MULSANNE INSURANCE COMPANY LIMITED

SOLVENCY II ASSUMPTIONS AND JUDGEMENTS MANUAL

For the year ended 31 December 2023

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## Version Control

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| **#** | **Date** | **Changes** | **Prepared by** | **Reviewed by** | **Signed off by** | **Reported figures** |
| 1 | Dec-23 | Original preparation | Isidoro Manrique | Alberto Barroso |  | Annual-23 |

# Introduction and purpose

* 1. The purpose of this manual is to document all key judgements and valuation/recognition principles utilized in preparing the December - 23 Annual solvency returns of Mulsanne Insurance Company Limited (‘MICL’, ‘the Company’).
  2. This document covers the key principles and judgements, including references to the relevant aspects of Solvency II and the Delegated Regulations, underpinning the following:
     1. SII Balance Sheet – Investment Assets
     2. SII Balance Sheet – Technical Provisions
     3. SII Balance Sheet – Other Assets and Liabilities
     4. SII Balance Sheet – Capital
     5. Solvency Capital Requirement
     6. Minimum Capital Requirement
  3. The intention of this document is to consider the principles underlying the derivation of the SII balance sheet, the SCR and the MCR. The underlying assumptions on valuation principles are derived from Article 9 of the Delegated Regulations (Valuation methodology, general principles).
  4. This document has been elaborated based on the annual figures submitted for Y23 Annual purpose and that feed into the Actuarial function report to which it gives support. After this submission took place a number of assumptions have changed, specially, the version of management accounts used for the computations that included all the subsequent audit adjustments. Another set of computations has been carried out ahead of the quality assurance exercise and another section of all the movements and changes will be explained and reconciled, section 10.
  5. In accordance with Actuarial Practice Standard X2 published by the UK’s Institute and Faculty of Actuaries (IFoA), this report has been duly peer reviewed.

# Definitions

|  |  |
| --- | --- |
| **Term** | **Definition** |
| Delegated Regulations | Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 as amended |
| Company | Mulsanne Insurance Company Limited |
| ECR | Economic Capital Requirement |
| ECR Valuation | Valuation of assets and liabilities to meet the ECR |
| ENID | Events not in data. A combination of movements in latent claims and extreme events which we would not forecast based on the data we have available. The inclusion of ENIDs to best estimate moves from a valuation basis based on ‘reasonably foreseeable’ events to one based on ‘all possible outcomes’. |
| GAAP | Gibraltar Generally Accepted Accounting Principles |
| GAAP Valuation | Valuation of assets and liabilities in accordance with GAAP, as presented in the financial statements |
| MCR | Minimum Capital Requirement, the capital requirement where a national regulatory would intervene |
| ORSA | Own Risk and Solvency Assessment |
| SCR | Solvency Capital Requirement, the capital requirement under Solvency II. |
| SII Valuation | Valuation of assets and liabilities to meet the SCR |
| Solvency II | Directive 2009/138/EC of the European Parliament (recast 31 March 2015) |
| Solvency II in Gibraltar | Services (Insurance Companies) Regulations 2020 |
| BBNI | Bound but not incepted, business that the insurer is committed to at the valuation date but for which insurance cover has not yet commenced. |

# Solvency II Balance sheet – Investment assets

* 1. The company holds a variety of investment assets as of 31st of December 2023 in its GAAP balance sheet. The following table shows how investments have been distributed:

|  |  |  |  |
| --- | --- | --- | --- |
| **Investments** | **£'000s** | **Asset class** | **SCR modules** |
| JSS 6002 - Raw Alpha | 4,001 | Collective Investment Fund - Alternative funds | SCR Spread, SCR Concentration & SCR Interest |
| JSS 6002 - Horizon | 1,343 | Collective Investment Fund - Debt funds | SCR Spread, SCR Concentration & SCR Interest |
| Colchis RBLF | 2,022 | Collective Investment Fund - Debt funds | SCR Spread, SCR Concentration & SCR Interest |
| CCA Longevity fund | 1,653 | Collective Investment Fund - Debt funds | SCR Spread, SCR Concentration & SCR Interest |
| Pluto | 3,638 | Collective Investment Fund - Real Estate fund | SCR Spread, SCR Concentration & SCR Interest |
| Wolvercote loan | 5,070 | Mortgages and loans | SCR Spread, SCR Concentration & SCR Interest |
| Avantus | 2,339 | Mortgages and loans | SCR Spread, SCR Concentration & SCR Interest |
| Dayim | 4,981 | Mortgages and loans | SCR Spread, SCR Concentration & SCR Interest |
| Hiyacar | 1,929 | Mortgages and loans | SCR Spread, SCR Concentration & SCR Interest |
| HyperJar | 910 | Mortgages and loans | SCR Spread, SCR Concentration & SCR Interest |
| Ibuyer | 1,914 | Mortgages and loans | SCR Spread, SCR Concentration & SCR Interest |
| BFL Shares | 4,341 | Equity | SCR Equity, SCR Concentration & SCR Interest |
| 8VC | 6,536 | Equity | SCR Equity, SCR Concentration & SCR Interest |
| KMB | 1 | Equity | SCR Equity, SCR Concentration & SCR Interest |
| Perceptive | 307 | Mortgages and loans | SCR Spread, SCR Concentration & SCR Interest |
| Deep discounted bonds | 10,000 | Bonds | SCR Spread, SCR Concentration & SCR Interest |
| **Total** | **50,985** |  |  |

* 1. The table below shows the overall distribution per asset class:

|  |  |  |
| --- | --- | --- |
| **Asset Class** | **£'000s** | **% of Asset class** |
| Collective Investment Funds | 12,658 | 24.8% |
| Mortgages and loans | 17,449 | 34.2% |
| Equity | 10,878 | 21.3% |
| Bonds | 10,000 | 19.6% |
| **Total** | **50,985** | **100.0%** |

* 1. As at 31st December 23 the company holds a software investment for £48k. At the moment this is removed from the SII assets unless the company is able to demonstrate the asset can be sold separately for a similar value. As this hasn’t been demonstrated, for prudence, this is removed.
  2. The company holds different cash accounts as of 31st of December 2023:

|  |  |  |
| --- | --- | --- |
| **Cash at bank** | **£'000s** | **%** |
| RBS | 4,973 | 16.7% |
| JSS | 18,489 | 62.2% |
| JSS - Forward | 104 | 0.3% |
| SG Hambros | 6,102 | 20.5% |
| Barclays | 37 | 0.1% |
| **Total** | **29,704** | **100%** |

* 1. There’s no adjustment or reclassification applied on these exposures for Solvency II Balance sheet purpose. They’re subject to Counterparty Type 1 SCR following Article 189(2)(b) of delegated regulations.
  2. The company holds a derivative position in the shape of a Forward asset to cover up for fluctuations in the investments whose original currency is denominated in USD. The Forward guarantees the conversion from USD to GBP as at December-23 at the level of £15m. This is stressed under SCR Counterparty type 1.
  3. As at 31st December the company holds the following investments and bank accounts denominated in USD:

|  |  |
| --- | --- |
| **USD Investments &  Bank accounts** | **£'000s** |
| Dayim | 4,981 |
| 8VC | 6,536 |
| CCA Longevity Fund | 1,653 |
| Colchis RBLF | 2,022 |
| Perceptive | 307 |
| RBS USD account | 162 |
| JSS - Forward | 104 |
| **Total** | **15,765** |

* 1. As of December-23, the exposure to currency risk given by the excess of USD investments to the guaranteed GBP value by the forward derivative is £694k.

