Soteria Insurance Limited

Annual report and accounts 2021

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Principal Activities and business updates

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

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 insurance policies expired in March 2022. The principal activity of the Company since entering run-off has been the administration of existing policies in force and the settlement of 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.

On 2 December 2020, 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 (AOF). SAOFS is a company related to SIL through having the same shareholders as SFHL. SIL did not draw upon this funding in the period. This AOF has ceased with effect from February 2022, following approval from the PRA, as the capital was no longer required. A data migration exercise to move the Company's policy and claims data from Co-op to Markerstudy Insurance Services Limited (MISL) was successfully completed, allowing the Company to terminate its Transitional Services Agreement with Co-op Group in March 2021.

In a change in accounting basis in the year, the Company has chosen to adopt United Kingdom Accounting Standards ("UK GAAP"), including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103"). In previous financial years, the annual report and accounts were presented under International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS"). The comparative information in the annual report and accounts has been restated to reflect this change in accounting basis. Further details of this are set out in the basis of preparation note on page 21 and the financial impact of the change is given in note 5 on page 30.

Financial Position & Performance

The financial position of the Company at 31 December 2021 is shown in the Statement of Financial Position on page 18 with the trading results shown in the Income Statement on page 17. A summary of the trading result is shown below.

Highlights

	2021	2020	Change
	£m	£m	£m
Earned premiums, net of reinsurance	**165.4**	291.8	(126.4)
Claims incurred, net of reinsurance	**(152.6)**	(215.3)	62.7
Other technical income, net of reinsurance	**4.8**	52.2	(47.4)
Net operating expenses	**(50.9)**	(131.3)	80.4
Balance on the technical account for general business	**(33.3)**	(2.6)	(30.7)
Investment income	**34.8**	9.1	25.7
Net unrealised (losses)/gains on investments	**(30.8)**	16.9	(47.7)
Investment expenses and charges	**(3.2)**	(6.0)	2.8
Other income	**-**	0.8	(0.8)
(Loss)/profit before transformation costs and tax	**(32.5)**	18.2	(50.7)
Costs in respect of business improvements	**-**	(4.0)	4.0
(Loss)/profit on ordinary activities before tax	**(32.5)**	14.2	(46.7)
Gross written premiums	**9.9**	363.4	(353.5)
Claims ratio (1)	**92.3%**	73.8%	
Commission and expense ratio (2)	**27.9%**	26.8%	
Combined operating ratio (3)	**120.2%**	100.6%	

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

(2) Net operating expenses (excluding business improvement costs and investment expenses) 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, net operating expenses (excluding business improvement costs and investment expenses) net of other income divided by net earned premiums

The 2021 full year financial result was a loss before taxation of £32.5m (2020: £14.2m profit).

The Company incurred a loss before tax in the year, primarily as a result of strengthening reserves in respect of prior years' claims by £26.6m. A change to the reserving approach to historic commercial liability claims to move more in line with common market practice, adverse developments on a small number of individual large motor injury claims and a high level of claims inflation affecting vehicle repair costs all contributed to this strengthening.

Gross written premiums in 2021 reduced by £353.5m to £9.9m. This follows the decision in February 2021 to place the Company into run-off.

Claims incurred decreased from £215.3m in 2020 to £152.6m in 2021 as a result of the run-off decision, offset by the reserve strengthening in respect of prior years' claims, as explained above.

Commission and expenses improved from £78.3m in 2020 to £36.0m in 2021. The majority of SIL's expense now relates to fees payable to MISL, which provides insurance services under an outsourcing agreement, and which benefits from greater economies of scale and more modern IT systems than was previously the case for SIL.

Investment income for the year was £34.8m. This amount includes realised gains of £29.7m, which were offset by unrealised losses of £30.8m. This is mainly due to the crystallisation of previously recognised unrealised gains on those assets which were sold as part of a decision to change investment manager. Overall investment performance is lower than in 2020, owing to a decline in returns, particularly on the collective investments, which performed strongly in 2020.

The Company has a Solvency Capital Requirement (SCR) coverage at 31 December 2021, calculated on a run-off basis, of 232% and projections show headroom with the ability to continue to meet regulatory requirements and risk appetite before beginning to pay dividends in 2022.

Coronavirus (Covid-19) impact

Actions taken during 2020 meant that SIL was well prepared both operationally and financially for the impact of the pandemic in 2021. The primary impact has been to reduce losses at the start of the year, owing to there being fewer cars on the road, leading to fewer accidents and fewer claims, only partially countered by upward pressure on average costs for some claim types.

Impact of war in Ukraine

As SIL trades solely in the UK, there is little direct exposure and so the impact is expected to be minimal.

Investments

The Russian invasion of Ukraine has had a significant impact on global investment markets, with prices falling markedly since the start of the war. As at 31 March 2022, unrealised losses of £3.9m were incurred, compared with the valuation of investments as at 31 December 2021.

SIL had an investment in Gaz Capital SA, which operates as a subsidiary of Gazprom Public Joint Stock Company, a Russian entity. This was sold on 9 March 2022, realising a loss of £1.8m compared with its valuation at 31 December 2021. This is the only Russian or Ukrainian investment which was held by SIL. Investments are screened against government sanctions lists and there has been no exposure to investments on this list.

Policyholders

As standard, policyholder screening procedures are in place to ensure no policies are held by sanctioned individuals.

Operational Developments

Operational activities are now managed by MISL, with oversight by SIL. All core servicing and claims activities have agreed service levels, including activities undertaken by third-party suppliers on behalf of MISL. The service levels are, in most instances, in line with the service parameters that SIL maintained in previous years when such services were managed in-house.

SIL regularly monitors the operational performance against service levels, and monthly reporting updates are provided to both SIL and MISL's senior management, with agreed processes and procedures in place to resolve any under-performance. Following a transitional period, MISL is regularly meeting or exceeding the operational service levels that have been agreed for the majority of performance metrics tracked.

Colleague

Since completion of the sale in December 2020 a small number of colleagues are employed directly by SIL to provide oversight and fulfil regulatory responsibilities. Given the strategic direction of the business, the priority throughout the year has been to provide support to these colleagues and to maintain motivation, morale and productivity following the decision to take the Company into run-off.

Market Background

High levels of claims inflation are affecting both motor and home insurance. The cost and time taken to source replacement vehicle parts, particularly those utilising semi-conductor chips, has increased, as has the cost of building materials.

A decision to transfer investment managers during the year resulted in some assets being temporarily held in lower performing asset classes to aid liquidity and ease sale or transfer. As a result of this, together with poor performance of the global markets, investment yields were reduced compared with the prior year. In particular, 2020 saw strong performance by the collective investment assets, driving gains in the year of £18.4m. This performance reduced significantly in 2021.

Regulatory Background

Now that SIL has been in run-off since March 2021 there is reduced regulatory impact on the business, with the focus being on the ability to continue to service claims. The operational resilience regulation requires by March 2022 an assessment of the company's key services, which will only relate to claims settlement.

In September 2020 the FCA published its final report of its market study into the pricing of Motor and Home insurance. As SIL no longer underwrites the only requirement for SIL is to complete final product reviews in line with these requirements consistent with the already embedded robust product governance process.

The regulatory focus on ESG and climate change continues to encourage companies to consider these matters for the business and wider society. Being in run-off, there is reduced impact, however the Group is incorporating Climate Change risk 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 considered its exposure to climate change risk and has concluded that the highest exposure is in its investment portfolio and, therefore, in market risk. However, this is not considered to be an undue level of risk, and it is incumbent on SIL's management, Board and investment partners to ensure that the longer term investment strategy, albeit notably limited in size, is managed effectively and minimises the risk of exposure to climate affected sectors.

Capital

SIL has continued to monitor available capital on a Solvency II basis throughout 2021, with a Standard Formula Solvency Capital Requirement (SCR) coverage at 31 December 2021 of 232% (2020:125%). 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. The SCR has reduced during the year, and coverage consequently increased, as the Company's exposure to risk reduces as the remaining insurance exposure runs off. In December 2021, the PRA approved the removal of the add-on to regulatory capital requirements previously in place, following the successful migration of data to MISL IT systems.

Key Performance Indicators

The business strategy for SIL measures success in the key areas of financial 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. In addition, a range of customer outcomes measures are considered although there is no single key indicator.

Indicator	2021	2020
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	£9.9m	£363.4m
(Loss)/profit before business improvements, income from assignment rights and taxation This shows the level of (loss)/profit before tax (excluding business improvement costs)	(£32.5m)	£18.2m
Net asset value This shows the value of total assets less total liabilities	£236.5m	£263.5m
In force policy count Policies in force is the number of policies SIL holds at the statement of financial position date	49,738	969,084

Key Performance Indicators (continued)

Indicator	2021	2020
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.	232%	125%

With the Company now in run-off, and with the key activities being to meet the obligations of policyholders, more focus is placed on the net assets and capital buffer KPIs as these most strongly indicate the Company's ability to meet its liabilities.

