, the provisions adopted. Provisions are subject to detailed review regarding the appropriateness of key assumptions and the quantum of the provisions established.

The overall objective of SIL's reserving policy is to produce reliable and accurate reserves. Assumptions underlying the reserving calculations are agreed by the Quarterly Reserving Committee (QRC). Methodologies are peer reviewed throughout the calculation process. Provisions are approved and signed off by the Actuarial Function Actuary in consultation with the QRC, and any margin above the actuarial best estimate reserve is set by the Chief Financial Officer. The Board has a risk appetite that adopted reserves will include a management margin above the actuarial best estimate such that adopted reserves fall between the 70th and 80th percentiles of a distribution of possible outcomes. The Company's reserves are within this risk appetite.

Monthly reports are produced by the actuarial team and presented to the Chief Financial Officer in order to advise management of the performance of the business. More detailed reports are produced on a quarterly basis providing information on the performance of the business against plan. These reports form the basis of reporting the performance to the Board.

ii) Key assumptions
Principal assumptions underlying the claims provisions include:

• The future development pattern for claims payments and incurred amounts being in line with those observed in the past. The impact of the on-going Covid-19 pandemic has disrupted this assumption resulting in judgement being applied to allow for lower claims experience and delays in recognition of some incurred amounts;

• Allowance for future inflation rates being different to those implied in the claims data;

• The pattern of future claims notifications relating to mesothelioma claims decaying as projected; and

• for bodily injury claims, allowance has been made for:

i. use of the appropriate Ogden Tables;
ii. awards for general damages in accordance with the 15th edition of the Judicial College Guidelines;
iii. a proportion of large claims being settled by periodic payments; and
iv. improvements in the case estimation techniques resulting in earlier recognition of the size of claims.

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

(b) General insurance contracts – assumptions, changes in assumptions and sensitivity (continued)

The gross insurance provision of £312.9m (2019: £282.3m) for claims and loss adjustment expenses arising in respect of prior years includes an increase in reserves of £27.6m (2019: release of £14.2m). This movement is as a result of the adverse development in Motor large bodily injury claims and a strengthening of legacy employer's liability reserves, reported as Fire and Accident (which includes Home) in the table below:

	Gross 2020	**Net 2020**	Gross 2019	Net 2019
Fire and Accident decrease/(increase) of reserves	**(4.2)**	**(4.4)**	(8.7)	(8.9)
Motor decrease/(increase) of reserves	**(16.5)**	**(8.0)**	25.1	18.1
(Increase) in claims handling reserves	**(6.9)**	**(6.9)**	(2.2)	(2.2)
Movement in insurance liabilities	**(27.6)**	**(19.3)**	14.2	7.0

iii) Sensitivity analysis

There is greater uncertainty over motor claims provisions than other provisions as they often involve claims for bodily injury and associated legal costs which typically have a longer period to settlement. Motor provisions represent the most significant proportion of the total general insurance outstanding claims liabilities. Latent liability claims represent a much smaller element of the general insurance outstanding claims liabilities but the run-off of these claims is very uncertain, with a wide range of possible best estimate assumptions. Sensitivity information is given for motor claims provisions together with limited information for all other classes. The following table indicates the effect on gross claims provisions (gross of reinsurance) of changes in key assumptions. The impact of the increased uncertainty on the income statement is mitigated through holding management margin on the best estimate reserves that is proportionate to the level of uncertainty.

2020	**Change in parameter**	**Effect on gross provision**	**% Effect**
Assumption			
Motor			
Average cost of claims for last three years - bodily injury and legal	**+10%**	**32.4**	**9.7%**
Mean term to settlement - bodily injury and legal	**+½ year**	**7.4**	**2.2%**
Rate of future inflation - bodily injury and legal	**+1%**	**10.4**	**3.1%**
Other classes			
Mean term to settlement (liability)	**+½ year**	**0.3**	**1.5%**
Mean term to settlement (non-liability)	**+½ year**	**0.6**	**1.5%**
Rate of future inflation (liability)	**+1%**	**1.4**	**7.7%**
Rate of future inflation (non-liability)	**+1%**	**0.5**	**1.3%**
Slower decay of future notifications of Mesothelioma claims (liability)	**AWP curve**	**10.3**	**55.2%**

2019	Change in parameter	Effect on gross provision	% Effect
Assumption			
Motor			
Average cost of claims for last three years - bodily injury and legal	+10%	34.7	9.7%
Mean term to settlement - bodily injury and legal	+½ year	7.8	2.2%
Rate of future inflation - bodily injury and legal	+1%	9.9	2.8%
Other classes			
Mean term to settlement (liability)	+½ year	0.2	1.6%
Mean term to settlement (non-liability)	+½ year	0.7	1.6%
Rate of future inflation (liability)	+1%	0.8	5.4%
Rate of future inflation (non-liability)	+1%	0.6	1.4%
Slower decay of future notifications of Mesothelioma claims (liability)	AWP curve +10 years	9.5	68.1%

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

(c) Change in general insurance liabilities and reinsurance assets

i) Change in insurance contract liabilities (net of salvage and subrogation)

	Gross	Unexpired risk provision	Salvage & Subrogation	Net
2020				
At the beginning of the financial year	**490.7**	**1.7**	**(39.0)**	**453.4**
Movement in the financial year	**(28.3)**	**(1.7)**	**7.0**	**(23.0)**
At the end of the financial year	**462.4**	**-**	**(32.0)**	**430.4**

	Gross	Unexpired risk provision	Salvage & Subrogation	Net
2019				
At the beginning of the financial year	490.0	-	(38.4)	451.6
Movement in the financial year	0.7	1.7	(0.6)	1.8
At the end of the financial year	490.7	1.7	(39.0)	453.4

ii) Claims and loss adjustment expenses

	Gross 2020	Reinsurance 2020	Net 2020	Gross 2019	Reinsurance 2019	Net 2019
Claims reported	**394.0**	**(115.5)**	**278.5**	403.3	(106.4)	296.9
Claims incurred but not reported	**85.3**	**(21.9)**	**63.4**	75.3	(13.2)	62.1
Claims settlement expenses	**11.4**	**-**	**11.4**	11.4	-	11.4
Unexpired risk provision	**1.7**	**-**	**1.7**	-	-	-
	492.4	**(137.4)**	**355.0**	490.0	(119.6)	370.4
Quota Share	**-**	**79.9**	**79.9**	-	66.1	66.1
At the beginning of the financial year	**492.4**	**(57.5)**	**434.9**	490.0	(53.5)	436.5
Claims paid during the year	**(371.2)**	**91.3**	**(279.9)**	(418.2)	94.8	(323.4)
Increase/(decrease) in liabilities:						
Arising from current year claims	**315.3**	**(80.0)**	**235.3**	433.1	(119.7)	313.4
Arising from prior year claims	**27.6**	**(8.3)**	**19.3**	(14.2)	7.1	(7.1)
Movement in unexpired risk prov.	**(1.7)**	**-**	**(1.7)**	1.7	-	1.7
	(30.0)	**3.0**	**(27.0)**	2.4	(17.8)	(15.4)
Quota Share	**-**	**(5.9)**	**(5.9)**	-	13.8	13.8
Total movement	**(30.0)**	**(2.9)**	**(32.9)**	2.4	(4.0)	(1.6)
Claims reported	**349.6**	**(108.6)**	**241.0**	394.0	(115.5)	278.5
Claims incurred but not reported	**102.2**	**(25.8)**	**76.4**	85.3	(21.9)	63.4
Claims settlement expenses	**10.6**	**-**	**10.6**	11.4	-	11.4
Unexpired risk provision	**-**	**-**	**-**	1.7	-	1.7
	462.4	**(134.4)**	**328.0**	492.4	(137.4)	355.0
Quota Share	**-**	**74.0**	**74.0**	-	79.9	79.9
At the end of the financial year	**462.4**	**(60.4)**	**402.0**	492.4	(57.5)	434.9