# Solvency II Balance sheet – Technical provisions (Gross)

4. 1. **Structure and segregation** 
      1. The following heads of damage are segregated into Solvency II Classes as follows:

|  |  |
| --- | --- |
| **SII Segments - Annex II** | **HoD** |
| 1 – Motor vehicle liability insurance | Property damage (PD) & Bodily Injury (TP) |
| 2 – Other motor insurance | Accidental damage (AD) & Windscreen damage (WS) |
| 8 – Assistance | Rescue |
| 9 – Miscellaneous financial loss | Excess |

* + 1. For the purposes of the modelling, technical provisions are calculated based on the following constituent parts:
* Claims provision (excluding discounting, expenses, ENID adjustment and risk margin)
* Premium provision (excluding discounting, expenses, ENID adjustment and risk margin)
* ENID adjustment
* Cancellations adjustment
* Management load
* Run-off provision adjustment
* Insurance and reinsurance payables and receivables that are brought into the best estimate liability
* Discounting effect
* Risk margin
  1. **Contract boundaries**
     1. As at 31st of December 2023 the Company has collected £1m premium where the inception period had not yet commenced therefore the company is not obligated to cover at the valuation date. These cashflows (BBNI, Bound but not Incepted) had been included in the GWP and therefore included on a 100% basis in the UPR. This had been fully removed and the premium provision was added, therefore the adjustment for BBNI had been done implicitly.
  2. **Claims provision (excluding discounting, run-off provision, ENID and risk margin)**
     1. Solvency II best estimate of claims provision coincides with GAAP Claims Outstanding and IBNR excluding any management loading or any margins of prudence:

|  |  |  |  |
| --- | --- | --- | --- |
| **£’000s** | **GAAP Valuation** | **SII Valuation** | **Comments** |
| Claims OS Provision | 198,241 | 198,241 |  |
| IBNR | 13,556 | 13,556 |  |
| Management margin | 1,500 | 0 |  |
| **Total claims provision** | **213,297** | **211,797** |  |

* 1. **Premium provision (excluding discounting, run-off provision, ENID, risk margin and future premiums receivable)**
     1. The best estimate for premium provision is calculated as follows:

Where:

* *Books* refers to separate books of business as identified for management accounts purposes.
* *UEP* refers to the unearned premium at the valuation date in respect of the book of business
* *BBNI* refers to adjustment for bound but not incepted business. This relates to claims expected to be payable in relation to policies bound but not incepted at the valuation date.
* *ULRgross* relates to the unearned ultimate loss ratio expected for that book of business, gross of non-proportional reinsurance.
  + 1. The following table shows the unearned premiums by underwriting year and class for each book of business:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **UPR - Journals (£'000s)** | **SII Class** | **2023** | **2022** | **2021** |
| UPR - Journals - GR | Motor total | 12,663 | -1,271 | 0 |
| UPR - Journals - GR - AURR | Motor total | 0 | -287 | -55 |
| UPR - Journals - NR | Motor total | 10,105 | 1,270 | 0 |
| UPR - Journals - NR - AURR | Motor total | 0 | 345 | 72 |
| UPR - PUKKA | Motor total | 1,420 | -1 | -5 |
| UPR - PUKKA CV | Motor total | 533 | 186 | 0 |
| UPR - Hedgehog | Motor total | 10,089 | 4 | 0 |
| UPR - Rescue | Assistance | 82 | 0 | 0 |
| UPR - Excess | Miscellaneous | 9 | 0 | 0 |
| **Total** | **35,159** | **34,901** | **247** | **11** |

* + 1. ‘*GR*’ and ‘*NR*’ stand for gross and net rated business depending on whether contains the acquisition costs or not.
    2. As of 31st December there is an additional unexpired risk reserve (AURR) for years 2022 and prior equal to £75k as amount required in excess of the UPR.
    3. The following table shows the Unearned ULRs applied on the UPR to derive the unearned claims cashflows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Unearned ULRs (%)** | **SII Class** | **2023** | **2022** | **2021** |
| ULR - Journals - GR | Motor total | 63.1% | 130.4% | 90.9% |
| ULR - Journals - GR - AURR | Motor total | 0.0% | 116.8% | 90.9% |
| ULR - Journals - NR | Motor total | 74.0% | 117.0% | 90.8% |
| ULR - Journals - NR - AURR | Motor total | 0.0% | 107.1% | 90.8% |
| ULR - PUKKA | Motor total | 58.1% | 71.0% | 0.0% |
| ULR - PUKKA CV | Motor total | 63.4% | 101.1% | 0.0% |
| ULR - Hedgehog | Motor total | 74.4% | 123.4% | 0.0% |
| ULR - Rescue | Assistance | 40.0% | 0.0% | 0.0% |
| ULR - Excess | Miscellaneous | 40.0% | 0.0% | 0.0% |

* + 1. The following table shows the future claims from unearned business as at Dec-23:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **UEP Claims (£'000s)** | **SII Class** | **2023** | **2022** | **2021** |
| PP - Journals - GR | Motor total | 7,994 | -1,658 | 0 |
| PP - Journals - GR - AURR | Motor total | 0 | -335 | -50 |
| PP - Journals - NR | Motor total | 7,482 | 1,487 | 0 |
| PP - Journals - NR - AURR | Motor total | 0 | 370 | 66 |
| PP - PUKKA | Motor total | 825 | -1 | 0 |
| PP - PUKKA CV | Motor total | 338 | 188 | 0 |
| PP – Hedgehog | Motor total | 7,507 | 5 | 0 |
| PP – Rescue | Assistance | 33 | 0 | 0 |
| PP – Excess | Miscellaneous | 3 | 0 | 0 |
| **Total** | **24,255** | **24,182** | **57** | **15** |

* + 1. The ‘Motor total’ above is split between classes ‘*Motor vehicle liability*’ and ‘*Other motor*’ based on the incurred data received as of December-23 for the different heads of damage as broken down in paragraph 4.1.1. This data provided a distribution of 87% incurred claims for motor liability and 13% for other motor.
    2. Applying the above percentages, the premium provision by Solvency II class of business would be distributed as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SII Class** | **UEP Claims (£'000s)** | **2023** | **2022** | **2021** |
| 1 – Motor vehicle liability insurance | 21,127 | 21,064 | 50 | 13 |
| 2 – Other motor insurance | 3,091 | 3,082 | 7 | 2 |
| 8 – Assistance | 33 | 33 | 0 | 0 |
| 9 – Miscellaneous financial loss | 3 | 3 | 0 | 0 |
| **Total** | **24,255** | **24,182** | **57** | **15** |

* 1. **ENID adjustment**
     1. Under the Solvency II Directive insurers are required to allow for all possible events when setting their technical provisions, including those that may not have been historically realized before. Such events not presented in a set of observable historical loss data are often called binary events to define loss generating events with low frequency and high severity impact. An alternative name, Events Not In Data (ENID), may also be used to denote a much broader set of unobservable loss events.
     2. The ENID adjustment is provided annually by the reserving team in the company and as at 31st December – 23 this is equal to £321k. As a proportion of the SII net best estimate this amount is at 0.89%.
     3. Overall, the amount of £321k is allocated to claims and premium provision by SII Class depending on their weightings.
  2. **Cancellations adjustment** 
     1. The percentage of cancellations is provided by MICL reserving team. The adjustment is applied on the UPR as follows:

|  |  |
| --- | --- |
|  | **£'000s** |
| UPR (1) | 35,084 |
| NWP (2) | 97,572 |
| Dev NWP (3) | 95,957 |
| Cancellation rate (1-(3)/(2)) = (4) | 1.66% |
| Cancellation Adj. (5) = (4)\*(1) | 581 |

* 1. **Management load**
     1. As at 31st December 2023 there is £1.5m of margin of prudence distributed equally £750k between underwriting year 2022 and 2023.
  2. **Run-off Expense provision**
     1. This provision is derived in accordance with Article 31 of the Delegated Regulations and so allows for the costs of servicing bound obligations over their lifetime on the assumption that the company stops writing new business.
     2. Expenses have been projected for a ten-year period in line with the nature of the business:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Run-off expenses (£'000s)** | **Total** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** |
| Management Company Charges | **538** | 250 | 125 | 63 | 25 | 13 | 13 | 13 | 13 | 13 | 13 |
| Legal and Professional Fees | **15** | 5 | 5 | 5 |  |  |  |  |  |  |  |
| Actuarial/Audit Fees | **432** | 120 | 104 | 75 | 49 | 35 | 28 | 21 |  |  |  |
| Regulatory Fees | **897** | 236 | 189 | 142 | 94 | 47 | 47 | 47 | 47 | 47 | 0 |
| Directors Fees | **323** | 85 | 85 | 64 | 43 | 21 | 9 | 4 | 4 | 4 | 4 |
| Investment management fees | **105** | 40 | 30 | 20 | 10 | 5 |  |  |  |  |  |
| MIB | **2,977** | 2,977 |  |  |  |  |  |  |  |  |  |
| Claims handling provision | **355** | 355 |  |  |  |  |  |  |  |  |  |
| **Total** | **5,641** | **4,068** | **538** | **368** | **221** | **121** | **96** | **85** | **64** | **64** | **17** |