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	42
Conduct risk	The risk that SIL's (or its parent's) processes, behaviours, offerings or interactions will result in unfair outcomes for customers and a damage to reputation	43
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	43
Insurance (Premium) risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure	43
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	43
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	44
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	46
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	46
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	47

A detailed description of each risk type can be found on pages 42 to 47.

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 (Reserving) Risk (increased uncertainty as a result of claims development delays caused by lockdown restrictions, and inflationary pressures arising from economic volatility) 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.

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
Shareholder 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; and • 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. In making the decision to place SIL into run-off, the Board consulted with the SFHL Board in order to take account of the views of the shareholders.
Customers Protecting our customers and providing a good 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.	Migration of data to MISL IT systems	The Board's priority in approving the migration of data was to minimise the risk of customer detriment arising as a result of errors in transferring policy or claims records. To this end, a number of rehearsal events were run, a detailed suite of reconciliation checks considered and a programme of hypercare activity agreed before migration was approved.
Colleagues Since completion of the sale in December 2020 a small number of colleagues are employed directly by SIL to provide oversight and fulfil regulatory responsibilities. We recognise the importance of engaging our colleagues, ensuring their views are considered when making decisions and supporting their wellbeing.	Colleague Reward	The Board and Remuneration Committee considered the approach to colleague reward in light of: • the reduced number of colleagues employed directly by SIL; • the need to attract and retain key skills; and • the impact of the decision to put SIL into run-off on colleagues' roles and future longevity of employment.

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

Key Stakeholders	Board Matter	Board Considerations
Regulator As a regulated entity, SIL has to comply with the requirements of the PRA and the FCA and to report to them on a regular basis.	Regulation and compliance	In addition to the standard regulatory reporting requirements, the Board engaged with the regulators on the following matters: • with the FCA and the PRA regarding approval of the decision to place SIL in run-off, which was approved in February 2021; • with the PRA regarding removal of the capital add-on, which was approved in December 2021; and • with the PRA regarding removal of the ancillary own funds instrument, which was approved in February 2022.

Approved by the Board on 8 April 2022 and signed on its behalf by:

Mark Summerfield

Director

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.

SIL 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).

Post Balance Sheet Events

Impact of war in Ukraine

The Russian invasion of Ukraine has had a significant impact on global investment markets, with prices falling markedly since the start of the war. As at 31 March 2022, unrealised losses of £3.9m were incurred, compared with the valuation of investments at 31 December 2021.

SIL had an investment in Gaz Capital SA, which operates as a subsidiary of Gazprom Public Joint Stock Company, a Russian entity. This was sold on 9 March 2022, realising a loss of £1.8m compared with its valuation at 31 December 2021. This is the only Russian or Ukrainian investment which was held by SIL.

UK storms impact

In recent weeks, the UK has seen significant storm impact, with five storms in total occurring to date in 2022, the most notable being storms Dudley, Eunice and Franklin, which all occurred in a matter of days during February. Claims levels for the storms are not material, as few policies remained on cover at the time.

Results and Dividends

The financial statements set out the results of SIL for the year ended 31 December 2021 and are shown on pages 17 to 20. No dividend payment has been proposed for 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)

Kathryn Morgan

Oliver Peterken

Executive Directors:

Mark Summerfield (Chief Executive Officer)

Grant Mitchell (Chief Financial Officer)

Secretary:

Vistra Company Secretaries Limited

Employees and employment of people with disability

SIL employs 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.

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

The Investment Committee reviews asset categories and, where required, individual assets, to ensure these are held in line with ethics appetites. The Board is considering how to include Ethical, Social and Governance objectives in a revised investment mandate as part of the change in investment manager.

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.

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 2023. 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, with the last policies having expired in March 2022, 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 regulatory and economic capital requirements, its liquidity and its resilience to withstand foreseeable stress scenarios.

In the central forecast case, solvency projections show a low point in the Economic Capital Requirement (ECR) coverage of 150% in June 2022, assuming the earliest possible payment of dividends. (This will require PRA approval and thus in reality only expected later in 2022.) Liquidity projections assess expected liquid assets (cash, money market funds 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, adverse claims experience and a fall in the market value of assets. 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 additional income from the sale of highly liquid 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 ECR and SCR coverage ratio is projected to fall below 100% if dividends are paid as planned but would remain in green status if future dividends were cancelled. 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 42 to 47.

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 2021.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103, Insurance Contracts).

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 and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- in respect of the financial statements, state whether UK 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103, Insurance Contracts) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the 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.

By order of the Board

Mark Summerfield

Director

7th Floor Arndale House

122a Market Street

Manchester

M4 3AG

8 April 2022

Opinion

We have audited the financial statements of Soteria Insurance Limited for the year ended 31 December 2021 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 31 (except for the section of Note 27 (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 United Kingdom Accounting Standards including Financial Reporting Standard (FRS) 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and FRS 103 ‘’Insurance Contracts’’ (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company’s affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the 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. Our evaluation of the directors’ assessment of the company’s ability to continue to adopt the going concern basis of accounting included;

- confirming our understanding of management’s going concern assessment process and obtaining management’s assessment which covers the period to 31 December 2023;
- evaluating the solvency and liquidity position of the company by reviewing base case solvency and liquidity projections. We agreed the starting position of the projections, where applicable, to the audited financial information;
- understanding 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;
- assessing management’s considerations of operational risks, including those related to Outsourced Service Providers (‘OSPs’) and their impact on the going concern assessment;
- reviewing the company’s Scheme of Operations submitted to the Prudential Regulatory Authority (PRA) to obtain an understanding of the company’s run-off strategy and consider the impact on the company’s ability to continue operating as a going concern;
- performing 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 minutes of meetings of the Board and its committees to assess whether there were any other matters discussed that may have an impact on the company’s ability to continue as a going concern; and
- assessing the appropriateness of the going concern disclosures by comparing them for consistency with management’s assessment and for compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company’s ability to continue as a going concern for the period to 31 December 2023.

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 claims outstanding (specifically IBNR)
Materiality	• Overall materiality of £2.4m (2020: £2.5m) which represents 1% (2020: 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.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. The company has determined that the physical and transition risks from climate change do not currently pose a material risk to the company. This is explained on page 5 in the strategic report, which forms part of the “Other information” rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Our audit effort in considering climate change was focused on challenging management’s risk assessment of the impact of physical and transition risks and the resulting conclusion that there was no material impact from climate change, and the adequacy of the Company’s disclosures on page 21 of the financial statements which explain the rationale.

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 claims outstanding (specifically IBNR) (£83.9m, 2020: £102.2m – both on a gross of reinsurance basis) *Refer to the; Accounting policies (page 22); and Note 21 of the Financial Statements (page 37)* The estimation of claims oustanding is inherently uncertain and has a material impact on the reported results and financial position. The company ceased underwriting insurance business on 29 March 2021, and has no live exposures post 29 March 2022, with the absolute quantum of claims outstanding reducing. However, uncertainty arises as a consequence of the natural run-off of claims whereby the outcomes of remaining claims may have a more significant impact on the results and financial position of the Company. We have therefore assessed the level of the risk as consistent with the prior year. Management record a margin in addition to the best estimate. The setting of the margin is highly judgemental as, of its very nature, it is held to recognise liabilities and uncertainties that have not yet manifest through the available data. The subjectivity in estimating the gross best estimate and the recognition of a margin makes the claims outstanding susceptible to the risk of management override.	We updated our understanding of the reserving process employed by management, paying particular attention to the setting of IBNR and management’s methodology including that used for the setting of the margin, and assessed the design and implementation of key controls within the process. Supported by our 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, including comparison of these differences relative to our independent projections for the prior period. We tested the data used in the reserving process and confirmed it was consistent with the audited accounting records. We assessed management’s actuarial assumptions against our own experience, market practice, and other industry participants, especially as regards the liability class of business. We assessed the appropriateness of the net discount rate used to discount the gross Period Payment Orders (PPOs) claims outstanding balance having regard to the inflation and investment return assumptions. We considered the investment return assumption based on the assets committed to back the PPO liabilities. 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 consider that the claims outstanding (specifically IBNR), including management margin, lie within what we consider to be a reasonable range of estimates. In addition, we consider that the disclosures made are satisfactory, and they provide information that assists in understanding the uncertainty inherent in the estimation of claims outstanding.

There has been no change to our key audit matter from the prior year auditor’s report.

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 £2.4 million (2020: £2.5 million), which is 1% (2020: 1%) of forecasted net assets at 30 June 2021. 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 net assets is the UK GAAP metric that is mostly aligned to this.

During the course of our audit, we reassessed initial materiality and concluded that it remained appropriate as the net asset value at year-end was not materially different to that forecasted by management at 30 June 2021.

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% (2020: 50%) of our planning materiality, namely £1.2m (2020: £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 £120k (2020: £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 this gives rise toa material misstatement in the financial statements themselves. 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 to be audited 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 as set out on page 11, 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 most significant are 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’) and the Financial Conduct Authority (‘FCA’).
- 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 its committees; and gained an understanding of the company’s approach to governance.
- 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 and FCA.
- 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 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 estimation of claims outstanding (specifically IBNR), and we performed audit procedures to address the risk as detailed in the key audit matter above and our communication to the Audit Committee.
- 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. The company transitioned to a new general ledger during the period. Our procedures included reconciling the opening balances as at 1 January 2021 on the new general ledger to those reflected in the closing ledger balances on the previous general ledger as at 31 December 2020.