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

(c) Change in general insurance liabilities and reinsurance assets

iii) Provisions for unearned premiums

	Gross 2020	**Reinsurance 2020**	**Net 2020**	Gross 2019	Reinsurance 2019	Net 2019
At the beginning of the financial year	**246.1**	**(3.9)**	**242.2**	243.7	(0.2)	243.5
Increase in the financial year	**363.4**	**(151.2)**	**212.2**	491.5	(178.1)	313.4
Release in the financial year	**(441.2)**	**149.4**	**(291.8)**	(489.1)	174.4	(314.7)
Movement in the financial year	**(77.8)**	**(1.8)**	**(79.6)**	2.4	(3.7)	(1.3)
At the end of the financial year	**168.3**	**(5.7)**	**162.6**	246.1	(3.9)	242.2

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

(v) Analysis of claims development

	Accident year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	**Total**
Gross of reinsurance											
At end of the accident year:	497.0	502.1	368.1	284.7	285.5	353.5	367.8	401.7	414.6	**299.1**	**3,774.1**
One year later	530.2	473.3	346.9	269.0	268.1	371.6	358.0	393.0	412.8		**3,422.9**
Two years later	527.4	473.0	343.1	263.9	259.9	351.0	353.4	394.4			**2,966.1**
Three years later	518.0	467.9	335.4	260.7	259.2	345.5	354.9				**2,541.6**
Four years later	515.1	458.2	340.6	259.5	256.2	353.1					**2,182.7**
Five years later	508.1	452.2	336.2	258.2	256.3						**1,811.0**
Six years later	509.4	451.9	337.5	258.9							**1,557.7**
Seven years later	512.4	452.5	338.3								**1,303.2**
Eight years later	513.9	452.4									**966.3**
Nine years later	515.0										**515.0**
Estimate for cumulative claims	515.0	452.4	338.3	258.9	256.3	353.1	354.9	394.4	412.8	**299.1**	**3,635.2**
Cumulative payments to date	(510.4)	(451.0)	(333.3)	(257.6)	(252.0)	(322.7)	(320.8)	(345.1)	(317.0)	**(155.0)**	**(3,264.9)**
Gross outstanding claims liabilities before discounting	4.6	1.4	5.0	1.3	4.3	30.3	34.1	49.3	95.8	**144.1**	**370.2**
Provision for prior years											**81.6**
Gross outstanding claims liabilities											**451.8**
Gross claims reported											**349.6**
Gross claims incurred but not reported											**102.2**
Gross outstanding claims liabilities											**451.8**

Included in the analysis above is £51.2m (2019: £48.3m) of discounted reserves relating to PPOs. PPO reserves are discounted at 4.4% (2019: 5.1%), reflecting the expected yield on the investments held to back the PPO claims, adjusted for credit risk. Undiscounted reserves relating to PPOs are £109.2m (2019: £119.7m). The above analysis excludes claim handling expenses.

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

(v) Analysis of claims development (continued)

	Accident year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**	**Total**
Net of reinsurance											
At end of the accident year:	481.2	489.8	350.9	275.9	267.9	347.7	268.3	294.4	295.0	**219.1**	**3,290.2**
One year later	514.8	456.3	330.4	260.6	256.8	357.8	262.1	289.1	293.1		**3,021.0**
Two years later	516.5	458.7	329.7	255.0	247.7	339.3	259.6	289.8			**2,696.3**
Three years later	509.4	456.3	322.0	251.3	247.5	335.9	260.6				**2,383.0**
Four years later	506.9	448.1	325.8	252.0	245.6	338.5					**2,116.9**
Five years later	502.3	445.4	325.0	250.9	245.5						**1,769.1**
Six years later	503.3	445.3	326.4	251.5							**1,526.5**
Seven years later	506.1	445.9	326.9								**1,278.9**
Eight years later	507.3	445.8									**953.1**
Nine years later	508.5										**508.5**
Estimate for cumulative claims	508.5	445.8	326.9	251.5	245.5	338.5	260.6	289.8	293.1	**219.1**	**3,179.3**
Cumulative payments to date	(503.9)	(444.5)	(325.6)	(250.4)	(241.7)	(320.1)	(236.5)	(254.7)	(227.7)	**(113.4)**	**(2,918.5)**
Net outstanding claims liabilities before discounting	4.6	1.3	1.3	1.1	3.8	18.4	24.1	35.1	65.4	**105.7**	**260.8**
Provision for prior years											**56.6**
Net outstanding claims liabilities											**317.4**
Net claims reported											**241.0**
Net claims incurred but not reported											**76.4**
Net outstanding claims liabilities											**317.4**

Included in the analysis above is £23.6m (2019: £22.9m) of discounted reserves relating to PPOs. It is to be expected that releases will normally be made to prior years' claims as current reserves are set such that no adverse deterioration is expected. However, from time to time the random occurrence of significant large individual claims or events being worse than expected can give rise to a required strengthening, in addition to normal claims development being adverse. The 2020 result includes movement on prior year reserves of £19.2m (2019: £(7.1)m).

All amounts are stated in £m unless otherwise indicated

23. Taxation

	2020	2019
Current tax		
Asset/(liability) at the beginning of the financial year	**7.4**	8.5
Prior year adjustment	**0.1**	-
Tax (charged)/credited to the income statement	**(2.1)**	2.2
Changes in fair value on available for sale assets recognised through other comprehensive income	**0.2**	0.2
Tax received during the financial year	**(4.3)**	(3.5)
Asset at the end of the financial year	**1.3**	7.4
Asset relating to group relief not yet received	**3.1**	7.4
Liability relating to amount due to HMRC	**(1.8)**	-
Asset at the end of the financial year	**1.3**	7.4

	2020	2019
Deferred tax liability		
Liability at the beginning of the financial year	**(3.5)**	(3.4)
Tax credited to the income statement	**0.6**	1.0
Tax (charged) to statement of comprehensive income	**(1.7)**	(1.1)
Liability at the end of the financial year	**(4.6)**	(3.5)
Analysis of deferred tax liability		
Claims equalisation reserve	**(0.9)**	(1.6)
Capital allowances on fixed assets	**0.2**	0.3
Available for sale assets	**(3.9)**	(2.2)
Liability at the end of the financial year	**(4.6)**	(3.5)

The Finance Act 2012 abolished the tax relief for the equalisation reserves of general insurers with effect from 1 January 2016. However, the Act allows for the release of the reserve equally over a period of six years for tax purposes, with £4.8m being released in 2020. The balance as at 31 December 2020 was £4.8m (2019: £9.5m) which had previously been treated as tax deductible, however for accounts purposes the corresponding value is nil. The difference has been recognised as part of the Deferred Tax liability at 19%.