* + 1. The amount of MIB levy is re-classified from the GAAP entry ‘Other creditors’ and brought into the run-off expense provision.
    2. The claims handling provision is calculated every period as this is dependent on a number of parameters and is estimated as following:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Net of XoL PP  (1) | ACPC (2) | No. of Claims  (3 = (1)/(2)) | % of fault (4) | No. of fault  claims (5= (4)\*(3)) | Average cost  of Fault claims (6) | Claims handling  provision (7 =( 5)\*(6)) |
| 20,951,362 | 5,680.64 | 3,688 | 54.9% | 2,027 | 175 | 354,664 |

* 1. **Intermediary receivables brought into solvency II gross technical provisions**
     1. Future premiums receivable are cash inflows for the unearned business that can offset the future claim payments expected from the UPR. In the table below is shown the amounts offsetting:

|  |  |
| --- | --- |
| **Amount due from Intermediaries - Net** | **£'000s** |
| Amounts due from Intermediaries  re Premiums (net) | 10,262 |
| Amounts due from Pukka  (non-fronting) and Hedgehog | 4,329 |
| **Total** | **14,592** |

* 2. **Discounting**
     1. The Solvency II discounted gross technical provisions is given by the following:

Where:

* CFt refers the gross undiscounted technical provision cash flows in year t.
* RFR refers to the GBP risk-free rates as published monthly by the PRA.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **GAAP Valuation** | **SII Valuation (£'000s)** | **Comments** |
| Disc - claim prov |  | -17,294 |  |
| Disc - prem prov |  | -1,832 |  |
| Disc - RO Expense provision |  | -438 |  |
| **Total Discounting** |  | **-19,565** |  |

* 1. **Future claims payment pattern assumptions**
     1. The claims payment patterns employed to determine the future cash flows have been estimated by line of business (amounts in percentages):

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Claims paid pattern** | **Yr1** | **Yr2** | **Yr3** | **Yr4** | **Yr5** | **Yr6** | **Yr7** | **Yr8** | **Yr9** | **Yr10** |
| 1 – Motor vehicle liability insurance | 29% | 20% | 17% | 12% | 8% | 6% | 5% | 3% | 0% | 0% |
| 2 – Other motor insurance | 98% | 2% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 8 – Assistance | 50% | 50% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| 9 – Miscellaneous financial loss | 50% | 50% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |

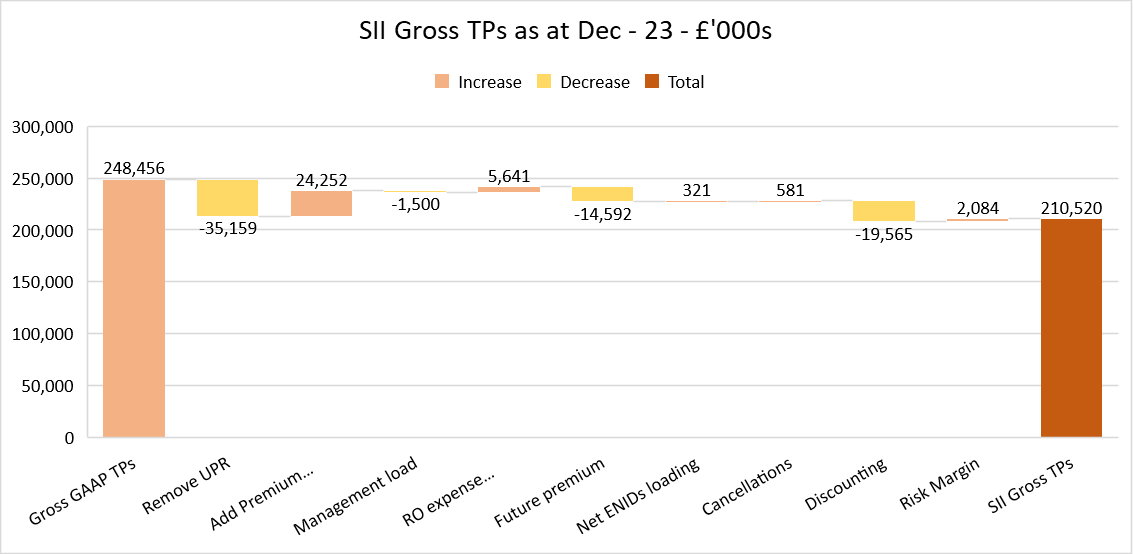
* 1. **Risk Margin**
     1. The risk margin is intended to be the sum of all future SCRs, based on the designated cost of capital at 4% in accordance with Article 37 of the Delegated Regulations.
     2. The Company uses a calculation method based on Method 1 of Guideline 61 of EIOPA’s "Guidelines on the valuation of technical provisions”. Future SCRs are approximated by estimating the underwriting, counterparty default and operational risk capital requirements at each future date:

Where:

* SCR(t) denotes the Solvency Capital Requirement after t years
* r(t + 1) denotes the basic risk-free interest rate for the maturity of t + 1 years
* CoC denotes the Cost-of-Capital rate (4%)
  + 1. There is no assessment of market risk as this is considered fully diversified.
    2. The production of the above SCR components over the period to ultimate is carried out using a proportionate approach applied to the applicable SCR components at time t=0. The proportions used are gross technical provisions for the underwriting and operational risk elements and reinsurance technical provisions for the counterparty default.

|  |  |  |  |
| --- | --- | --- | --- |
| £'000s | GAAP valuation | SII valuation | Comments |
| Risk Margin |  | 2,084 |  |
| **Total** |  | **2,084** |  |

* 1. **GAAP to SII Gross TPs reconciliation**
     1. The waterfall for SII technical provisions broken down throughout section four is given below:



# SOLVENCY II BALANCE SHEET – TECHNICAL PROVISIONS (REINSURANCE)

1. 1. **Structure and segregation** 
      1. The heads of damage are segregated into Solvency II Classes as follows:

|  |  |
| --- | --- |
| **SII Segments - Annex II** | **HoD** |
| 1 – Motor vehicle liability insurance | Property damage (PD) & Bodily Injury (TP) |
| 2 – Other motor insurance | Accidental damage (AD) & Windscreen damage (WS) |

* + 1. For the purposes of the modelling, reinsurance share of technical provisions are calculated based on the following constituent parts:
* Reinsurance share of claims provisions (excluding discounting and default deduction)
* Reinsurance share of premium provisions (excluding discounting and default deduction)
* Reinsurance net payables brought into Solvency II Reinsurance Technical Provisions
* Cancellations adjustment
* Quota-share sliding scale commission
* Default deduction
* Discounting
  1. **Reinsurance share of claims provisions (excluding discounting and default deduction)**
     1. Solvency II best estimate of reinsurance claims provision coincides with GAAP Reinsurance Claims Outstanding and IBNR excluding any management loading or any margins of prudence:

|  |  |  |  |
| --- | --- | --- | --- |
| **£'000s** | **GAAP Valuation** | **SII Valuation** | **Comments** |
| RI Claims OS Provision | 149,380 | 149,380 |  |
| RI IBNR | 16,394 | 16,394 |  |
| Provision for Claims - LPT | 1,067 | 1,067 |  |
| Management margin | 0 | 0 |  |
| **Total RI claims provision** | **166,841** | **166,841** |  |

* 1. **Reinsurance share of premium provisions (excluding discounting and default deduction)**
     1. The best estimate for reinsurance share of premium provisions is calculated as follows:

Where:

* Books refers to separate books of business as identified for management accounts purposes
* RI\_UEP refers to proportional reinsurance share of unearned premium at the valuation date in respect of the book of business
* RI\_BBNI refers to adjustment for proportional reinsurance share of bound but not incepted business. This relates to claims expected to be payable in relation to policies bound but not incepted at the valuation date.
* ULRnet relates to the ultimate loss ratio expected for that book of business, net of non-proportional reinsurance. Where a separate ultimate loss ratio in relation to unearned exposures is available this will be used, else the ultimate loss ratio selected will match that of the most recent year of account for the book of business
* XOL refers to any amounts expected to be recoverable from non-proportional reinsurance treaties.
  + 1. The derivation for the SII balance sheet of the expected recoverables from unearned business is set out in detail in the following tables, first by deriving the unearned ULRs:

|  |  |  |  |
| --- | --- | --- | --- |
| **Unearned ULRs (%) - Motor** | **2023** | **2022** | **2021** |
| ULR - XoL - Pukka - GR | 7.10% | 6.36% | 4.24% |
| ULR - XoL - Pukka - NR | 0.00% | 0.00% | 0.00% |
| ULR - XoL - Pukka CV - GR | 8.56% | 8.55% | 9.63% |
| ULR - XoL - Pukka CV- NR | 0.00% | 0.00% | 0.00% |
| ULR - XoL - Standard - GR | 8.53% | 11.03% | 13.22% |
| ULR - XoL - Standard - GR - AURR | 0.00% | 116.79% | 90.88% |
| ULR - XoL - Standard - NR - AURR | 0.00% | 107.14% | 90.84% |
| ULR - XoL - Standard - NR | 10.00% | 9.90% | 13.22% |
| ULR - XoL - Hedgehog - GR | 10.05% | 10.44% | 0.00% |
| ULR - XoL - Hedgehog - NR | 0.00% | 0.00% | 0.00% |
| ULR - Pukka fronting - GR | 51.00% | 64.67% | 42.03% |
| ULR - Pukka fronting - NR | 0.00% | 0.00% | 0.00% |
| ULR - R&V - GR | 60.41% | 10.99% | 73.01% |
| ULR - R&V - NR | 60.41% | 10.99% | 73.01% |
| ULR - Trans RE - GR | 60.41% | 10.99% | 73.01% |
| ULR - Trans RE - NR | 60.41% | 10.99% | 73.01% |
| ULR - New RE - GR | 60.41% | 10.99% | 73.01% |
| ULR - New RE - NR | 60.41% | 10.99% | 73.01% |
| ULR - Allianz - GR | 60.41% | 10.99% | 73.01% |
| ULR - Allianz - NR | 60.41% | 10.99% | 73.01% |

* + 1. The following table stablishes the reinsurance UPR subject:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **RI UPR (£'000s)** | **Total** | **2023** | **2022** | **2021** |
| UPR - Journals - Pukka - GR | 1,414 | 1,420 | -1 | -5 |
| UPR - Journals - Pukka - NR | 0 | 0 | 0 | 0 |
| UPR - Journals - Pukka CV - GR | 719 | 533 | 186 | 0 |
| UPR - Journals - Pukka CV- NR | 0 | 0 | 0 | 0 |
| UPR - Journals - Standard - GR | 10,797 | 12,663 | -1,271 | -595 |
| UPR - Journals - Standard - GR - AURR | -342 | 0 | -287 | -55 |
| UPR - Journals - Standard - NR - AURR | 418 | 0 | 345 | 72 |
| UPR - Journals - Standard - NR | 11,971 | 10,105 | 1,270 | 595 |
| UPR - Journals - Hedgehog - GR | 10,093 | 10,089 | 4 | 0 |
| UPR - Journals - Hedgehog - NR | 0 | 0 | 0 | 0 |
| UPR - Pukka fronting - GR | 1,414 | 1,420 | -1 | -5 |
| UPR - Pukka fronting - NR | 0 | 0 | 0 | 0 |
| UPR - R&V - GR | 7,316 | 7,311 | 1 | 4 |
| UPR - R&V - NR | 0 | 0 | 0 | 0 |
| UPR - Trans RE - GR | 3,436 | 3,432 | 0 | 4 |
| UPR - Trans RE - NR | 0 | 0 | 0 | 0 |
| UPR - New RE - GR | 10,285 | 10,295 | 1 | -12 |
| UPR - New RE - NR | 0 | 0 | 0 | 0 |
| UPR - Allianz - GR | 3,432 | 3,432 | 0 | 0 |
| UPR - Allianz - NR | 0 | 0 | 0 | 0 |
| **Total** | **60,951** | **60,700** | **249** | **2** |

* + 1. The following table shows the reinsurance premium provision as of Dec-23:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **RI PP (£'000s)** | **Total** | **2023** | **2022** | **2021** |
| PP - XoL - Pukka - GR | 101 | 101 | 0 | 0 |
| PP - XoL - Pukka - NR | 0 | 0 | 0 | 0 |
| PP - XoL - Pukka CV - GR | 62 | 46 | 16 | 0 |
| PP - XoL - Pukka CV- NR | 0 | 0 | 0 | 0 |
| PP - XoL - Standard - GR | 861 | 1,080 | -140 | -79 |
| PP - XoL - Standard - GR - AURR | -386 | 0 | -335 | -50 |
| PP - XoL - Standard - NR - AURR | 436 | 0 | 370 | 66 |
| PP - XoL - Standard - NR | 1,215 | 1,011 | 126 | 79 |
| PP - XoL - Hedgehog - GR | 1,014 | 1,014 | 0 | 0 |
| PP - XoL - Hedgehog - NR | 0 | 0 | 0 | 0 |
| PP - Pukka fronting - GR | 721 | 724 | 0 | -2 |
| PP - Pukka fronting - NR | 0 | 0 | 0 | 0 |
| PP - R&V - GR | 4,420 | 4,417 | 0 | 3 |
| PP - R&V - NR | 0 | 0 | 0 | 0 |
| PP - Trans RE - GR | 2,076 | 2,073 | 0 | 3 |
| PP - Trans RE - NR | 0 | 0 | 0 | 0 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| PP - New RE - GR | 6,211 | 6,219 | 0 | -9 |
| PP - New RE - NR | 0 | 0 | 0 | 0 |
| PP - Allianz - GR | 2,073 | 2,073 | 0 | 0 |
| PP - Allianz - NR | 0 | 0 | 0 | 0 |
| **Total** | **18,804** | **18,757** | **37** | **10** |

* 1. **Reinsurance share of ENID adjustment**
     1. ENID adjustment had been provided on a net basis and is included in Gross SII Technical provisions.
  2. **Reinsurance net payables brought into Solvency II Reinsurance Technical Provisions**
     1. Reinsurance net payables brought into Solvency II Reinsurance Technical Provisions:

|  |  |
| --- | --- |
| **Net RI technical payables** | **£'000s** |
| Creditors arising out of Reinsurance Operations - XOL | 8,931 |
| Creditors arising out of Reinsurance Operations - QS | -2,369 |
| Creditors arising out of Reinsurance Operations - LPT | 1,587 |
| Hedgehog Profit Commissions | -2,235 |
| Coinsurance debtor | -3,995 |
| **Total** | **1,920** |

* 1. **Cancellations adjustment**
     1. The cancellation rate calculated in paragraph 4(6)(1) at the level of 1.66% is applied on the reinsurance UPR, resulting in a cancellation of £526k.
  2. **Quota-share sliding scale commission**
     1. Future reinsurance expected technical cashflows such as profit or sliding scale commissions are allowed as part of the Reinsurance best estimate. This was provided by finance and was estimated at the level of £3.3m as of December-23.
  3. **Reinsurance default adjustment**
     1. The default adjustment is calculated as follows:

Where:

* CP refers to the reinsurance claims provisions without discounting, or ENIDs.
* PP refers to the RI premium provisions without discounting or ENIDs.
* CFt refers to the cash flow (CP + PP) in year t
* N refers to the number of years that technical provisions cash flows are expected to be payable
* P(default) refers to the weighted probability of default of the reinsurance profile, calculated as follows:

Where:

* RI exposure is the total exposure to each reinsurer net of any collateral held
* P(rating) is the probability of default based on the ECAI rating as per Article 199(2) or the probability of default based on the solvency coverage in accordance with 199(3) (where applicable) of the Delegated Regulations.
  + 1. The approach taken to estimate the allowance for reinsurance bad debt is based on parameters that underlie the calculation of counterparty default risk under the Standard Formula. These parameters are calibrated on a 1-in-200-year basis over a one-year time horizon. Notwithstanding this point, the approach is considered to be proportionate:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **GAAP Valuation** | **SII Valuation** | **Comments** |
| Default deduction | 0 | -32 |  |

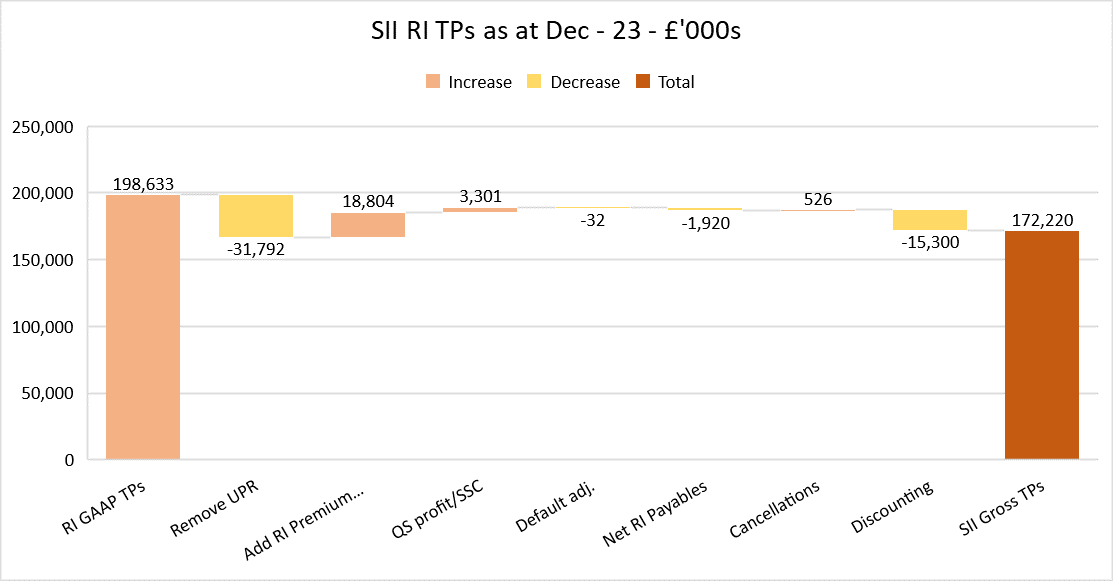
* 1. **Reinsurance discounting**
     1. The discounted reinsurance share of gross technical provisions is given by the following:

Where:

* RI\_CFt refers the reinsurance share of undiscounted technical provision cash flows in year t.
* RFR refers to the GBP risk-free rates as published monthly by the Bank of England.

|  |  |  |  |
| --- | --- | --- | --- |
| **£’000s** | **GAAP Valuation** | **SII Valuation** | **Comments** |
| Disc - RI Clm Prov | 0 | -13,878 |  |
| Disc - RI Prem Prov | 0 | -1,422 |  |
| **Total RI Discounting** | **0** | **-15,300** |  |

* 1. **GAAP to SII Reinsurance TPs reconciliation**
     1. The waterfall for SII reinsurance technical provisions broken down throughout section five is given below:



# SOLVENCY II BALANCE SHEET – TECHNICAL PROVISIONS (OTHER ASSETS AND LIABILITIES)

1. 1. **Deferred tax** 
      1. Deferred tax is considered based on the movement between the GAAP and SII balance sheet. More specifically, since a loss occurs as we move from GAAP to SII, we assume that an asset can be recognized to the extent of the overall movement multiplied by 12.5% which is the prevailing rate of corporation tax in Gibraltar as of December-23.
      2. For AQRT purpose, movement through the year in GAAP Own Funds has been -£16.2m and +£11.9m on a Solvency II basis. The net temporary difference of -£4.3m would arise a deferred tax asset of +£537k, however, for prudence, this hasn’t been factored in.
   2. **Other assets**
      1. Other assets included in the Solvency II balance sheet are shown below:

|  |  |  |  |
| --- | --- | --- | --- |
| **£'000s** | **GAAP Valuation** | **SII Valuation** | **Comments** |
| Prepayments | 300 |  | Removed from SII |
| Deferred Acquisition Costs - Gross Amount | 2,514 |  | Removed from SII |
| Deferred Processing Costs - Gross Amount | 830 |  | Removed from SII |
| Deferred MIB costs | 943 |  | Removed from SII |
| Other Debtors - A-tech | 3,971 | 3,971 |  |
| Other Debtors - KCASL | 165 | 165 |  |
| Due from MHGL | 8 | 8 |  |
| **Total Other Assets** | **8,732** | **4,145** |  |

* + 1. Entries that do not represent an expected future cash-flow are not included in the SII Balance sheet.
  1. **Other liabilities**
     1. Other liabilities included in the Solvency II balance sheet are shown below:

|  |  |  |  |
| --- | --- | --- | --- |
| **£'000s** | **GAAP Valuation** | **SII Valuation** | **Comments** |
| Accruals | 733 | 733 |  |
| Other creditors including  taxation and social security - IPT Creditor | 2,760 | 2,760 |  |
| Other creditors including taxation and social security - Claims Handling Costs | -38 | -38 |  |
| Legal provision | 2,979 | 2,979 |  |
| Total | 6,435 | 6,435 |  |

# SOLVENCY II BALANCE SHEET – CAPITAL

1. 1. **Tier 1 capital**
      1. The share capital of the Company is as follows:

|  |  |
| --- | --- |
| **Capital** | **Available Tier 1** |
| Ordinary share capital (gross of own shares) | 166,157 |
| Share premium account related to ordinary share capital | 60,438,189 |
| Reconciliation reserve | -20,504,770 |
| **Total** | **40,099,576** |

* 1. **Tier 2 capital**
     1. The Company has no tier 2 capital.
  2. **Tier 3 capital**
     1. The Company has no tier 3 capital.

# SOLVENCY CAPITAL REQUIREMENTS (SCR)

1. 1. **Use of External Credit Assessment Institutions (ECAIs)**
      1. The standard formula places significant reliance on the use of ratings issued by ECAIs. The criteria for deciding on the applicable rating to use are as follows in accordance with Article 4 of the Delegated Regulations:
      2. Where only one credit assessment is available, the Company will use that credit assessment unless the single rating relates to a securitisation position in which case the capital requirement should be derived as though no credit rating were available in accordance with Article 6 of the Delegated Regulations.
      3. Where two credit assessments are available, the Company will use the lower credit assessment which generates the higher capital requirement.
      4. Where more than two credit assessments are available, the Company will use the credit rating which generates the second lowest capital requirement.
      5. The scales in relation to the major credit rating agencies are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SII Level** | **Model input** | **S&P** | **Fitch** | **AM Best** | **Moody’s** |
| 0 | AAA | AAA | AAA | A++/A+ | Aaa |
| 1 | AA | AA | AA | A/A- | Aa |
| 2 | A | A | A | B++/B+ | A |
| 3 | BBB | BBB | BBB | B/B- | Baa |
| 4 | BB | BB | BB | C++/C+ | Ba |
| 5 | B | B | B | C/C- | B |
| 6 | CCC or lower | CCC | CCC | D | Caa/Ca/C |