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

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 ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 31 December 2016 to 31 December 2021.
- 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.

Ernst & Young LLP

Vinood Ramabhai (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

8 April 2022

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 2021
All amounts are stated in £m unless otherwise indicated

	Notes	2021	2020
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	6	**9.9**	363.4
Outward reinsurance premiums	6	**(6.1)**	(151.2)
Net written premiums		**3.8**	212.2
Change in the provision for unearned premiums			
- gross amount	6	**167.2**	77.8
- reinsurers' share	6	**(5.6)**	1.8
Earned premiums, net of reinsurance	6	**165.4**	291.8
Other technical income, net of reinsurance	7	**4.8**	52.2
Total technical income		**170.2**	344.0
Claims incurred, net of reinsurance			
Claims paid			
- gross amount	8	**(212.1)**	(326.7)
- reinsurers' share	8	**41.1**	91.3
	8	**(171.0)**	(235.4)
Change in the provision for claims			
- gross amount	21	**50.8**	23.0
- reinsurers' share	21	**(32.4)**	(2.9)
		(152.6)	(215.3)
Claims incurred, net of reinsurance			
Net operating expenses	9	**(50.9)**	(131.3)
Total claims and expenses		**(203.5)**	(346.6)
Balance on the technical account for general business		**(33.3)**	(2.6)
Non-technical account			
Balance on the general business technical account		**(33.3)**	(2.6)
Investment income	10	**34.8**	9.1
Net unrealised (losses)/gains on investments	10	**(30.8)**	16.9
Investment expenses and charges	11	**(3.2)**	(6.0)
Other income	7	**-**	0.8
(Loss)/profit before transformation costs and tax		**(32.5)**	18.2
Costs in respect of business improvements	9	**-**	(4.0)
(Loss)/profit on ordinary activities before tax		**(32.5)**	14.2
Tax on profit on ordinary activities	13	**5.5**	(3.0)
(Loss)/profit for the financial year attributable to members of the Company		**(27.0)**	11.2

Statement of Comprehensive Income/(Expense)

For the year ended 31 December 2021
All amounts are stated in £m unless otherwise indicated

	Notes	2021	2020
(Loss)/profit and total comprehensive income for the financial year		**(27.0)**	11.2

Statement of Financial Position

For the year ended 31 December 2021

All amounts are stated in £m unless otherwise indicated

	Notes	2021	2020
Assets			
Investments			
Financial investments	14	**398.5**	667.1
Reinsurers' share of technical provisions			
Provision for unearned premiums	20	**0.1**	5.7
Claims outstanding	21	**64.9**	60.4
		65.0	66.1
Debtors			
Debtors arising out of direct insurance operations			
- policyholders		**2.2**	74.9
- intermediaries		**16.0**	80.2
Debtors arising out of reinsurance operations		**-**	0.2
Corporation tax debtor	22	**2.4**	3.1
Other debtors	15	**0.6**	1.6
		21.2	160.0
Other assets			
Cash at bank and in hand	16	**151.1**	26.8
Prepayments and accrued income			
Accrued interest		**3.4**	4.8
Deferred acquisition costs	17	**0.1**	15.0
Other prepayments and accrued income		**1.5**	5.5
		5.0	25.3
Total assets		**640.8**	945.3

Statement of Financial Position

For the year ended 31 December 2021

All amounts are stated in £m unless otherwise indicated

	Notes	2021	2020
Liabilities			
Capital and reserves			
Called up share capital	18	**208.0**	208.0
Capital reserve	19	**57.1**	57.1
Retained earnings	19	**(28.6)**	(1.6)
Total capital and reserves		**236.5**	263.5
Technical provisions			
Provision for unearned premiums	20	**1.1**	168.3
Claims outstanding	21	**392.4**	462.4
		393.5	630.7
Provisions for other risks			
Provision for taxation	22	**0.5**	6.4
Creditors			
Creditors arising out of direct insurance operations		**-**	0.8
Creditors arising out of reinsurance operations		**0.2**	10.3
Amounts owed to credit institutions	16	**-**	6.0
Other creditors including taxation and social security	23	**7.2**	16.8
		7.4	33.9
Accruals and deferred income		**2.9**	10.8
Total liabilities		**404.3**	681.8
Total equity and liabilities		**640.8**	945.3

Approved by the Board of Directors on 8 April 2022 and signed on its behalf by:

Mark Summerfield, Chief Executive Officer

Grant Mitchell, Chief Financial Officer

Statement of Changes in Equity
For the year ended 31 December 2021
All amounts are stated in £m unless otherwise indicated

	Share capital	Capital reserve	Retained earnings	Total
2021				
Balance at the beginning of the financial year	**208.0**	**57.1**	**(1.6)**	**263.5**
Loss for the financial year	**-**	**-**	**(27.0)**	**(27.0)**
Balance at the end of the financial year	**208.0**	**57.1**	**(28.6)**	**236.5**
2020				
Balance at the beginning of the financial year	268.0	57.1	(72.8)	252.3
Profit for the financial year	-	-	11.2	11.2
Transactions with owners of the Company:				
Reduction in share capital	(60.0)	-	60.0	-
Balance at the end of the financial year	208.0	57.1	(1.6)	263.5

1. General information

Soteria Insurance Limited (SIL) is a Limited Company registered in England under the Companies Act. The registered office is 7th Floor, Arndale House, 122a Market Street, Manchester, M4 3AG. SIL is a UK-based General Insurer that underwrote insurance, predominantly in personal lines (Motor and Home). The annual report and accounts were authorised for issue by the Board of Directors on 8 April 2022.

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 insurance policies expired in March 2022. The principal activity of the Company since entering run-off has been the administration of existing policies in force and the settlement of outstanding claims.

2. Basis of preparation and statement of compliance

The annual report and accounts of SIL have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103"), the Companies Act 2006 and the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies.

Prior to 2021, the annual report and accounts were presented under International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS"). The comparative information in the annual report and accounts has been restated to reflect this change in accounting basis. Further information can be found in note 5.

As permitted by FRS 103, SIL continues to apply the existing accounting policies that were applied prior to this standard, for its insurance contracts. Upon transition, FRS 102, section 35, requires or permits certain exemptions from full retrospective application. SIL has applied the mandatory exceptions and certain optional exemptions, as set out below:

Mandatory exceptions adopted by the Company

i. Financial assets and liabilities which had been de-recognised before 1 January 2020 under IFRS have not been recognised under UK GAAP.

ii. SIL has used estimates under UK GAAP which are consistent with those under IFRS, with adjustment for accounting policy differences.

Optional exemptions applied by the Company

i. SIL has taken advantage of the exemption from preparing a statement of cash flows, on the basis that it is a qualifying entity and the Company's cash flows are included in the consolidated statement of cash flows presented in the publicly available group annual report and accounts of its parent company, Soteria Finance Holdings Limited.

The impact of adopting UK GAAP is detailed in note 5.

The financial information has been prepared under the historic cost convention, except for certain financial instruments which are measured at fair value.

The preparation of the annual report and accounts requires the use of certain critical accounting estimates and judgments. Information about assumptions and other sources of estimation uncertainty is disclosed in note 4, where these have a significant impact on the annual report and accounts.

In preparing these financial statements the Directors have considered the impact of the physical and transition risks of climate change and identified this as an area of focus, as set out on page 5, but have concluded that it does not have a material impact on the recognition and measurement of the assets and liabilities in these financial statements as at 31 December 2021. This is because the financial investments are reported at fair value under UK GAAP and, as set out in note 30, therefore utilise market prices at the period end. These market prices will include the current expectations of the impact of climate change on the financial investments. Insurance liabilities are accrued based on past insurable events so will not be impacted by any future impact of climate change. However, we recognise that government and societal responses to climate change risks are still developing and the future impact cannot be predicted. Future valuations of assets may therefore differ as the market responds to these changing impacts or assesses the impact of current requirements differently. As the Company is now in run-off, there is limited impact from changes in the frequency or magnitude of future insurable events linked to the effect of climate risks.

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 2023. 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, with the last policies having expired in March 2022, 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 regulatory and economic capital requirements, its liquidity and its resilience to withstand foreseeable stress scenarios.

Going concern (continued)

In the central forecast case, solvency projections show a low point in the ECR coverage of 150% in June 2022, assuming the earliest possible payment of dividends. (This will require PRA approval and thus only expected later in 2022.) Liquidity projections assess expected liquid assets (cash, money market funds 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, adverse claims experience and a fall in the market value of assets. 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 additional income from the sale of highly liquid 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 ECR and SCR coverage ratio is projected to fall below 100% if dividends are paid as planned but would remain in green status if future dividends were cancelled. 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. If 2022 dividends have already been paid then the coverage would naturally recover as investments mature.