The Finance Act 2015 reduced the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. On 11 March 2020 it was announced that he corporation tax rate would remain at 19% from 1 April 2020 and this was substantively enacted on 17 March 2020. The deferred tax liability at 31 December 2020 has been calculated based on an estimate of the rate at which the asset will reverse, using the tax rates substantively enacted at the statement of financial position date, being 19%.

On 3 March 2021 the UK Government announced that the main UK corporation tax rate will increase to 25% from 1 April 2023. This change has not yet been substantively enacted. As a result, existing temporary differences on which deferred tax has been provided may unwind in periods subject to the 19%/25% rates. The estimated value of the deferred tax asset using a rate of 25% from 1 April 2023 is immaterial.

24. Reinsurance liabilities

	2020	2019
Arising from reinsurance operations	**10.3**	4.1
	10.3	4.1

Premiums due to reinsurers including adjustment premiums due under catastrophe and motor excess of loss contracts, expected reinstatement premium under the catastrophe excess of loss contract and premiums payable under the IPA reinsurance contract.

All amounts are stated in £m unless otherwise indicated

25. Insurance and other payables

	2020	2019
Arising out of direct insurance operations	**0.8**	1.0
Accruals and deferred income	**10.8**	10.0
Amounts payable to Group companies	**-**	9.7
Insurance premium taxation payable	**10.2**	16.2
Provisions	**0.1**	1.4
Other payables	**6.5**	4.5
	28.4	42.8

Reconciliation of movement of provisions.

	Marketing Campaigns	**Software Licence**	**Redress Provision**	**Regulatory Levies**	**Total**
At 1 January 2020	**0.7**	**0.7**	**-**	**-**	**1.4**
Additional Provision	**-**	**0.1**	**-**	**3.5**	**3.6**
Utilisation of provision	**(0.7)**	**(0.7)**	**-**	**(3.5)**	**(4.9)**
Released to Income Statement	**-**	**-**	**-**	**-**	**-**
At 31 December 2020	**-**	**0.1**	**-**	**-**	**0.1**

	Marketing Campaigns	Software Licence	Redress Provision	Regulatory Levies	Total
At 1 January 2019	0.6	-	0.2	-	0.8
Additional Provision	2.8	0.7	-	12.1	15.6
Utilisation of provision	(2.1)	-	(0.2)	(12.1)	(14.4)
Released to Income Statement	(0.6)	-	-	-	(0.6)
At 31 December 2019	0.7	0.7	-	-	1.4

- Marketing Campaigns is a provision for redemption of "Co-op Food Vouchers" issued as part of sales promotions. This provision was transferred to Co-op Insurance Services Limited in December 2020.
- Software Licence is a provision for an onerous contract that expires March 2021.
- The Redress Provision was created in 2018 to compensate customers where some no claims discounts had been incorrectly calculated. All compensation has been issued.
- A provision is made during the year for regulatory levies payable, which are then recognised during the calendar year.

26. Contingent assets and liabilities

SIL does not have any contingent assets.

In the prior year SIL disclosed a contingent liability relating to the Co-operative Group Pension Scheme (PACE). SIL has not been party to the Deed of Guarantee with the Trustee since 3 December 2020 and has no contingent liability in relation to any deficit funding of the scheme.

In January 2021 a property lease, included in the disclosure in note 21, was transferred from SIL to MISL. From this date the liability to pay the 3rd party landlord became the responsibility of MISL. As part of the contract to re-assign the lease to MISL, SIL have guaranteed the payment of rent and other sums payable under the lease should MISL fail to pay. The lease contains a break option in December 2021. The maximum amount of rent and service charges that SIL could have to pay up to this date is £0.3m. SIL does not expect to make any payments under this guarantee.

As a financial services provider, SIL is subject to extensive and comprehensive regulation. It must comply with numerous laws and regulations, including the Consumer Credit Act, which significantly affect the way it does business. Whilst SIL believes there are no unidentified areas or failures to comply with these laws and regulations which would have a material impact on the financial statements, there can be no guarantee that all issues have been identified.

27. Contingent contract obligations

SIL has no contingent contract obligations. In the prior year SIL had signed an option agreement containing both a put and call option relating to a property lease. If the option had been triggered, SIL would be committed to pay £1.1m per annum. The option was not triggered.

28. Risk Management and Capital Management

i) Risk Management

SIL issues contracts that transfer insurance risk and is exposed to financial risk through its holdings of financial assets and liabilities. This section summarises these risks and the way SIL manages them.

Our approach to risk management

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.

SIL operates a Risk Management Framework (RMF) that has been in operation for several years, though it is noted that at the time of run-off a number of changes will be required to simplify the RMF so that it better reflects the risk profile and operating model; i.e. that SIL is a run off insurer and that much of the day to day operations are now outsourced. However, the overarching framework and culture of robust risk management will remain in place.

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

- First line: manage risk in day to day operations.
- Second line: provide oversight and challenge.
- Third line (Internal Audit): provide assurance that the RMF is being executed as intended.

As SIL is largely an outsourced model, much of first 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.

Risk assessment of SIL

SIL has undertaken an assessment of the principal risks facing the business at the time of completion of the sale to SFHL and a projection of how these risks are expected to evolve over the coming months as the risk profile changes. These risks are summarised on page 6.

The SIL RMF requires the Executive Team to attest that they understand the risks and controls in their areas of accountability and support an open risk management culture. In support of the attestation, each Executive and/or Risk Framework Owner (RFO) is required to undertake a Risk and Control Self-Assessment (RCSA), which identifies the risks to the achievement of their objectives and the controls in place to mitigate these risks, together with an assessment of the effectiveness of the controls (Design and Performance with appropriate testing of control performance). The RCSA is designed to cover all material controls including financial, operational and compliance controls as well as the minimum requirements set out in SIL's risk policies and control standards.

Risk management structure

The Board is responsible for approving the SIL strategy and the level of acceptable risks articulated through its statement of risk appetite. The Board is also responsible for overall corporate governance, which includes ensuring that there is an adequate system of risk management in place.

SIL has developed and implemented a governance and organisation structure, which supports the Board with its responsibilities. The Board has established separate risk and audit committees to:

- Oversee and advise the Board of SIL on current and potential risks and the overall risk framework.
- Ensure that risk appetite is appropriate and adhered to and that key risks are identified and managed.
- Review the effectiveness of internal controls and risk management systems.

To assist the Board in carrying out its functions and to ensure that there are internal controls and risk management, the Board has delegated certain responsibilities to a set of Board committees and the Chief Executive Officer (CEO). The CEO has in turn, delegated elements of these responsibilities to appropriate members of the senior management team. To ensure independent oversight the Chief Risk Officer (CRO) also has accountability to the Board Risk Committee (BRC).

28. Risk Management and Capital Management (continued)

i) Risk Management (continued)

All Board committees have Terms of Reference describing the authority delegated to them by the Board, and the Board ensures that each committee is provided with sufficient resources to enable its duties to be undertaken.