* 1. **Market risk – Interest rate risk**
     1. Interest rate risk arises from the mismatch between the durations and cash flows of assets and liabilities. The interest rate risk is modeled by applying prescribed stresses (shocks) to the risk-free interest rate curve. The insurer must calculate the change in the net asset position (difference between assets and liabilities) under both upward and downward interest rate shocks, considering the worst-case scenario.
     2. The interest rate risk capital charge is the difference between the net present value of assets and liabilities after applying the upward and downward shocks. The larger of the two resulting shortfalls (if any) is taken as the capital requirement for interest rate risk.
     3. The interest rate risk sub-module considers the assets stressed within the spread risk sub-module (i.e. bonds and loans) and the technical provisions as those assets and liabilities are exposed to movements in the term structure of interest rates.
     4. Potentially, the annual cash flows associated with bonds and loans are subject to the movements in the term structure of interest rates as set out in Articles 166 and 167 of the Delegated Regulations.
     5. The net technical provisions are calculated based on the net expected claims settlements given the claims settlement patterns detailed in Section 4.11.
     6. Reinsurance payables in intermediary receivables are also subject to timing and interest rate risk changes.
     7. SCR interest calculations are broken down in the following tables:

|  |  |
| --- | --- |
| **Net liability cashflows** | **£'000s** |
| Undisc. Net BE | -53,065 |
| Disc. Net BE | -48,975 |
| Shock up | -46,828 |
| Shock down | -51,021 |
| **Mortgages, bonds &  loans cashflows** | **£'000s** |
| Undisc. cashflows | 44,091 |
| Discounted cashflows | 41,424 |
| Shock up | 39,862 |
| Shock down | 42,953 |

|  |  |
| --- | --- |
| **Net assets** | **£'000s** |
| Discounted | -7,551 |
| Shock up | -6,966 |
| Shock down | -8,068 |
|  |  |
| **Movement in Net assets** | **£'000s** |
| Shock up | 585 |
| Shock down | -517 |
| **SCR interest** | **-517** |

* + 1. SCR interest as of December-23 is the absolute value of the shock that result in the lowest possible deterioration of net assets which is given by £517k.
  1. **Market risk – Spread risk**
     1. Spread risk refers to the risk of changes in the market price of financial instruments due to fluctuations in credit spreads. In essence, it measures the potential loss from the deterioration of the credit quality of issuers of bonds or other fixed-income securities held by the insurer.
     2. It impacts assets such as corporate bonds, loans, asset-backed securities, credit derivatives and other debt instruments with credit risk. As of 31st December the company holds £40.1m in assets subject to spread risk SCR.
     3. SCR for a general bond, mortgage or loan is summarized as follows:
     4. If the asset is collateralized, the risk factor is halved.
     5. The risk factor depends on the credit rating of the asset. For assets with duration lower than 5 years and unrated, the risk factor is 3% (Commission Delegated regulations, Art.176(4)).
     6. The following table displays the summary of the assets subject to spread risk:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Spread assets** | **£'000s** | **Rating** | **Aver.Duration** | **Collateralised** |
| CCA longevity | 1,653 | NR | 1.75 | No |
| RAW Alpha | 4,001 | NR | 4.55 | No |
| Horizon | 1,343 | NR | 1.00 | No |
| Pluto | 3,638 | NR | 1.00 | Yes |
| Avantus | 2,339 | NR | 1.75 | No |
| Dayim | 4,981 | NR | 1.75 | No |
| Colchis | 2,022 | NR | 1.00 | No |
| Hiyacar | 1,929 | NR | 1.00 | No |
| HyperJar | 910 | NR | 1.00 | No |
| Ibuyer | 1,914 | NR | 1.00 | No |
| Perceptive | 307 | NR | 1.00 | No |
| Wolvercote loan | 5,070 | NR | 2.81 | No |
| Deep Discounted bonds | 10,000 | NR | 2.67 | Yes |
| **Total** | **40,107** |  |  |  |

* + 1. Spread risk assets can not have a duration lower than one year based on Art.176(2) of Commission Delegated.
    2. For the cases where the duration wasn’t available, the term of the asset was used which represents the worst case scenario for spread risk.
    3. SCR spread risk at December-23 was £2.1m.
  1. **Market risk – Equity risk**
     1. Equity risk refers to the risk of loss resulting from fluctuations in the value of equity investments, including publicly traded shares, private equity, and other forms of ownership in companies. The company holds £10.87m in equities as of 31st December 2023 distributed as follows:



* + 1. Type 1 equities include equities listed in developed markets. A standard 39% downward shock is applied to the market value of these equities. If they’re considered strategic, the base shock is 22%.
    2. Type 2 equities include equities in emerging markets and private equity. A 49% downward shock is applied to reflect the higher volatility and risk of these investments.
    3. Solvency II includes a symmetric adjustment mechanism for equity risk, which adjusts the size of the equity shock based on recent market performance. If equity markets have been performing well over time, the shock applied will be increased to reflect the possibility of a sharp reversal. If equity markets have been underperforming, the shock applied will be lower. This mechanism ensures that the equity risk capital charge adjusts dynamically with market conditions, reducing pro-cyclicality.
    4. Once the above capital charges for each asset has been calculated, it is necessary to factor in the diversification and correlation effects for the final SCR equity capital charge (Art.168(4) of Commission Delegated Regulations):

Where:

* Eq(1) is the SCR for type 1 equities.
* Eq(2) is the SCR for type 2 equities.
  1. **Market risk – Currency risk**
     1. Currency risk is the risk that the value of assets or liabilities denominated in foreign currencies will fluctuate due to changes in exchange rates.
     2. The company holds £15.76m in assets (investments and cash) whose original currency is USD as broken down in paragraph 3.7.
     3. The company also holds a forward derivative to cover up for fluctuations in the rate of exchange for these assets.
     4. As of 31st December-23 the amount of USD equivalent in GBP which is in excess of the guaranteed value of the forward and therefore is the actual risk exposure to currency risk is given by the following expression:
     5. SCR currency risk is a 25% of the risk exposure (Art.188(3)(4) of Commission Delegated):
  2. **Market risk – Property risk** 
     1. The company does not hold any properties as of December-23.
  3. **Market risk – Concentration risk**
     1. Concentration risk measures the potential for financial loss arising from an overexposure to a single counterparty, issuer, or group of related counterparties. It specifically looks at the risk of significant losses if an insurer’s assets are concentrated in a small number of entities or counterparties, meaning that adverse events affecting these entities could lead to disproportionately large losses for the insurer.
     2. Market concentration risk applies to exposures to individual counterparties or groups of related counterparties. These exposures typically include:
* Corporate bonds
* Mortgages and loans
* Equities
* Properties
  + 1. All the assets above comprise the assets in scope of SCR concentration which are summarized below:

|  |  |
| --- | --- |
| **Asset class** | **£'000s** |
| Mortgages, bonds & loans | 40,107 |
| Equities | 10,878 |
| Properties | 0 |
| **Total Assets in scope** | **50,985** |

* + 1. Solvency II sets a threshold above which exposures are considered concentrated. The concentration threshold is typically defined as 1.5% of the insurer’s total assets in scope for non-rated investments (the majority). Any exposure to a single counterparty that exceeds this threshold must be included in the concentration risk calculation.
    2. Exposures below this threshold are assumed to be sufficiently diversified and are not included in the concentration risk charge.
    3. Given the total assets in scope of £50.98m and the threshold of 1.5%, in monetary figures the threshold is £765k. Any counterparty beyond £765k is subject to concentration risk and this amount in excess is subject to a concentration risk factor 73% for non-rated investments to derive each specific asset concentration charge.
    4. In the table below it is shown the concentration risk for each asset:



* + 1. Once the concentration risk has been determined for each counterparty (i), the final charge factors in the correlation and diversification between assets following formulae:

Where:

* The sum covers all single name exposures i
* Conc(i) denotes the capital requirement for market risk concentration on a single name exposure i
  1. **Counterparty risk – Type 1**
     1. Type 1 counterparties are generally those with high credit quality and where the exposure is typically large but well-monitored.
     2. The exposures covered under Type 1 include:
* Reinsurance recoverables: Amounts that the insurer expects to recover from its reinsurers, either due to claims already paid by the insurer or in anticipation of future claims.
* Cash and equivalents held with banks or financial institutions.
* Derivatives: Financial derivatives such as swaps, options, or futures where the insurer is exposed to the counterparty’s ability to honor the contract.
* Securities lending and repurchase agreements (repos): Transactions involving temporary transfer of securities or cash.