Foreign currencies

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

SIL holds some investments denominated in Euros and US Dollars which are translated to the Company's functional currency at the exchange rate at the reporting date. Transactions in foreign currencies are recorded at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Foreign exchange gains and losses resulting from the settlement of transactions and the translation of investments at the financial reporting date are recognised in the non-technical profit and loss account.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in this annual report and accounts.

a) Revenue recognition

Revenue principally comprises:

i) 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 b) ii).

ii) Investment income

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

iii) 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.

a) Revenue recognition (continued)

iv) 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 FRS 102. 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.

v) 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.

b) Insurance contracts

i) Classification of insurance contracts

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.

ii) Recognition of premium income

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.

iii) 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.

iv) 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.

v) 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.

b) Insurance contracts (continued)

vi) Claims provisions and related reinsurance recoveries

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.

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 12 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.

ix) 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 FRS 103 (Insurance Contracts).

c) Financial instruments

SIL has elected to apply the provisions of Section 11 "Basic Financial Instruments" and Section 12 "Other Financial Instruments Issues" of FRS 102 to all of its financial instruments.

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.

c) Financial instruments (continued)

iii) Basic financial instruments

Debt securities

SIL classifies its holdings in debt securities as basic financial instruments. 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.

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 changes in fair value being recognised in gains less losses within the income statement in the period in which they arise. Interest is recognised on the effective interest rate basis in the income statement, refer to accounting policy note a, section ii, (page 22) 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 c, section vii, below.

Loans and receivables

Loans and receivables, including insurance premium debt receivables but excluding salvage and subrogation, 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.

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.

iv) Other financial instruments

Some of SIL's collective investment undertakings and the real-estate backed lending cannot be valued at prices derived from inputs that are observable for the asset, as disclosed in note 30. Where this is the case, these are valued initially at fair value, being purchase price on the date on which SIL commits to purchase. Directly attributable transaction costs are expensed immediately on recognition.

Managers may use the following valuation techniques to calculate the fair value of credit assets:

- Contractual cashflows from the credit asset are projected forwards to their expected payment date;
- The probability of default, loss given default and exposure at default are used to project expected credit losses; and
- The cash flows, net of expected credit losses, are discounted back to their present value using the appropriate market discount rate at the reporting date.

The discount rate can depend on the following factors:

- Risk free interest rates and other similar benchmark interest rates;
- Prevailing credit spreads for the given type of asset;
- Currency; and
- Duration

The selection of discount rate needs to be considered carefully because some of the above items are easily observable (e.g. the risk free rate) and others are unobservable (e.g. prevailing credit spreads). In some case the observable and unobservable factors are inversely correlated so as one increases the other reduces. Managers may generally calculate the implied discount rate at initial recognition and makes adjustment to this for known changes at the reporting date. A Valuation Committee at each of the sub-fund managers holding the investments is responsible for approving the appropriate discount rate to use in the fair value calculations and will take into consideration the above requirements along with any changes in reference rates that are deemed material. The valuations are subject to regular independent review.

c) Financial instruments (continued)

vii) Impairment of financial assets

Assessment

At the statement of financial position date, SIL assesses its financial assets measured at cost or fair value 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 carried at fair value, are recognised immediately through the income statement. The amount of the loss is the difference between:

- the asset's carrying amount (calculated on an fair value basis); and
- the present value of estimated future cash flows (discounted at the asset's original or variable effective interest rate).

The amount of the impairment loss on assets carried at fair value 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.

d) Sale and repurchase arrangements

In 2020 and until November 2021, SIL participated in reverse sale and repurchase transactions whereby SIL bought gilts but was contractually obliged to sell them at a fixed price on a fixed future date. Cash loaned under reverse repo arrangements was classified on the statement of financial position as deposits with credit institutions within financial investments at fair value through income or expense.

e) Cash at bank and in hand

Cash at bank and in hand 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 at bank and in hand for the purpose of the cash flow statement.

f) Offsetting

FRS 103 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.

g) 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.

h) 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.

i) 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.

ii) Deferred tax

Deferred tax is provided using the statement of financial position method, providing for timing 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.

i) Leases

Where a significant proportion of the risk and rewards of ownership of a leased asset are retained by the lessor, these contracts are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives are recognised in the income statement on a straight-line basis over the shorter of the lease term and the period ending on a date from which it is expected the prevailing market rental will be payable. All leases currently held by SIL are considered operating leases and no liability is recognised in the statement of financial position.

j) 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.

k) Employee benefits

SIL operates a defined contribution pension plan which received fixed contributions from the Company. The Company's legal or constructive obligation for this plan is limited to those contributions. Contributions are recognised as an employee benefit expense when they fall due.

l) Dividends to shareholders

Dividends are only recognised in the annual report and accounts by SIL once they have been approved by the Board.

m) 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. There are no such costs in either 2021 or 2020.

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.

n) 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 FRS 102 the funds received have been recognised as other non-technical income in the income statement. There are no unfulfilled conditions attached to recognising the grants.

4. 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.

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.

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 £55.7m (2020: £51.2m) and historic liability claims from the electric industry discounted reserve amounts to £2.1m (2020: £2.4m). The impact of the unwinding of the discounting in the year was £0.9m (2020: £0.9m). Further details around expected settlement patterns for claims arising on these reserves are disclosed within the market risk section on pages 44 to 45.

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 2021 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, in most years, 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 Board regularly commissions an independent third party review, typically undertaken every two years, to ensure the reserves are reasonable.

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. This margin is commonly expressed as a percentage of the best estimate reserve, and the risk appetite is that it should fall between 5-10% for the motor and household lines of business. The amount of margin held at any given time is determined by the Chief Financial Officer taking into account current causes of uncertainty in the reserve. 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.

All amounts are stated in £m unless otherwise indicated

4. Use of estimates and judgments (continued)

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 judgment 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;
  iv. improvements in the case estimation techniques resulting in earlier recognition of the size of claims; and
  v. the interest rate used to discount the value of future payments from claims settled by Periodical Payment Orders.

The gross insurance provision of £331.1m (2020: £312.9m) for claims and claims handling costs arising in respect of prior years includes an increase in reserves of £34.3m (2020: £27.6m). 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:

	2021	2020
Gross		
Fire and Accident increase of reserves	**(5.1)**	(4.2)
Motor increase of reserves	**(15.5)**	(16.5)
Increase in claims handling reserves	**(13.7)**	(6.9)
Gross movement in insurance liabilities	**(34.3)**	(27.6)
Movement in reinsurance	**7.7**	8.3
Net movement in insurance liabilities	**(26.6)**	(19.3)

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:

Financial investments

The fair value of listed securities is based on market prices provided by independent, external pricing sources at the statement of financial position date without any deduction for transaction costs. The fair value of unlisted securities is based on independent valuations which are updated at least quarterly.

Financial investments 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.

All amounts are stated in £m unless otherwise indicated

5. First-time adoption of UK GAAP

The financial statements of the Company have been prepared and approved by the Directors in compliance with United Kingdom Accounting Standards (UK GAAP), including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland, and FRS 103, Insurance Contracts. Prior to this year, the financial statements were presented under International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS"). The date of transition to UK GAAP was 1 January 2020 and the comparative information in the financial statements has been restated to reflect this change in accounting basis.

Reconciliation of profit

The Company's profit for the year ended 31 December 2020 can be reconciled to the amounts previously reported under IFRS as follows:

	Notes	2020
Profit under IFRS as previously reported		**5.8**
Reversal of lease costs under IFRS 16:	i	0.4
Recognition of lease costs under FRS 102	i	(0.4)
Recognition of unrealised investment gains in income statement	ii	7.0
Adjustment to profit before tax for the financial year		**7.0**
Tax impact of adjustments		(1.6)
Total adjustment to profit for the financial year		**5.4**
Profit under FRS 102		**11.2**

Reconciliation of equity

The Company's equity at the date of transition and at 31 December 2020 can be reconciled to the amounts reported previously under IFRS as follows:

	Notes	Called up share capital	Available for sale reserve	Capital reserve	Retained earnings	Total capital and reserves
At 1 January 2020 as previously reported		**268.0**	**11.1**	**57.1**	**(84.0)**	**252.2**
Reversal of lease costs under IFRS 16	i				0.5	0.5
Recognition of lease costs under FRS 102	i				(0.4)	(0.4)
Recognition of unrealised investment gains in income statement	ii		(11.1)		11.1	-
At 1 January 2020 under FRS 102		**268.0**	**-**	**57.1**	**(72.8)**	**252.3**

	Notes	Called up share capital	Available for sale reserve	Capital reserve	Retained earnings	Total capital and reserves
At 31 December 2020 as previously reported		**208.0**	**16.5**	**57.1**	**(18.2)**	**263.4**
Reversal of lease costs under IFRS 16	i				0.9	0.9
Recognition of lease costs under FRS 102	i				(0.8)	(0.8)
Recognition of unrealised investment gains in income statement	ii		(16.5)		16.5	-
At 31 December 2020 under FRS 102		**208.0**	**-**	**57.1**	**(1.6)**	**263.5**

Notes to the reconciliations

i. Leases were previously accounted for under IFRS 16, which requires leased assets to be capitalised and depreciated over the life of the lease, and for lease liabilities to be recognised on the balance sheet. Under UK GAAP, the leases are accounted for as operating leases and are expensed over the life of the lease. The net impact of this was a £0.1m increase in reserves as at 1 January 2020, with no further impact to profit in 2020. As at 31 December 2020, the lease asset value previously reported was £1.1m and the lease liability was £1.2m.

ii. Under IFRS 39, investments were classified as either fair value through profit or loss, or available for sale. Unrecognised gains and losses on available for sale investments were taken directly to equity. Under UK GAAP, the Company has elected to apply the provisions of Section 11 "Basic Financial Instruments" and Section 12 "Other Financial Instruments Issues" of FRS 102 to all of its financial instruments, meaning all unrecognised gains and losses have been accounted for in the income statement and the available for sale reserve has been transferred to retained earnings. This transition has no net impact on reserves, but gives a net increase in profits for 2020 of £5.4m.