SIL Board Risk Committee (BRC)
The purpose of the Committee 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. Responsibilities include:

- Providing oversight and advice to the Board on current and potential risks and risk management strategies
- Reviewing and approving the Risk Strategy, Risk Appetite and risk limits and tolerances.
- Reviewing and challenging the design of the Risk Management Framework, recommending to the Board for approval.
- Reviewing and challenging internal controls and processes of risk management including the coverage of the risk taxonomy.

SIL Board Audit Committee (BAC)
The purpose of the Committee 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. Responsibilities include:

- Review and oversight of financial statements and annual reports before submission to the Board.
- Exercising oversight of identified risk control framework failings and weaknesses as well as management actions taken to resolve them.
- Oversight of internal and external assurance and audit.

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. Responsibilities include:

- Reviewing and recommending to the Board proposed changes to the Investment Mandate.
- Considering the implications of investment strategy on capital requirements and providing guidance to management on the appropriate balance between risk and reward.
- Review and oversight of the performance of investments against investment strategy and mandate.
- Exercising oversight of out-sourced investment managers.

SIL Remuneration Committee (RemCo)
The purpose of the Committee is to determine the Remuneration Policy for SIL in respect of its Executive and Key Function Holders and set/approve remuneration. Reward and remuneration arrangements for other colleagues are maintained by the CEO, with appropriate input from the Committee. Responsibilities include:

- Determining the remuneration policy for the SIL Executive, in conjunction with the Group Remuneration Committee, ensuring that this is in line with Group Remuneration policy and complies with relevant regulatory guidance.
- Having responsibility for setting the remuneration for each of the SIL Executives.
- Determining the fees payable to the Board Chair.

SIL maintains a Responsibilities Map which sets out the accountabilities delegated by the CEO to each member of the Executive Team, which are also reflected within their individual job descriptions. These accountabilities include the Senior Managers & Certification Regime (SM&CR) senior management function and prescribed responsibilities which are considered in conjunction with delegated authorities. In addition to Board level committees, there are a number of Executive Management Committees:

SIL Executive Committee (ExCo)
The purpose of ExCo is to monitor performance of the business, oversee its customer and business strategic direction, and ensure both timely issue resolution and decision making for matters and decisions referred to it from sub-committees. Responsibilities include:

- Ensuring the implementation of the risk strategy set by the Board so as to deliver an effective risk management environment for SIL.
- Ensuring that all key strategic elements are governed fostering a culture that emphasises and demonstrates the benefits of a risk-based approach to decision making, internal control and management.
- Management of mitigating actions relating to any risks to the strategic direction, plans and business model of SIL.

Insurance Services and Run Off Agreement (ISARA) Governance Committee
Subsequent to the sale of SIL to SFHL this committee was put in place to monitor the overall service performance of the service contracts with MISL and AISL, being the ISARA and BUA (Binding Underwriting Authority) respectively.

Transitional Services Agreement (TSA) Oversight Committee
Subsequent to the sale of SIL to SFHL this committee was in place to monitor the overall service performance of the service contracts with Co-op Group between the sale and the end of the transitional period in February 2021.

All amounts are stated in £m unless otherwise indicated

28. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Senior Management Committees
SIL has other committees that advise and support the CEO and members of the senior management team in carrying out their responsibilities, and provide detailed oversight and monitoring. These include the Reserving Committee and the Finance Committee.

Level 1 Risks
Risks are classified into Level 1 and Level 2 categories. Business activity can be exposed to one or a combination of the following risk types. The Level 1 risks are the highest category of inherent financial and non-financial risks to which SIL is exposed:

Risk Type	Definition	Page
Strategic and 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	53
Conduct risk	The risk that SIL's (or its parents) processes, behaviours, offerings or interactions will result in unfair outcomes for customers and a damage to reputation.	53
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	53
Insurance (Premium) risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure	53-54
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	54
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	54-56
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	56
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	56-57
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	58-59

For each of the risks, SIL appoints an RFO. The RFO is required to define and document a risk framework, which comprises a Risk Policy, associated Control Standard(s) and risk appetite and to certify to the effectiveness of the control framework used to manage the risk on a semi-annual basis.

28. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Strategic and Business risk

Strategic and Business risk is defined as 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. Strategic risks cover those risks over the longer term time horizon around the strategic plan and they align to the strategic risk profile. Business risks are in year performance against plan and align to the material risk profile.

SIL's financial objective in managing these risks is to hold a sufficient capital buffer in excess of minimum regulatory capital requirements to cover projected risks and meet liabilities as they fall due. The Board has defined detailed risk appetite measures and limits underpinning these objectives, which are measured, monitored and reported regularly to management, BRC and Board. The outsourcing of operations in 2020 and migration to modern systems in Q1 2021 has resolved the key strategic risk faced by SIL of a business model which was unviable in the long term, largely caused by inefficient legacy systems.

Conduct risk

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

Regulatory risk

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. SIL's objective is to be compliant with all relevant regulatory requirements and manage its regulatory risks so as to minimise the probability and potential impact of breaches and to remedy promptly and comprehensively the consequences of any that do occur.

Regulatory risk has remained heightened for SIL throughout 2020, particularly during the change in control process. This has continued into 2021 with the PRA interest in successful system migration and maintenance of capital adequacy.

Insurance risk

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).
- The assumptions underlying expenses not being borne out in practice (Expense Risk).

Until migration was completed in Q1 2021, SIL continued to underwrite renewals, and limited new business, of UK private Motor and Home policies, either written directly or through brokers, all of which cover a 12 month duration. After this point, SIL does not intend to continue to underwrite insurance. Historically, other classes of business were underwritten by SIL, which are now in run off, and residual liabilities mainly relate to employer's liability and commercial motor business.

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. Periodic Payment Orders (PPOs) are being used to settle injury claims in the UK, with compensation being paid to claimants at regular intervals, rather than in a single lump sum award. This introduces further risk to the insurer as the term of the payments is dependent upon length of life expectancy and the payments increase with care worker future inflation.

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.

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

Insurance Risk - Objective and strategy

SIL outsources the management of insurance risk to a third party (MISL). Oversight is in place to ensure that the following principles are adhered to:

- Insurance risks are underwritten in accordance with underwriting strategy and priced to reflect the underlying risk. The objective of the underwriting strategy is to ensure that the underwritten risks are diversified in terms of type and amount of risk, industry/demographic profile and geography, and only those risks which conform with underwriting criteria are accepted.
- Reserve risk volatility is minimised through proactive claims handling, the claims provisioning process and robust reserving and modelling approaches.

28. Risk Management and Capital Management (continued)
i) Risk Management (continued)

Insurance Risk (continued)
These are considered in turn below.

The objective of the underwriting strategy is to ensure that the underwritten risks are diversified in terms of type and amount of risk, industry/demographic profile and geography, and only those risks which conform with underwriting criteria are accepted. Exposure mix and the frequency and average costs of claims are monitored throughout the year and where significant deviations from expectation are identified remedial action is taken.

The overriding objective in claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids such as weather validation and fraud databases, and the use of claims specialists. The basis for assessing claims provisions is set out in note 22 (pages 41 to 42).

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. SIL takes all reasonable steps to ensure that it has information regarding its claims exposures. However, 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 CFO in their responsibility to formally review claims reserves on a quarterly basis.