|  |  |  |  |
| --- | --- | --- | --- |
| **Bank** | **Rating** | **Level  Selected** | **Exposure (£’000s)** |
| RBS | A+ (S&P, Aug 2023) |  |  |
| A1 (Moody's, May 2024) | A (2) | 4,973 |
| A+ (Fitch, Dec 2023) |  |  |
| JSS |  |  |  |
| A (S&P, June 23) | A (2) | 18,489 |
|  |  |  |
| JSS - Forward |  |  |  |
| A (S&P, June 23) | A (2) | 104 |
|  |  |  |
| SG Hambros | A (S&P, NA) |  |  |
| A1 (Moody's, NA) | A (2) | 6,102 |
| A (Fitch, NA) |  |  |
| Barclays | A+ (S&P, NA)  A1 (Moody's, NA)  A+ (Fitch, NA) | A (2) | 37 |
|  |  | **Total** | 29,704 |

* + 1. Loss-given-default (LGD) for Counterparty default risk is 100% in all instances in accordance with Article 192(6) of Delegated Regulation.
    2. The LGD for the future derivative is calculated in accordance with Article 192(3c) of Commission Delegated Regulation:

Where:

* Derivative denotes the value of the derivative
* RM denotes the risk mitigation effect on market risk of the derivative
* Collateral denotes the risk adjusted value of the collateral in relation to the derivative
* F’’’ denotes a factor to take into account the economic effect of the collateral arrangement in relation to the derivative in case of a credit event related to the counterparty
  + 1. The risk mitigation element is obtained by calculating what the SCR market risk (through currency risk) would be in the case of the forward not existing. There is no knowledge of a collateral arrangement existing for this contract.
    2. Given the above expression the LGD for the future derivative would be:
    3. The reinsurer’s exposures stressed in the counterparty type 1 risk module are as follows:

|  |  |  |
| --- | --- | --- |
| **Reinsurer** | **Rating** | **Exposure (£'000s)** |
| Amlin AG | A | 4,016 |
| Arch | A | 5,197 |
| Aspen | A | 1,840 |
| Axis RE | A | 3,214 |
| Everest RE | A | 9,192 |
| Lloyds | A | 10,837 |
| Qatar RE | A | 4,737 |
| R&V | AA | 24,308 |
| SCOR | AA | 3,381 |
| Tokio RE | A | 3,090 |
| Watford RE | A | 4,723 |
| Swiss RE | AA | 3,828 |
| New RE | AA | 42,015 |
| Peak RE | A | 808 |
| Munich Re | AA | 1,011 |
| Korean Re | A | 243 |
| Toa Re | A | 202 |
| QBE | A | 202 |
| Unipol RE | A | 28,008 |
| Transatlantic RE | A | 11,918 |
| Allianz | AA | 9,449 |
|  | **Total** | 172,220 |

* + 1. Exposure subject to counterparty default type 1 coincides with the reinsurance best estimate in the Solvency II Balance sheet.
    2. Reinsurers risk Mitigation effect on underwriting risk (RM) as part of the recoveries LGD is intended to consider the level of reinsurance reliance in accordance with Article 192(2)(b) of the Delegated Regulations.
    3. The total Risk Mitigation capacity of reinsurers (RM) is calculated by reperforming the calculations for underwriting risk not factoring reinsurance recoveries, then calculate it again on a net of reinsurance basis. Risk mitigation capacity is the difference between the two underwriting charges (not factoring RI minus factoring RI).

|  |  |  |  |
| --- | --- | --- | --- |
| £'000s | | | |
| **SCR Module** | **Net basis** | **Gross basis** | **Risk mitigation** |
| Premium and Reserve risk | 13,549 | 82,266 | 68,717 |
| Catastrophe | 652 | 11,684 | 11,031 |
| Lapse | 0 | 0 | 0 |
| Diversification | -830 | -7,982 | -7,152 |
| **Total** | **13,371** | **85,967** | **72,596** |

* + 1. Based on proportionality, the total difference between gross and net is then allocated on a pro-rata basis to the exposures by reinsurer as listed above (parag.,8.8.7) which is the simplification set out in Article 107 of the Delegated Regulations.
    2. The loss-given-default (LGD) on a reinsurance arrangement in accordance with Article 192(2) of the Delegated Regulations shall be equal to the following:

Where:

* REcoverables denotes the best estimate of amounts recoverable from the reinsurance arrangement.
* denotes the risk mitigating effect on underwriting risk of the reinsurance arrangement.
* denotes a factor to take into account the economic effect of the collateral arrangement in relation to the reinsurance arrangement in case of any credit event related to the counterparty.



* 1. **Counterparty risk – Type 2** 
     1. Type 2 exposures consist of all credit exposures which are not covered in the spread risk sub-module, and which are not type 1 exposures, including the following:
* Receivables from intermediaries
* Policyholder debtors
* Mortgage loans which meet the requirements in Article 191(2) to (13)
* Deposits with ceding undertakings, where the number of single name exposures exceeds 15
* Commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid as referred to in paragraph 2(d)
  + 1. The capital requirement for counterparty default risk on type 2 exposures shall be equal to the loss in the basic own funds that would result from an instantaneous decrease in value of type 2 exposures by the following amount:

Where:

* denote the total losses-given-default on all receivables from intermediaries which have been due for more than three months.
* The sum is taken on all type 2 exposures other than receivables from intermediaries which have been due for more than three months.
* denotes the loss-given-default on the type 2 exposure i.
  + 1. A periodical aging debtors study is received to calibrate which debtors are or not on credit terms. As of December-23 this SCR for counterparty default risk type two equals:
  1. **Non-life underwriting risk – Premium and Reserves** 
     1. The non-life premium and reserve risk sub-module is based on the following in accordance with Article 115 of the Delegated Regulations:
     2. The volume measure, V, is calculated in accordance with Article 116(2) of the Delegated Regulations, subject to the following:
* Books have been segmented into homogeneous segments in accordance with Annex II of the Delegated Regulations on a consistent basis as that detailed in Section 4.1.
* The geographical diversification factor is assumed to be 1 on the basis that all retained premiums are written in the UK. Fronted books have nil impact on the volume measure although there are no fronted books.
  + 1. The premium volume measure for above V, Vprem, is calculated as follows:
* The measure has been determined based on the forecasted earned premiums in the next year per the latest business plan.
* The measure Plast denotes the premiums earned in the last year.
* The measure relates to the portion of premiums earnings for books that are beyond 12 months, where applicable.
* The measure relates to premiums earning beyond 12m for BBNI policies.
* For all books, premium volumes have been selected net of reinsurance premiums in accordance with Article 116(5) of the Delegated Regulations.
* For books with reinsurance arrangements with counterparties in non-EEA and non-equivalent jurisdictions, reinsurance premiums can be deducted from the premium volume measures on the basis that collateral arrangements are in place in accordance with Article 213 of the Delegated Regulations.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| £'000s | | | | |
| HoD | SII Segment | P(last, segment) | Ps | V(prem, segment) |
| Property damage (PD) & Bodily Injury (TP) | 1 – Motor vehicle liability insurance | 13,512 | 10,160 | 13,512 |
| Accidental damage (AD) &  Windscreen damage (WS) | 2 – Other motor insurance | 1,912 | 742 | 1,912 |
| Rescue | 8 – Assistance | 1,167 | 503 | 1,167 |
| Excess | 9 – Miscellaneous financial loss | 135 | 84 | 135 |
|  | **Total** | **16,727** | **11,488** | **16,727** |

* + 1. As at December-23 there is £5.8m in NEP affecting P(last) that relates to timing differences due to various commutations, one occurred in Nov-23 (£4.8m) and March-23 (£987k). These adjustments reducing P(last) will be cancelled when the premium has been fully earned, Nov-24 & Mar-24.
    2. The reserve volume measure for V, , is estimated as follows:

where:

* is the discounted net claims OS & IBNR, premium provisions and ENIDs for segment s.
* is the discounted share of expenses allocated to segment s based on proportionality.
* is a factor applied based on the ratio of net claims provisions (including IBNR & ENIDs) to the total of the net claims and premium provisions. The purpose of this is to bring the volume measure back to reflect only the net claims provisions in accordance with Article 116(6) of the Delegated Regulations.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| £'000s | | | | |
| HoD | SII Segment | Net Discounted  Claims OS & IBNR | Disc. RO expense provision (earned) | V(res,s) |
| Property damage (PD) & Bodily Injury (TP) | 1 – Motor vehicle liability insurance | 36,676 | 4,634 | 41,310 |
| Accidental damage (AD) &  Windscreen damage (WS) | 2 – Other motor insurance | 1,227 | 333 | 1,560 |
| Rescue | 8 – Assistance | -14 | -21 | -35 |
| Excess | 9 – Miscellaneous financial loss | 15 | 2 | 17 |
|  | **Total** | **37,903** | **4,947** | **42,851** |

* + 1. The standard deviation in paragraph 8.10.1, , is based on Article 117 and Annex II of the Delegated Regulations, subject to the adjustment factor for non-proportional reinsurance applied to the premium volumes for Motor Vehicle Liability (segment 1) which bring the standard deviation for this segment from 10% to 8%, on the basis that there is non-proportional reinsurance for these books.
    2. There are no other non-proportional reinsurance arrangements in place for any other classes.
  1. **Non-life underwriting risk – Catastrophe**
     1. The Company is exposed to the natural and man-made modules of the catastrophe risk charge.
     2. The natural catastrophe risk charge shall consist on the following sub-modules (Article 120 of Delegated Regulations):
* Windstorm risk sub-module
* Earthquake risk sub-module
* Flood risk sub-module
* Hail risk sub-module
* Subsidence risk sub-module
  + 1. The capital requirement for the natural risk sub-module shall be equal to the following:

|  |  |  |  |
| --- | --- | --- | --- |
| **NatCat sub-module** | **SCRgross** | **Mitigation RI** | **SCRnet** |
|  |
| Windstorm | 0 | 0 | 0 |  |
| Flood | 1,203 | 0.722 | 0.481 |  |
| Earthquake | 0 | 0 | 0 |  |
| Hail | 0 | 0 | 0 |  |
| Subsidence | 0 | 0 | 0 |  |
| **Total** | 1,203 | 0.722 | 0.481 |  |
| **Diversified perils for CATNat** | 1,203 | 0.722 | 0.481 |  |
|  |

* + 1. Risk Mitigation element equals 60% of the QS treaty present for Motor.
    2. The man-made catastrophe risk charge shall consist on the following sub-modules (Article 128 of Delegated Regulations):
* Motor vehicle-liability risk sub-module
* Marine risk sub-module
* Aviation risk sub-module
* Fire risk sub-module
* Liability risk-submodule
* Credit and suretyship risk sub-module
  + 1. Within the man-made charge, the only risk applicable to the Company is the motor vehicle liability risk sub-module.
    2. For this charge, it is used the largest sum insured by postal code, net SCR being £440k.
    3. The capital requirement for the man-made risk sub-module shall be equal to the following:
    4. The final catastrophe charge in accordance with Article 119 of the Delegated Regulations is as follows:
  1. **Non-life underwriting risk – Lapse** 
     1. The non-life lapse risk is the loss in basic own funds of the insurance or reinsurance undertaking resulting from a combination of the following instantaneous events:
* The discontinuance of 40% of the insurance policies for which discontinuance would result in an increase of technical provisions without the risk margin.
* Where reinsurance contracts cover insurance or reinsurance contracts that will be written in the future, the decrease of 40% of the number of those future insurance or reinsurance contracts used in the calculation of technical provisions.
  + 1. No charge is being applied at the moment as an assumption around cancellations is being made in the SII Balance sheet Net TPs.
  1. **Operational risk** 
     1. Operational risk is calculated in accordance with Article 204 of the Delegated Regulations, as follows:

where:

* is the Basic Solvency Capital Requirement in accordance with Article 87 of the Delegated Regulations
* where is the gross earned premium in the past 12 months and is the gross earned premiums in the 12 months preceding the past 12 months. The purpose of this is to ensure that growth in the premium volumes attracts an operational risk capital charge.
* where are the technical provisions recorded in the non-life underwriting module and are the technical provisions recorded in the life underwriting module.
  + 1. Given the Company’s business profile, the operational risk is based on BSCR rather than premiums or technical provisions.



* 1. **Diversification**
     1. The Basic Solvency Capital Requirement is subject to diversification adjustments in accordance with Article 87 of the Delegated Regulations, and in particular, with reference to the correlation factors provided in Annex IV of Solvency II.
     2. The total diversification benefit for the Company as of 31st December is £6.25m.

# MINIMUM CAPITAL REQUIREMENTS (MCR)

* + 1. The MCR is calculated in accordance with Article 248 of the Delegated Regulations as follows:

where:

where:

* and are factors as per Annex XIX of the Delegated Regulations
* is the technical provisions without risk margin in the non-life underwriting risk module relating to segment s
* is the technical provisions without risk margin in the life underwriting risk module
* is the net written premium for the previous 12 months in respect of segment s
  + 1. The measure for excludes any amounts in relation reinsurers based in non-EEA and non-equivalent jurisdictions (unless rated BBB or better) for which collateral arrangements are not in place.
    2. The measure for thus reconciles to R270 of S.17.01.01 after elimination of negative balances on reserves and collateral shortfalls on the reserves are taken into account.

# RECONCILIATION TO YEAR 2024 SOLVENCY II AUDIT RESULTS (Y23)

* + 1. This report has been completed using Y23 AQRT figures to give support to the AFH reporting pack. However, some assumptions have changed through these months, specially around the management accounts version used as base for the calculations and a new set of calculations has been performed ahead of the Solvency II quality assurance exercise that will occur in last Y24 quarter.
    2. This section aims to reconcile the movement in the Solvency position as well as explain any adjustments around assumptions that have occurred over the period.
    3. High-level summary is shown in the table below:



2. 2. **SII Audit Solvency II Own Funds movement**
      1. GAAP Own Funds move down by £10.5m driven by various corrections and audit adjustments made in the accounts, driven by the following items:

* +£2.9m increase in Net claims provision
* +£10.61m increase in Net Reinsurance/creditors, mainly reinsurance quota-share creditor (+£9.66m)
* -£3.73m in net deferred acquisition costs
  + 1. Solvency II Own Funds move down slightly less than GAAP Own Funds, overall -£9.2m:
* Increased removal of net Management load as of December – 23, from £1.5m to £7.2m (+£5.7m).
* The above is partially offset by removal of deferrals:
  + DAC – RI Share -£2.4m, correction applied in the accounts on the acquisition costs.
  + Deferred RI commission -£1.3m, correction applied in the accounts.
* Premium provision change -£460k:
  + - AURR was corrected to include it in Solvency as it was on a GAAP basis instead of applying any ULRs on the AURR to obtain the premium provision. AURR was implicitly assuming an unearned ULR to obtain it for GAAP, so, no further adjustments were required.
    - Y23 AURR hadn’t been included in the initial computations (+£470k).
    1. A reconciliation of GAAP Own Funds comparison is included in the table below highlighting the main moving parts as described in previous paragraphs:



* 1. **SII Audit SCR**
     1. Solvency capital requirements decrease in £280k compared to the annual submission driven by the Counterparty type 2 and UW risk.
     2. Counterparty type 2 increases in +£1m due to inclusion of various debtors (at 15%) that we didn’t include in the annual position, however a change in criteria has occurred through these months:
* Hedgehog profit commission +£1.35m included whilst previously this was offsetting TPs.
* A-tech +£3.9m, following advice from the regulator.
* K-CASL +£165k, following advice from the regulator.
* Correction applied in the December Aged debtors file to include the Period 14 adjustments, +£1.5m.
  + 1. UW Premium and reserve, -£765k. This is driven by the reduction in net claims OS after removing the management margins (-£2.6m), impact -£2.6m \*3\*0.09 = -£700k.
    2. Other minor movements in SCR -£43k in market risk, -£127k in Counterparty type 1 and -£65k in operational risk.
    3. Only main change in valuation criteria occurred in counterparty type 2, impact as above.
    4. Breakdown of movements in SCR is in the table below:



# ANNEX I – ASSUMPTIONS LOG