All amounts are stated in £m unless otherwise indicated

6. Net earned premiums

	2021	2020
Gross premiums		
Gross written premiums	**9.9**	363.4
Change in unearned premium provision	**167.2**	77.8
Gross earned premiums	**177.1**	441.2
Outward reinsurance premiums		
Premiums ceded	**(6.1)**	(151.2)
Change in unearned premium provision	**(5.6)**	1.8
Premiums ceded to reinsurers	**(11.7)**	(149.4)
Net earned premiums	**165.4**	291.8

7. Other income

	2021	2020
Other technical income, net of reinsurance		
Fee income	**5.5**	7.8
Reinsurance commission	**(0.8)**	43.4
Other commission	**-**	1.0
	4.8	52.2
Other non-technical income		
Other income	**-**	0.8

Fee income is in respect of policy administration fees and commission from third party arrangements, predominantly within Motor.

Reinsurance commission relates to profit commission due (to)/ from reinsurers under reinsurance arrangements. For further details see note 3a, section v, *Profit commission due under reinsurance arrangements* on page 23.

Other commission is in respect of ancillary income from aggregator business within Motor. For further details see note 3a, section iv, *Fee and commission income* on page 23.

Other non-technical income relates predominantly to government grants received for the payment of employment costs as part of the UK Government's furlough scheme during the Covid-19 pandemic. For further details see note 3m *Government grants*.

8. Net policyholder claims and benefits paid

	Note	2021	2020
Gross claims paid			
Current year claims		**66.8**	165.7
Prior year claims		**165.7**	205.5
Gross claims paid	**21**	**232.5**	371.2
Less salvage and subrogation			
Current year claims		**(4.1)**	(19.2)
Prior year claims		**(16.3)**	(25.3)
Salvage and subrogation received		**(20.4)**	(44.5)
Claims paid		**212.1**	326.7
Less amounts receivable from reinsurers			
Current year claims		**(0.5)**	(41.6)
Prior year claims		**(40.6)**	(49.7)
Amounts receivable from reinsurers	**21**	**(41.1)**	(91.3)
Net policyholder claims and benefits paid		**171.0**	235.4

9. Net operating expenses

	2021	2020
Commission paid	**0.8**	18.0
Change in deferred commission	**6.1**	7.1
Other acquisition expenses	**8.8**	24.3
Administration expenses	**35.2**	81.9
	50.9	131.3
Costs in respect of business improvements	**-**	4.0
Operating expenses	**50.9**	135.3

Included within the administration expenses is £0.1m (2020: £3.3m) paid by SIL in respect of regular pension contributions.

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 29. Staff costs, included within administrative expenses, and average number of employees for 2020 therefore relate only to the period from 2 December 2020 to 31 December 2020.

Costs in respect of business improvements incurred in 2020 related 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 intended to fundamentally change the way the organisation operates by reducing costs and operating risk, it was deemed appropriate to treat the expensed costs separately within the income statement.

Staff costs

	2021 **£'000**	2020 £'000
Wages and salaries	**1,974**	133
Social security costs	**326**	23
Pension costs - defined contribution scheme	**147**	8
	2,447	164

Average number of employees

	2021	2020
Administration	**8**	6
Management	**7**	7
	15	13

The average number of employees for 2020 is shown for the period from 2 December 2020 to 31 December 2020 in order to show a representative number since the Company had employees.

Amounts payable to auditors

	2021 **£'000**	2020 £'000
Audit of these financial statements	**510**	429
Amounts receivable by SIL's auditor and its associates in respect of:		
Other assurance services	**-**	80
	510	509

Other assurance services relate to assurance provided on SIL's Solvency II reporting. For 2021, a single Solvency and Financial Condition Report is being produced for the SFHL Group, so all costs relating to this are allocated to SFHL. The above amounts are exclusive of VAT.

All amounts are stated in £m unless otherwise indicated

10. Investment return

	2021	2020
Interest and similar income:		
Deposits with credit institutions	**0.1**	0.4
Listed debt securities	**5.0**	7.2
	5.1	7.6
Realised gains on investments		
Listed debt securities	**15.4**	1.5
Collective investments	**14.3**	-
	29.7	1.5
Total investment return	**34.8**	9.1

	2021	2020
Unrealised (losses)/gains on investments:		
Listed debt securities	**(20.8)**	7.0
Collective investment undertakings	**(10.0)**	9.9
	(30.8)	16.9

Realised gains of £29.7m made in the year were offset by unrealised losses of £30.8m. This is mainly due to the crystallisation of previously recognised unrealised gains on those assets which were sold as part of a decision to change investment manager. Also included in unrealised losses is £0.2m (2020: £nil) relating to unrealised foreign exchange movements on investments denominated in currencies other than GBP.

11. Investment expenses and charges

	2021	2020
Investment expenses and charges:		
Interest paid on subordinated debt	**-**	2.9
Other subordinated debt costs	**-**	1.7
Other interest expense	**1.4**	0.3
Investment management expenses	**1.8**	1.1
	3.2	6.0

12. Segmental analysis

SIL evaluates the performance of business segments on a number of metrics, of which the profit before tax and the net asset value have 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.

All amounts are stated in £m unless otherwise indicated

12. Segmental analysis (continued)

Segmented income statement for the year ended 31 December 2021

	Motor	Home	Other	Total
Gross premiums written	2.5	7.4	-	9.9
Gross premiums earned	130.5	46.6	-	177.1
Gross claims incurred	(133.5)	(20.6)	(7.2)	(161.3)
Gross other technical income	4.6	0.9	-	5.5
Gross operating expenses	(44.3)	(6.6)	-	(50.9)
Reinsurance balance (including quota share)	(1.2)	(4.0)	1.5	(3.7)
Balance on the technical account for general business	**(43.9)**	**16.3**	**(5.7)**	**(33.3)**

Segmented income statement for the year ended 31 December 2020

	Motor	Home	Other	Total
Gross premiums written	283.6	79.8	-	363.4
Gross premiums earned	350.7	90.5	-	441.2
Gross claims incurred	(242.2)	(50.6)	(10.9)	(303.7)
Gross other technical income	8.9	-	-	8.9
Gross operating expenses	(92.2)	(39.1)	-	(131.3)
Reinsurance balance (including quota share)	(3.1)	(16.8)	2.2	(17.7)
Balance on the technical account for general business	**22.1**	**(16.0)**	**(8.7)**	**(2.6)**

Commissions for the year relating to direct insurance business were £6.9m (2020: £25.1m).

All insurance contracts are concluded in the United Kingdom.

13. Income tax

	2021	2020
Current tax		
UK tax credit/(charge) for the current year	**2.1**	(2.0)
UK tax (charge)/credit for the prior year	**(0.7)**	0.1
Total current tax credit/(charge)	**1.4**	(1.9)
Deferred tax		
Origination and reversal of timing differences	**4.1**	(0.6)
Adjustment in respect of previous periods	**0.1**	(0.1)
Effect of tax rate change	**(0.1)**	(0.4)
Total deferred tax credit/(charge)	**4.1**	(1.1)
Total tax credit/(charge) recognised in the income statement	**5.5**	(3.0)

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:

	2021	2020
(Loss)/profit before taxation	**(32.5)**	14.2
Tax calculated at domestic corporation tax rate of 19% (2020: 19%)	**6.2**	(2.7)
Effect of:		
Adjustment in respect of prior years	**(0.6)**	0.1
Revision of deferred tax to 25% (2020: 19%)	**(0.1)**	(0.4)
Income tax credit/(charge)	**5.5**	(3.0)

All amounts are stated in £m unless otherwise indicated

14. Financial investments

	2021	2020
Reverse repo arrangement with credit institutions	**-**	92.0
Corporate bonds	**316.3**	415.8
Gilts	**60.1**	110.3
Real-estate backed lending	**3.5**	-
Collective investment assets	**18.6**	49.0
	398.5	667.1

At 31 December 2021, corporate bonds and gilts of £200.9m (2020: £355.9m) are expected to be recovered more than 12 months after the reporting date. All other amounts in the current and prior year are expected to be recovered within one year. There are no secured deposits included in the above figures (2020: £92.0m, with collateral of £92.0m, in the form of gilts, held against these deposits).