Insurance Risk – Reinsurance
SIL uses reinsurance 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 on both its Motor and Home business.

The quota share reinsurance arrangement which commenced at the beginning of 2017 and remained in place in 2020, enhances the Standard Formula capital coverage by reducing exposure to premium, catastrophe and reserve risk.

Market risk
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.

SIL invests in high-quality fixed and variable interest bonds issued by corporations (“corporate bonds”) and the UK government (“gilts”), and in short-term sterling deposits with financial institutions (reverse repo transactions). The value of, or income from, assets 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 also subject to risk over the future return on reinvestment.

SIL is also exposed 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. However, IFRS short term insurance reserves (normally less than five years) are not directly affected by market interest rates as they are undiscounted.

SIL invests in a limited amount of Index linked bonds, UK equities and collective investment funds which are of a more long term nature to match the long term liabilities.

SIL writes contracts of insurance in the United Kingdom and insurance liabilities and borrowings are denominated in sterling. Funds are invested solely in assets denominated in sterling and consequently there is no direct exposure to currency risk.

SIL is not exposed to any pensions risk.

In summary, the key market risks that SIL is exposed to are:
- Fluctuations in interest rates, allowing for the impact on both asset and liability values, and investment income.
- Movements in credit-spreads which impact the market value of corporate bonds.
- Changes in the relationship between interest rates which have similar but not identical characteristics.
- Fluctuations in the market value of equities and other assets.

Market Risk - Objective and strategy
SIL’s objective is to achieve acceptable returns through the use of highly rated UK government and corporate bonds while managing volatility by minimising 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.

SIL’s investments are managed by Royal London Asset Management and, from February 2021, TwinFocus Limited, with whom SIL has agreed investment mandates with limits for exposure by asset type, credit-rating, maximum terms and maximum exposure to individual counterparties.

SIL manages credit-spread and default risks from corporate bonds through the limits for exposure to credit-ratings and individual counterparties. Other risk mitigation techniques employed to manage exposure to counterparty default include transacting only through a diversified range of authorised counterparties and ensuring that any cash deposits (in excess of counterparty limits) are collateralised on a daily basis. The Capital, Liquidity, Investment and Pension Committee (CLIP) and Investment Committee supports the CFO in overseeing the monitoring and management of these risks and exposures against limits.

All amounts are stated in £m unless otherwise indicated

28. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Market Risk (continued)

The investment mandate sets strategic asset allocation and limits on the types and duration of investments and has been maintained from SIL. The mandate has been set by considering the risk/reward trade off and the impact upon capital adequacy and solvency of the overall business. Throughout 2020 the mandate has maintained the very risk adverse stance, with the allowance for some equities and Collective Investment Assets to match the longer term liabilities.

Interest-rate risk is managed through investing in fixed interest securities with a similar duration profile to the liabilities under the general insurance contracts. SIL matches 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. The mean duration of insurance liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from insurance contracts in force at the statement of financial position date (both incurred claims and future claims arising from the unexpired risks at the statement of financial position date).

	2020	2019
For the year ended 31 December 2020	**(years)**	(years)
Insurance liabilities	**3.0**	2.6
Financial assets	**3.3**	3.5

Specific assets are used to match periodic payment orders (PPOs) and provisions relating to exposure within the historic liability claims from the electricity industry by amount and appropriate to the long duration of these liabilities. In order to do this, an expert opinion on claimants' life expectancy is used along with an expectation of long term average earnings.

Mean durations for these exposures are:

2020

	Amount	**Duration**
Periodical payments		**Years**
Insurance liabilities	**23.4**	**16.3**
Financial assets		
Index linked bonds	**32.4**	**20.2**
Collective investment assets	**49.0**	**n/a**

As discussed in note 15 the Collective investment assets are new purchases this year. There is no explicit duration accompanying these assets.

EIROS claims	**Amount**	**Duration**
		Years
Insurance liabilities	**1.8**	**8.5**
Financial assets	**2.7**	**6.7**

2019

	Amount	**Duration**
Periodical payments		**Years**
Insurance liabilities	22.9	16.2
Financial assets	46.6	14.8

EIROS claims	**Amount**	**Duration**
		Years
Insurance liabilities	2.3	8.2
Financial assets	2.6	7.3

Insurance liabilities are shown net of reinsurance. The liabilities are assessed against assets on a net basis, as this represents SIL's residual risk. Gross liabilities in respect of periodic payment settlements are £51.2m (2019: £48.3m) and EIROS claims amount to £2.4m (2019: £2.3m).

28. Risk Management and Capital Management (continued)
i) Risk Management (continued)

Market Risk - Sensitivity analysis
The most significant aspect of market risk to which SIL is exposed is the effect of changes in value of collective investment funds and changes in credit-spreads on corporate bonds. The resulting movements in the market values of corporate bonds directly affect SIL's solvency. As SIL has adopted a policy of recognising most investment assets on an 'available for sale' basis, movements in market values of these assets are recognised in other comprehensive income and so have no impact on reported IFRS profits.

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 approximately £16.8m (2019: £19.9m). This would reduce SIL's solvency (on all bases) by £13.6m net of tax (2019: £16.1m), 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 (under Solvency II) to value claims provisions. The impact of a decrease of 100 basis points in credit-spreads would have similar but opposite effects.

Climate Change
SIL has incorporated Climate Change into its Risk Management Framework and Investment Mandate and has assigned an owner who is responsible for the management and reporting of 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 these criteria fall in price as a result. 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.

Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. SIL's objective is to minimise operational risk through the implementation of a robust control environment which minimises the potential for loss as a result of the failure of processes, people and technology or due to external events.

SIL has defined the following sub-categories within operational risk, which represent the major areas of operational risk exposure. Each sub-category has its own RFO, and is supported by underlying control standards:

- Financial Reporting Risk.
- Technology Risk (including Cyber Risk).
- Third Party Supplier Risk.
- Change Risk.
- Information Risk.
- Financial Crime Risk.
- People Risk.
- Physical Risks (inc. Business Disruption Risk and Health and Safety Risk).

Under the new operating model, MSG will be responsible for managing a significant amount of SIL's operational risks. Post migration, operational risks will significantly reduce, as SIL will be operating off MSGs IT systems rather than the legacy Co-op systems. However there will remain some element of Operational risk whilst the new MSG processes are embedded. A significant review and simplification of the suite of level 2 operational risks is expected once migration has been successfully completed.

Third Party Risk will remain high given SIL's reliance on MSG for the management of policies and claims. This will be managed via the ISARA agreement and monitoring meetings that have been put in place. People Risk has significantly changed from the risk within CISGIL; SIL has only a small number of staff; although this may mean that people risk is lower overall, it does increase key person dependency. This risk is managed individually with detailed succession planning and retention strategies.

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. Owing to the changes to the business in 2021 it has not been necessary to renew the property and business interruption or financial crime insurance.

The Covid-19 pandemic has caused challenges and uncertainty with the primary impact being operational. 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.