The collective investment assets include investments in funds of European asset-backed credit and global credit (2020: investments in unit funds of bonds and equities). These funds have no maturity date and units are readily tradeable.

15. Other debtors

	2021	2020
Accounts receivable	**0.5**	1.6
Insurance premium tax debtor	**0.1**	-
	0.6	1.6

16. Cash at bank and in hand

	2021	2020
Cash at bank	**38.8**	26.8
Money market funds	**112.3**	-
Overdrafts	**-**	(6.0)
Net cash at bank and in hand	**151.1**	20.8

This balance is included as cash at bank and in hand 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 at bank and in hand is £22.5m (2020: £21.5m) held in SIL's custodian account for investment purposes. A further £112.3m is held in money market funds for investment purposes (2020: £nil).

17. Deferred acquisition costs

	2021	2020
At the beginning of the financial year	**15.0**	27.5
Deferred acquisition cost additions	**0.6**	32.5
Amortisation	**(15.5)**	(45.0)
At the end of the financial year	**0.1**	15.0

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

18. Share capital

	2021	2020
Authorised	**208.0**	208.0
Issued and fully paid		
208,000,000 ordinary shares of £1 each	**208.0**	208.0

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.

19. Retained earnings and other reserves

	2021	2020
Retained earnings		
At the beginning of the financial year	**(1.6)**	(72.8)
Cancellation of ordinary shares	**-**	60.0
(Loss)/profit for the financial year	**(27.0)**	11.2
At the end of the financial year	**(28.6)**	(1.6)

	2021	2020
Other reserves		
Capital reserve	**57.1**	57.1
	57.1	57.1

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.

20. Provision for unearned premiums

	Gross 2021	**Reinsurance 2021**	**Net 2021**	Gross 2020	Reinsurance 2020	Net 2020
At the beginning of the financial year	**168.3**	**(5.7)**	**162.6**	246.1	(3.9)	242.2
Increase in the financial year	**9.9**	**(6.2)**	**3.7**	363.4	(151.2)	212.2
Release in the financial year	**(177.1)**	**11.8**	**(165.3)**	(441.2)	149.4	(291.8)
Movement in the financial year	**(167.2)**	**5.6**	**(161.6)**	(77.8)	(1.8)	(79.6)
At the end of the financial year	**1.1**	**(0.1)**	**1.0**	168.3	(5.7)	162.6

All amounts are stated in £m unless otherwise indicated

21. Claims outstanding

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

	Gross	Unexpired risk provision	Salvage & Subrogation	Net
2021				
At the beginning of the financial year	**462.4**	**-**	**(32.0)**	**430.4**
Movement in the financial year	**(70.2)**	**0.2**	**19.2**	**(50.8)**
At the end of the financial year	**392.2**	**0.2**	**(12.8)**	**379.6**

	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

Claims and claims handling costs

	Gross 2021	**Reinsurance 2021**	**Net 2021**	Gross 2020	Reinsurance 2020	Net 2020
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 beginning of the financial year	**462.4**	**(60.4)**	**402.0**	492.4	(57.5)	434.9
Claims paid during the year	**(232.5)**	**41.1**	**(191.4)**	(371.2)	91.3	(279.9)
Increase/(decrease) in liabilities:						
Arising from current year claims	**128.0**	**(1.0)**	**127.0**	315.3	(80.0)	235.3
Arising from prior year claims	**34.3**	**(7.7)**	**26.6**	27.6	(8.3)	19.3
Movement in unexpired risk provision	**0.2**	**-**	**0.2**	(1.7)	-	(1.7)
	(70.0)	**32.4**	**(37.6)**	(30.0)	3.0	(27.0)
Quota Share	**-**	**(36.8)**	**(36.8)**	-	(5.9)	(5.9)
Total movement	**(70.0)**	**(4.4)**	**(74.4)**	(30.0)	(2.9)	(32.9)
Claims reported	**296.3**	**(86.5)**	**209.8**	349.6	(108.6)	241.0
Claims incurred but not reported	**83.9**	**(15.5)**	**68.4**	102.2	(25.8)	76.4
Claims settlement expenses	**12.0**	**-**	**12.0**	10.6	-	10.6
Unexpired risk provision	**0.2**	**-**	**0.2**	-	-	-
	392.4	**(102.0)**	**290.4**	462.4	(134.4)	328.0
Quota Share	**-**	**37.2**	**37.2**	-	74.0	74.0
At the end of the financial year	**392.4**	**(64.8)**	**327.6**	462.4	(60.4)	402.0

All amounts are stated in £m unless otherwise indicated

21. Claims outstanding (continued)

Analysis of claims development

	Accident year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Gross of reinsurance											
At end of the accident year:	502.1	368.1	284.7	285.5	353.5	367.8	401.7	414.6	299.1	115.7	**3,392.8**
One year later	473.3	346.9	269.0	268.1	371.6	358.0	393.0	412.8	290.9		**3,183.6**
Two years later	473.0	343.1	263.9	259.9	351.0	353.4	394.4	420.2			**2,858.9**
Three years later	467.9	335.4	260.7	259.2	345.5	354.9	402.5				**2,426.1**
Four years later	458.2	340.6	259.5	256.2	353.1	354.6					**2,022.2**
Five years later	452.2	336.2	258.2	256.3	351.0						**1,653.9**
Six years later	451.9	337.5	258.9	257.7							**1,306.0**
Seven years later	452.5	338.3	258.8								**1,049.6**
Eight years later	452.4	338.5									**790.9**
Nine years later	452.5										**452.5**
Estimate for cumulative claims	452.5	338.5	258.8	257.7	351.0	354.6	402.5	420.2	290.9	115.7	**3,242.4**
Cumulative payments to date	(451.6)	(333.8)	(258.1)	(255.6)	(330.6)	(335.8)	(368.5)	(344.3)	(219.7)	(60.2)	**(2,958.2)**
Gross outstanding claims liabilities	0.9	4.7	0.7	2.1	20.4	18.8	34.0	75.9	71.2	55.5	**284.2**
Provision for prior years											**96.0**
Gross outstanding claims liabilities											**380.2**
Gross claims reported											**296.4**
Gross claims incurred but not reported											**83.8**
Gross outstanding claims liabilities											**380.2**

Included in the analysis above is £55.7m (2020: £51.2m) of discounted reserves relating to PPOs. PPO reserves are discounted at 4.2% (2020: 4.4%), reflecting the expected yield on the investments held to back the PPO claims, adjusted for credit risk. Undiscounted reserves relating to PPOs are £122.4m (2020: £109.2m). The above analysis excludes claim handling expenses.

	Accident year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Net of reinsurance											
At end of the accident year:	489.8	350.9	275.9	267.9	347.7	268.3	294.4	295.0	219.1	114.2	**2,923.2**
One year later	456.3	330.4	260.6	256.8	357.8	262.1	289.1	293.1	210.6		**2,716.8**
Two years later	458.7	329.7	255.0	247.7	339.3	259.6	289.8	297.4			**2,477.2**
Three years later	456.3	322.0	251.3	247.5	335.9	260.6	295.4				**2,169.0**
Four years later	448.1	325.8	252.0	245.6	338.5	260.4					**1,870.4**
Five years later	445.4	325.0	250.9	245.5	337.2						**1,604.0**
Six years later	445.3	326.4	251.5	247.0							**1,270.2**
Seven years later	445.9	326.9	251.6								**1,024.4**
Eight years later	445.8	327.1									**772.9**
Nine years later	445.9										**445.9**
Estimate for cumulative claims	445.9	327.1	251.6	247.0	337.2	260.4	295.4	297.4	210.6	114.2	**2,786.8**
Cumulative payments to date	(445.1)	(325.9)	(251.0)	(244.9)	(325.0)	(247.1)	(271.3)	(246.8)	(161.3)	(59.3)	**(2,577.7)**
Net outstanding claims liabilities	0.8	1.2	0.6	2.1	12.2	13.3	24.1	50.6	49.3	54.9	**209.1**
Provision for prior years											**69.0**
Net outstanding claims liabilities											**278.1**
Net claims reported											**209.8**
Net claims incurred but not reported											**68.3**
Net outstanding claims liabilities											**278.1**

All amounts are stated in £m unless otherwise indicated

21. Claims outstanding (continued)

Analysis of claims development (continued)

Included in the analysis above is £24.6m (2020: £23.6m) 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 2021 result includes an increase on prior year reserves of £26.6m (2020: £19.2m).

The above figures exclude quota share. The balance in the quota share funds withheld account is £45.2m (2020: £97.1m).