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

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 assets and liquid assets. 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 assets are cash and gilts. Both are assessed against forecast cash flows that would be required under stress scenarios. At 31 December 2020 liquid assets of £145.8m were held against a minimum requirement of £139.9m. £75m of assets were also held on 1 month reverse-repo which were not included in the value of liquid assets. The stressed value of investments at 31 December 2020 was calculated as £608.9m versus a minimum requirement of £299.7m. The amounts noted in this paragraph are unaudited.

All amounts are stated in £m unless otherwise indicated

28. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Liquidity risk (continued)

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

The actual and projected levels of cash and other assets held are monitored and managed through the Capital, Liquidity, Investment and Pensions Committee, with oversight by the BRC and Board. In addition, in between CLIP meetings, monthly monitoring of liquid assets against risk appetite limits is undertaken.

The following table indicates the time profile of undiscounted cash flows arising from financial liabilities (based upon contractual maturity).

As at 31 December 2020	Carrying value	Gross nominal outflow	Up to 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years
Insurance contract liabilities	451.9	510.3	182.0	92.1	55.5	32.6	20.8	127.3
Financial Liabilities at amortised cost:								
Lease liabilities	1.2	1.2	1.2	-	-	-	-	-
Reinsurance liabilities	10.3	10.3	10.3	-	-	-	-	-
Insurance and other payables	28.4	28.4	28.4	-	-	-	-	-
Overdrafts	6.0	6.0	6.0	-	-	-	-	-
	497.8	**556.2**	**227.9**	**92.1**	**55.5**	**32.6**	**20.8**	**127.3**
Other liabilities	6.4							
Total recognised liabilities	**504.2**							

As at 31 December 2019	Carrying value	Gross nominal outflow	Up to 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years
Insurance contract liabilities	479.3	551.1	205.0	104.0	60.4	33.2	19.2	129.3
Financial Liabilities at amortised cost:								
Lease liabilities and borrowings	69.7	118.2	8.8	8.7	8.6	8.6	8.6	74.9
Reinsurance liabilities	4.1	4.1	4.1	-	-	-	-	-
Insurance and other payables	42.8	42.8	42.8	-	-	-	-	-
Overdrafts	7.5	7.5	7.5	-	-	-	-	-
	603.4	**723.7**	**268.2**	**112.7**	**69.0**	**41.8**	**27.8**	**204.2**
Other liabilities	3.5							
Total recognised liabilities	**606.9**							

All amounts are stated in £m unless otherwise indicated

28. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Credit risk

Credit risk is the risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations. SIL does not aim to earn a return from credit risk hence its appetite for credit risk is very low. Potential losses arising from credit risk are minimised by the use of high quality reinsurers and highly rated investments.

SIL's key credit risk exposure is from default or delay in respect of insurance receivables, where default is defined as failure to pay resulting in financial loss to SIL. This could arise from the following:

- Reinsurance counterparties failing to meet financial obligations or entering into restructuring arrangements that may adversely affect reinsurance recoveries;
- Default or delay of repayment of loans and receivables; and
- Insurance counterparties, including MISL and AISL, failing to meet financial obligations.

SIL manages credit risks associated with cash and corporate bonds as part of market risk. See market risk section on page 54 to 56 for details.

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. SIL places limits over exposure to a single reinsurance counterparty, or counterparty group, based upon their credit-worthiness. These limits applied when reinsurance was initially placed, and are regularly monitored by the Capital, Liquidity, Investment and Pensions Committee. Where concern exists over the credit quality of a reinsurer, a review will be undertaken to determine the most appropriate management action.

The quota share reinsurance arrangement in place throughout 2017 – 2020 operates on a funds withheld basis, which means that only the reinsurer margin is transferred to the reinsurer.

Insurance receivable and other assets are primarily premium debtors due from customers and insurance intermediaries. Exposure to insurance intermediaries is managed in line with SIL Credit risk policy.

SIL has a credit exposure of up to £60.0m (2019: £60.0m) with a trading counterparty that provides administrative services including the collection of premiums. Credit Insurance is purchased to bring this exposure to within risk appetite and will be in place until 31 May 2021, by which time the exposure with the trading counterparty is expected to be significantly reduced.

As at the statement of financial position date, the table below provides analysis of the credit rating of those assets subject to credit risk. SIL's policy for making provisions for possible impairment is described within the accounting policy section on pages 24 to 25.

	AAA	AA	A	BBB and below	Not rated	Total
As at 31 December 2020						
Financial assets at fair value through income or expense:						
Cash deposits and reverse repo arrangements with approved credit institutions.	-	-	92.0	-	-	92.0
Collective Investment Assets	-	-	-	-	49.0	49.0
Available for sale assets:						-
Listed debt (fixed rate)	104.9	192.8	164.1	10.7	-	472.5
Listed debt (variable rate)	36.1	5.0	12.5	-	-	53.6
Reinsurance assets	-	44.0	21.5	-	0.6	66.1
Insurance receivables and other assets	1.0	1.6	2.2	-	130.3	135.1
Cash and cash equivalents	-	-	26.6	0.2	-	26.8
	142.0	243.4	318.9	10.9	179.9	895.1
Salvage and subrogation						32.1
Assets not subject to credit risk						19.2
						946.4

All amounts are stated in £m unless otherwise indicated

28. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Credit risk (continued)

	AAA	AA	A	BBB and below	Not rated	Total
As at 31 December 2019						
Financial assets at fair value through income or expense:						
Cash deposits and reverse repo arrangements with approved credit institutions.	-	-	157.4	-	-	157.4
Available for sale assets:						
Listed debt (fixed rate)	83.5	295.1	125.9	2.7	-	507.2
Listed debt (variable rate)	47.5	16.3	73.5	5.2	-	142.5
Reinsurance assets	-	39.9	20.2	-	1.2	61.3
Insurance receivables and other assets	1.0	2.5	2.8	0.1	162.5	168.9
Cash and cash equivalents	-	-	4.8	0.8	-	5.6
	132.0	353.8	384.6	8.8	163.7	1,042.9
Salvage and subrogation						39.1
Assets not subject to credit risk						36.3
						1,118.3

The maximum exposure to credit risk, before making allowance for collateral held, is represented by the carrying value of each financial asset in the table. Collateral, in the form of gilts, of £92.0m (2019: £157.4m) is held against short term deposits which have been placed into a reverse repo transaction of £92.0m as at 31 December 2020 (2019: £157.4m). These short term deposits sit with approved credit institutions within financial investments at fair value through income or expense on the statement of financial position.

Eurozone risk

SIL has no direct exposure to the sovereign debt of European countries and solely exposure to European countries arising from corporate bonds as shown in the following table, all bonds are denominated in sterling. SIL has no exposures to European countries as a result of repo arrangements.

The following table shows exposure to European countries arising from corporate bonds.