22. Taxation

	2021	2020
Current tax		
Asset/(liability) at the beginning of the financial year	**1.3**	7.4
Prior year adjustment	**(0.7)**	0.1
Tax credited/(charged) to the income statement	**2.1**	(2.0)
Tax received during the financial year	**(0.3)**	(4.2)
Asset at the end of the financial year	**2.4**	1.3
Asset relating to group relief not yet received	**-**	3.1
Asset/(liability) relating to amount due from/(to) HMRC	**2.4**	(1.8)
Asset at the end of the financial year	**2.4**	1.3

	2021	2020
Deferred tax liability		
Liability at the beginning of the financial year	**(4.6)**	(3.5)
Tax credited/(charged) to the income statement	**4.1**	(1.1)
Liability at the end of the financial year	**(0.5)**	(4.6)
Analysis of deferred tax liability		
Claims equalisation reserve	**-**	(0.9)
Capital allowances on fixed assets	**0.2**	0.2
Short term timing differences – trading	**(4.5)**	-
Tax on unrealised gains and losses	**3.8**	(3.9)
Liability at the end of the financial year	**(0.5)**	(4.6)

The Finance Act 2012 abolished the tax relief for the equalisation reserves of general insurers with effect from 1 January 2016. However, the Act allowed for the release of the reserve equally over a period of six years for tax purposes, with the final amount of £4.8m being released in 2021. The balance as at 31 December 2021 was £nil. In 2020 the balance was £4.8m which had previously been treated as tax deductible, however for accounts purposes the corresponding value was nil. The difference was recognised as part of the Deferred Tax liability.

On 3 March 2021, the UK Government announced that the main UK corporation tax rate will increase from the current rate of 19% to 25% from 1 April 2023, and this was substantively enacted on 24 May 2021. As a result, existing timing differences on which deferred tax has been provided may unwind in periods subject to either the 19% or 25% rates. The deferred tax liability at 31 December 2021 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 25%. Any difference in the liability for timing differences unwinding prior to 1 April 2023 is considered to be immaterial.

23. Other creditors including taxation and social security

	2021	2020
Insurance premium tax payable	**-**	10.2
Other creditors	**7.2**	6.6
	7.2	16.8

24. Operating leases

SIL has one lease agreement in place, which is cancellable with a three month notice period.

25. Contingent assets and liabilities

SIL does not have any contingent assets.

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.

26. Contingent contract obligations

SIL has no contingent contract obligations.

27. 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 were made 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 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.

Risk assessment of SIL

SIL assesses the principal risks facing the business annually and a projection of how these risks are expected to evolve as the risk profile changes is completed as part of the ORSA process. 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.

27. Risk management and capital management (continued)

Risk management structure (continued)

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).

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.

All amounts are stated in £m unless otherwise indicated

27. Risk management and capital management (continued)

Risk management structure (continued)

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.

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 Investment, Finance & Capital Committee (IFCC).

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.	42
Conduct risk	The risk that SIL's (or its parent's) processes, behaviours, offerings or interactions will result in unfair outcomes for customers and a damage to reputation.	43
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.	43
Insurance (Premium) risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure.	43
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.	43
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.	44
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events.	46
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.	46
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations.	47

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 Controls and risk appetite) and to certify to the effectiveness of the control framework used to manage the risk on a semi-annual basis.

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.

27. Risk management and capital management (continued)

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. This risk has significantly reduced since entering run-off.

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 reduced significantly following successful data migration onto new systems and entering into run-off.

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. SIL's last policies expired in March 2022. After this point, SIL does not intend to continue to underwrite insurance and these permissions have been withdrawn. 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 were 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. The last policy was underwritten in March 2021.
- Reserve risk volatility is minimised through proactive claims handling, the claims provisioning process and robust reserving and modelling approaches.

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 4 (pages 28 to 29).

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 2021, SIL had two main reinsurance programmes in place: catastrophe excess of loss cover and motor excess of loss cover.

Quota share reinsurance arrangements relating to accident years from 2017 to 2020 remain in force and enhance the Standard Formula capital coverage by reducing exposure to reserve risk.

27. Risk management and capital management (continued)

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”). 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, 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, real-estate backed lending and collective investment funds which are of a more long term nature to match the long term liabilities.

SIL wrote contracts of insurance in the United Kingdom and insurance liabilities and borrowings are denominated in sterling. Funds include investments denominated in Euros and US Dollars as well as sterling, and consequently there is an exposure to currency risk, however this is minimised through the use of currency hedges.

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 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 TwinFocus Limited and, until November 2021, Royal London Asset Management. SIL has agreed investment mandates in place with the investment managers 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 IFCC and Investment Committee support the CFO in overseeing the monitoring and management of these risks and exposures against limits.

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.

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).

	2021 (years)	2020 (years)
Insurance liabilities	**4.8**	2.4
Financial assets	**1.3**	3.3

The relatively low maturity profile of the financial assets at the year end reflects the transitional position of the investment portfolio following the switch in investment managers. This will be appropriately matched to the related liabilities during 2022.

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.

All amounts are stated in £m unless otherwise indicated

27. Risk management and capital management (continued)

Market risk – objective and strategy (continued)

Mean durations for these exposures are:

2021	**Amount**	**Duration**
Periodical payments and EIROS		**Years**
Insurance liabilities	**25.2**	**16.6**
Financial assets		
Cash	**27.6**	**n/a**
Gilts	**27.5**	**8.8**
Real-estate backed lending	**3.5**	**1.5**
Collective investment assets	**18.6**	**2.5**

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

In 2020 there was no explicit duration accompanying the collective investment assets.

In 2021, assets held against the PPO liabilities were of shorter duration than the liabilities themselves. This follows a change in asset strategy in the year, with these assets expected to be reinvested at maturity.

Due to the low value of the remaining EIROS liabilities, these are now managed on a combined basis with the PPOs, and so no specific assets are held at the year end in relation to the EIROS liabilities.

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 £55.7m (2020: £51.2m) and EIROS claims amount to £2.1m (2020: £2.4m).

Market risk – sensitivity analysis

The most significant aspect of market risk to which SIL is exposed is the effect of changes in value of investments, which directly impacts the profits reported under UK GAAP, and changes in credit-spreads on corporate bonds, which also affect SIL's solvency.

An increase of 100 basis points in credit-spreads would reduce the value of SIL's assets at the end of the financial year by approximately £3.1m (2020: £16.8m). This would reduce SIL's solvency (on all bases) by £2.5m net of tax (2020: £13.6m), 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. This impact is significantly reduced from 2020 as SIL has rebalanced its asset portfolio during 2021 and corporate bonds now have a shorter duration than in previous years.

An increase in the discount rate of 1% would increase the value of SIL's net assets at the end of the financial year by £3.3m (2020: £3.2m) and a decrease of 1% would reduce the value by £4.4m (2020: £4.3m).

Climate change

SIL is incorporating Climate Change risk 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 considered its exposure to climate change risk as at the end of December 2021. SIL will have no live policies on risk after March 2022, meaning the exposure to climate change in the short term is limited. It is anticipated that the majority of the short tail claims will be settled within 12 to 18 months after the last policy expires. There will remain some longer tail claims, predominantly bodily injury, which are not expected to settle for a number of years. Climate change is not expected to have a material impact on the cost of these claims or on the insurance related assets.

SIL does have an exposure to climate risk in its investment portfolio and, therefore, in 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. Most of SIL's investment portfolio is held in corporate bonds and gilts, which are intended to closely align with the projected claims settlement patterns and, as such, are heavily weighted to mature within the next few years.

All amounts are stated in £m unless otherwise indicated

27. Risk management and capital management (continued)

Climate change (continued)

Many of the global climate reforms are targeting tangible change from the mid-point of this decade through to 2050. As SIL's outstanding claims and investment portfolio will be significantly reduced by the end of 2025, SIL considers that there is limited impact, particularly in the short to medium term, from climate change on its current business model and liabilities.

It is incumbent on SIL management, Board and investment partners to ensure that the longer term investment strategy, albeit notably limited in size, is managed effectively and minimises the risk of exposure to climate affected sectors.

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.
- Operational Resilience Risk.
- Information Risk.
- Financial Crime Risk.
- People Risk.

Under the new operating model, MISL are responsible for managing a significant amount of SIL's operational risks.

Third Party Risk will remain high given SIL's reliance on MISL for the management of policies and claims. This is managed via the ISARA agreement and monitoring meetings that have been put in place. 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 2021 included employer's liability and Directors' and Officers' insurance.

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.

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, including money market funds, and gilts. Both are assessed against forecast cash flows that would be required under stress scenarios. At 31 December 2021 liquid assets of £211.2m were held against a minimum requirement of £52.1m. The stressed value of investments at 31 December 2021 was calculated as £470.2m versus a minimum requirement of £101.0m. The amounts noted in this paragraph are unaudited.

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 IFCC, with oversight by the BRC and Board. In addition, in between IFCC meetings, monthly monitoring of liquid assets against risk appetite limits is undertaken.