	Up to 1 year	**1 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2020				
Belgium	-	3.2	-	3.2
Finland	-	6.2	-	6.2
France	5.5	8.9	-	14.4
Germany	-	18.9	-	18.9
Ireland	-	9.5	-	9.5
Netherlands	6.9	4.2	-	11.1
Norway	-	13.2	-	13.2
Sweden	3.0	12.3	-	15.3
	15.4	76.4	-	91.8

	Up to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2019				
Belgium	-	3.1	-	3.1
Finland	-	6.3	-	6.3
France	9.0	11.3	-	20.3
Germany	4.0	2.1	-	6.1
Netherlands	3.0	9.3	-	12.3
Norway	4.8	13.0	-	17.8
Sweden	3.0	15.2	-	18.2
Switzerland	6.2	-	-	6.2
	30.0	60.3	-	90.3

28. Risk Management and Capital Management (continued)

ii) Capital Management

Objectives when managing capital

SIL's strategy in respect of capital management is to ensure that the following objectives are met:

- It has sufficient capital to meet all regulatory requirements.
- It has sufficient additional capital above the regulatory requirements ('SCR coverage') to make any breach of the regulatory requirement unlikely, ensuring that policyholders are protected and also that the Board's risk appetite is met.
- Subject to the above objectives being met, it makes the required return on equity.

Required capital

Under the Solvency II regulatory framework, the Prudential Regulation Authority (PRA) requires SIL to calculate a capital requirement and to hold sufficient capital to meet it.

(a) Regulatory required capital

The Solvency II regulatory regime came into force as at 1 January 2016. Under this solvency framework, SIL is required to hold capital at the greater of two measures, namely the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR). These measures are described below.

i) SCR: The SCR is a risk-responsive capital measure, calibrated to ensure that an insurer will be able to meet its obligations over the next 12 months with a probability of at least 99.5%. SIL currently calculates its SCR using the Standard Formula (SF), adjusted to ensure that this appropriately reflects its risk profile. The Standard Formula is calibrated based on market wide data and not on a specific firm's data, so the PRA must approve the SF SCR as being appropriate for a particular firm.

ii) MCR: The calculation of the MCR is prescribed under the Solvency II guidance and is set at a lower level than the SCR. Initially, the MCR is calculated by applying set factors to net technical provisions and the previous 12 months' net written premiums and is then subject to a cap of 45% and a floor of 25% of the SCR.

(b) Internal required capital

SIL Board sets capital risk appetite, which defines how much additional capital (SCR coverage) SIL should hold over and above its most onerous regulatory capital requirement. Until the closure of the business, the risk appetite was for the SCR coverage to be at least 130% over a forecast horizon of 12 months. Following the completion of the sale of SIL during December 2020, and in light of the expected entry into run-off, the Board reviewed the risk appetite statement. On a run-off basis, the risk appetite will be 110% for the first 12 months after closure, and 170% thereafter. This reduced coverage level is appropriate as when moving to a run-off basis all future costs are capitalised within the technical reserve provisions inflating the provisions and the SCR and coverage would be expected to recover quickly as exposure runs off with no further intervention from management.

SIL has maintained capital above all its regulatory requirements throughout 2020. SCR coverage has been maintained to at least 130% throughout 2020, and exceeds the 110% risk appetite on a run-off basis as at 31 December 2020. Where forecasts have indicated a potential for coverage to fall below this level over the planning horizon, management have developed plans to bring coverage back within risk appetite. SIL reviews solvency continuously through monthly, or when appropriate more frequent, monitoring. Monthly updates and quarterly reports are provided to the Capital, Liquidity, Investments and Pensions Committee and Board.

In the event that SIL 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. Management have identified potential actions which fall into three main categories:

- Actions to reduce insurance risk through the purchase of reinsurance.
- Actions to reduce other types of risk – for example, de-risking the investment portfolio.
- Actions to increase available capital – for example, through possible issuance of additional subordinated debt.

Potential actions are routinely assessed at least once a year so that contingent management actions are available.

Under the Solvency II regime, whilst the SF SCR determines the regulatory required capital, SIL also calculates its own view of risk called the Economic Solvency Capital Requirement (EC SCR). Since late-2019, SIL has estimated the EC SCR using an adjusted SF model on an economic basis, and this model has been further refined during 2020. This view of risk considers, amongst other things, the full run-off of risks, rather than just the risks over the next 12 months.

(c) Capital composition

The policies and processes employed by SIL are designed to benefit policyholder protection by giving the business an accurate understanding of the amount and quality of capital and resources. This helps the business ensure that sufficient capital is held to absorb unexpected losses and maintain solvency.

Under the Solvency II regime capital resources are referred to as own funds. Own funds correspond to capital and reserves which can serve as a buffer against risks and absorb financial losses. Each type of own funds is classified within a tier, with tier 1 being the highest quality capital.

All of SIL's excess of assets over liabilities, which comprises share capital and retained profits calculated on a Solvency II basis, is classified as tier 1 capital. In addition, the subordinated debt which was held by the business served as tier 2 capital and any deferred tax assets are classified as tier 3 capital.

All amounts are stated in £m unless otherwise indicated

28. Risk Management and Capital Management (continued)
ii) Capital Management (continued)

(c) Capital composition (continued)

100% of own funds held at the end of the reporting period were eligible to meet the SCR. The Solvency II regulations restrict the use of lower tier capital to support the MCR, however, with 100% of tier 1 capital, 20% of tier 2 capital and 0% of tier 3 capital being eligible to meet the MCR.

At year end 2020 SIL holds £25m of ancillary own-funds, being a promise of equity backed by bank deposit in escrow, and which has required prior supervisory approval to be recognised under Solvency II as tier 2 capital.

Further information, including an explanation of the valuation of assets and liabilities on a Solvency II basis, is included in the SIL Solvency & Financial Condition Report published annually.

29. Parent company

Soteria Finance Holdings Limited (SFHL) is the parent and is incorporated in England & Wales as a Company under the Companies Act 2006. The results of SIL are consolidated in the group headed by SFHL. The financial statements of the parent organisation will be available from www.soteriainsurance.co.uk from 20 May 2021.

30. Related party transactions

Balances at the end of the year

	Balances with other related parties 2020	Balances with other related parties 2019
Balances with related parties		
At the beginning of the financial year	**(8.9)**	(9.6)
Movement in the year	**9.2**	0.7
At the end of the financial year	**0.3**	(8.9)

The figures above are balances with companies that were related to SIL up to the point of sale of SIL to SFHL. There were no transactions in the period with companies that became related to SIL from 2 December 2020.

The end of year balance relates to an amount due from Co-operative Group Limited, which is no longer a related party.

SIL's parent company up to 2 December 2020, Co-operative Group Limited, provided administration services for SIL. SIL has paid £37.3m (2019: £25.3m) to the Co-operative Group Limited in relation to various services within a Master Services Agreement, and other costs including estates costs and food vouchers.

During the year management fees of £44.7m (2019: £51.0m) included in operating expenses and claims handling costs incurred were charged to SIL from CFSMS, a fellow subsidiary of Co-operative Group Limited up to 2 December 2020.

Co-operative Legal Services Limited, a subsidiary of the Co-operative Group Limited, provided legal cover to SIL motor and home policyholders. SIL has paid £1.2m (2019: £1.7m) in relation to this cover.

Co-op Insurance Services Limited, a subsidiary of the Co-operative Group Limited, provided marketing support to SIL for marketing campaigns. SIL has incurred costs of £9.4m (2019: £2.4m) in relation to these services. SIL recovered £nil (2019: £1.2m) relating to staff costs from Co-op Insurance Services Limited.

Affinity Insurance Services Limited (AISL), a subsidiary of Co-operative Group Limited until 2 December 2020 provided sales services to SIL. SIL incurred commission expenses of £3.4m (2019: £nil) in relation to these services. At 2 December the outstanding balance owed to AISL of £0.2m was transferred to Markerstudy Affinity (Holdings) Limited, a subsidiary of Markerstudy Group (MSG).