All amounts are stated in £m unless otherwise indicated

27. Risk management and capital management (continued)

Liquidity risk (continued)

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

As at 31 December 2021	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	380.2	447.3	126.9	62.8	43.8	27.0	17.6	169.2
Financial liabilities at amortised cost:								
Reinsurance liabilities	0.2	0.2	0.2	-	-	-	-	-
Insurance and other payables	10.2	10.2	10.2	-	-	-	-	-
	390.6	**457.7**	**137.3**	**62.8**	**43.8**	**27.0**	**17.6**	**169.2**
Other liabilities	0.5							
Total recognised liabilities	**391.1**							

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:								
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	-	-	-	-	-
	496.6	**555.0**	**226.7**	**92.1**	**55.5**	**32.6**	**20.8**	**127.3**
Other liabilities	6.4							
Total recognised liabilities	**503.0**							

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 44 to 45 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 IFCC. 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.

All amounts are stated in £m unless otherwise indicated

27. Risk management and capital management (continued)

Credit risk (continued)

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 page 26.

	AAA	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
As at 31 December 2021						
Investment assets:						
Corporate bonds	**92.1**	**68.4**	**83.6**	**67.2**	**5.0**	**316.3**
Gilts	**-**	**60.1**	**-**	**-**	**-**	**60.1**
Real-estate backed lending	**-**	**-**	**-**	**-**	**3.5**	**3.5**
Collective investments	**-**	**-**	**-**	**-**	**18.6**	**18.6**
Reinsurance assets	**-**	**33.0**	**31.9**	**-**	**-**	**64.9**
Insurance receivables and other assets	**-**	**-**	**-**	**-**	**11.0**	**11.0**
Cash at bank and in hand	**141.1**	**-**	**10.0**	**-**	**-**	**151.1**
	233.2	**161.5**	**125.5**	**67.2**	**38.1**	**625.5**
Salvage and subrogation						**12.8**
Assets not subject to credit risk						**2.5**
						640.8

	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
Corporate bonds	141.0	87.5	176.6	10.7	-	415.8
Gilts	-	110.3	-	-	-	110.3
Collective investments	-	-	-	-	49.0	49.0
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 at bank and in hand	-	-	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						18.1
						945.3

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. No collateral is held against these assets in 2021 (2020: collateral, in the form of gilts, of £92.0m was held against short term deposits with approved credit institutions which were placed into a reverse repo transaction of £92.0m as at 31 December 2020).

No assets held at the end of the year are past due.

All amounts are stated in £m unless otherwise indicated

27. Risk management and capital management (continued)

Currency risk

SIL is exposed to currency risk on its investments as corporate bonds include investments denominated in Euros and US Dollars. Currency hedges are held against these assets to minimise exposure.

	Up to 1 year	**1 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2021				
GBP				
UK	53.8	35.9	-	**89.7**
Europe	74.3	40.1	-	**114.4**
Rest of world	60.6	22.9	-	**83.5**
EUR				
Europe	2.3	4.1	0.6	**7.0**
Rest of world	-	1.1	-	**1.1**
USD				
UK	-	2.1	-	**2.1**
Rest of world	6.0	12.5	-	**18.5**
	197.0	**118.7**	**0.6**	**316.3**

	Up to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2020				
GBP				
UK	55.8	104.1	26.0	**185.9**
Europe	18.5	76.4	-	**94.9**
Rest of world	71.3	44.5	19.2	**135.0**
	145.6	**225.0**	**45.2**	**415.8**

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.

27. Risk management and capital management (continued)

ii) Capital Management (continued)

(b) Internal required capital

SIL Board sets capital risk appetite, which defines how much additional capital SIL should hold. Coverage of both the SCR (1 year basis) and ECR (ultimate basis) is considered. This was reviewed by Board in September 2021 and the capital coverage to meet appetite was set at the greater of 140% SCR coverage and 130% ECR coverage. These thresholds were set taking into account the impact of stress tests and the fact that SIL is in run off with fewer capital management actions available than if it were still actively underwriting.

Since its sale in 2020, the calculation of the Company's SCR has included an additional £40m, representing an adjustment required by the PRA. In December 2021, permission was granted by the PRA to remove this capital add-on and as at the 2021 year end, there is no additional capital requirement over the calculated SF SCR.

SIL has maintained capital above all its regulatory requirements throughout 2021, and SCR coverage has been maintained above the risk appetite throughout the year. SIL reviews solvency continuously through monthly or, when appropriate, more frequent monitoring. Monthly updates and quarterly reports are provided to the Investments, Finance and Capital Committee and the 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 subsequently been further refined. 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. At year end 2021 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. This AOF capital is no longer required and the PRA approved the cessation of this facility with effect from February 2022. Any deferred tax assets are classified as tier 3 capital.

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.

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

28. 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 are available from www.soteriainsurance.co.uk.

All amounts are stated in £m unless otherwise indicated

29. Related party transactions

Balances at the end of the year	2021	2020
Amounts due from Co-operative Group Limited	**-**	0.3
Amounts due from SFHL	**0.1**	-
Amounts due from/(to) SFHL shareholder companies:		
MISL	**3.8**	-
TwinFocus Limited	**(0.3)**	-

Transactions during the year	2021	2020
Net expenses from transactions with Co-operative Group Limited and other Co-operative Group companies	**-**	(96.0)
Net income from transactions with SFHL	**0.6**	-
Net expenses from transactions with SFHL shareholder companies:		
MISL	**(32.6)**	-
TwinFocus Limited	**(0.7)**	-

The figures shown above include balances and transactions with companies that were related to SIL both up to the point of sale of SIL to SFHL and after that date.

In 2021, related party transactions consisted of:

- Transactions with SFHL, where SIL pays expenses on behalf of SFHL and then recharges SFHL. These costs include payments made to SFHL's Directors as well as administration expenses where these are not paid directly by SFHL.
- Transactions with MISL, representing amounts charged for the provision of insurance services under an outsourcing agreement. The debtor of £3.8m at 31 December 2021 relates to premiums received by MISL on behalf of SIL.
- Investment management fees charged by TwinFocus Limited.

In 2020, all transactions were with the Co-operative Group Limited and other Co-operative Group companies. These ceased to be related parties on 2 December 2020 when SIL was sold to SFHL. Transactions during the year consisted of:

- £37.3m with Co-operative Group Limited, for the provision of administration services under a Master Services Agreement, and other costs including estates costs and food vouchers.
- Management fees of £44.7m, included in operating expenses and claims handling costs incurred, charged to SIL from CFSMS, a fellow subsidiary of Co-operative Group Limited.
- £1.2m for legal cover to SIL motor and home policyholders, paid to Co-operative Legal Services Limited, a subsidiary of the Co-operative Group Limited.
- Marketing support of £9.4m paid to Co-op Insurance Services Limited, a subsidiary of the Co-operative Group Limited.
- Commission expenses of £3.4m paid to Affinity Insurance Services Limited (AISL), a subsidiary of Co-operative Group Limited until 2 December 2020.

Key management compensation

Key management 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.

	2021	2020
Salaries and short term benefits	**1.5**	3.4

In respect of Executive and Non-Executive Directors

	2021	2020
Salaries and short term benefits	**0.9**	1.8

In respect of the highest paid director:

	2021	2020
Salaries and short term benefits	**0.5**	0.9

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

30. Fair values of financial assets and liabilities

As described in note 4, the fair value of listed securities is based on market prices provided by independent, external pricing sources at the statement of financial position date without any deduction for transaction costs. The fair value of unlisted securities is based on independent valuations which are updated at least quarterly.

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 following table provides an analysis of financial investments that are valued or disclosed at fair value, by the three level fair value hierarchy as defined within FRS 102, where valuations are based on:

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

Based upon guidance issued by The Committee or 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 and gilts are classified as level 2 and valued using the market prices as at the reporting date multiplied by the number of each security held.

Level 3 investments are valued using valuation techniques described in note 3 c) iv) Other financial instruments on page 25.

Valuation of financial investments

2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial investments	**-**	**384.1**	**14.4**	**398.5**

2020	Level 1	Level 2	Level 3	Total
Financial investments	-	667.1	-	667.1

31. Events after the Reporting Period

Impact of war in Ukraine

As SIL trades solely in the UK, there is little direct exposure and so the impact is expected to be minimal.

Investments

The Russian invasion of Ukraine has had a significant impact on global investment markets, with prices falling markedly since the start of the war. As at 31 March 2022, unrealised losses of £3.9m were incurred, compared with the valuation of investments as at 31 December 2021.

SIL had an investment in Gaz Capital SA, which operates as a subsidiary of Gazprom Public Joint Stock Company, a Russian entity. This was sold on 9 March 2022, realising a loss of £1.8m compared with its valuation at 31 December 2021. This is the only Russian or Ukrainian investment which was held by SIL. Investments are screened against government sanctions lists and there has been no exposure to investments on this list.

Policyholders

As standard, policyholder screening procedures are in place to ensure no policies are held by sanctioned individuals.

UK storms impact

In recent weeks, the UK has seen significant storm impact, with five storms in total occurring to date in 2022, the most notable being storms Dudley, Eunice and Franklin, which all occurred in a matter of days during February. Claims levels for the storms are not material, as few policies remained on cover at the time.

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