During the year, SIL sold to AISL the right to invite renewals of existing policies held by SIL for a consideration of £5,000.

In 2019 the Company assigned in equity the proceeds of the litigation with IBM to Co-operative Group Limited for £14.1m.

All amounts are stated in £m unless otherwise indicated

30. Related party transactions (continued)

Key management (as defined by IAS 24) is considered to include the members of SIL Board and Executive committee members.

Until the point of sale of SIL to SFHL, Executive committee members were entitled to participate in the Co-operative Group wide long term incentive plan scheme which has a number of financial and non-financial performance measures. Details of transactions and balances with Key Management during the financial period are provided below.

Key management compensation

	2020	2019
Salaries and short term benefits	**3.4**	3.2
Other long term benefits	-.	0.3
	3.4	3.5

In respect of Executive and Non-Executive Directors

	2020	2019
Salaries and short term benefits	**1.8**	1.2
Other long term benefits	-	0.1
	1.8	1.3

In respect of the highest paid director:

	2020	2019
Salaries and short term benefits	**0.9**	0.6
Other long term benefits	-	0.1
	0.9	0.7

Until the point of sale of SIL to SFHL, all staff costs were borne by CFSMS with an allocation then charged to SIL at cost. From the point of sale Key Management are paid directly by SIL.

All amounts are stated in £m unless otherwise indicated

31. Fair values of financial assets and liabilities

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the annual report and accounts:

(a) Financial investments at fair value through income or expense

The fair value of financial assets designated at fair value through income or expense, being short term (less than one month) fixed rate deposits, approximates to their nominal amount.

(b) Available for sale assets

Fair value of listed debt securities is based on clean bid prices at the statement of financial position date without any deduction for transaction costs.

Available for sale assets are regularly reviewed for impairment. Objective evidence of impairment can include default by a borrower or issuer, indications that a borrower or issuer will enter bankruptcy or the disappearance of an active market for that financial asset because of financial difficulties.

These reviews give particular consideration to evidence of any significant financial difficulty of the issuer or measurable decrease in the estimated cash flows from the investments.

(c) Lease liabilities and borrowings

Fair value measurement is calculated on a current market price.

(d) Receivables and payables

For receivables and payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value, where the effect of discounting is immaterial.

The table below shows a comparison of the carrying value and fair values of financial instruments for those liabilities not disclosed at fair value.

Financial liabilities	**Carrying value 2019**	**Fair value 2019**	Carrying value 2019	Fair value 2019
Lease liabilities	**1.2**	**1.2**	1.4	1.4
Borrowed funds	**-**	**-**	69.7	72.5

All amounts are stated in £m unless otherwise indicated

31. Fair values of financial assets and liabilities (continued)

Financial asset and liability classification
The table below analyses financial instruments by measurement basis as detailed by IAS 39 (Financial Instruments: Recognition and Measurement).

Statement of financial position categories

2020	**Designated at fair value**	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total**
Assets					
Financial assets at fair value through income or expense	**141.0**	**-**	**-**	**-**	**141.0**
Available for sale assets	**-**	**-**	**526.1**	**-**	**526.1**
Other financial assets	**-**	**130.8**	**-**	**26.8**	**157.6**
Total financial assets	**141.0**	**130.8**	**526.1**	**26.8**	**824.7**
Non-financial assets					**121.7**
Total assets					**946.4**

2020	**Designated at fair value**	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total**
Liabilities					
Lease liabilities and borrowings	**-**	**-**	**-**	**1.2**	**1.2**
Overdrafts	**-**	**-**	**-**	**6.0**	**6.0**
Other financial liabilities	**-**	**-**	**-**	**28.3**	**28.3**
Total financial liabilities	**-**	**-**	**-**	**35.5**	**35.5**
Non-financial liabilities					**647.5**
Total liabilities					**683.2**
Capital and reserves					**263.4**
Total liabilities and equity					**946.4**

Financial asset and liability classification

Statement of financial position categories

2019	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total
Assets					
Financial assets at fair value through income or expense	157.4	-	-	-	157.4
Available for sale assets	-	-	649.7	-	649.7
Other financial assets	-	165.8	-	5.6	171.4
Total financial assets	157.4	165.8	649.7	5.6	978.5
Non-financial assets					139.8
Total assets					1,118.3

All amounts are stated in £m unless otherwise indicated

31. Fair values of financial assets and liabilities (continued)

2019	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total
Liabilities					
Lease liabilities and borrowings	-	-	-	69.7	69.7
Overdrafts	-	-	-	7.5	7.5
Other financial liabilities	-	-	-	41.4	41.4
Total financial liabilities	-	-	-	118.6	118.6
Non-financial liabilities					747.5
Total liabilities					866.1
Capital and reserves					252.2
Total liabilities and equity					1,118.3

The following table provides an analysis of financial assets and liabilities that are valued or disclosed at fair value, by the three level fair value hierarchy as defined within IFRS 7 (Financial Instruments: Disclosure):

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Based upon guidance issued by The Committee of European Securities Regulators (CESR), SIL classifies debt securities in Level 1 only if it can be demonstrated on an individual security by security basis that the price quotes obtained are representative of actual trades in an active market (through obtaining binding quotes or through corroboration to published market prices). Pricing providers cannot guarantee that the prices that they provide are based on actual trades in the market. Therefore all of the corporate bonds are classified as Level 2 and valued using the market prices as at the reporting date multiplied by the number of each security held.

Valuation of financial instruments

2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through income or expense	**-**	**141.0**	**-**	**141.0**
Available for sale assets	**-**	**526.1**	**-**	**526.1**
Total financial assets at fair value	**-**	**667.1**	**-**	**667.1**

Valuation of financial instruments

2019	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through income or expense	-	157.4	-	157.4
Available for sale assets	-	649.7	-	649.7
Total financial assets at fair value	-	807.1	-	807.1

All amounts are stated in £m unless otherwise indicated

31. Fair values of financial assets and liabilities (continued)

Investments in debt securities as:	Carrying amount 2020	Fair value 2020	Amortised cost 2020
Available for sale financial assets	**526.1**	**526.1**	**505.5**

Investments in debt securities as:	Carrying Amount 2019	Fair value 2019	Amortised cost 2019
Available for sale financial assets	649.7	649.7	636.1

32. Events after the Reporting Period

Subsequent to the Company's year end, the Board have taken the decision to cease writing insurance business and put the Company into a controlled run-off. This decision was taken on 11 February 2021 and no insurance business has been written since 24 February 2021. The PRA approved SIL's application to have its regulatory permission to effect new insurance contracts cancelled on 29 March 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 liabilities and regulatory requirements, it aims to distribute this capital to its parent, SFHL.

The financial impact of this event is a reduction in net assets of £18.4m. Insurance contract liabilities increase by £10.5m owing to an increase in claims settlement expenses of £6.6m and unexpired risk provision of £3.9m as a result of there being limited business written in the future to which to attribute expenses. Insurance and other payables increase by £7.9m as an industry levy becomes payable and is recognised immediately on ceasing underwriting business.